



U.S.\$1,500,000,000

Programme for the Issuance of Loan Participation Notes

to be issued by, but with limited recourse to,

Russian Standard Finance S.A.

for the sole purpose of financing loans to

Closed Joint Stock Company RUSSIAN STANDARD BANK

Under the Programme for the Issuance of Loan Participation Notes (the “**Programme**”) described in this offering circular (the “**Offering Circular**”), Russian Standard Finance S.A. (the “**Issuer**”), subject to compliance with all relevant laws, regulations and directives, may from time to time issue loan participation notes (the “**Notes**”) on the terms set out herein, as such terms are supplemented by a pricing supplement (each a “**Pricing Supplement**”) setting out the specific terms of each issue. The aggregate principal amount of Notes outstanding will not at any time exceed U.S.\$1,500,000,000 (or the equivalent in other currencies).

Notes will be issued in Series (as defined in “Summary of the Programme”) and the sole purpose of issuing each Series will be to finance a loan (each a “**Loan**”) to RSB (as defined herein) as borrower, on the terms of a facility agreement between the Issuer and RSB dated 18 April 2005 (the “**Facility Agreement**”), as amended and supplemented by a loan supplement to be entered into in respect of each Loan on each issue date (each an “**Issue Date**”) (each a “**Loan Supplement**” and, together with the Facility Agreement, the “**Loan Agreement**”) between the Issuer and RSB. Subject as provided in the Trust Deed (as defined herein), the Issuer will charge, in favour of Deutsche Trustee Company Limited as trustee (the “**Trustee**”), by way of a first fixed charge as security for its payment obligations in respect of each Series of Notes and under the Trust Deed, certain of its rights and interests under the relevant Loan Agreement and the relevant Account (as defined in the relevant Loan Supplement). In addition, the Issuer will assign certain of its administrative rights under the relevant Loan Agreement to the Trustee.

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

The Loan will rank *pari passu* in right of payment with RSB’s other outstanding unsecured and unsubordinated indebtedness. Other than as described in this Offering Circular and the Trust Deed, the Noteholders have no proprietary or other direct interest in the Issuer’s rights under or in respect of the Loan Agreement or the Loan. Subject to the terms of the Trust Deed, no Noteholder will have any rights to enforce any of the provisions in the Loan Agreement or have direct recourse to RSB except through action by the Trustee.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 15 BEFORE INVESTING.

THE NOTES AND LOANS (TOGETHER, THE “SECURITIES”) HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE “SECURITIES ACT”), AS AMENDED AND, SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (“REGULATION S”). THE NOTES OF EACH SERIES MAY BE OFFERED AND SOLD (I) WITHIN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS (“QIBs”), AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”), THAT ARE ALSO QUALIFIED PURCHASERS (“QPs”), AS DEFINED IN SECTION 2(A)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940 (THE “INVESTMENT COMPANY ACT”) IN RELIANCE ON THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144A (THE “RULE 144A NOTES”) AND (II) TO NON-U.S. PERSONS IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S (THE “REGULATION S NOTES”). THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF THE NOTES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS, SEE “SUBSCRIPTION AND SALE” AND “TRANSFER RESTRICTIONS.”

Arrangers and Permanent Dealers

Barclays Capital

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Dresdner Kleinwort Wasserstein

Goldman Sachs International

JPMorgan

The date of this Offering Circular is 18 April 2005.

Applications have been made to the Financial Services Authority, in its capacity as competent authority (the “**UK Listing Authority**”) under the Financial Services and Markets Act 2000 (the “**FSMA**”), for the Notes issued under the Programme to be admitted to the official list of the UK Listing Authority (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for such Notes to be admitted to trading on the London Stock Exchange’s market for listed securities. Admission to the Official List of the UK Listing Authority, together with admission to trading on the London Stock Exchange’s market for listed securities, constitutes official listing on a stock exchange. A copy of this document, which comprises listing particulars, has been delivered to the Registrar of Companies in England and Wales as required by Section 83 of the FSMA. However, unlisted Notes may also be issued pursuant to the Programme. The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the London Stock Exchange (or any other stock exchange). Application may also be made to have Rule 144A Notes designated as eligible for trading in the Private Offering, Resales and Trading through Automated Linkages (“**PORTAL**”) System of the National Association of Securities Dealers, Inc., as specified in the applicable Pricing Supplement.

Regulation S Notes of each Series will initially be represented by interests in a permanent global note in fully registered form (each a “**Regulation S Global Note**”) without interest coupons, which will be deposited with a common depository for, and registered in the name of a nominee of, Euroclear Bank S.A./N.V. as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”), on its Issue Date. Beneficial interests in a Regulation S Global Note will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear or Clearstream, Luxembourg and their respective participants. Rule 144A Notes of each Series will initially be represented by interests in a permanent global note in fully registered form (each a “**Rule 144A Global Note**” and, together with any Regulation S Global Note for the relevant Series of Notes, the “**Global Notes**”) without interest coupons, which will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company (“**DTC**”) on its Issue Date. Beneficial interests in a Rule 144A Global Note will be shown on, and transfers thereof will be effected only through records maintained by, DTC and its participants. See “Summary of the Provisions Relating to the Notes in Global Form.” Individual definitive Notes in registered form will only be available in certain limited circumstances as described herein.

The Notes will be in denominations in aggregate principal amount, for Rule 144A Notes, of at least U.S.\$100,000 (or the equivalent in other currencies) and integral multiples of U.S.\$1,000 (or the equivalent in other currencies) in excess thereof and for Regulation S Notes, of at least €50,000 (or the equivalent in other currencies) and integral multiples of €1,000 (or the equivalent in other currencies) in excess thereof, save that unless otherwise permitted by then current laws and regulations, Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise would constitute a contravention of section 19 of the Financial Services and Markets Act 2000 will have a minimum denomination of £100,000 (or its equivalent in other currencies).

This Offering Circular (including the financial statements) comprises listing particulars given in compliance with the listing rules (the “**Listing Rules**”) made under Section 74 of the FSMA by the UK Listing Authority for the purpose of giving information with respect to RSB, the Issuer, the Loan Agreements and the Notes. RSB accepts responsibility for the information contained in this document. To the best of the knowledge and belief of RSB (which has taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

In addition, RSB, having made all reasonable enquiries, confirms that (i) this Offering Circular contains all information with respect to RSB, the Loan Agreements and the Notes that is material in the context of the issue and offering of the Notes; (ii) the statements contained in the Offering Circular are in every material respect true and accurate and not misleading; (iii) the opinions, expectations and intentions expressed in this Offering Circular are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts with respect to RSB, the Loan Agreements or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Offering Circular misleading in any material respect; and (v) all reasonable enquiries have

been made by RSB to ascertain such facts and to verify the accuracy of all such information and statements. RSB accepts responsibility accordingly.

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

No representation or warranty, express or implied, is made by Barclays Bank PLC or Citigroup Global Markets Limited (the “**Arrangers**”), any Dealer (as defined herein), the Issuer (save for the above responsibility statement), the Trustee or any of their respective affiliates or any person acting on their behalf as to the accuracy or completeness of the information contained in this Offering Circular.

Certain information and data contained in this Offering Circular relating to the Russian banking sector and the competitors of RSB (which may include estimates and approximations) was derived from publicly available information, including press releases and filings under various regulatory and securities laws. RSB accepts responsibility for accurately reproducing such publicly available information and data. However, RSB has relied on the accuracy of such publicly available information and data without carrying out an independent verification. In addition, RSB has derived some of the information contained in this Offering Circular from official data published by Russian government agencies, such as the Central Bank of the Russian Federation (the “**CBR**”). The official data published by Russian federal, regional and local governments is substantially less complete or researched than data published by governmental agencies of Western countries. Official statistics may also be compiled on different bases than those used in Western countries. Any discussion of matters relating to the Russian Federation in this Offering Circular may, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. The veracity of some official data released by the Russian government may be questionable. See “Risk Factors – Risk Factors Relating to the Russian Federation - *The official data upon which you may base your investment decision may not be as reliable as equivalent data from official sources in the West*”.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, RSB, the Arrangers or the Dealers to subscribe for or purchase any Series of Notes. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, RSB, the Arrangers and the Dealers to inform themselves about and to observe any such restrictions. In particular, the Notes have not been and will not be registered under the Securities Act. Subject to certain exceptions, the Notes may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons. In addition, none of the Issuer, RSB, the Arrangers or the Dealers have authorised any offer of Notes to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (the “**Regulations**”). The Notes may not lawfully be offered or sold to persons in the United Kingdom except in circumstances which 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 Notes and distribution of this Offering Circular, see “Subscription and Sale”.

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, RSB, the Trustee, the Arrangers or the Dealers. The delivery of this document at any time does not imply that the information contained in it is correct as at any time subsequent to its date. Without limitation to the generality of the foregoing, the contents of RSB’s website as at the date hereof or as at any other date do not form any part of this Offering Circular (and, in particular, are not incorporated by reference herein).

IN CONNECTION WITH THE ISSUE OF ANY SERIES OF NOTES UNDER THE PROGRAMME, THE DEALER (IF ANY) WHICH IS SPECIFIED IN THE RELEVANT PRICING SUPPLEMENT AS 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 NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL

FOR A LIMITED PERIOD. HOWEVER, THERE MAY BE NO OBLIGATION ON THE STABILISING MANAGER OR ANY AGENT OF THE STABILISING MANAGER TO DO THIS. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD. SUCH STABILISING SHALL BE IN COMPLIANCE WITH ALL APPLICABLE LAWS, REGULATIONS AND RULES.

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FORWARD-LOOKING STATEMENTS

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

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

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

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

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

This list of important factors is not exhaustive. When reviewing forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which RSB operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, but subject to the requirements of the UK Listing

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

ENFORCEABILITY OF JUDGMENTS

RSB is a closed joint stock company organised under the laws of the Russian Federation. The majority of RSB's directors and executive officers named in this Offering Circular reside in the Russian Federation. Moreover, substantially all the assets of RSB and of such persons are located in the Russian Federation.

As a result, the Trustee, acting on behalf of the Noteholders, may not be able to effect service of process in the United Kingdom or the United States on RSB or any of RSB's directors or executive officers named in this Offering Circular. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any provisions of the Loan Agreement, or have direct recourse to RSB, except through action by the Trustee. Neither the Issuer nor the Trustee will be required to enter into proceedings to enforce payment from RSB under the Loan Agreement, unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses, which it may incur in connection therewith.

Similarly, the Trustee may not be able to obtain or enforce English or United States court judgments in the Russian Federation against RSB or its directors or executive officers. Courts in the Russian Federation will only recognise judgments rendered by a court in any jurisdiction outside the Russian Federation if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered. No such treaty for the reciprocal enforcement of foreign court judgments in civil and commercial matters exists between the Russian Federation and most Western jurisdictions (including the United Kingdom, Luxembourg and the United States), which may require new proceedings to be brought in the Russian Federation in respect of a judgment already obtained in any such jurisdiction against RSB or its directors or executive officers. In addition, Russian courts have limited experience in the enforcement of foreign court judgments. The limitations described above, including the general procedural grounds set out in Russian legislation for the refusal to recognise and enforce foreign court judgments in the Russian Federation, may significantly delay the enforcement of any such judgment, or deprive the Noteholders or the Trustee of effective legal recourse for claims under the Notes relating to the relevant Loan.

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

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

Moreover, in September 2002, the new arbitrazh procedural code of the Russian Federation (the "**Arbitrazh Procedural Code**") entered into force. The Arbitrazh Procedural Code established the procedure for Russian courts to refuse to recognise and enforce any such arbitral award. The Arbitrazh Procedural Code and other Russian procedural legislation could change; therefore, *inter alia*, other grounds for Russian courts to refuse the recognition and enforcement of foreign courts' judgments and foreign arbitral awards could arise in the future. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in the Russian Federation.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents shall be deemed to be incorporated in, and to form part of, this Offering Circular:

- (1) the most recently published audited annual financial statements and any interim financial statements (whether audited or unaudited) published subsequently to such annual financial statements, of the Issuer from time to time after the date of this Offering Circular; and
- (2) the most recently published audited consolidated annual financial statements and any interim financial statements (whether audited or unaudited) published subsequently to such annual financial statements, of RSB from time to time after the date of this Offering Circular; and
- (3) all amendments and supplements to this Offering Circular prepared by the Issuer and RSB from time to time after the date of this Offering Circular;

provided, however, that (i) any statement contained in this Offering Circular or in any of the documents incorporated by reference in, and forming part of, this Offering Circular shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any document subsequently incorporated by reference modifies or supersedes such statement and (ii) neither (a) any documents incorporated by reference nor (b) any modifying or superseding statements form part of the listing particulars as contained in this Offering Circular given in compliance with the Listing Rules.

Any reference in this Offering Circular to listing particulars means this Offering Circular excluding all information incorporated by reference. The Issuer and RSB have confirmed that any information incorporated by reference, including any such information to which readers of this Offering Circular are expressly referred, has not been and does not need to be included in the listing particulars to satisfy the requirements of the FSMA or the Listing Rules. The Issuer and RSB believe that none of the information incorporated herein by reference conflicts in any material respect with the information included in the listing particulars.

SUPPLEMENTARY LISTING PARTICULARS

If at any time the Issuer shall be required to prepare supplementary listing particulars pursuant to Section 81 of the FSMA, the Issuer will prepare and make available an appropriate amendment or supplement to this Offering Circular or a further offering circular which, in respect of any subsequent issue of Notes to be admitted to the Official List of the UK Listing Authority, shall constitute supplementary listing particulars as required by the UK Listing Authority and Section 81 of the FSMA.

The Issuer and RSB may agree with any Dealer that a Series of Notes may be issued in a form not contemplated by the Terms and Conditions herein, in which event a supplement to this Offering Circular, if appropriate, will be published which will describe the effect of the agreement reached in relation to such Notes.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

Unless otherwise indicated, the financial information set out herein has been derived from the audited consolidated financial statements of RSB and its two subsidiaries, Limited Liability Company Russian Standard Finance (“**RSF**”) and Limited Liability Company Debt Collection Agency (“**DCA**”) (RSF and DCA, together with RSB, the “**Group**”) (which are controlled by RSB but owned by RSB’s principal shareholder Roust Trading Limited) as of and for the years ended 31 December 2004 and 2003, that are set out on pages F-4 to F-47 of this Offering Circular (the “**Consolidated Financial Statements**”). DCA is included in the Consolidated Financial Statements of the Group starting from 1 October 2003, being the date on which effective control over DCA was transferred to the Group. These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) issued by the International Accounting Standards Board. Certain amounts in RSB’s Consolidated Financial Statements as of and for the years ended 31 December 2003, 2002 and 2001 have been restated. See “Restatement of Prior Period Financial Data” below.

All references in this Offering Circular to “**RSB**” are to either Closed Joint Stock Company Russian Standard Bank, or where financial information is referred to, to the Group, as the case may be.

Auditors

Closed Joint Stock Company PricewaterhouseCoopers Audit, independent auditors, having their registered address at Building 5, Kosmodamianskaya nab. 52, Moscow 115054, Russian Federation (“**PWC**”), have audited the Consolidated Financial Statements of the Group as of and for the years ended 31 December 2004 and 2003 included in this Offering Circular.

Currency

In this Offering Circular, the following currency terms are used:

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

Adoption of IAS 29 for Hyperinflation

In the years ended 31 December 2002 and 2001, the Russian economy experienced relatively high levels of inflation. A hyperinflationary economy is defined, among other things, as an economy in which the cumulative inflation rate over three years is approaching, or exceeds, 100%. The Russian Federation was considered a hyperinflationary economy prior to 1 January 2003. Thus, as required by IAS 29, *Financial Reporting in Hyperinflationary Economies*, the Group’s Consolidated Financial Statements for the years ended 31 December 2002 and 2001 have been presented so that all reported amounts, including the corresponding figures for the previous periods, are expressed in terms of the purchasing power of the Rouble as at 31 December 2002. As the Russian economy was no longer considered to be hyperinflationary from 1 January 2003, balances for the years ended 31 December 2004 and 2003 are stated at nominal value.

Restatement of Prior Period Financial Data

To comply with the requirements of IAS 18, *Revenue*, sales commissions received on the loans issued by RSB through retail outlets and commissions received from credit card holders, which were previously recognised as income when the loans were issued, are now deferred and included in the effective yield on the loans issued by RSB. Operating costs related to loan origination, which were previously expensed as

incurred in relation to these loans, are also now deferred and amortised based on the duration of the loan. As a result of our obligation to comply with IAS 18, we restated our financial data as of and for the years ended 2003, 2002 and 2001.

As a result of these restatements, certain adjustments have been made to the Consolidated Financial Statements as of and for the years ended 31 December 2003 and 2002. See Note 3 to the Consolidated Financial Statements.

Other Accounting Policies

For a discussion of the accounting policies which the Group believes are most critical, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies”. For other policies, see Note 3 to the Consolidated Financial Statements.

Exchange Rates

The following table sets out, for the periods indicated, the high, low, average and period-end interbank exchange rates, in each case for the purchase of Roubles, all expressed in Roubles per U.S. dollar. Solely for the convenience of the reader, and except as otherwise stated, this Offering Circular contains translations of some Rouble amounts into U.S. dollars at the official exchange rate quoted by the CBR on 31 December of the relevant year. For 2004, the conversion rate was RUB 27.7487 to U.S.\$1, which was the official exchange rate quoted by the CBR on 31 December 2004. RSB and the Issuer do not make any representation that the Rouble amounts referred to in this Offering Circular could have been or could be converted into U.S. dollars at the above exchange rate, at any other rate or at all. On 15 April 2005, the Rouble to U.S. dollar exchange rate as quoted by the CBR on that day was RUB 27.8291 = U.S.\$1.

U.S. dollar/Rouble Interbank Exchange Rate

	High	Low	Average	Period End
	<i>(Roubles per U.S. dollar)</i>			
2005 (up to and including 15 April 2005)	28.1872	27.4611	27.8400	27.8291
2004	29.4545	27.7487	28.8080	27.7487
2003	31.8846	29.2450	30.5648	29.4545
2002	31.8600	30.1372	30.9986	31.7844
2001	30.3000	28.1600	29.2300	30.1400

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

Rounding

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

RSB Market Share Information

RSB has calculated its market share information set out in this Offering Circular on the basis of market data regularly published by the CBR, based on filings received by the CBR from banks in the Russian market.

RSB’s Consumer Finance Portfolio

RSB’s consumer finance portfolio consists of its consumer loan portfolio (or book), its car loan portfolio (or book) and its credit card loan portfolio (or book). Unless otherwise indicated in this Offering Circular, “consumer loans” does not include car loans or credit card loans.

Effective Interest Rates and Average Interest Rates

In this Offering Circular, RSB provides information on both its average interest rates and its effective interest rates. Average interest rates are calculated by dividing interest income over a period by the average loan balance over the same period.

By contrast, the effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, RSB estimates cash flows considering all the contractual terms of the financial instrument (for example, a prepayment option) but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recorded based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

RSB presents information on effective interest rates because IFRS rules require that this rate be used in the preparation of its financial statements. Operationally, RSB uses this information as well as average interest rates as both are considered useful business tools.

ADDITIONAL INFORMATION

Neither the Issuer nor RSB is required to file periodic reports under Section 13 or 15 of the U.S. Securities Exchange Act of 1934, as amended (the “**Exchange Act**”). For so long as either the Issuer or RSB is not a reporting company under Section 13 or 15(d) of the Exchange Act, or exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Issuer or RSB will, upon request, furnish to each holder or beneficial owner of Notes that are “restricted securities” (within the meaning of Rule 144(a)(3) under the Securities Act) and to each prospective purchaser thereof designated by such holder or beneficial owner upon request of such holder, beneficial owner or prospective purchaser, in connection with a transfer or proposed transfer of any such Notes pursuant to Rule 144A under the Securities Act or otherwise, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

SUMMARY OF THE PROGRAMME

Description	Programme for the issuance of loan participation notes pursuant to which the Issuer may issue Notes
Issuer	Russian Standard Finance S.A.
Borrower	Closed Joint Stock Company Russian Standard Bank
Programme Size	Up to U.S.\$1,500,000,000 (or its equivalent in other currencies at the date of issue) aggregate principal amount of Notes outstanding at any one time. RSB may increase the amount of the Programme in accordance with the Dealer Agreement (as defined herein). In this respect, for the purpose of calculating the aggregate principal amount of Notes outstanding, Notes issued at a premium shall be treated as having been issued at the amount of their net proceeds received by the Issuer.
Arrangers and Permanent Dealers	Barclays Bank PLC and Citigroup Global Markets Limited
Permanent Dealers	Barclays Bank PLC, Citigroup Global Markets Limited, ABN AMRO Bank N.V., Aton International Limited, Deutsche Bank AG London, Dresdner Bank AG London branch, Goldman Sachs International, ING Bank N.V., London branch, Joint Stock Bank of the Gas Industry Gazprombank (Closed Joint Stock Company) and J.P. Morgan Securities Ltd. Pursuant to the terms of the Dealer Agreement, the Issuer, on RSB's instructions, may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Series of Notes or in respect of the whole Programme. References in this Offering Circular to " Permanent Dealers " are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole programme (and whose appointment has not been terminated) and to " Dealers " are to all Permanent Dealers and all persons appointed as dealers in respect of one or more Series of Notes.
Trustee	Deutsche Trustee Company Limited
Principal Paying Agent	Deutsche Bank AG, acting through its London branch.
Paying Agents	Deutsche Bank AG London acting through its London branch and Deutsche Bank Trust Company Americas
Registrars	Deutsche Bank Luxembourg S.A. in respect of Regulation S Notes and Deutsche Bank Trust Company Americas in respect of Rule 144A Notes. A register of the Notes shall be kept at the registered office of the Issuer. In case of inconsistency between the register of the Notes kept by either of the Registrars and the one kept by the Issuer at its registered office, the register kept by the Issuer at its registered office shall prevail.
Luxembourg Paying Agent	Deutsche Bank Luxembourg S.A.
Transfer Agents	Deutsche Bank AG acting through its London branch, Deutsche Bank Luxembourg S.A. and Deutsche Bank Trust Company Americas.

Calculation Agent	Deutsche Bank AG acting through its London branch unless otherwise stated in the relevant Pricing Supplement.
Issue Price	Notes may be issued at their principal amount or at a discount or premium to their principal amount.
Maturities.....	Subject to compliance with all relevant laws, regulations and directives, any maturity as may be agreed between the Issuer, RSB and the relevant Dealer(s).
Interest Periods and Rates ..	The length of the interest periods for the Notes and the applicable interest rate may differ from time to time or be constant for any Series. Notes may be issued on a fixed rate or floating rate basis (as further described below) and may have a maximum interest rate, a minimum interest rate, or both. All such information will be set out in the relevant Pricing Supplement.
Fixed Rate Notes	Each Fixed Rate Note will bear interest on the outstanding principal amount from (and including) the Interest Commencement Date (as defined in the Trust Deed) at the rate(s) per annum (expressed as a percentage) equal to the Rate(s) of Interest specified on the Note, which shall be equal to the rate per annum at which interest under the Loan accrues, such interest being payable in arrear on each Interest Payment Date.
Floating Rate Notes.....	Each Floating Rate Note will bear interest on its outstanding principal amount from (and including) the Interest Commencement Date (as defined in the Trust Deed) at the rate per annum (expressed as a percentage) equal to the Rate of Interest specified on the Note, which shall be equal to the rate per annum at which interest under the Loan accrues, such interest being payable in arrear on each Interest Payment Date.
Method of Issue	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “ Series ”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. The specific terms of each Series will be set out in a pricing supplement to this Offering Circular (each a “ Pricing Supplement ”) which shall supplement the Terms and Conditions of the Notes.
Limited Recourse.....	The Notes will constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for the purpose of financing the relevant Loan to RSB pursuant to the terms of the corresponding Loan Agreement. The Issuer will only account to the Noteholders for all amounts equivalent to those (if any) received from RSB under such Loan Agreement or held on deposit in the Account less amounts in respect of the Reserved Rights (as defined in the “Terms and Conditions of the Notes”), all as more fully described under “Terms and Conditions of the Notes”.
Security.....	Each Series of Notes will be secured by a first fixed charge in favour of the Trustee for the benefit of the Noteholders of (i) certain of the Issuer’s rights and interests as lender under the Loan Agreement, and (ii) the Issuer’s rights, title and interest in and all sums held on deposit in the Account (as defined in the Loan Agreement) (in each case, other than the Reserved Rights), all as more fully described under “Terms and Conditions of the Notes”. In addition, the Issuer with full title guarantee will assign absolutely its administrative rights under the Loan Agreement (save for the rights charged or excluded as described above) to the Trustee for the

benefit of the Noteholders, as more fully described under “Terms and Conditions of the Notes”.

Form

Each Series of Notes will be issued in registered form. The Notes will be in denominations in aggregate principal amount, for Rule 144A Notes, of at least U.S.\$100,000 (or its equivalent in other currencies) and integral multiples of U.S.\$1,000 (or its equivalent in other currencies) in excess thereof and for Regulation S Notes, of at least €50,000 (or the equivalent in other currencies), and integral multiples of €1,000 (or the equivalent in other currencies) in excess thereof, save that unless otherwise permitted by then current laws and regulations, Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise would constitute a contravention of section 19 of the Financial Services and Markets Act 2000 will have a minimum denomination of £100,000 (or its equivalent in other currencies). Notes of each Series will be represented by interests in one or more Global Notes. The Global Notes will only be exchangeable for definitive certificates in the limited circumstances described under “Summary of Provisions Relating to the Notes in Global Form”. Notes of each Series offered and sold outside the United States to non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act will be represented by interests in a Regulation S Global Note.

Each Series of Notes offered and resold in the United States to QIBs that are also QPs in reliance on Rule 144A will be represented by interests in one or more Rule 144A Global Notes.

Each Series of Notes will be redeemed in whole, but not in part, at any time, upon notice having been given to the Noteholders, at their principal amount together with accrued and unpaid interest to the date of redemption and any additional amounts (if any) then due if RSB, pursuant to the provisions of the relevant Loan Agreement, elects to prepay the Loan for tax reasons or by reason of increased costs or, at the option of the Issuer, in the event that it becomes unlawful for the Issuer to fund the Loan or to allow it to remain outstanding under the Loan Agreement, all as more fully described in the Loan Agreement. See also Condition 6 (Redemption) of the “Terms and Conditions of the Notes”.

Certain Covenants.....

As long as any of the Notes remains outstanding, the Issuer will not, without the prior written consent of the Trustee, agree to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement.

Clause 10.1 of the Loan Agreement contains a negative pledge in relation to the creation of Liens (other than Permitted Liens) by RSB. The Loan Agreement also contains in Clause 10, among other things, covenants limiting mergers and disposals by RSB, transactions between RSB and its Affiliates (as defined in the Loan Agreement) and a covenant by RSB to maintain a ratio of Capital to Risk Weighted Assets (each as defined in the Loan Agreement) at certain levels specified in the Loan Agreement.

Relevant Event/Event of Default

In the case of a Relevant Event (as defined in the Trust Deed) the Trustee may, subject to the provisions of the Trust Deed, enforce the security created in the Trust Deed in favour of the Noteholders.

In the case of an Event of Default (as defined in the Loan Agreement) the Trustee may, subject to the provisions of the Trust Deed, declare all amounts payable by RSB under such Loan Agreement to be due and payable.

Upon repayment of the Loan following an Event of Default, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for redemption and any additional amounts then due (if any), and thereupon shall cease to be outstanding.

Further Issues The Issuer may from time to time issue further Notes of any Series on the same terms as existing Notes and such further Notes shall be consolidated and form a single Series with such existing Notes of the same Series. In the event of such further issuance the Loan will be correspondingly increased.

Rating The Programme has been given a rating of “B” by Standard and Poor’s. Series of Notes issued under this Programme may be rated or unrated. Where a Series of Notes is rated, such rating will not necessarily be the same as the rating assigned to the Programme.

Credit ratings assigned to the Notes or the Programme do not necessarily mean that the Notes are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes, the Programme or RSB could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.

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

The net proceeds of each Series of Notes will be used by the Issuer for the sole purpose of financing the corresponding Loan to RSB. In connection with the receipt of each Loan, RSB will pay an arrangement fee, as reflected in the relevant Pricing Supplement.

Listing Applications will be made, where specified in the applicable Pricing Supplement, to the UK Listing Authority for a Series of Notes to be admitted to the Official List and to the London Stock Exchange for such Series of Notes to be admitted to trading on the London Stock Exchange’s

market for listed securities. Alternatively, where specified in the applicable Pricing Supplement, a Series of Notes may be unlisted. Application may be made for trading of Rule 144A Notes in PORTAL, as specified in the applicable Pricing Supplement.

Selling Restrictions The Notes have not been, and will not be, registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meaning ascribed to them by Regulation S under the Securities Act.

The Notes may be sold in other jurisdictions (including the United Kingdom, the Russian Federation and the Grand Duchy of Luxembourg) only in compliance with applicable laws and regulations. See “Subscription and Sale”.

ERISA Considerations A Series of Notes issued under the Programme may be regarded for ERISA purposes as equity interests in a separate entity whose sole asset is the Loan. Accordingly, the Notes should not be acquired by any benefit plan investor, regardless of whether the benefit plan investor is itself subject to ERISA. Each purchaser and/or holder of Notes and each transferee therefore will be deemed to have made certain representations as to its status under ERISA. Potential purchasers should read the sections entitled “Certain ERISA Considerations” and “Transfer Restrictions”.

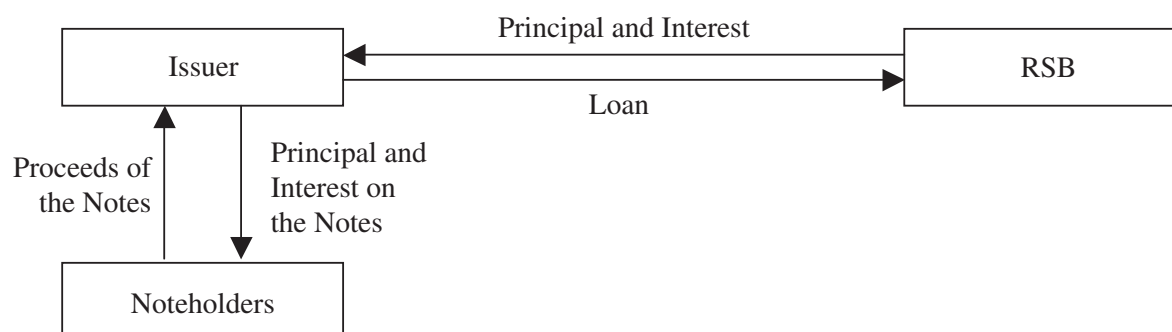
Governing Law The Notes will be governed by English law. The provisions of articles 86 to 94-8 of the Luxembourg law of August 10, 1915, as amended, on commercial companies are excluded.

Initial Delivery of Notes On or before the Issue Date for each Series, the Rule 144A Global Note will be deposited with a custodian for DTC and the Regulation S Global Note, as the case may be, will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. The Rule 144A Notes will be registered in the name of a nominee of DTC, and the Regulation S Notes will be registered in the name of a nominee of the common depository for Euroclear and Clearstream, Luxembourg. Global Notes may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, RSB, the Paying Agents, the Trustee and the relevant Dealer(s). Notes that are to be credited to one or more clearing systems on issue will be registered in the name of a nominee or nominees for such clearing systems.

Currencies Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, RSB and the relevant Dealer(s).

DESCRIPTION OF THE TRANSACTIONS

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



Each transaction relating to a Series of Notes will be structured as a loan to RSB by the Issuer under the Loan Agreement. The Issuer will issue a Series of Notes, which will be limited recourse loan participation notes issued for the sole purpose of funding the corresponding Loan to RSB. Each Series of Notes will be constituted by, subject to, and have the benefit of a principal trust deed as supplemented and amended in respect of such Series of Notes by a Supplemental Trust Deed (together, the “**Trust Deed**”), each entered into between the Issuer and the Trustee. The obligations of the Issuer to make payments under the Notes shall constitute an obligation only to account to the Noteholders for an amount equal to the sums of principal, interest and/or additional amounts (if any) the Issuer actually receives by or for its account from RSB pursuant to the relevant Loan Agreement or that are deposited in the Account, less any amounts in respect of the Reserved Rights.

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

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

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

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

In certain circumstances, RSB may at its option prepay a Loan at its principal amount, together with accrued interest and additional amounts (if any), in the event that RSB is required to increase the amount payable or to pay additional amounts on account of taxes of the Russian Federation or the Grand Duchy of Luxembourg pursuant to the relevant Loan Agreement or required to pay additional amounts on account of certain costs incurred by the Issuer. The Issuer may (in its own discretion) require RSB to prepay the relevant Loan if it becomes unlawful for the relevant Loan or the Notes to remain outstanding, as set out in the relevant Loan Agreement. In each case (to the extent that the Issuer has actually received the relevant funds from RSB), the Issuer will prepay the Notes together with accrued interest and additional amounts (if any) thereon. See “Facility Agreement – Repayment and Prepayment – Prepayment in the event of Taxes or Increased Costs and Prepayment in the event of Illegality” and “Terms and Conditions of the Notes – Redemption”.

RISK FACTORS

An investment in the Notes involves a high degree of risk. Prospective investors should consider carefully, among other things, the risks set forth below and the other information contained in this document prior to making any investment decision with respect to the Notes. The risks highlighted below could have a material adverse effect on RSB's business, financial condition, results of operations or prospects which, in turn, could have a material adverse effect on its ability to service its payment obligations under the Loan Agreement and, as a result, the ability of the Issuer to make payments under the Notes. In addition, the value of the Notes could decline due to any of these risks, and prospective investors may lose some or all of their investment.

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

Risks related to RSB's Business and the Banking Sector

Margins on RSB's consumer and credit card loans have declined in 2004 and 2005, and RSB expects margins to continue to decline.

RSB has experienced a significant decrease in both its average interest rates and effective interest rates on consumer loans and car loans, its products for which the greatest amount of competition has developed to date. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Selected Statistical Information – Average Balance Sheet and Interest Rate Data and – Results of Operations for the Years ended 31 December 2004, 2003 and 2002 – *Net Interest Income before Provision for Loan Impairment*". Average interest rates for consumer and car loans declined to 52.1% in 2004 from 63.6% and 63.4% in 2003 and 2002, respectively. RSB estimates that average interest rates for consumer loans and car loans have declined to below 44% as of 28 February 2005. Similarly, effective interest rates for consumer loans and car loans declined from 98.5% in 2002 and 74.6% in 2003 to 66.1% in 2004. Since consumer loans have until now constituted the greatest proportion of RSB's interest-earning assets, this competition has had and is expected to continue to have an adverse effect on RSB's results of operations. RSB cannot predict whether or when the decrease in its margins will slowdown or stabilise.

Credit card loan average interest rates increased slightly in 2004 as compared to 2003 and 2002 but have declined in early 2005, and credit card loan effective interest rates increased significantly over the same three year period. However, as the credit card loan market matures in the same way as the consumer loan market, RSB expects these interest rates to drop from their 2004 levels. RSB has already recently dropped its interest rates charged to customers on its credit cards from 29% per year to 23.5% per year.

The interests of RSB's controlling shareholder may conflict with those of the Noteholders.

As of 31 March 2005, 93.6% of RSB's total outstanding share capital was controlled by Closed Joint Stock Company Russian Standard Company ("RSC") and Closed Joint Stock Company Roust Inc. ("Roust"), which are in turn indirectly owned and controlled by Mr. Roustam Tariko, a Russian entrepreneur, through his holding vehicle, Roust Trading Limited. (As such Mr. Tariko is the beneficial owner of most of the outstanding share capital of RSB). Mr. Tariko, through Roust Trading Limited, RSC and Roust, will be able to elect the majority of RSB's Board of Directors and determine the outcome of all matters submitted to the shareholders of RSB without recourse to the minority shareholders, save where such matters fall within the rules governing interested party transactions under Russian civil legislation. For example, although Mr. Tariko, through Roust Trading Limited, RSC and Roust, has not done so in the past, he could cause RSB to pursue acquisitions and other transactions or to make large dividend payments or other distributions or payments to shareholders that are designed to benefit Mr. Tariko, RSC and Roust, even though such transactions may involve increased risk for the Noteholders. Also, although it is in the best interest of Noteholders for RSB to remain compliant with regulatory and contractual financial ratios, RSB's controlling shareholders may not be willing or able to provide the further capital contributions required.

RSB's financial condition and results of operations depend on consumers' consumption and income levels which are outside RSB's control.

Most of RSB's consumer loans are granted with respect to the purchase of consumer durable goods such as refrigerators, washing machines and televisions. The sustainable development of the consumer finance market in the Russian Federation is highly dependent on economic growth, increases in consumers' average disposable income and levels of consumer spending. A deterioration in the performance of the Russian economy or stagnation or reduction in levels of personal income, individual purchasing power or consumer confidence (either generally or specifically in respect of the banking sector) may cause the demand for such consumer goods to decrease, resulting in a corresponding decrease in demand for RSB's consumer loans and other consumer finance products.

Competition in the Russian banking industry and specifically in consumer lending may continue to adversely affect RSB's financial condition and prospects.

According to the CBR, as of 31 December 2004, 1,299 banks and non-banking credit organisations were operating in the Russian Federation.

RSB is a consumer finance bank focusing on consumer lending. As other banks and other financial institutions, including GE Consumer Finance and Société Générale, launch consumer finance programmes or joint ventures in Russia and as existing competitors' programmes develop further, RSB's share in these markets may decline. RSB faces intense price and other competition in the following areas from competitors:

- in the point-of-sale consumer loan market, Home Credit and Finance Bank and OVK Group (which is controlled by Open Joint Stock Company Rosbank), Delta Bank, Alfa Bank and Finansbank;
- in the credit card loan market, OVK Group, Delta Bank and Alfa Bank Express; and
- in the car loans financing market, Sberbank, OVK Group, International Moscow Bank, UralSib Financial Corporation, Raiffeisenbank Austria, Soyuz Bank, Moscow Credit Bank and MDM-Bank.

The moderate size of RSB's balance sheet compared to other Russian and international banks, such as Société Générale and GE Consumer Finance, might impede RSB's ability to compete successfully with larger rivals now or in the future, which may adversely affect RSB's business, financial condition, results of operations or prospects.

Increased competition has forced RSB to offer products presenting greater credit risks, and the materialisation of such risk could have a material adverse effect on RSB's results of operations and prospects.

RSB has historically required that customers make certain minimum downpayments on its consumer loans based on the creditworthiness of the applicant and the nature of the goods being financed. For example, mobile phones have historically been associated with a higher level of loan defaults, and minimum downpayments, which mitigated against this level of default, were until recently required up to the value of 50% of the cost of the mobile phone being financed. In order to compete, RSB has had to offer lower downpayments on mobile phones. RSB's competitors have begun to offer lower and even zero downpayments on mobile phones and certain additional consumer goods purchases, and RSB has therefore had to offer similar terms for certain additional consumer loan products. RSB estimates that riskier products such as loans to fund mobile phone purchases and loans with 0% downpayment, will increase significantly as a percentage of RSB's consumer loan portfolio. RSB has also had to offer consumer loans with longer maturities, which may also subject it to higher rates of default. These new competitive factors increase the overall credit risk to which RSB is exposed. RSB expects 0% downpayments to eventually become a standard term for all consumer loans, and it is therefore conceivable that its added exposure to credit risk will further increase in the course of 2005 and 2006. Furthermore, competitors may introduce other products which pose increased credit risk and the terms of which RSB would have to match in order to remain competitive. RSB's consumer finance provisioning policy is based on the nature of the consumer loan offered, geographic considerations and loan maturities. RSB's profitability may be adversely affected if RSB

is not in a position to correctly provision for these risks. RSB's possible increased exposure to credit risk could have a material adverse effect on its results of operations and prospects.

RSB relies heavily on its relationships with large consumer retail chains, but there is no guarantee that these relationships will continue in their current form or at all.

The retail chain Eldorado, which is a seller of household appliances and consumer electronics products, has historically generated up to approximately 60% of RSB's point-of-sale consumer loans. However, for the year ended 31 December 2004, Eldorado generated approximately 35% of RSB's sales and this percentage has declined further during the first quarter of 2005. Previously, RSB had exclusive agreements with certain chains such as Eldorado. However, such arrangements ceased to exist by the end of 2003 and RSB's relationship with these retail chains is not exclusive and, accordingly, retailers may either seek other alternatives or renegotiate their relationship with RSB to be more consistent with recent market developments. There can be no guarantee that retail chains or other retail stores that permit RSB point-of-sale lending operations will not choose to transfer some or all of their business to other banks, or seek to provide consumer finance services directly themselves or seek to renegotiate. As a result, RSB's business, financial condition, results of operations or prospects could be adversely affected.

Moreover, these retail chains currently pay RSB (and other consumer finance banks) commissions on the sale of appliances and products financed by RSB or other such banks. It is possible that increased competition in the market may lead to lower or no commissions paid to RSB, and may even lead to RSB being required to pay commissions to the retail chains.

In addition, these fees and commissions are reflected as interest income paid to RSB in respect of the relevant consumer loan. Therefore, a decrease in fees and commissions paid by retailers to RSB or the introduction of fees paid to them has a direct adverse effect on RSB's net interest income.

RSB's financial condition and results of operations depend on correctly assessing the creditworthiness of its customers, and this is not always possible.

RSB is subject to credit risks associated with its consumer finance business.

There can be no assurance that RSB will correctly assess the creditworthiness of credit applicants. While credit rating agencies have announced plans to start operations in Russia, there are currently no central credit rating agencies in Russia as there are in Western countries. Moreover, while RSB has access to several databases of information which helps it to more accurately assess the creditworthiness of credit applicants in Moscow and in some larger cities, it does not have these same or similar sources in the smaller population centres where it expects its future growth to lie. These factors and others may result in RSB facing credit delinquencies in its consumer finance portfolio. While RSB has detailed policies to deal with problem loans, there can be no assurance that these policies will result in full or partial recovery of its problem loans.

As of 31 December 2004, 3.7% (by value) of RSB's aggregate loans and advances to customers (which includes consumer, car and credit card loans as well as other loans) were overdue. Consumer loans and credit card loans accounted for 84.8% of RSB's assets as of that date. There can be no assurance that RSB's current level of loan recovery (which has historically stood at approximately 95% of RSB's overall consumer finance portfolio) will be maintained in the future.

Instability of the Russian banking sector could have a material adverse effect on RSB's results of operations and prospects.

Over the period from April to July 2004, the Russian banking sector experienced its first serious turmoil since the financial crisis of August 1998. As a result of market rumours and, in some cases, regulatory and liquidity problems, several Russian privately-owned banks collapsed or ceased or significantly limited their operations. A number of Russian banks experienced liquidity problems and were unable to attract funds on the interbank market or from their client base. Simultaneously, they were facing large withdrawals of deposits by both retail and corporate customers. RSB remained largely unaffected by the turmoil. Although RSB believes that this turmoil in the Russian banking market has not had and will not have any material

adverse effect on its own business, RSB may face losses as a result of the bankruptcy of other Russian banks or their inability to perform their obligations. In the event of a repeat of this situation, RSB's deposits could be withdrawn.

RSB's exposure to market risks, including interest rate risks, may have a material adverse effect on RSB's financial condition and results of operations.

RSB is exposed to risks resulting from mismatches between the short-term (i.e., generally less than one year) nature of its consumer loan portfolio and the longer term (i.e., generally longer than one year) nature of its debt obligations. Although its consumer loan portfolio is based on fixed interest rates, as are most of RSB's debt obligations, the shorter terms of the consumer loan portfolio make the consumer loan portfolio more susceptible to variations in interest rates. If interest rates decline, then RSB would earn less interest income in the short-term while its interest expense, based on existing long-term indebtedness, would remain unchanged. If interest rates increase, RSB may not be able to pass on any increase to customers. Moreover, in the long term, RSB would be affected by such increases in interest rates when it refinances its long-term indebtedness. With increased interest expense and static or decreased interest income, RSB's profitability would be adversely affected. Therefore, while RSB monitors interest rates with respect to its interest-earning assets and its interest-bearing liabilities, interest rate movements may adversely affect RSB's financial position and results of operations.

Furthermore, if interest rates increase, RSB's results of operations may be adversely affected because of the associated decline in the value of the Rouble and the decreased purchasing power of Russian consumers, which may result in decreases in demand for RSB's consumer finance products.

RSB's exposure to floating interest rates on its indebtedness may have a material adverse effect on its results of operations and financial condition.

As of 1 April 2005 RSB had U.S.\$127.3 million of outstanding indebtedness bearing interest at floating rates linked to LIBOR, consisting of a U.S.\$90 million facility arranged by the EBRD, a U.S.\$15.8 million loan from the European Bank for Reconstruction and Development (the "EBRD") and a loan of U.S.\$21.5 million from a syndicate led by Citigroup. If interest rates increase, RSB's interest expense and net interest income would be directly and adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – *Net Interest Income before Provision for Loan Impairment*".

A decrease in RSB's access to the interbank or capital markets or, an increase in RSB's cost of funding in these markets could have a material adverse effect on RSB's financial condition and prospects.

RSB continues to diversify its funding sources by accessing the domestic and international fixed income capital markets with a number of domestic bond and promissory note, credit linked note and loan participation note issues. The EBRD and the International Finance Corporation (the "IFC") have provided loans to RSB to fund its current operations. RSB's ability to continue to access the fixed income markets and multilateral agency lenders to the extent sufficient to meet its funding needs, including the refinancing of outstanding debt falling due, could be adversely affected by a number of factors, including Russian and international economic conditions and the state of the Russian financial and banking system.

A decrease in RSB's access to the international or domestic interbank loan or capital markets, or an increase in RSB's cost of funding in these markets, could have a material adverse effect on the business, financial condition, results of operations or prospects of RSB.

RSB does not benefit from significant consumer deposits and must therefore find funding from more expensive sources.

Unlike some of its competitors, including state-owned competitors, RSB does not have significant consumer deposits, which are considered in the banking industry to be one of the principal means of achieving inexpensive funding. Furthermore, term deposits may, according to the Russian Civil Code, be withdrawn by

depositors that are individuals at any time. There can be no assurance that if unexpected withdrawals of deposits by RSB's customers result in liquidity gaps, RSB will be able to replace such funding in as cost-effective a manner as consumer deposits.

Any failure of RSB to comply with capital adequacy or other ratios may result in the revocation of RSB's bank licence and breach of loan covenants.

According to CBR Regulations, which apply a methodology based on Russian accounting standards, RSB's shareholders' equity as a percentage of risk-weighted assets, or its capital adequacy ratio, must be at least 10%. While RSB has increased shareholders' equity in the last three years and its capital adequacy ratio as of 31 December 2004 was 15.6% (and thus in compliance with CBR requirements), if RSB's capital adequacy ratio were to fall below the 10% threshold, RSB would be in violation of the CBR mandatory ratio, and the CBR could impose various administrative fines or, in the event of repeated violations, revoke RSB's banking licence.

Certain of RSB's loan agreements contain covenants that require that shareholders' equity must comprise at least 15% of its risk-weighted assets, calculated in accordance with BIS guidelines. If RSB falls below this threshold, it would breach its covenants and be in default under the terms of these agreements, as well as the terms of other loan agreements to which it is a party which have cross-default provisions. Any such default and/or cross-default would permit acceleration of amounts due under the loans which could have a material adverse effect on RSB's financial condition and business.

RSB's expansion of the regional distribution network entails exposure to greater credit risk which could adversely affect RSB's financial condition and results of operations.

RSB's expansion into smaller population centres outside of Moscow entails more reliance on smaller or more geographically dispersed retailers that are more difficult for RSB's regional offices to monitor for fraud. As RSB expands into smaller population centres, less information is available to accurately assess applicants' creditworthiness. These factors increase RSB's aggregate credit risk exposure. If RSB is not able to adequately model and provide for this risk, its business will be adversely affected. In addition, if RSB has to increase its provision for loan impairment as a result of this expansion strategy, its net profit would be adversely affected.

A loss of senior RSB personnel may adversely affect RSB's results of operations and prospects.

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

RSB may be unable to recruit or retain experienced and/or qualified personnel.

RSB's continuing success depends, in part, on its ability to continue to attract, retain and motivate qualified and experienced banking and management personnel. Competition in the Russian banking industry for personnel with relevant expertise is intense, due to the relatively small number of available qualified individuals. RSB's failure to recruit and retain necessary personnel or manage its personnel successfully could have a material adverse effect on RSB's business, financial condition, results of operations or prospects.

The termination of RSB's rights to third party databases and other information sources could have a material adverse effect on its results of operations.

RSB's scoring systems used in assessing the creditworthiness of borrowers rely on databases maintained by a number of Russian state and commercial entities. See "Business – Consumer Lending Policy, Loan Repayment and Loan Collection – Lending Policy". While RSB aims to maintain good relations with its respective information suppliers, there can be no assurance that the databases upon which RSB relies will be

accessible on the same terms or at all in the future. The failure of RSB to gain access to such information in the future may adversely affect RSB's ability to assess the quality of credit applicants and therefore result in increased credit risks.

The absence of central credit information may lead to the overextension of credit and greater credit risk exposure by RSB.

Russia does not currently have any central credit bureaus, and RSB and its competitors do not share customer information. Therefore, RSB is unable to independently confirm information provided by credit applicants regarding the total credit extended to the applicant. As a result, customers may be overextended by virtue of other credit obligations about which RSB has no knowledge. RSB is therefore exposed to credit risks which it may not be able to accurately assess and provide for.

The introduction in Russia of legislation governing credit bureaus and the introduction of centralised credit bureaus themselves may reduce the competitive advantage of RSB's own proprietary database.

RSB believes its internal database of customer information gives it a competitive advantage and has allowed RSB to make better informed credit assessments. The introduction in Russia of credit bureaus, however, may offer to RSB's competitors access to information that may permit them also to make better informed credit assessments than they currently do while providing less of an advantage to RSB. RSB may therefore lose some of its current advantage with respect to its competitors.

RSB's proprietary database of customer information is incomplete, and therefore exposes RSB to the risk of inaccurate assessment of credit risk.

RSB bases its credit decisions on third party databases and its own proprietary database of customer information. RSB's database principally contains information on individuals in Russia's largest cities; it has much less credit information on customers in the smaller population centres of Russia where RSB's current expansion is targeted. In addition, there is no reliable national identification system in Russia, which affects information in any database, including RSB's own.

RSB may have difficulty enforcing security under Russian law, and this may have a material adverse effect on RSB's results of operations.

RSB typically takes pledges over goods as part of its consumer finance lending procedures. See "Business – Consumer Banking Services – Consumer Loans". Under Russian law, pledges are considered secondary obligations which automatically terminate if the secured obligation becomes void. Furthermore, enforcement of a pledge under Russian law generally requires a court order and a public sale of the relevant collateral. A court may delay such public sale for a period of up to one year upon a pledgor's application. Russian law has no pledge perfection system, which may contribute to the incidence of unexpected and/or conflicting claims of secured creditors upon the pledged property. Moreover, were it to elect to enforce, RSB would, as a result of the above challenges, have difficulty enforcing pledges when consumers default on their loans.

RSB operates in a highly regulated environment, and any finding of non-compliance could result in significant fines or penalties or suspension, amendment or revocation of RSB's licences.

RSB operates in a highly regulated business. The CBR requires the regular filing of periodic reports and the maintenance of various ratios. Russian authorities, including the CBR, have the right to, and do, conduct periodic inspections of RSB's operations throughout the year. Any such future inspections may conclude retrospectively that RSB has violated laws, decrees or regulations, and RSB may be unable to adequately remediate such violations. Moreover, the unlawful or arbitrary nature of government action may find violations where there are none or where these are minimal. Such findings could result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of RSB's licences, any of which could increase costs or materially adversely affect RSB's business, financial condition, results of operations or prospects.

RSB's business is highly dependent on its information technology system, and disruptions of service and/or an inability to scale up to demand may adversely affect RSB's business, results of operations and prospects.

RSB's financial performance and its ability to meet its strategic objectives depend and will depend to a significant extent upon the functionality of its information technology and its ability to increase systems capacity. There can be no assurance that a disruption (even short-term) to the functionality of RSB's information technology systems, delays, or other problems in increasing the capacity of the information technology systems, or increased costs associated with such systems, will not have a material adverse effect on the business, financial condition, results of operations or prospects of RSB.

Risks Related to the Russian Federation

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

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

Political conditions in the Russian Federation were highly volatile in the 1990s, as evidenced by the frequent conflicts among executive, legislative and judicial authorities which negatively impacted Russia's business and investment climate. While Russia's current President, Vladimir Putin, re-elected for a second presidential term in March 2004, has maintained the stability of the Russian federal government (the "Government") and introduced policies generally oriented towards the continuation of economic reforms, there can be no assurances that there will be no material changes to Government policies or to economic or regulatory reforms. The State Duma (the lower chamber of the Russian parliament) elections in December 2003 resulted in an increase in the percentage of the aggregate vote received by the "United Russia" party and other members of the State Duma allied with the President. Furthermore, President Putin replaced the Prime Minister and changed the composition of the Government just prior to President Putin's re-election. RSB's business, financial condition, results of operations or prospects could be materially affected if political instability recurs or if reform policies are reversed or become ineffective.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict. Russian military and paramilitary forces have been engaged in the Chechen Republic in the recent past and continue to maintain a presence there. Groups associated with the Chechen opposition have committed various acts of terrorism in population centres within the Russian Federation, resulting in significant loss of life, injury and damage to property the most recent such attack being the siege of a school in Beslan in 2004 which resulted in many casualties. The spread of violence, or its intensification, could have significant political consequences, including the imposition of a state of emergency in some parts of, or throughout the whole of, the Russian Federation. Furthermore, in September 2004, President Putin announced a proposed reform of the sub-federal election system. Pursuant to the proposed reform, the heads of executive authorities on the sub-federal level will be elected by their respective legislatures from a list of candidates nominated by the President of the Russian Federation (instead of direct election by the population without the participation of federal authorities in the nomination process). The proposed amendments to Russian election legislation were approved by both chambers of the Russian parliament and entered into force in December 2004. These events could materially and adversely affect the investment environment and overall consumer confidence in the Russian Federation, which in turn could have a material adverse effect on RSB's business, financial condition, results of operations or prospects.

In addition, the arrest of Mikhail Khodorkovsky on charges of fraud and tax evasion in October 2003 and, in connection with the arrest, the attachment of approximately 42% of the shares of Yukos Oil Company ("Yukos") alleged to be beneficially owned by him, as well as tax claims brought by the Government against Yukos and the sale in 2004 of Yukos' principal production subsidiary, Yuganskneftgas, have led some commentators to question the progress of market and political reforms in Russia and caused significant fluctuations in the market prices of Russian securities.

Legislation to protect against nationalisation and expropriation may not be enforced in the event of a nationalisation or expropriation of RSB's assets.

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

The concept of property rights is not well developed in the Russian Federation and there is not a great deal of experience in enforcing legislation enacted to protect private property against nationalisation and expropriation. As a result, RSB may not be able to obtain proper redress in the courts, and may not receive adequate compensation if in the future the Russian Government decides to nationalise or expropriate some or all of RSB's assets. The expropriation or nationalisation of any of RSB's or its subsidiaries' assets without fair compensation may amount to an Event of Default under the Loan Agreement and may have a material adverse effect on RSB's business, financial condition, results of operations or prospects.

Economic Risks

Since the dissolution of the former Soviet Union in the early 1990s, Russia's society and economy have been undergoing a rapid transformation from a one party state with a centrally planned economy to a pluralist democracy with a market-oriented economy. This transformation has been marked by periods of significant instability and the Russian economy has experienced at various times:

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

The Russian economy has been subject to abrupt downturns. In particular, the Government's decision to temporarily stop supporting the Rouble in August 1998 caused the currency to collapse. At the same time, the state defaulted on much of its short-term domestic debt and imposed a 90-day moratorium on foreign debt and other payments by Russian companies. These actions resulted in an immediate and severe devaluation of the Rouble, a near collapse of the Russian banking system, a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and an inability of Russian issuers to raise funds in the international capital markets.

In May-July 2004, following a general fall in confidence in the Russian banking system, the Russian banking sector experienced a reduction in liquidity. While the market has since recovered, RSB's management is

unable to predict the effect that a future significant deterioration in the liquidity of, or significant volatility in, the Russian banking system could have on RSB's ability to access the international capital markets or on its financial position.

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

Although economic conditions in the Russian Federation have been improving since 1999, there is a lack of consensus as to the scope, content and pace of economic and political reform. No assurance can be given that reform policies will continue to be implemented and, if implemented, will be successful, that the Russian Federation will remain receptive to foreign investment, or that the economy of the Russian Federation will continue to improve. Any failure or reversal of the current policies of economic reform and stabilisation could have a material adverse effect on RSB's business, financial condition, results of operations or prospects.

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

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

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

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

According to Government estimates, inflation in the Russian Federation was 19% in 2001, 15% in 2002, 12% in 2003 and just under 12% in 2004. The Government expects inflation to be approximately 8.5% in 2005. Although the rate of inflation has been declining, any return to heavy and sustained inflation could lead to market instability, new financial crises, reductions in consumer purchasing power and erosion of consumer confidence. Any one of these events could lead to decreased demand for RSB's products and services.

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

A new Federal Law No. 173-FZ "On Currency Regulation and Currency Control" published on 17 December 2003 ("New Currency Law") introduces a new currency control regime which came into force on 18 June 2004. According to the New Currency Law, only a limited number of restrictions can be imposed in respect of currency operations (such as, for instance, reserve requirements or requirements to effect relevant operations through special-purpose accounts). The New Currency Law provides for most current restrictions to be effective until 1 January 2007. The CBR has enacted a number of regulations to implement the New Currency Law, concerning mainly technical issues of the new currency control regime. In addition, the CBR has introduced special account and reserve requirements with respect to certain operations of Russian

corporates. However, to date no such restrictions have been introduced with respect to Russian banks. It is expected that the CBR and the Government will enact further regulations under the New Currency Law. Until all of the regulations for the effective implementation of the New Currency Law are published and implemented, it will not be possible to assess fully the effect of the currency control regime introduced by the New Currency Law and there may be uncertainties and disputes in the interpretation of the New Currency Law. Accordingly, there can be no assurance that the New Currency Law and the related regulations will not have a material adverse effect on RSB's business, financial condition, results of operations or prospects.

The official data upon which you may base your investment decision may not be as reliable as equivalent data from official sources in the West.

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

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

Russia's physical infrastructure is in very poor condition, which could disrupt normal business activity. Russia's physical infrastructure largely dates back to Soviet times and has not been adequately funded and maintained over the past decade. Particularly affected are pipeline, rail and road networks, power generation and transmission, and communication systems. The Government is actively considering plans to reorganise the nation's rail, electricity and telephone systems. Any such reorganisation may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems. The continued deterioration of Russia's physical infrastructure may harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in the Russian Federation and may interrupt business operations, all of which could have a material adverse effect on RSB's business, financial condition, results of operations or prospects. In particular, RSB's credit scoring system relies on Internet connections that depend upon the proper functioning of Russia's telephone system. Any disruption of service as a result of the poor condition of Russia's telephone systems could have a material adverse effect on RSB's results of operations and prospects.

Social Risks

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

The political and economic changes in the Russian Federation since the early 1990s have resulted in reduced policing of society and increased lawlessness. The Russian and international press have reported high levels of organised criminal activity and corruption of officials in the Russian Federation and other countries of the former Soviet Union. Press reports have also described instances in which state officials have engaged in selective investigations and prosecutions to further commercial interests of select constituencies. Additionally, published reports indicate that a significant proportion of the Russian media regularly publishes biased articles in return for payment. RSB's business, financial condition, results of operations or prospects could be materially adversely affected by illegal activities, corruption or by claims alleging involvement in illegal activities.

Social instability in the Russian Federation, coupled with difficult economic conditions, the failure of the state and main private enterprises to make full and timely payment of salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest and increased support for a renewal of

centralised authority, increased nationalism, restrictions on foreign involvement in the economy, and increased violence. Any of these could restrict RSB's operations and lead to a loss of revenue.

Risks relating to the Russian legal system and legislation

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

The Russian Federation is still developing an adequate legal framework required for the proper functioning of a market economy. Several fundamental Russian laws have only recently become effective. The recent nature of much of Russian legislation and the rapid evolution of the Russian legal system place the enforceability and underlying constitutionality of laws in doubt and result in ambiguities, inconsistencies and anomalies in their application. The following aspects of Russia's legal system create uncertainty with respect to many of the legal and business decisions that RSB's management make. Many of these risks do not exist in countries with more developed legal systems:

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

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

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

State authorities have a high degree of discretion in Russia and at times exercise their discretion arbitrarily, without conducting a hearing or giving prior notice, and sometimes in a manner that is contrary to law. Moreover, the state also has the power in certain circumstances, by regulation or act, to interfere with the performance of, nullify or terminate contracts. Unlawful or arbitrary state actions have included withdrawal

of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities have also used common defects in matters surrounding documentation of financing activities as pretexts for court claims and other demands to invalidate such activities and/or to void transactions, often for political purposes. Unlawful or arbitrary state action, if directed at RSB, could have a material adverse effect on its business, financial condition, results of operations or prospects.

Difficulty in enforcing RSB's rights in Russia may have an adverse effect on RSB's financial condition results operations and prospects.

The current status of the Russian legal system makes it uncertain whether RSB would be able to enforce its rights in disputes with any of its contractual counterparties. Furthermore, the dispersion of regulatory power among a number of state agencies in the Russian Federation has resulted in inconsistent or contradictory regulations and unpredictable enforcement. The Government has rapidly introduced laws and regulations and has changed its legal structure in an effort to make the Russian economy more market-oriented, resulting in considerable legal confusion. No assurance can be given that local laws and regulations will become stable in the future. RSB's ability to operate in the Russian Federation could be adversely affected by difficulties in protecting and enforcing its rights and by future changes to local laws and regulations. Further, its ability to protect and enforce such rights is dependent on the Russian courts which are underdeveloped, inefficient and, in places, corrupt. Judicial precedents generally have no binding effect on subsequent decisions. Enforcement of court orders can in practice be very difficult in the Russian Federation. Additionally, court orders are not always enforced or followed by law enforcement agencies.

Russia's banking and financial regulations have changed significantly recently, and it is unclear how these changes will impact on RSB's business.

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

In December 2003, President Putin signed into law the Federal Law of 23 December 2003 No. 177-FZ "**On Insurance of Deposits Placed by Individuals with Banks in the Russian Federation**" (the "**Retail Deposit Insurance Law**"), which mandates protection of bank deposits of individuals. The Retail Deposit Insurance Law establishes a deposit insurance scheme in which all Russian banks must participate or lose their ability to accept retail deposits and open bank accounts for individuals. The enactment of the Retail Deposit Insurance Law is expected to strengthen competition in the retail deposit market as all Russian banks that choose to participate in the deposit insurance scheme will have the ability to offer protected deposits.

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

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

The frequent changes in Russian tax legislation (including occasional retroactive taxation) make it difficult for RSB to assure that additional tax exposure will not arise while the Notes are outstanding.

Taxes payable by Russian companies are substantial and include value added tax, excise duties, profit taxes, payroll-related taxes, property taxes and other taxes. Historically, the system of tax collection has been relatively ineffective, resulting in the imposition of new taxes in an attempt to increase government revenues.

Russian tax laws and regulations are subject to frequent change, varying interpretation and inconsistent enforcement. In some instances, despite its unconstitutionality, Russian tax authorities apply taxes retroactively. In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions. In addition, tax laws are unclear with respect to deductibility of certain expenses. This uncertainty could possibly expose RSB to significant fines and penalties and to enforcement measures despite its best efforts at compliance, and could result in a greater than expected tax burden.

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

Risks Related to the Notes and the Trading Market

As payments under any Series of Notes are limited to certain payments received under the relevant Loan Agreement, Noteholders' recourse is limited.

The Issuer will only be obliged to make payments under the Notes to Noteholders in an amount equivalent to sums of principal, interest and additional amounts, if any, it actually receives by or for its account under the relevant Loan Agreement, less any amounts in respect of the Reserved Rights. Consequently, if RSB fails to meet its obligations fully under the Loan Agreement, the Noteholders could receive less than the full amount of principal, interest and/or additional amounts (if any) on the relevant due date.

There is no direct recourse of the Noteholders to RSB.

Except as otherwise disclosed in the "Terms and Conditions of the Notes" and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of any Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions of the Loan Agreement or have direct recourse to RSB, except through action by the Trustee under the Security Interests (as defined in "Terms and Conditions of the Notes"). Neither the Issuer nor the Trustee pursuant to the Security Interests (as defined in "Terms and Conditions of the Notes") shall be required to enter into proceedings to enforce payment under the Loan Agreement, unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

Payment of principal and/or interest by RSB under the Loan Agreement to, or to the order of, the Trustee or the Principal Paying Agent is expected to meet, and will discharge, the Issuer's obligations in respect of the Notes. Consequently, Noteholders will have no further recourse against the Issuer or RSB after such payment is made.

The risk of prepayment of the loan is assumed in part by the Noteholders.

Under the terms of the Loan Agreement, RSB may, subject to certain conditions, prepay the Loan if it is required to increase its payments for tax reasons regardless of whether the increased payment obligations result from any change in the applicable tax laws or treaties or from the change in application of existing tax laws or treaties or from enforcement of the security provided for in connection with the Notes. RSB may also prepay the Loan if it is required to indemnify the Lender in respect of certain increased costs to the Lender (as set out in the Loan Agreement). In the event that it becomes unlawful for the Lender to allow the Loan to remain outstanding under the Loan Agreement, to allow the Notes to remain outstanding, to maintain or give effect to any of its obligations under the Loan Agreement and/or to charge or receive or to be paid interest at the rate then applicable to the Loan, RSB may be required by the Lender to repay the Loan in full.

In case of any such prepayment, all outstanding Notes would be redeemable at par with accrued interest and/or additional amounts payable (if any).

The lack of public market for the Notes could reduce their value.

The Issuer may apply for the Notes to be admitted to the Official List of the UKLA and to be admitted to trading on the London Stock Exchange. However, an active trading market in the Notes may not develop or be maintained after listing even if the Notes were to be listed. If an active trading market does not develop or cannot be maintained, this could have a material adverse effect on the liquidity and the trading price of the Notes. In addition, stock markets in recent years have experienced significant price fluctuations. These fluctuations were often unrelated to the operating performance of the companies whose securities were traded on such stock markets. Market fluctuations as well as adverse economic conditions have negatively affected the market price of many securities and may affect the market price of the Notes.

There is no guarantee that the favorable withholding tax level under the current Russia - Luxembourg double tax treaty will remain in place during the term of the Notes.

In general, interest payments on borrowed funds made by a Russian legal entity to a non-resident are subject to Russian withholding tax at a rate of 20%, unless such withholding is reduced or eliminated pursuant to the terms of an applicable tax treaty. Based on professional advice it has received, RSB believes that, based on laws in effect as of the date hereof, interest payments on the relevant Loan made to the Issuer will not be subject to withholding tax under the terms of an applicable double tax treaty between the Russian Federation and the Grand Duchy of Luxembourg. However, there can be no assurance that such double tax treaty relief will continue to be available.

If payments under the Loan are subject to any withholding tax, RSB will be obliged to increase the amounts payable as may be necessary to ensure that the recipient receives a net amount equal to the amount it would have received in the absence of such withholding taxes. In addition, payments in respect of the Notes will, except in certain limited circumstances, be made without deduction or withholding for or on account of Luxembourg taxes except as required by law. Based on professional advice it has received, RSB believes that payments in respect of the Notes will only be subject to deduction or withholding for or on account of Luxembourg Taxes as described in "Taxation - Luxembourg". In the event of such a deduction or withholding, the Issuer will only be required to increase payments to the extent that it receives corresponding amounts from RSB under the relevant Loan Agreement. While the Loan Agreement provides for RSB to pay such corresponding amounts in these circumstances, there are some doubts as to whether such tax gross-up clause contained in the Loan Agreement is enforceable under Russian law.

Due to the limited recourse nature of the Notes, if RSB fails to pay any such gross-up amounts, the amount payable by the Issuer under the Notes will be correspondingly reduced. Any failure by RSB to increase such payments would constitute an Event of Default under the Loan Agreement. In certain circumstances (including following enforcement of the security upon a Relevant Event as defined in the Trust Deed), in the event that RSB is obliged to increase the amounts payable, it may prepay the principal of the Loan together with accrued interest and/or additional amounts payable (if any), and all outstanding Notes would be redeemed by the Issuer (to the extent that it has actually received the relevant funds from RSB).

The Issuer has granted security over certain of its rights in the Loan Agreement to the Trustee in respect of its obligations under the Notes. The security under the Trust Deed will become enforceable upon the occurrence of a Relevant Event, as further described in "Terms and Conditions of the Notes". In these circumstances, payments under the Loan Agreement (other than in respect of Reserved Rights) would be required to be made to, or to the order of, the Trustee. Under Russian tax law, payments of interest and other payments made by RSB to the Trustee will in general be subject to Russian income tax withholding at a rate of 20%. It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption under any double tax treaty. In addition, while it may be possible for some Noteholders who are eligible for an exemption from Russian withholding tax under double taxation treaties to claim a refund of tax withheld, there would be considerable practical difficulties in obtaining any such refund. As indicated above, it is currently unclear whether the provisions obliging RSB to gross-up payments will be enforceable in the

Russian Federation. If, in the case of litigation in the Russian Federation, a Russian court does not rule in favour of the Issuer or the Trustee and Noteholders, there is a risk that tax gross-up for withholding tax will not take place and that payments made by RSB under the Loan Agreement will be reduced by Russian income tax withheld by RSB at a rate of 20%.

During the life of the Notes, the Issuer may cease to be resident for tax purposes in the Grand Duchy of Luxembourg and become resident for tax purposes in another jurisdiction. In the event that such jurisdiction requires the Issuer to make deduction for or on account of any taxes (other than taxes of the Grand Duchy of Luxembourg) in respect of payments which the Issuer is obliged to make under or in respect of the Notes and/or there is no double tax treaty between Russia and the country of residence of the Issuer, providing relief from Russian withholding income tax on interest payments under each Loan, under the terms of the Loan Agreement, RSB will be under no obligation to increase payments to the Issuer under the Loan Agreement in respect of such withholding or deduction for or on account of any taxes (other than taxes of the Grand Duchy of Luxembourg). In such circumstances, the Noteholders will receive payments under the Notes net of such withholding or deduction and will have no right to require that their Notes be repaid in full.

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

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

In the event of RSB’s insolvency, Russian bankruptcy law could adversely affect the ability of the lender, the Trustee or the Noteholders to recover sums owed under the relevant Loan Agreements.

Russian bankruptcy laws are relatively new and are subject to varying interpretations. The most recent Law on Insolvency (Bankruptcy) came into force in late 2002. The relevant amendments to the Law on Insolvency (Bankruptcy) of Credit Organisations came into force in late 2004. As a result of limited court practice it is not possible to predict with certainty how claims of the Issuer and/or the Trustee or the Noteholders under the Loan Agreement against RSB would be resolved in case of RSB’s bankruptcy. Under the new Law on Insolvency (Bankruptcy) and Law on Insolvency (Bankruptcy) of Credit Organisations, unsecured creditors’ claims are generally subordinated to current liabilities (i.e., claims which arose after the initiation of bankruptcy proceedings and costs related to bankruptcy litigation) and the following claims (“**Priority Claims**”): (a) injury and moral damages obligations; (b) claims of individuals under cash deposits and balances on current accounts (except for individuals-entrepreneurs holding such deposits or accounts for business purposes); (c) claims of the Agency for Insurance of Bank Deposits transferred to it pursuant to the Retail Deposit Insurance Law; (d) recourse claims of the CBR if it paid compensation to the retail depositors of a bank which does not participate in the retail deposit insurance system; (e) claims arising in connection with severance payments and other employment related obligations and royalties.

In accordance with the Law on Insolvency (Bankruptcy) of Credit Organisations, claims of creditors secured by a pledge are satisfied from the proceeds from the sale of pledged assets in priority to other creditors’ claims, except for Priority Claims. Any obligations of creditors secured by a pledge remaining unsatisfied following the sale of the pledged assets would be ranked as claims of unsecured creditors.

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

In the event of the insolvency of RSB, Russian bankruptcy law could adversely affect the ability of the Issuer, the Trustee or the Noteholders to recover sums owed by RSB under the Loan Agreement.

Risks related to Luxembourg law

Luxembourg Insolvency

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

CAPITALISATION

The following table sets out the Group's consolidated capitalisation and indebtedness as of 31 December 2004. Prospective investors should read this information in conjunction with "Use of Proceeds", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Group's Consolidated Financial Statements included elsewhere in this Offering Circular. Save as disclosed below, there has been no material change in the consolidated capitalisation, indebtedness, guarantees or contingent liabilities of the Group since 31 December 2004.

	As of 31 December 2004
	<i>(in thousands of Roubles)</i>
Total short-term debt	14,765,650
Long-term debt	
Due to other banks	432,931
Customer accounts	41,500
Debt securities in issue	18,320,551
Other liabilities	7,883
Total long-term debt	18,802,865
Total indebtedness⁽¹⁾	33,568,515
Shareholders' equity	
Share capital ⁽²⁾	1,738,516
Share premium	672,932
Additional paid-in capital	148,286
Retained earnings	5,052,558
Total shareholders' equity	7,612,292
Total capitalisation	26,415,157
Total contingent liabilities of the Group⁽³⁾⁽⁴⁾	12,604,138

(1) Of the Group's total indebtedness as of 31 December 2004, RUB 3,608.3 million was guaranteed, of which RUB 536.3 million was guaranteed in respect of indebtedness of Group member RSF by each of RSB and RSC (the Group's principal shareholder) and RUB 3,072.0 million of RSB's own indebtedness was guaranteed by RSC. The remainder of indebtedness was not guaranteed. In relation to RUB 536.3 million of the Group's guaranteed indebtedness, as well as in relation to RUB 1,420.6 million of the Group's indebtedness which was not guaranteed, consumer loans were agreed to be pledged as collateral in case of the Group's default on those obligations. The remainder of the Group's indebtedness was unsecured.

(2) Authorised but unissued capital is comprised of (a) 4,383,117 ordinary shares with a nominal value of RUB 1,000 per share and (b) 1,880,000 preference shares with a nominal value of RUB 1,000 per share. At the date of this Offering Circular, no preference shares of RSB have been issued nor was there any agreement by RSB to issue preference shares. RSB has not agreed to issue any further capital. All issued capital has been paid up in full.

(3) No part of these contingent liabilities corresponds to liabilities to DCA and RSF. Neither DCA nor RSF has any contingent liabilities.

(4) As at 31 December 2004, RSB had provided guarantees in a total amount of RUB 848.9 million.

USE OF PROCEEDS

The proceeds from the offering of each Series of Notes will be used by the Issuer for the sole purpose of financing the corresponding Loan to RSB. RSB will use the proceeds from the relevant Loan to fund its lending activities and for general banking purposes (unless otherwise specified in the relevant Pricing Supplement). In connection with the receipt of such Loan, RSB will pay an Arrangement Fee, as reflected in the relevant Pricing Supplement.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following tables present selected consolidated financial information for RSB which has been extracted from (unless otherwise specified), and should be read in conjunction with, the Consolidated Financial Statements as of and for the years ended 31 December 2004, 2003, 2002 and 2001 (2003, 2002 and 2001 as restated (see “Restatement of Prior Period Financial Data”)), prepared in accordance with IFRS and the notes thereto included elsewhere in this Offering Circular as well as the sections entitled “Capitalisation” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations”. Selected financial ratios and other information, profitability, liquidity and capital adequacy have been calculated based on consolidated financial information for RSB at annual and interim dates discussed below.

The Consolidated Financial Statements have been audited by the independent auditors, ZAO PricewaterhouseCoopers Audit, and have been measured in Roubles.

As required by IAS 29, *Financial Reporting in Hyperinflationary Economies*, the Consolidated Financial Statements for the years ended 31 December 2002 and 2001 have been presented so that all reported amounts, including the corresponding figures for the previous periods, are expressed in terms of the purchasing power of the Rouble at 31 December 2002. As the Russian economy was no longer considered to be hyperinflationary from 1 January 2003, and the Consolidated Financial Statements for the years ended 31 December 2003 and 2004 have been stated at their nominal value.

Russian Standard Bank Selected Consolidated Income Statement Data

	For the year ended 31 December			
	2004	2003	2002	2001
		<i>(Restated)</i>	<i>(Restated)</i>	<i>(Restated)</i>
		<i>(in thousands of Roubles)</i>		
Interest income	10,926,759	4,436,670	1,512,388	546,396
Interest expense	(2,057,273)	(827,791)	(259,280)	(86,830)
Net interest income	8,869,486	3,608,879	1,253,108	459,566
Provision for loan impairment	(1,422,016)	(524,807)	(99,064)	(84,094)
Net interest income after provision for loan impairment	7,447,470	3,084,072	1,154,044	375,472
Fee and commission income	58,615	39,263	57,810	26,551
Fee and commission expense	(72,665)	(49,909)	(26,624)	(7,209)
Net trading gains	366,575	50,168	14,501	16,596
Other operating results, net	60,026	(50,828)	(15,520)	3,840
Operating income	7,860,021	3,072,766	1,184,211	415,250
Operating expenses	(2,066,411)	(1,272,790)	(758,259)	(424,729)
Monetary loss	–	–	(136,235)	(125,766)
Profit/(loss) before taxation	5,793,610	1,799,976	289,717	(135,245)
Income tax expense	(1,400,621)	(435,189)	(107,265)	(14,688)
Net profit/(loss)	4,392,989	1,364,787	182,452	(149,933)

Russian Standard Bank Selected Consolidated Balance Sheet Data

	As of 31 December			
	2004	2003	2002	2001
		<i>(Restated)</i>	<i>(Restated)</i>	<i>(Restated)</i>
	<i>(in thousands of Roubles)</i>			
Assets				
Cash and cash equivalents.....	2,850,289	691,765	236,266	152,434
Due from other banks	2,009,065	137,367	152,250	54,768
Loans and advances to customers	34,364,373	13,013,468	4,820,731	1,981,131
Other assets	2,003,907	1,008,390	399,335	240,349
Total assets	41,227,634	14,850,990	5,608,582	2,428,682
Liabilities				
Due to other banks	4,766,733	3,409,214	1,403,762	330,752
Customer accounts	4,235,333	2,720,764	1,133,595	523,395
Debt securities in issue	23,662,775	5,344,295	1,865,734	572,816
Total liabilities	33,615,342	11,666,365	4,463,360	1,479,492
Total shareholders' equity	7,612,292	3,184,625	1,145,222	949,190
Total liabilities and shareholders' equity	41,227,634	14,850,990	5,608,582	2,428,682
	For the year ended 31 December			
	2004	2003	2002	
		<i>(Restated)</i>	<i>(Restated)</i>	
	<i>(in thousands of Roubles)</i>			
Selected Financial Ratios and Other Information				
Average total assets ¹	26,075,453	8,797,454	3,463,697	
Average shareholders' equity ¹	5,266,160	1,950,406	1,022,171	
Profitability				
Return on average shareholders' equity ²	83.4%	70.0%	17.8%	
Return on average total assets ³	16.8%	15.5%	5.3%	
Average shareholders' equity as a percentage of average total assets	20.2%	22.2%	29.5%	

	As of 31 December		
	2004	2003	2002
Liquidity			
Net loans/total assets ⁴	83.4%	87.6%	86.0%
Net loans/client deposits ⁵	811.4%	478.3%	425.3%
Client deposits/total liabilities ⁶	12.6%	23.3%	25.4%
Capital adequacy			
Tier one capital ratio (BIS) ⁷	20.3%	21.8%	20.5%
Shareholders' equity/total assets ⁸	18.5%	21.4%	20.4%
Dividends payout ratio ⁹	– ⁽¹⁰⁾	18.5%	–

- (1) Average total assets and average shareholders' equity are calculated as a simple average of balances as of 1 January, 31 March, 30 June and 30 September and 31 December of the relevant year.
- (2) Net profit/(loss) divided by average shareholders' equity. The average shareholders' equity was calculated as a simple average of RSB's shareholders' equity as of 1 January, 31 March, 30 June and 30 September and 31 December of the relevant year.
- (3) Net profit/(loss) divided by average total assets. The average total assets were calculated as a simple average of RSB's total assets as of 1 January, 31 March, 30 June and 30 September and 31 December of the relevant year.
- (4) Loans and advances to customers (net of provision for loan impairment) divided by total assets, calculated as of 31 December of the relevant year.
- (5) Loans and advances to clients (net of provision for loan impairment) divided by customer accounts, calculated as of 31 December of the relevant year.
- (6) Customer accounts divided by total liabilities, calculated as of 31 December of the relevant year.
- (7) Tier one capital ratio calculated in accordance with the Bank for International Settlements ("BIS") methodology.
- (8) Total shareholders' equity divided by total assets, calculated as of 31 December of the relevant year.
- (9) Dividends declared for the particular year divided by net profit for that year.
- (10) From 25 through 29 March 2005, RSB paid dividends of RUB 1,090 per share for a total of RUB 1,387 million.

Russian Standard Bank Credit-Related Commitments

	As of 31 December			
	2004	2003	2002	2001
	<i>(in thousands of Roubles)</i>			
Undrawn credit lines on credit cards, net	11,252,043	2,779,674	1,192,925	–
Guarantees issued, net.....	848,897	458,775	281,609	121,492
Export letters of credit	–	564,116	451,180	467,726
Undrawn credit lines on loans to customers, net	439,118	293,204	193,508	174,566
Import letters of credit, net	59,945	73,496	–	–
Commitments to extend credit	4,135	52,842	–	–
Total credit-related commitments	12,604,138	4,222,107	2,119,222	763,784

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

The following discussion and analysis of the consolidated financial condition and results of operations of RSB covers the fiscal years ended 31 December 2004, 2003 and 2002. Unless otherwise specified, the financial information presented in this discussion has been extracted or derived from the Group's Consolidated Financial Statements. This section should be read in conjunction with the Group's Consolidated Financial Statements and the notes thereto and the other financial information included elsewhere in this Offering Circular. For periods prior to 1 January 2003, Rouble amounts in this section are all expressed in constant Roubles based on the purchasing power of the Rouble as at 31 December 2002, except as otherwise noted. Certain information contained in the discussion and analysis set forth below and elsewhere in this Offering Circular includes "forward-looking statements". Such forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. See the section entitled "Forward-Looking Statements". Average balances, capital adequacy and certain other information has been calculated based on consolidated financial information for RSB at annual and interim dates.

Overview

RSB's business activities are primarily focused on consumer finance products and services comprising consumer loans, car loans and credit card loans. In 2004, interest, fees and other amounts payable on consumer loans and car loans to individuals contributed 64% of RSB's interest income, while interest, fees and other amounts payable on credit card loans contributed 35% of its interest income. As a limited ancillary business, RSB also offers certain documentary services (such as guarantees and letters of credit) to its Russian corporate clients, many of whom are also its retailer partners. RSB's business originated in Moscow, but it has since expanded into various regions of the Russian Federation. RSB now operates through its network of 11 regional centres and 88 representative offices throughout Russia.

While RSB began operations predominantly as a consumer loan company focused largely on lower income customers in Moscow and other large cities, it is evolving into a company that relies increasingly on the expansion of its consumer finance business into smaller population centres outside Moscow, the development of its credit card business, and the broadening of the demographic profile of its client base. For a more detailed history of RSB, see "Business".

General Market Conditions and Operating Environment

Due to the concentration of RSB's assets in Russia, RSB is substantially affected by Russian macroeconomic conditions. While there have been improvements in economic trends in the country, the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation.

The following table sets forth certain Russian economic indicators for the years ended 31 December 2004, 2003 and 2002.

	Year ended 31 December		
	2004	2003	2002
Nominal gross domestic product (GDP) (billions of Roubles)	16,778.8	13,285.2	10,834.0
Surplus of Russian Federal budget (billions of Roubles).....	786.4	227.6	150.5
Foreign currency reserves (millions of U.S. dollars)	124,500.0	76,938.0	47,793.0
Inflation (CPI).....	11.7%	12.0%	15.1%
Nominal (appreciation) depreciation of the RUB against the U.S. dollar	6.5%	2.2%	(7.0%)
Real appreciation of the RUB against the U.S. dollar	15.1%	13.6%	6.0%

Source: Central Bank of Russian Federation, Ministry of Finance of Russian Federation.

Nominal appreciation/depreciation is calculated as the nominal exchange rate of Roubles to U.S. dollars (average for the relevant year) divided by the nominal exchange rate of Roubles to U.S. dollars (average for the previous year).

Real appreciation/depreciation is distinguished from its nominal counterpart because it also takes into account inflation in Russia and the U.S. as well as taking into account certain other macroeconomic parameters which are calculated by the CBR.

In 2004, Russia enjoyed its fifth consecutive year of economic expansion. The continuing rebound of domestic demand from very low levels following the financial crisis of August 1998, along with high market prices for key export commodities, particularly oil, gas and metals, and sustained economic growth have led to a huge increase in foreign currency reserves. The significant cash inflows resulting from exports of commodities at high prices led to the strengthening of the Rouble against the U.S. dollar. Consequently, each of nominal and real GDP per capita has increased while the population itself has decreased. The Russian Ministry of Economic Development estimates that in the next three years, Russian GDP will continue to grow at an average rate of approximately 6% per year while the proportion of the population which is economically active will remain stable at approximately 70%. The table below shows historical year-on-year growth of real GDP for Russia:

	2004	2003	2002	2001	2000
Real GDP growth.....	7.10%	7.30%	4.70%	5.10%	10.00%

Source: Goskomstat RF

The Russian economy currently generates large amounts of excess liquidity, which has resulted in significant competition among banks for borrowers, including individuals. This competition, along with the strengthening of the Rouble against the U.S. dollar, has, however, resulted in a declining net interest margin generated by banks operating in Russia. Declining interest margins and increasing competition adversely affected RSB’s net interest income in 2004. The average interest rate on consumer and car loans decreased to 52.1% in 2004 compared to 63.6% in 2003.

The Russian banking sector is particularly sensitive to currency fluctuations and economic conditions. The need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of certain categories of collateral, and other legal and fiscal impediments also contribute to difficulties experienced by banks currently operating in Russia. The continued success and stability of the Russian economy will be significantly affected by the Government’s continued implementation of administrative, legal and economic reforms. See also, “Risk Factors—Risks Related to RSB’s Business and the Banking Sector—*Instability of the Russian banking sector could have a material adverse effect on RSB’s results of operations and prospects*”.

Accounting for the effects of hyperinflation

The Russian Federation previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29. Accordingly, prior to 1 January 2003 the adjustments and reclassifications made to the statutory records for the purpose of IFRS included the adjustment of balances and transactions for the changes in the general purchasing power of the Russian Rouble in accordance with IAS 29.

According to the Central Bank of Russia, the inflation rate in Russia was 18.6% in 2001, 15.1% in 2002, 12.0% in 2003, and 11.7% in 2004. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003, RSB no longer applies provisions of IAS 29. Accordingly, all income and balance sheet data related to periods subsequent to 1 January 2003 has been stated at its nominal value.

Significant Factors Affecting Results of Operations

Over the period from 2002 to 2004, RSB generated most of its revenues from interest income on its consumer loans and credit cards. Interest income on consumer loans and credit card loans consists of the interest rate charged to the customer, a monthly 1.9% charge (in the case of consumer loans, on the original loan amount, and in the case of credit card loans, on the balance outstanding), plus fees and commissions paid by merchants. It also includes in the case of credit card loans, a 4.9% fee levied on the cardholder for cash advances. See “—Basis of Preparation—*Restatement of prior period financial data*”. Average commissions received from retail chains with respect to consumer loans extended have decreased over the past three years, and this decrease has accelerated in the first two months of 2005 in the regions outside Moscow and particularly in Moscow. RSB expects these commissions to decrease further during the course of 2005. The decrease in fees and commissions from retailers (and the possible future payment by RSB to retailers of fees and commissions) therefore has a direct negative effect on RSB’s net interest income. RSB also earns a limited amount of interest income from loans made to commercial entities (who are mostly retailer partners of RSB), from loans due from other banks, from overnight deposits and from factoring receivables. The most significant components of RSB’s expenses include its interest expense and its operating expenses. RSB’s interest expense is almost entirely attributable to interest payments due on its debt securities in issue.

One of the most significant factors affecting RSB’s results of operations is the saturation of the consumer loan market in Moscow and, increasingly, other large cities in Russia. RSB had an advantage in the Russian consumer finance market, as it was one of the first banks to start offering consumer loans in 2000. However, the high profitability of the consumer loan market has attracted significant competition. As a result, there has been, and continues to be, downward pressure on the interest rates, fees and commissions charged for consumer and car loans. Effective interest rates, which differ from average interest rates, are the rates that discount estimated future cash payments or receipts through the expected life of the loans (or, when appropriate, a shorter period to the net carrying amount of the loans) RSB extends to its customers. Both effective interest rates and average interest rates have steadily decreased since 2002. RSB’s effective interest rates for consumer and car loans declined from 98.5% in 2002 to 74.6% in 2003 and 66.1% in 2004, while average interest rates on consumer and car loans declined from 63.4% in 2002 and 63.6% in 2003 to 52.1% in 2004. RSB expects both effective and average interest rates on its consumer and car loans to decrease further. See “—Critical accounting policies—*Interest and expense recognition*” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for the Years ended 31 December 2004, 2003 and 2002—*Net Interest Income before Provision for Loan Impairment*”.

RSB has responded to the saturation of the market in Moscow and in other large cities in Russia, and to the associated decreases in net interest margins, by expanding into the smaller population centres of Russia with a view to tapping consumer demand for consumer loans. RSB expects, however, that within the next two years, these markets will experience a saturation process similar to that experienced already in Moscow, as a result of which it expects both effective and average interest rates in these markets to decline as well. Average consumer loan amounts in the smaller population centres are also less than in Moscow and the larger cities. However, RSB expects that the increase in the aggregate volume of consumer loans will help offset the expected decline in net interest margins for RSB’s aggregate loan portfolio.

Since the quality and completeness of credit-related information on borrowers varies, particularly outside of Moscow, with less information generally available in smaller population centres, RSB may be required to make lending decisions based upon less complete credit information than is available in Moscow. This could present a greater credit risk for RSB which could have an adverse effect on its results of operations.

Increased competition has also resulted in the introduction of new products which have significant effects on RSB’s results of operations. Some of these products include loans with a 0% downpayment and, in order to compete, RSB has had to offer similar products and terms. RSB also believes that consumer loans extended to fund the purchase of mobile phones entail greater risk and higher losses. The absence of downpayments increases the credit risk taken on by RSB and may in turn have an adverse effect on RSB’s results of operations. RSB has also had to take greater risks when extending consumer loans to fund the purchase of mobile phones. Previously, RSB required a 50% downpayment due to the high default rate for this type of

loan, but in response to market pressures and in order to take advantage of the growth opportunities presented by this market, RSB has elected to extend credit while requiring a smaller downpayment or no downpayment. In order to reflect the greater risk associated with loans to finance goods with 0% downpayment and mobile phones, RSB has increased its provisions for losses.

As a further response to the saturation of the consumer loan market in Moscow (and other large cities) and the expected saturation of the Russian regional markets for consumer loans in the next two years, RSB has continued to develop its credit card loan business. The effective interest rates on credit card loans have increased over the past three years, from 32.9% on U.S. dollar loans and 79.9% on Rouble loans in 2002 to 57.0% on U.S. dollar loans and 83.2% on Rouble loans in 2003 and 65.2% on U.S. dollar loans and 91.6% on Rouble loans in 2004. By contrast, in 2004, the effective interest rate on consumer loans has decreased from 98.5% in 2002 to 74.6% in 2003 and finally, 66.1% in 2004. As a result in part of the increasing effective interest rate on credit card loans and the decreasing effective interest rates on consumer loans from 2002 through 2004, consumer loan interest income constituted 64% of total interest income in 2004, as compared to 72% in 2003 and 69% in 2002. By contrast, credit card loan interest income contributed 35% of total interest income in 2004, as compared to 27% in 2003 and 21% in 2002. The substantial majority of credit card loans is in the form of cash advances which incur a one-time 4.9% fee in addition to the interest rate and commission charges. Based on these trends, RSB expects the gap between the contribution to interest income from credit card loans and consumer loans to narrow further in the future.

Russia has in the past few years experienced relatively high levels of inflation and was considered to be hyperinflationary according to IAS 29 during 2001 and 2002. In those years, the inflation rate according to the Central Bank of Russia was 19% and 15.1% respectively. Inflation was 12.0% in 2003 and 11.7% in 2004. A higher rate of inflation decreases the purchasing power in Roubles of RSB's customers. Such a decrease in purchasing power would adversely affect discretionary spending in general, and purchases of consumer goods and cars in particular, resulting in lower demand for credit cards, consumer loans and car loans. By contrast, if the Rouble were to appreciate, discretionary spending would likely increase, and this could translate into a higher volume of loans to purchase consumer goods.

RSB's results of operations are also affected by credit risk, liquidity risk and interest rate risk. See "Asset, Liability and Risk Management—Credit Risk", "Asset, Liability and Risk Management—Liquidity Risks", and "Asset, Liability and Risk Management—Market Risks."

Russian legislation may also have a significant effect on RSB's results of operations. Due to the absence of clear interpretations of provisions of Russian commercial and tax legislation, as well as the practice (developed in a generally unstable environment) by the tax authorities of relatively arbitrary tax assessments of business activities, the judgment of management of RSB regarding taxes payable may not coincide with the interpretations of tax authorities. As a result, a particular treatment can be challenged by the tax authorities and additional taxes, penalties and interest may be assessed, which can be significant. Tax years generally remain open to review by the tax authorities for three years.

Basis of Preparation

In 2004, RSB adopted IAS 8 (revised 2003), *Accounting Policies, Changes in Accounting Estimates and Errors*. The 2003 and 2002 Consolidated Financial Statements have been amended as required, in accordance with relevant requirements.

Restatement of prior period financial data.

RSB's 2003 and 2002 financial statements have been restated for the items set out in the tables below.

To comply with the requirements of IAS 18, *Revenue*, sales commission received on the loans issued by RSB through retail outlets and commissions received from credit card holders, which were previously recognised as income when the loans were issued, are now deferred and included in the effective yield on the loans issued by RSB. Operating costs related to loan origination, which were previously expensed as incurred in relation to these loans, are also now deferred and amortised based on the duration of the loan. As a result of these restatements, the following adjustments have been made to the Consolidated Financial Statements of RSB as of and for the years ended 31 December 2003 and 2002:

Balance Sheet

As of 31 December 2003

	Balance as previously reported	Adjustment	Balance as restated
	<i>(in thousands of Roubles)</i>		
Loans and advances to customers	13,581,683	(568,215)	13,013,468
Deferred tax asset	104,885	131,837	236,722
Other assets.....	193,199	18,899	212,098
Total assets	15,268,469	(417,479)	14,850,990
Shareholders' equity	3,602,104	(417,479)	3,184,625

As of 31 December 2002

	Balance as previously reported	Adjustment	Balance as restated
	<i>(in thousands of Roubles)</i>		
Loans and advances to customers	4,928,245	(107,514)	4,820,731
Deferred tax asset	24,260	25,805	50,065
Other assets.....	64,846	-	64,846
Total assets	5,690,291	(81,709)	5,608,582
Shareholders' equity	1,226,931	(81,709)	1,145,222

Income Statement

For the year ended 31 December 2003

	Income/ expense as previously reported	Adjustment	Income/ expense as restated
	<i>(in thousands of Roubles)</i>		
Income tax expense	541,221	(106,032)	435,189
Interest income	3,426,850	1,009,820	4,436,670
Fee and commission income	1,403,152	(1,363,889)	39,263
Operating expenses.....	1,291,689	(18,899)	1,272,790
Net profit.....	1,700,557	(335,770)	1,364,787

For the year ended 31 December 2002

	Income/ expense as previously reported	Adjustment	Income/ expense as restated
	<i>(in thousands of Roubles)</i>		
Income tax expense	119,584	(12,319)	107,265
Interest income	1,005,233	507,155	1,512,388
Fee and commission income	588,228	(530,418)	57,810
Operating expenses.....	761,122	(2,863)	758,259
Net profit.....	221,460	(39,008)	182,452

As a result of the above, substantially all of RBS's fee and commission income has a direct impact on net interest income. The reduction in fees and commissions payable by retailers to RSB or the payment of such fees and commissions by RSB to retailers, will adversely affect RSB's net interest income.

Critical accounting policies

RSB's consolidated results of operations and consolidated financial condition presented in the Consolidated Financial Statements and the notes thereto and in the selected statistical and other information appearing elsewhere in this Offering Circular are, to a large degree, dependent upon RSB's accounting policies. The selection and application of its accounting policies involve judgments, estimates and uncertainties that are susceptible to change. RSB's significant accounting policies are described in the Notes to the Consolidated Financial Statements as of and for the years ended 31 December 2004, 2003 and 2002, appearing on pages F-4 to F-47 of this Offering Circular. RSB has identified the following accounting policies that it believes are the most critical to an understanding of the consolidated results of operations and consolidated financial condition of RSB. These critical accounting policies require management's subjective and complex judgment about matters that are inherently uncertain. The impact of, and any associated risks related to, RSB's critical accounting policies on its business operations, are discussed throughout this section where these policies affect RSB's consolidated financial results as presented in this Offering Circular.

Loans and advances and provisions for loan impairment

A provision for loan impairment is established if there is objective evidence that RSB will not be able to collect the amounts due according to the original contractual terms. The amount of the provision is the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected cash flows, including any amounts that may be recoverable from guarantees and collateral, discounted at the instrument's original effective interest rate. The provision for loan impairment also covers losses where there is objective evidence to indicate that probable losses are present in components of the loan portfolio at the consolidated balance sheet date. These probable losses have been estimated based upon historical patterns of losses in each component and the credit ratings assigned to the borrowers, and they reflect the current economic environment in which the borrowers operate. When a loan is uncollectable, it is written off against the related provision for loan impairment. A loan is treated as uncollectable if the amounts due in accordance with the original contractual terms of the loan have not been received by RSB for a period of at least 12 months. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the consolidated statement of income. If the amount of the provision for loan impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for loan impairment in the consolidated statement of income.

The determination of appropriate provisions is influenced by the recent tendency to extend loans involving greater risk to RSB. For example, RSB expects that loans financing riskier products such as mobile phones (the purchase price of which is not subsidised in Russia) and zero downpayment loans contribute an increasing proportion of RSB's total interest income. These loans have historically had higher default rates. Competition has led RSB to no longer require the 50% downpayment formerly required to mitigate this risk. The introduction of no required downpayment for other consumer goods, which RSB expects to become the standard over the course of 2005 and 2006, also increases RSB's credit risk. RSB has also expanded beyond Moscow to smaller population centres outside Moscow where management believes credit risks to be more significant. Accordingly, RSB expects provisions for loan impairment to increase in the future.

Income and expense recognition

Interest income and expense are recorded in the consolidated statement of income for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when

appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, RSB estimates cash flows considering all the contractual terms of the financial instrument (for example, a prepayment option) but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recorded based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

While fees and commissions paid by retailers are included in the calculation of effective interest rates charged to customers and thus accounted for as described above, other types of fees and commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Loan commitment fees for loans which are likely to be drawn down, commissions on credit card sales and commissions paid by borrowers are deferred (together with related direct costs) and recorded as an adjustment to the effective interest rate payable on the loan. See “—*Basis of Preparation—Restatement of prior financial data*”. Commissions and fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recorded on completion of the underlying transaction.

Deferred income taxes

Taxation has been provided for in the Consolidated Financial Statements in accordance with Russian legislation currently in force. The income tax charge in the consolidated statement of income for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the year, using the tax rates enacted at the balance sheet date. Tax expenses, other than on income, are recorded within operating expenses. Deferred income tax is provided, using the balance sheet asset and liability method, for all temporary differences arising between the tax basis of consolidated assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recorded to the extent that it is probable that sufficient future taxable profit will be available, against which the temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are netted only within the individual companies of RSB.

Deferred tax is charged or credited directly to equity if the tax relates to items that are credited or charged (in the same or a different period) directly to equity.

Selected Statistical Information

Average Balance Sheet and Interest Rate Data

The following table sets forth the consolidated average balances of assets and liabilities of RSB for the periods indicated and, for interest earning assets and interest bearing liabilities, sets forth the amount of interest income or expense and the average rate of such interest income or expense for such assets and liabilities. For the purposes of this table, the consolidated average balances of assets and liabilities represent the average of the opening, quarterly and closing balances for each year. The results of this analysis would likely be different if alternative averaging methods were used. The average rates below are calculated by dividing aggregate interest income/expense for the relevant line item below by the average balance for the same line item. Average interest rates are distinct from the effective interest rates presented in RSB’s Consolidated Financial Statements and referred to elsewhere in this Offering Circular. See “—Critical accounting policies—*Income and expense recognition*” for a description of the method of calculation of effective interest rates.

For the year ended 31 December

	2004			2003			2002		
	Average balance	Interest Income/Expense	Average Rate	Average balance	Interest Income/Expense	Average Rate	Average balance	Interest Income/Expense	Average Rate
<i>(in thousands of Roubles)</i>									
Interest earning assets									
Due from banks ⁽¹⁾	2,728,737	57,079	2.1%	180,864	11,022	6.1%	75,021	7,580	10.1%
Consumer and car loans ⁽¹⁾⁽²⁾	13,495,304	7,029,362	52.1%	5,016,003	3,191,447	63.6%	1,638,791	1,038,536	63.4%
Credit card loans ⁽¹⁾⁽²⁾ ..	6,443,787	3,781,633	58.7%	2,090,367	1,187,598	56.8%	552,929	320,017	57.9%
Other loans ⁽¹⁾⁽²⁾	561,751	56,794	10.1%	273,599	44,724	16.3%	720,500	146,255	20.3%
Securities ⁽³⁾	12,409	1,891	15.2%	38,403	1,879	4.9%	273	0	n/m
Total interest earning assets	23,241,988	10,926,759	47.0%	7,599,236	4,436,670	58.4%	2,987,514	1,512,388	50.6%
Interest bearing liabilities									
Due to other banks	3,902,054	345,785	8.9%	1,529,156	158,511	10.4%	577,982	35,356	6.1%
Customer accounts	3,013,220	173,630	5.8%	1,851,643	99,069	5.4%	626,010	25,817	4.1%
Debt securities in issue	13,553,178	1,537,858	11.3%	3,355,606	570,211	17.0%	1,195,827	198,107	16.6%
Total interest bearing liabilities	20,468,452	2,057,273	10.1%	6,736,405	827,791	12.3%	2,399,819	259,280	10.8%
Net interest spread ⁽⁴⁾ ..			36.9%			46.1%			39.8%
Net interest income ..		8,869,486			3,608,879			1,253,108	
Net interest margin ⁽⁵⁾ ..			38.2%			47.5%			41.9%

(1) These values are net of provision for impairment and present value discounts.

(2) The line item "Loans and Advances to Customers" in RSB's financial statements consists principally of consumer and car loans and credit card loans, as well as, to a lesser extent, other loans to individuals, direct commercial loans and factoring receivables.

(3) Securities as a line item appeared in RSB's quarterly balance sheets in 2003 and on its balance sheet as of 30 June 2004.

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

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

The significant increase in interest-earning assets is the result of the increase in the number of RSB's customers, especially in consumer loans and credit cards loans. This expansion is in accordance with the bank's strategy to increase the number of customers and expand its customer network to the smaller population centres outside Moscow. See "Business – Strategy".

The increase in interest-bearing liabilities is explained by the fact that these liabilities are the major source of financing for RSB's interest-earning assets. Interest-bearing liabilities have increased by similar percentages as interest-bearing assets from 2002 to 2003 and from 2003 to 2004. The significant increase in interest-bearing liabilities was primarily attributable to debt securities in issue, which included RSB's Luxembourg Stock Exchange-listed loan participation notes issued in 2004. The temporarily unused cash received from the issuance of these loan participation notes is loaned to other banks. This latter use contributed to the significant increase in the average balance of the amounts due from other banks in 2004 as compared to 2003 and 2002.

Net interest spread and net interest margin decreased from 2002 to 2003 and 2004. This decrease was due to the decrease in RSB's interest rates charged on consumer loans, which was in turn attributable to the increase in the number of competitors in the market.

Net Changes in Interest Income and Expense – Volume and Rate Analysis

The following table provides a comparative analysis of net changes in interest income and interest expense by reference to changes in average volume and rates for the periods indicated. Net changes in net interest

income are attributed to either changes in average balances (volume change) or changes in average rates (rate change) for interest-earning assets and sources of funds on which interest is received or paid. Volume change is calculated as the change in volume multiplied by the previous rate, while rate change is the change in rate multiplied by the previous volume. The rate/volume change (change in rate multiplied by change in volume) is allocated between volume change and rate change at the ratio each component bears to the absolute value of their total. Average balances represent the average of the opening, quarterly and closing balances for the respective year.

	For the year ended 31 December					
	2004/2003			2003/2002		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
Volume	Rate	Net change	Volume	Rate	Net change	
	<i>(in thousands of Roubles, except percentages)</i>					
Interest Income						
Due from banks	48,309	(2,252)	46,057	4,789	(1,347)	3,442
Consumer and car loans	4,299,094	(461,179)	3,837,915	2,148,745	4,166	2,152,911
Credit card loans	2,553,598	40,437	2,594,035	873,354	(5,773)	867,581
Other loans ⁽¹⁾	18,925	(6,856)	12,070	(77,273)	(24,258)	(101,531)
Securities ⁽¹⁾	(6)	18	12	1,879	0	1,879
Total interest income	6,919,921	(429,832)	6,490,089	2,951,494	(27,212)	2,924,282
Interest Expense						
Due to other banks	206,594	(19,320)	187,274	86,604	36,551	123,155
Customer accounts	66,410	8,151	74,561	63,594	9,658	73,252
Debt securities in issue	1,086,428	(118,781)	967,647	366,877	5,227	372,104
Total interest expense.....	1,359,433	(129,951)	1,229,482	517,075	51,436	568,511
Net change in net interest income	5,560,488	(299,881)	5,260,607	2,434,419	(78,648)	2,355,771

(1) Interest income on securities appeared in RSB's income statements for quarterly periods in 2003 and for the six months ended 30 June 2004. Subsequent income statements have subsumed this item within the interest income line item designated "Other".

Results of Operations for the Years ended 31 December 2004, 2003 and 2002

Summary

The following table sets forth the principal components of RSB's net profit for the periods indicated:

	For the year ended 31 December			Change from prior year	
	2004	2003	2002	2004	2003
	<i>(in thousands of Roubles)</i>			<i>(percentages)</i>	
Interest income	10,926,759	4,436,670	1,512,388	146.3%	193.4%
Interest expense	(2,057,273)	(827,791)	(259,280)	148.5%	219.3%
Net interest income	8,869,486	3,608,879	1,253,108	145.8%	188.0%
Provision for loan impairment.....	(1,422,016)	(524,807)	(99,064)	171.0%	429.8%
Operating income	7,860,021	3,072,766	1,184,211	155.8%	159.5%
Operating expenses	(2,066,411)	(1,272,790)	(758,259)	62.4%	67.9%
Profit before taxation	5,793,610	1,799,976	289,717	221.9%	521.3%
Income tax expense	(1,400,621)	(435,189)	(107,265)	221.8%	305.7%
Net profit	4,392,989	1,364,787	182,452	221.9%	648.0%
			2004	2003	2002
Cost/Income Ratio ⁽¹⁾			22.4%	34.9%	58.3%

(1) Cash/income ratio is calculated as operating expense divided by operating income less provision for loan impairment and other provisions.

RSB's net profit grew to RUB 4,392 million in 2004 from RUB 1,365 million in 2003, which, in turn, represented an increase from RUB 182 million in 2002.

The increase in net profit in 2003 compared to 2002 was caused primarily by a sharp increase in net interest income resulting from the expansion of RSB's consumer loan activity in Moscow and the smaller population centres of Russia, and a benefit from economies of scale, which resulted in operating income increasing at a faster rate than operating expenses. For the reasons for the expansion of RSB's consumer loan activity, see "—Interest Income".

The increase in net profit in 2004 compared to 2003 was caused primarily by a continuing increase in net interest income resulting from the expansion of RSB's consumer loan activity in the smaller population centres of Russia and, in particular, from offering credit card services outside Moscow from the beginning of 2004. RSB also benefited from continuing economies of scale which resulted in operating income increasing at a faster rate than operating expenses.

Interest Income, Interest Expense, Net Interest Income, and Provision for Loan Impairment

The following table sets out the principal components of RSB's net interest income and average interest-earning assets, calculated as the average of the opening, quarterly and closing balances for the year, for the years ended 31 December 2004, 2003 and 2002.

	For the year ended 31 December			Change from prior year	
	2004	2003	2002	2004	2003
	<i>(in thousands of Roubles)</i>			<i>(percentages)</i>	
Interest income					
Due from banks	57,079	11,022	7,580	417.9%	45.4%
Consumer and car loans	7,029,362	3,191,447	1,038,536	120.3%	207.3%
Credit card loans	3,781,633	1,187,598	320,017	218.4%	271.1%
Other loans.....	56,794	44,724	146,255	27.0%	(69.4%)
Securities	1,891	1,879	0	0.6%	n/m
Total interest income	10,926,759	4,436,670	1,512,388	146.3%	193.4%
Total interest expense					
	(2,057,273)	(827,791)	(259,280)	148.5%	219.3%
Net interest income	8,869,486	3,608,879	1,253,108	145.8%	188.0%
Provision for loan impairment.....	(1,422,016)	(524,807)	(99,064)	171.0%	429.8%
Net interest income after provision for loan impairment.....	7,447,470	3,084,072	1,154,044	141.5%	167.2%
Average interest-earning assets					
Due from banks	2,728,737	180,864	75,021	1,408.7%	141.1%
Consumer and car loans	13,495,304	5,016,003	1,638,791	169.0%	206.1%
Credit card loans	6,443,787	2,090,367	552,929	208.3%	278.1%
Other loans.....	561,751	273,599	720,500	105.3%	(62.0%)
Securities	12,409	38,403	273	(67.7)%	n/m
Total interest earning assets	23,241,988	7,599,236	2,987,514	205.8%	154.4%

The amount of net interest income earned by RSB is affected by a number of factors. It is primarily determined by the volume of interest-earning assets, interest-bearing liabilities (such as debt securities issued, deposits from other credit institutions, loan facilities from the EBRD and IFC and customer deposits), as well as the differential between rates earned on interest-earning assets and interest-bearing liabilities and the relative margins of RSB's consumer finance portfolio and its own funding. Interest-earning assets are composed primarily of consumer loans, car loans and credit card loans, as well as loans to other credit institutions. However, the overwhelming proportion of RSB's interest-earning assets relates to consumer loans and credit card loans. During the years ended 31 December 2004, 2003 and 2002, interest income earned by RSB on its consumer loans represented the largest component of interest income. The growth of interest income from consumer loans reflects RSB's continuing expansion in the Russian consumer finance market.

Interest Income

Interest income is comprised of (a) interest paid to RSB by consumer and corporate clients that have borrowed funds from RSB, (b) certain fees and commissions payable by customers and retailers and (c) interest paid by credit institutions, which have borrowed funds from RSB at interbank terms and rates.

Interest income increased by 146.3% or by RUB 6,490.1 million, from RUB 4,436.7 million in 2003, to RUB 10,926.8 million in 2004.

This increase was primarily due to a 205.8% increase in average balances of loans and advances to customers and other interest-earning assets from 2003 to 2004 (RUB 23,242.0 million in 2004; RUB 7,599.2 million in 2003), which reflects the significant increase in the size of the consumer finance portfolio. This increase in the consumer finance portfolio was attributable to greater demand for consumer loans, car loans and credit cards in 2004, regional expansion and the introduction of new consumer finance products.

The positive effect on interest income attributable to the increase in volume of consumer loans and credit card loans was offset, in part, by a decrease in the average interest rate on interest-earning assets to 47.0% in 2004 from 58.4% in 2003. In particular, average interest rates on consumer and car loans have decreased significantly. In 2004, the average interest rate on consumer and car loans was 52.1% as compared to 63.6% a year earlier and 63.4% in 2002. Consumer loans represented 64% and 72% of total loans extended by RSB in 2004 and 2003 respectively, and the decrease in average interest rate for those loans is therefore significant.

Most retail chains have paid and continue to pay RSB (and other consumer finance institutions) commissions for helping to generate sales of appliances and other consumer goods. Similar arrangements operate with many car dealerships with respect to car loans. RSB does not anticipate that such favourable arrangements will continue to operate in the same manner. Competition has already lowered the rate of such commissions payable to RSB and others. In some cases, RSB already receives no commissions from retailers and car dealers, and this practice may spread to the rest of RSB's consumer finance business. It is possible that increased competition in the market may lead to RSB being required to pay commissions to the retail chains and car dealers with respect to consumer loans and car loans. As these commissions comprise a part of the effective yield of consumer loans and car loans and, as such, represent a portion of interest income, interest income and interest margins may be adversely affected in the future.

The following table sets out the principal components of RSB's interest income for the years ended 31 December 2004, 2003 and 2002.

For the year ended 31 December						
	2004	% of total interest income	2003	% of total interest income	2002	% of total interest income
<i>(in thousands of Roubles except percentages)</i>						
Total interest income	10,926,759		4,436,670		1,512,388	
<i>of which</i>						
<i>from consumer and</i>						
<i>car loans</i>	7,029,362	64.3%	3,191,447	71.9%	1,038,536	68.7%
<i>from credit card loans</i>	3,781,633	34.6%	1,187,598	26.8%	320,017	21.2%
<i>from other loans</i> ⁽¹⁾	115,764	1.1%	57 625	1.3%	153,835	10.1%

(1) Other loans include corporate loans, factoring, and loans to individuals which are not consumer loans, car loans or credit card loans.

Interest income increased by 193.4% or by RUB 2,924.3 million from RUB 1,512.4 million in 2002, to RUB 4,436.7 million in 2003.

This increase was primarily a result of an increase in average balances of loans and advances and other interest-earning assets of 154.4% in 2003 to RUB 7,599.2 million from RUB 2,987.5 million in 2002, reflecting the significant increase in the size of the consumer finance portfolio. The positive effect on interest income attributable to this increase was strengthened by an increase in the average rates on interest-earning assets to 58.4% in 2003 from 50.6% in 2002.

RSB has benefited from high interest rates on its consumer loans in prior periods. This benefit was primarily the consequence of the relative immaturity of the consumer lending market (including in Moscow when RSB first began extending consumer loans) and lack of competition in the Russian Federation. Increased lending competition and continued macroeconomic stability in the Russian Federation has put pressure on RSB to

reduce interest rates for both consumer loans and credit card loans, although the former have been more severely affected.

Interest Expense

Interest expense is principally comprised of amounts paid by RSB as interest on debt securities issued by RSB (principally bonds, promissory notes and loan participation notes), as well as on deposit funds of customers and credit institutions. The following table sets out the principal components of RSB's consolidated interest expense for the years ended 31 December 2004, 2003 and 2002 and average interest-bearing liabilities, calculated as the average of the opening, quarterly and closing balances for the year, for the years ended 31 December 2004, 2003 and 2002.

	For the year ended 31 December			Change from prior year	
	2004	2003	2002	2004	2003
	<i>(in thousands of Roubles)</i>			<i>(percentages)</i>	
Interest expense					
Term deposits of other banks.....	345,785	158,511	35,356	118.1%	348.3%
Customer accounts.....	173,630	99,069	25,817	75.3%	283.7%
Debt securities in issue ⁽¹⁾	1,537,858	570,211	198,107	169.7%	187.8%
Total interest expense	2,057,273	827,791	259,280	148.5%	219.3%
Average interest-bearing liabilities					
Due to other banks ⁽¹⁾	3,902,054	1,529,156	577,982	155.2%	164.6%
Customer accounts.....	3,013,220	1,851,643	626,010	62.7%	195.8%
Debt securities in issue	13,553,178	3,355,606	1,195,827	303.9%	180.6%
Total average interest-bearing liabilities	20,468,452	6,736,405	2,399,819	203.8%	180.7%

(1) Debt securities in issue includes credit-linked notes and loan participation notes, promissory notes issued, bonds issued, certificates of deposits and other such securities.

Interest expense increased by 148.5% in 2004 to RUB 2,057.3 million from RUB 827.8 million in 2003, which, in turn, represented a 219.3% increase from RUB 259.3 million in 2002. These year-on-year increases resulted from an overall growth of interest-bearing liabilities utilised by RSB to fund its growing portfolio of consumer loans and credit cards. Interest-bearing liabilities grew by 203.8% to RUB 20,468.5 million from RUB 6,736.4 million in 2003, which, in turn, represented a 180.7% increase from RUB 2,399.8 million.

Prior to 2004, RSB's funding sources primarily consisted of short- and medium-term deposits by Russian banks and legal entities as well as domestic debt securities and promissory notes. Since the end of 2003, RSB has had access to the international capital markets. In an effort to lengthen and diversify its liability profile, RSB has borrowed funds through debt securities raised in the international capital markets which, due to lower borrowing costs, were the principal cause of the decrease in the average rate on interest-bearing liabilities from 12.3% in 2003 to 10.1% in 2004.

The most significant increase in interest expense was attributable to debt securities in issue; in aggregate, interest expense on debt securities in issue increased in 2004 by 169.7% to RUB 1,537.9 million from RUB 570.2 million in 2003, which, in turn, represented a 187.8% increase from RUB 198.1 million in 2002. In 2004, average balances of debt securities in issue increased by 303.9% to RUB 13,553.2 million from RUB 3,355.6 million in 2003, which, in turn, increased by 180.6% from RUB 1,195.8 million in 2002. The effect on interest expense attributable to the increase in debt securities in issue in 2004 was offset in part by a decrease in the average interest rates on debt securities in issue to 11.3% in 2004 from 17.0% in 2003 and 16.6% in 2002.

Net Interest Income before Provision for Loan Impairment

In 2004, 2003 and 2002, net interest income before provision for loan impairment accounted for 112.8%, 117.4% and 105.8%, respectively, of operating income. Net interest income before provision for loan impairment increased by RUB 5,260.6 million in 2004, to RUB 8,869.5 million, from RUB 3,608.9 million in 2003, which, in turn, represented an increase from RUB 1,253.1 million in 2002. RSB's net interest margin, defined as net interest income before provision for loan impairment as a percentage of average interest-earning assets, was 38.2% for the year ended 31 December 2004, compared to 47.5% and 41.9% for 2003 and 2002, respectively. RSB's net interest spread, defined as the difference between the average interest rate on interest-earning assets and the average interest rate on interest bearing liabilities, was 37.0% for the year ended 31 December 2004, compared to 46.1% for 2003 and 39.8% for 2002. The decreases in 2004 in net interest margin and net interest spread were primarily attributable to a decrease in the average interest rate earned on interest-earning assets to 47.0% in 2004 from 58.4% in 2003. This decrease was offset, in part, by a decrease in the average interest rate paid on interest-bearing liabilities to 10.1% in 2004 from 12.3% in 2003.

The tables below summarise the effective interest rates by major currencies for major monetary financial instruments for the years ended 31 December 2004, 2003 and 2002. The analysis has been prepared based on period-end effective rates used for amortisation of the respective assets/liabilities. For a description of the method of calculation of effective interest rates, see "Presentation of Financial and Other Information—Effective Interest Rates and Average Interest Rates".

	As of 31 December						Year ended 31 December		
	2004			2003 (restated)			2002 (restated)		
	RUB	U.S.\$	Euro	RUB	U.S.\$	Euro	RUB	U.S.\$	Euro
	<i>(percentages)</i>								
Assets									
Cash and cash equivalents	0.6	3.1	1.0	0.0	2.1	1.0	–	–	–
Due from other banks	–	2.5	–	–	0.5	2.1	–	2.1	3.0
Loans and advances to customers									
– consumer loans	66.1	–	–	74.6	–	–	98.5	–	–
– credit card loans	91.6	65.2	–	83.2	57.0	–	79.9	32.9	–
– direct commercial loans	8.6	10.4	8.4	27.3	11.2	10.5	24.3	17.4	–
Liabilities									
Due to other banks	12.2	5.9	4.5	14.8	7.2	6.9	23.7	4.9	–
Customer accounts									
– term deposits of legal entities	11.1	3.1	–	14.5	5.5	–	20.4	7.6	–
– term deposits of individuals	12.4	8.1	6.3	16.6	9.1	9.5	18.2	10.2	–
Debt securities in issue									
– bonds	15.4	–	–	18.6	–	–	22.1	–	–
– loan participation notes	–	8.8	–	–	12.9	–	23.0	11.7	5.6
– promissory notes	15.7	5.6	7.6	18.1	9.2	6.0	24.3	–	–

Provision for Loan Impairment

The provision for loan impairment includes changes in allowances for impairment of loans and advances to clients as well as changes in allowances for amounts due from other banks. The following table sets out movements in RSB's provision for loan impairment relating to both RSB's gross loans and advances to customers during the years ended 31 December 2004, 2003 and 2002.

	As of 31 December		
	2004	2003	2002
	<i>(in thousands of Roubles)</i>		
Provision for loan impairment as at 1 January	710,080	202,672	121,372
Increase in provision for loan impairment during the year	1,422,016	524,807	99,064
Loans and advances to customers written off during the year			
as uncollectable.....	(205,872)	(17,399)	(1,819)
Effect of inflation	-	-	(15,945)
Provision for loan impairment as at 31 December	1,926,224	710,080	202,672
Gross loans and advances to customers	36,290,597	13,723,548	5,023,403
Provision for loan impairment as a percentage of gross loans and advances to customers	5.3%	5.2%	4.0%

As of 31 December 2004, the provision for loan impairment as a percentage of gross loans and advances to customers increased to 5.3% from 5.2% and 4.0% as of 31 December 2003 and 2002, respectively. The increase in provisions as a percentage of gross loans and advances to customers is a result of the expansion of RSB's consumer finance portfolio to include borrowers outside Moscow in 2004 and 2003, as well as RSB's diversification into products for which RSB's own experience shows higher rates of default. RSB's management has also recorded loss rates higher on average in smaller population centres into which it is expanding outside of Moscow. These higher loss rates may reflect the variable quality of information about consumers outside of Moscow which impede credit assessments at the time of application. RSB has also recorded greater losses on consumer loans for mobile phone purchases, a business which is growing due to the absence of handset subsidies by mobile telecommunication operators in Russia, and which makes up an increasing percentage of new loans extended. Accordingly, RSB anticipates that the provision for loan impairment as a percentage of gross loans and advances to customers will increase as its mix of loans changes and its geographical expansion continues.

Non-Interest Income/(Expense)

Fee and commission income/(expense) from RSB's documentary finance products for corporate clients, fee and commission expense and other operating results, net, is included in non-interest income/expense. The following table sets out the principal components of RSB's non-interest income for the years ended 31 December 2004, 2003 and 2002.

	For the year ended 31 December			Change from prior year	
	2004	2003	2002	2004	2003
	<i>(in thousands of Roubles)</i>			<i>(percentages)</i>	
Non-interest income					
Fee and commission income	58,615	39,263	57,810	49.3%	(32.1%)
Fee and commission expense	(72,665)	(49,909)	(26,624)	45.6%	87.5%
Net trading gains	366,575	50,168	14,501	630.7%	246.0%
Other operating results, net	60,026	(50,828)	(15,520)	(218.1%)	227.5%
Total non-interest income/(expense) ..	412,551	(11,306)	30,167	n/a	n/a

Fee and commission income is primarily composed of commissions with respect to guarantees and letters of credit provided by RSB to its corporate clients.

Fee and commission expense is composed mainly of commissions paid on cash and settlement transactions and commissions on guarantees received by RSB.

Net trading gains consist almost entirely of net foreign exchange translation gains. For the year ended 31 December 2004, net trading gains increased to RUB 366.6 million from RUB 50.2 million in 2003 which, in turn, increased from RUB 14.5 million in 2002. These increases are explained in part by the appreciation of the Rouble against the U.S. dollar over the relevant periods, and most of these gains were unrealised non-cash gains as of the years then ended.

Operating Expenses

Operating expenses are comprised of staff costs, administrative expenses, rental expenses, advertising and marketing, professional services, taxes other than income tax, depreciation of fixed assets and amortisation of intangible assets, other expenses related to maintenance of fixed and intangible assets and other operating expenses. The following table sets out RSB's consolidated operating expenses for the years ended 31 December 2004, 2003 and 2002.

	For the year ended 31 December			Change from prior year	
	2004	2003	2002	2004	2003
	<i>(in thousands of Roubles)</i>			<i>(percentages)</i>	
Staff costs.....	1,068,165	640,193	338,728	66.9%	89.0%
Administrative expenses	321,019	145,685	78,284	120.4%	86.1%
Rent expenses	185,632	110,348	67,257	68.2%	64.1%
Depreciation of fixed assets and amortisation of intangible assets	140,444	71,227	33,019	97.2%	115.7%
Taxes other than income tax	128,581	118,874	74,192	8.2%	60.2%
Other expenses related to maintenance of fixed and intangible assets	84,115	73,081	10,931	15.1%	568.6%
Advertising and marketing	56,759	68,126	108,478	(16.7%)	(37.2%)
Professional services	49,435	24,693	25,640	100.2%	(3.7%)
Other	32,261	20,563	21,730	56.9%	(5.4%)
Total operating expenses	2,066,411	1,272,790	758,259	62.4%	67.9%

Staff Costs

Staff costs include wages, staff bonuses and social security contributions. For the year ended 31 December 2004, staff costs increased by 66.9% to RUB 1,068.2 million from RUB 640.2 million in 2003, which, in turn, represented an 89.0% increase from RUB 338.7 million in 2002. These year-on-year increases were primarily due to increases in the number of employees to support the growth in RSB's branch network and regional expansion. RSB employed 5,826 persons as of 31 December 2004, which represented a 121.5% increase over the 2,630 employees employed by RSB as of 31 December 2003. Staff costs in 2004 increased by only 66.9%, despite the 122% increase in headcount, due to the fact that a majority of the new employees added in 2004 were employed in the smaller population centres outside of Moscow where salary levels remain significantly lower than in Moscow. As of 31 December 2002, RSB had 1,367 employees.

Administrative Expenses

Administrative expenses mainly consist of communication costs, stationery expenses and business travel expenses. Administrative expenses increased to RUB 321.0 million for the year ended 31 December 2004 from RUB 145.7 million for the year ended 31 December 2003 and RUB 78.3 million for the year ended 31

December 2002, which represented an increase of 120.4% and 86.1%, respectively. This increase reflected increased costs associated with the continued expansion of RSB's branch network in Moscow as well as costs incurred in the context of its regional expansion.

Rent Expenses

Rent expenses increased by 68.2% to RUB 185.6 million from RUB 110.3 million in 2003 which, in turn, increased by 64.1% from RUB 67.3 million in 2002. This increase was primarily due to continuous regional expansion and the development of additional offices in Moscow and other cities. RSB does not pay rent for the use of desks or kiosks within its retail partner stores.

Liquidity and Capital Resources

Liquidity

RSB's liquidity needs have arisen primarily from making loans and advances to customers, which is the core business as a consumer finance company. To date, RSB's liquidity needs have been funded largely through debt issuances and loans funded by issuances of loan participation notes as well as interest received on loans and advances to customers.

Cash Flow

The following table sets out RSB's main sources of cash for the years ended 31 December 2004, 2003 and 2002:

	For the year ended 31 December		
	2004	2003 (restated)	2002 (restated)
	<i>(in thousands of Roubles)</i>		
Cash flows from operating activities before changes in operating assets and liabilities	5,590,498	2,270,218	523,165
Net cash used in operating activities	(15,655,487)	(2,281,186)	(329,490)
Net cash used in investing activities	(548,357)	(226,646)	(90,616)
Net cash from financing activities	18,357,171	2,964,109	530,986
Effect of exchange rate changes on cash and cash equivalents	5,197	(778)	831

RSB's loan portfolio has more than doubled every year over the past three years. Most of its cash is used to extend consumer and credit card loans. RSB's deposits from customers are not sufficient to match the rate of growth of RSB's consumer loan and credit card loan businesses, and RSB therefore derives its funding primarily from the issue of debt securities.

The increase in the cash flows from all activities over the past three years is primarily due to the expansion of RSB's customer base and the expansion by RSB of its activities and the corresponding financing of this expansion through the issuance of loan participation notes and other loans received from banks. For further information, see "Business – Strategy".

Capital Expenditures

As of 31 December 2004, RSB had capital commitments in respect of the purchase of fixed and intangible assets for regional offices totalling RUB 19.0 million. RSB's management has already allocated the necessary resources in respect of this commitment and believes that future net interest income and funding will be sufficient to cover this and any similar such commitments.

Short-Term Borrowings

The table below sets forth RSB's short-term borrowings:

	2004	2003	2002
	<i>(in thousands of Roubles except percentages)</i>		
Outstanding as of 31 December ⁽¹⁾	6,837,242	5,555,171	1,829,023
Maximum amount outstanding at any quarter-end during the year ..	6,837,242	5,555,171	1,829,023
Average amount outstanding during the year ⁽²⁾	5,831,636	2,834,478	1,086,658
Interest expense for the year ended 31 December	639,577	349,617	102,670
Weighted-average interest rate during the year, % ⁽³⁾	11.0	12.3	14.5
Weighted-average interest rate at year-end, %	9.8	13.2	16.6

(1) This line item includes outstanding balances of customer accounts, amounts due to other banks and debt securities in issue which have contractual terms of less than 1 year.

(2) Calculated as a simple average of amounts outstanding as of 1 January, 31 March, 30 June, 30 September and 31 December of the relevant year.

(3) Interest expense on short-term borrowings divided by average amount outstanding during the year.

The increase in RSB's short-term borrowings derives from the fact that RSB established short-term borrowing facilities to satisfy its operating needs. The terms of the borrowings under the facilities are less than one year.

Funding

The table below sets forth RSB's funding sources as of 31 December 2004, 2003 and 2002:

	As of 31 December					
	2004	% of total funding	2003	% of total funding	2002	% of total funding
	<i>(in thousands of Roubles except percentages)</i>					
Due to banks and other financial institutions:						
Deposits accepted.....	4,766,662	14.7	3,393,103	29.6	1,403,196	31.8
Other.....	71	0.0	16,111	0.2	566	0.0
Total	4,766,733	14.7	3,409,214	29.8	1,403,762	31.8
Debt securities in issue						
U.S.\$300 million 8.75% loan participation notes due April 2007	8,438,399	25.8	-	-	-	-
U.S.\$300 million 7.8% loan participation notes due September 2007	8,434,911	25.8	-	-	-	-
Promissory notes issued.....	2,344,652	7.2	1,933,641	16.8	879,143	20.1
RUB 2,000 million 12.9% bonds due August 2007	2,072,868	6.3	-	-	-	-
RUB 1,000 million 14% bonds due June 2006	999,085	3.1	994,348	8.6	-	-
U.S.\$30 million 11% loan participation notes due May 2005	836,539	2.6	877,182	7.6	-	-
RUB 500 million 20% bonds due August 2005	536,321	1.5	529,893	4.6	524,643	11.9
RUB 500 million 12% bonds due October 2004.....	-	0.0	478,947	4.2	447,631	10.1
Certificates of deposit	-	0.0	62,237	0.6	14,317	0.4
U.S.\$30 million 10% credit linked notes due March 2004 ..	-	0.0	468,047	4.1	-	-
Total	23,662,775	72.3	5,344,295	46.5	1,865,734	42.5
Current accounts and other demand deposits	2,732,609	8.4	1,102,297	9.6	850,240	19.3
Term deposits	1,502,724	4.6	1,618,467	14.1	283,355	6.5
Total	4,235,333	13.0	2,720,764	23.7	1,133,595	25.8
Total	32,664,841	100.0	11,474,273	100.0	4,403,091	100.0

In December 2004, RSB obtained a U.S.\$90 million loan facility from the EBRD. Pursuant to the agreement creating the facility, RSB borrowed in January 2005 two loans in the amounts of U.S.\$30 million and

U.S.\$60 million, respectively, which are not included in the table above. The former loan bears a floating interest rate of LIBOR plus 3.0% and is repayable in four equal semi-annual instalments from 22 November 2006. The latter loan bears a floating interest rate of LIBOR plus 2.6% and is repayable on 12 July 2006.

In March 2005, RSB issued RUB 3 billion 8.99% bonds due 2008 on the Russian domestic capital market, which are not included in the table above. These loans were issued primarily to finance RSB's consumer loans business.

Loan Portfolio

As of 31 December 2004, RSB's total loans and advances to customers, including accrued interest, were RUB 34,364 million, representing 83.4% of its total assets.

The following table summarises RSB's loan portfolio:

Loans originated by RSB	2004	2003	2002
	<i>(in thousands of Roubles)</i>		
<i>Loans to individuals</i>			
Consumer loans and car loans	23,455,890	9,827,079	3,277,804
Credit card loans	11,522,795	3,627,487	1,326,826
Other	104,085	22,066	15,549
<i>Loans to legal entities</i>			
Direct commercial loans	1,188,198	229,992	336,679
<i>Loans purchased by RSB</i>			
Factoring receivables	19,629	16,924	66,545
Gross loans and advances to customers	36,290,597	13,723,548	5,023,403
Less: Provision for loan impairment	(1,926,224)	(710,080)	(202,672)
Net loans and advances to customers	<u>34,364,373</u>	<u>13,013,468</u>	<u>4,820,731</u>

The following table summarises RSB's due from other banks:

Due from Other Banks	As of 31 December		
	2004	2003	2002
	<i>(in thousands of Roubles)</i>		
Current term placements with other banks	1,888,251	110,472	129,365
Collateral deposits for term deals	67,727	-	-
Collateral for irrevocable commitments under letters of credit	27,749	-	-
Collateral deposits for credit cards	25,338	26,895	22,885
Total due from other banks	<u>2,009,065</u>	<u>137,367</u>	<u>152,250</u>

The significant increase in the loan portfolio to individuals is the result of the implementation of RSB's strategy to increase the number of customers and expand RSB's network of customers to the smaller population centres outside Moscow. See "Business – Strategy". Loans to legal entities in part represent loans to retail outlets. The increase is primarily due to the expansion of the distribution network through which RSB offers credit products to customers.

The following table sets out RSB's net loan portfolio (loans and advances to customers, excluding interbank loans and off-balance sheet credit-related commitments, net of provision for loan impairment) by maturity as of 31 December 2004, 2003 and 2002.

	As of 31 December					
	2004	%	2003	%	2002	%
	<i>(in thousands of Roubles except percentages)</i>					
Demand and less than						
1 month	8,932,188	26.0%	1,596,049	12.3%	910,157	18.9%
From 1 to 6 months	18,761,642	54.6%	6,654,342	51.1%	3,271,101	67.9%
From 6 to 12 months	6,081,481	17.7%	3,033,451	23.3%	573,022	11.9%
From 1 year to 5 years	589,062	1.7%	1,729,626	13.3%	66,451	1.3%
More than 5 years	-	0.0%	-	0.0%	-	0.0%
Total⁽¹⁾	34,364,373	100.0%	13,013,468	100.0%	4,820,731	100.0%

(1) Net of provision for loan impairment.

Short-term loans are dominant in RSB's consumer finance portfolio, as is customary in the Russian consumer lending market. However, RSB expects that as it implements its strategy of increasing the relative importance of its credit card business, the categories for 6-12 months and 1-5 years will experience growth as RSB's statistical data have shown that credit card balances tend to be repaid over these longer periods. In 2004, RSB began providing short-term loans with maturities of 3-5 months to certain of its customers. When estimating the maturity of credit card loans, RSB relies on the outstanding balance as of a reporting date and assumes that only the minimum required repayment (currently 5% of the aggregate credit limit) is repaid every month, which results in expected maturity of credit card loans extending beyond one year.

The following table sets out loans and advances to customers, including overdue loans and provision for loan impairment. RSB treats as overdue loans those which are past due 90 days or more as to principal or interest payments.

	As of 31 December			Change from prior year	
	2004	2003	2002	2004	2003
	<i>(in thousands of Roubles)</i>			<i>(percentages)</i>	
Loans originated by RSB					
Current loans and advances	34,960,828	13,375,844	4,854,697	161.4%	175.5%
Overdue loans and advances	1,329,769	347,704	168,706	282.4%	106.1%
Gross loans and advances	36,290,597	13,723,548	5,023,403	164.4%	173.2%
Less: provision for loan impairment	(1,926,224)	(710,080)	(202,672)	171.3%	250.4%
Total	34,364,373	13,013,468	4,820,731	164.1%	169.9%
Provision for loan impairment as a percentage of total loans and advances	5.3%	5.2%	4.0%		
Provision for loan impairment as a percentage of overdue loans and advances	144.9%	204.2%	120.1%		
Overdue loans as a percentage of total loans and advances	3.7%	2.5%	3.4%		

As of 31 December 2004, the provision for loan impairment as a percentage of total loans and advances increased to 5.3% from 5.2% and 4.0% as of 31 December 2003 and 2002, respectively. The increase in provisions as a percentage of total loans and advances to customers is attributable in part to the expansion of

RSB's consumer loan portfolio outside Moscow in 2004 and 2003, where RSB's management found the loss rates to be higher on average than in Moscow during such periods. The majority of all loans originated by RSB are issued in Roubles.

Capital Adequacy

RSB's capital adequacy ratio (the "CAR") is calculated in accordance with the international framework for capital measurement and capital standards for banking institutions set by the Basle Committee on Banking Regulation and Supervisory Practices. The following table sets out the principal components of RSB's CAR as of 31 December 2004, 2003, 2002 and 2001.

	As of 31 December		
	2004 (restated)	2003 (restated)	2002
	<i>(in thousands of Roubles except ratios)</i>		
Risk-weighted assets	37,552,903	14,627,252	5,596,912
Tier I capital	7,612,292	3,184,625	1,145,222
Tier II capital	-	-	-
Total capital	<u>7,612,292</u>	<u>3,184,625</u>	<u>1,145,222</u>
Capital Adequacy Ratio	20.3%	21.8%	20.5%
Tier I capital	20.3%	21.8%	20.5%
Total capital	<u>20.3%</u>	<u>21.8%</u>	<u>20.5%</u>

Despite significant growth in risk-weighted assets, which increased by 156.7% or by RUB 22,925.7 million from RUB 14,627.3 million as of 31 December 2003 to RUB 37,552.9 million as of 31 December 2004, RSB maintained CAR significantly above capital standards set by the Basle Committee on Banking Regulations and Supervisory Practices. This was achieved due to a significant increase in RSB's shareholders' equity. RSB's shareholders' equity increased by 139.0% or by RUB 4,427.7 million, up to RUB 7,612.3 million as of 31 December 2004 compared to RUB 3,184.6 million as of 31 December 2003 through income contribution to retained earnings and additional contribution from shareholders. RSB's retained earnings increased by RUB 4,279.4 million from RUB 773.2 million as of 31 December 2003 to retained earnings of RUB 5,052.6 million as of 31 December 2004 as a result of the significant income contribution during the period. The CBR requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on RAS. As of 31 December 2004, RSB's capital adequacy ratio calculated on this basis was 15.6%, which exceeded the statutory minimum.

Off-Balance Sheet Arrangements

RSB's off-balance sheet commitments comprise undrawn credit lines on credit cards and loans to customers, letters of credit and guarantees issued. As of 31 December 2004, RSB had RUB 12,604.1 million in outstanding credit-related commitments, net of provision, compared to RUB 4,222.1 million as of 31 December 2003, reflecting primarily increased demand for credit cards and related increases in undrawn credit card lines. As of 31 December 2004, RSB had RUB 11,252.0 million in undrawn credit lines on credit cards compared to RUB 2,779.7 million as of 31 December 2003.

Contingencies and Commitments

The table below sets out RSB's contractual obligations by maturity as of 31 December 2004:

	Payments Due by Period				
	<i>(in thousands of Roubles)</i>				
	Total	Less than			More than
Contractual Obligations	Amounts	1 year	1-3 years	4-5 years	5 years
	Committed				
Long-term debt	21,798,969	3,003,988	18,794,981	–	–
Capital lease obligations	38,772	30,012	8,760	–	–
Operating leases.....	280,461	142,512	137,784	165	–
Unconditional purchase obligations	18,963	18,963	–	–	–
Other long-term obligations	–	–	–	–	–
Total Contractual Cash Obligations ..	22,137,165	3,195,475	18,941,525	165	–

The table below sets out RSB's other commercial commitments by maturity as of 31 December 2004:

	Amount of Commitment Expiration Per Period				
	<i>(in thousands of Roubles)</i>				
	Total	Less than			More than
Other Commercial Commitments	Amounts	1 year	1-3 years	4-5 years	5 years
	Committed				
Undrawn credit lines on credit cards, net	11,252,043	11,252,043	–	–	–
Undrawn credit lines on loans to customers, net	439,118	439,118	–	–	–
Guarantees, net	848,897	848,897	–	–	–
Import letters of credit, net	59,945	59,945	–	–	–
Commitments to extend credit.....	4,135	4,135	–	–	–
Total Commercial Commitments	12,604,138	12,604,138	–	–	–

The table below sets out RSB's credit-related commitments as of 31 December 2004, 2003 and 2002:

	As of 31 December		
	2004	2003	2002
	<i>(in thousands of Roubles)</i>		
Undrawn credit lines on credit cards	11,252,043	2,779,674	1,192,925
Guarantees issued	848,897	458,775	281,609
Undrawn credit lines on loans to customers.....	439,118	293,204	193,508
Import letters of credit	59,945	73,496	–
Commitments to extend credit	4,135	52,842	–
Export letters of credit	–	564,116	451,180
Total credit-related commitments	12,604,138	4,222,107	2,119,222

The primary purpose of RSB's credit-related commitments is to ensure that funds are available to customers as required by customers.

Undrawn credit lines on credit cards and loans to customers represent unused portions of authorisations to extend credit in the form of loans. Guarantees issued represent irrevocable assurances that RSB will make

payments in the event that a customer cannot meet its obligations to third parties and thus carry the same credit risk as loans.

Documentary and commercial letters of credit, which are written undertakings by RSB on behalf of a corporate customer authorising a third party to draw drafts on RSB up to a stipulated amount under specific terms and conditions, generally are collateralised by the underlying shipments of goods to which they relate or by cash deposits.

With respect to credit risk on commitments to extend credit, RSB is potentially exposed to a loss in the amount equal to the total of unused commitments. However, the likely amount of loss is less than the total unused commitments since most of the commitments to extend credit are contingent upon customers maintaining specific credit standards. RSB monitors the term to maturity of credit-related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Where RSB has operating lease commitments as the lessee, the future minimum lease payments under non-cancellable premises operating leases are as follows:

	As of 31 December		
	2004	2003	2002
	<i>(in thousands of Roubles)</i>		
Not later than 1 year	142,512	95,679	70,022
Later than 1 year and not later than 5 years	137,949	83,835	115,071
Total operating lease commitments.....	280,461	179,514	185,093

Derivative Financial Instruments

RSB uses derivative financial instruments to hedge against fluctuations in the U.S. dollar/Rouble exchange rate. RSB typically hedges a minimum of 90% of the U.S. dollar amounts raised through the issue of debt securities and loans by buying Rouble-denominated forward and spot forward contracts. It sometimes retains U.S. dollar funding in U.S. dollars and does not therefore require hedges for these amounts. RSB's maximum open currency exposure of 10% of shareholder's equity is set out in agreements with the EBRD and IFC. RSB at times internally establishes stricter requirements. Forward contracts are typically for a 6-12 month duration and typically are rolled over upon termination.

The principal or agreed amounts and fair values of derivative instruments held by RSB as of 31 December 2004, 2003 and 2002 are set out in the following table.

	As of 31 December 2004			As of 31 December 2003		
	Contract/ notional amount	Fair values		Contract/ notional amount	Fair values	
		Assets	Liabilities		Assets	Liabilities
	<i>(in thousands of Roubles)</i>					
Foreign exchange spot deals	7,479,204	1,352	(2,222)	3,549,267	1,004	(523)
Foreign exchange forward deals	11,376,967	23,485	(168,390)	–	–	–
Total recognised derivative assets/ (liabilities)	18,856,171	24,837	(170,612)	3,549,267	1,004	(523)
	As of 31 December 2002					
				Contract/ notional amount	Fair values	
					Assets	Liabilities
	<i>(in thousands of Roubles)</i>					
Foreign exchange spot deals				1,071,134	467	(1,125)
Total recognised derivative assets/(liabilities)				1,071,134	467	(1,125)

Derivatives with positive fair values are included in other assets, while derivatives with negative fair values are included in other liabilities.

Foreign exchange derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions.

The principal amounts of certain types of financial instruments provide a basis for comparison with instruments recorded on the consolidated balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate RSB's exposure to credit or price risks. The derivative financial instruments have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in foreign exchange rates relative to their terms. The aggregate contractual or principal amount of derivative financial instruments on hand, the extent to which instruments have favourable or unfavourable conditions and the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

BUSINESS

OVERVIEW

RSB is a consumer finance bank organised as a closed joint stock company under the laws of the Russian Federation with its registered legal address at Building 6, 2/1 Spartakovskaya ulitsa, Moscow 105066, Russian Federation. RSB's principal office is located at Building 1, 6/1/2 Kadashevskaya naberezhnaya, Moscow, 119017, Russian Federation.

RSB's business activities are primarily focused on consumer finance products and services, such as consumer loans, car loans and credit card loans. RSB is one of the leading consumer finance banks in Russia due to its strong position in point-of-sale consumer lending and credit card issuance.

RSB has prepared its financial statements in accordance with IFRS since the year ended 31 December 1999. For the year ended 31 December 2004, RSB generated operating income of RUB 7.9 billion and had a net profit of RUB 4.4 billion. Of RSB's operating income for the year ended 31 December 2004, net interest income after provision for loan impairment amounted to RUB 7.4 billion.

As of 31 December 2004, RSB had total assets of RUB 41.2 billion and shareholders' equity of RUB 7.6 billion.

As of 31 December 2004, RSC was the major shareholder of RSB and held 90.75% of its share capital. Other principal shareholders of RSB are IFC and Closed Joint Stock Company Roust Inc. ("**Roust**"), which hold 6.42% and 2.82% of RSB's share capital, respectively.

RSB is a principal member of MasterCard™ International and of VISA™ International, a member of the Moscow Interbank Currency Exchange and a member of the Association of Russian Banks. In September 2004, RSB was one of the first Russian banks that was approved for admittance to the Russian system of mandatory insurance of retail bank deposits established pursuant to the Retail Deposit Insurance Law. See "Overview of the Banking Sector and Banking Regulation in the Russian Federation".

HISTORY

RSB was incorporated on 31 March 1993 and was initially known as Agrooptorgbank ("**ATB**"). ATB was established to act as the settlement bank of the Russian agricultural sector and was owned by a number of Russian agricultural companies. ATB was registered with the CBR on 31 March 1993 and received a banking licence (Licence No. 2289).

Following the reform and general decline of the Russian agricultural sector, ATB ceased to act as the agricultural sector settlement bank and was put up for sale in 1998. In 1999, Roust acquired approximately 99.4% of the shares in ATB and subsequently renamed it Russian Standard Bank. The "Russian Standard" brand is used under licence from the owner of the brand, ZAO Roust Inc. On 19 July 2001, the CBR granted RSB a full (general) banking licence (Licence No. 2289).

Since 2001, RSB has developed a network of branches in Moscow and representative offices throughout the Russian Federation. As of 31 December 2004, RSB had 20 branches in Moscow and other regions in the Russian Federation, 11 regional centres, 88 representative offices in other major Russian cities representing 93% of Russia's population and over 12,000 points-of-sale in retail and other outlets. As of 31 December 2004, RSB also had a network of 30 automated teller machines ("**ATMs**") and 30 automated cash deposit machines ("**cash-in machines**") located in third-party retail chains and at RSB branches in Moscow.

In February 2003, IFC became one of RSB's shareholders following the acquisition of 10.44% of RSB's share capital for U.S.\$10 million. Following an additional share issuance agreed between RSB's principal shareholders in 2003 (to which IFC did not subscribe), IFC's shareholding in RSB was diluted to 6.4% of RSB's total share capital.

STRATEGY

RSB's strategic objective is to broaden its distribution network by extending its business to all of the major Russian regions and to provide a wider group of customers with a full range of consumer finance products. RSB endeavours to be the consumer finance provider for all of a customer's consumer loan, car loan and credit card needs. RSB's initial core business of extending consumer loans was targeted at lower income Russians for the purpose of financing household appliances and other durable consumer goods. RSB now also targets middle income Russians with consumer loans, car loans and credit card loans on more favourable terms, provided such customers can prove their sources of income. To achieve these goals, RSB's management has identified the following key objectives:

Develop Innovative Consumer Banking Products

RSB intends to maintain and improve its position as one of the leading Russian banks in the consumer finance market by introducing new products and improving the terms of existing products offered to retail customers. Whereas most loans are extended without any proof of income due to the difficulty of providing such proof in Russia, RSB has introduced lower interest rates to middle income earners who can provide official proof of income. RSB has also begun offering 0% downpayment options on certain products and anticipates that it will be extending such offers to a broader array of products in 2005.

In 2005, RSB also plans to offer newly developed products in the car loan market (including larger loans for more expensive cars) and is considering offering its customers personal cash loans in 2006 or 2007. It is anticipated that car loans will have a term of up to four years and a maximum principal amount of RUB 600,000.

Develop Retail Distribution and Loan Collection Network

RSB intends to expand and further develop the distribution network through which it offers credit products to consumers. To achieve this, RSB plans to increase the number of distribution agreements that it has with major Russian retailers allowing RSB to open points-of-sale in their retail outlets, and it plans to continue developing relationships with smaller retailers, who are largely ignored by RSB's competitors.

RSB also plans to continue enhancing its loan collection network by facilitating payments at post offices in the smaller population centres outside Moscow and by installing cash-in machines and ATMs in its 20 branches.

Refine Risk Management and Scoring Systems

RSB also intends to further develop its advanced proprietary credit scoring system by expanding its credit history database and undertaking detailed analyses of the trends in the Russian consumer financing market, particularly in the regions outside Moscow where information on customers is more difficult to obtain and less reliable.

RSB seeks to minimise its overall risk exposure by regularly improving its risk management policies and systems. In particular, RSB's goals also include improving the flow of information and enhancing its internal policies designed to focus management's attention on developing strategies for responding to potential risk scenarios.

Expand Regional Distribution Network

As part of its strategy to become a consumer finance bank present in all major Russian regions, RSB intends to extend its regional branch network and its presence to smaller population centres or cities beyond Moscow. RSB also plans to increase the number of its points-of-sale, particularly in Russian regions with higher levels of consumer spending.

Diversify Funding Sources

RSB plans to continue to rely on diverse funding sources. In addition, in order to add further financial flexibility, RSB plans to enter into syndicated loans, issue Eurobonds, and seek to use structured finance products, including asset-backed securities and the possible securitisation of RSB's consumer loans and credit card receivables. RSB expects that this will allow it to achieve a more diversified and stable funding base.

MARKET POSITION, COMPETITION AND COMPETITIVE STRENGTHS

According to the CBR, as of 31 December 2004, 1,299 banks were operating in the Russian Federation, with most of the large Russian banks' operations being based in Moscow.

While most Russian banks do not provide point-of-sale consumer finance, over the last few years RSB has faced increasing competition from other Russian banks and from Russian subsidiaries of major foreign financial institutions, including those of Société Générale and GE Consumer Finance.

According to the Russian business journal *Kompania*, RSB is the 2nd largest Russian bank in terms of lending volumes to retail customers.

RSB's principal competitors are:

- in the point-of-sale loan market, Home Credit and Finance Bank and OVK Group (which is controlled by Open Joint Stock Company Rosbank), Delta Bank, Alfa Bank and Finansbank;
- in the credit card market, OVK Group, Delta Bank and Alfa Bank Express; and
- in the car loans financing market, Sberbank, OVK Group, International Moscow Bank, UralSib Financial Corporation, Raiffeisenbank Austria, Soyuz Bank, Moscow Credit Bank and MDM-Bank.

Despite increasing competition, RSB believes that it has a number of competitive advantages over its competitors, including:

- *Targeted Expansion.* After developing its market in large cities, RSB has targeted smaller population centres with relatively untapped demand for its future expansion. RSB expects this will continue to provide a basis for the continued growth and development of its consumer finance business.
- *Large customer base.* RSB's initial core product, consumer loans to finance household appliances and other consumer goods, was aimed at lower income Russians. As an early entrant into the market, RSB was able to gain access to a large customer base and accumulate a significant amount of information on its customers. RSB has increased the size of its customer base by servicing middle income Russians in addition to its core customer base of lower income Russians.
- *Information Technology and Credit-Scoring Technology.* RSB offers its customers the advantages of its centralised proprietary automated scoring system ("PASS"). RSB believes that PASS is the largest consumer finance database in Russia, with over 150 million entries. PASS has the capacity to process large volumes of credit applications and to do so generally within 15 minutes of the relevant application being input into PASS even during peak times. Management of RSB believes that PASS allows credit applications to be processed faster than those of RSB's competitors.
- *Experience in the Consumer Finance Sector.* Since 2000, RSB has extended consumer loans to over 6.5 million customers in the Russian Federation. As a result, RSB has accumulated substantial experience in the consumer finance sector, including the management of non-performing loans. In addition, RSB has developed an advanced database containing payment and credit records with respect to its past and current customers. This credit database allows RSB to perform detailed analyses of the trends in the Russian consumer finance market and better manage credit risks generally associated with this market.

- *Brand Recognition.* The RSB brand originated from the more generic “Russian Standard” brand which was associated with a major Russian vodka. However, since the acquisition of ATB in 1999, RSB has developed its own brand and has achieved widespread recognition in the Russian market. Principal factors that have contributed to RSB’s brand in the Russian market are its well established track record of consumer financing, continuing regional expansion, well targeted public relations communications and advertising.

BANKING SERVICES AND ACTIVITIES

Overview

RSB’s principal activities comprise consumer finance, credit card and consumer deposit-taking. RSB also engages in other lending, payment and settlement activities for corporate clients that are not significant. In 2004, of RSB’s consumer finance portfolio by value, 62.8% was consumer loans, 33.4% was credit cards and 3.8% was car loans.

Consumer Banking Services

Since 1999, RSB’s strategy has been focused on consumer financing. RSB introduced credit scoring technologies to the Russian market and, as a result, became the first credit institution in the Russian Federation to offer remote, rapidly approved consumer loans.

RSB offers consumer loans and car loans in Roubles and credit cards in both Roubles and foreign currencies to Russian citizens aged between 23 and 65 who are resident in regions where RSB has operations. For a detailed description of lending and credit procedures, see “Consumer Lending Policy, Loan Repayment and Loan Collection”. RSB’s consumer loan book, car loan book and credit card loan book together comprise RSB’s consumer finance portfolio.

Consumer Loans

Consumer loans are provided primarily for the purpose of purchasing household goods (including household appliances, consumer electronics and furniture). Although RSB’s credit policy permits extension of consumer loans both in Roubles and in foreign currency, in practice all consumer loans extended by RSB are denominated in Roubles.

As of 31 December 2004, consumer loans (net of provisions) represented 62.8% of RSB’s aggregate consumer finance portfolio.

Since the inception of its consumer finance activities in 2000, RSB has extended over 6.5 million consumer loans. In 2004, RSB granted more than 3.5 million consumer loans worth in aggregate approximately RUB 40 billion (approximately U.S.\$1.5 billion).

Loans for purchasing household goods including mobile phones have terms of 3, 4, 6, 8, 10, 12 or 24 months and are limited to RUB 150,000 (approximately U.S.\$5,400). RSB’s consumer loans typically have a fixed interest rate, typically require a downpayment of at least 10% and are normally repaid in monthly instalments. In addition to interest charges (which are currently approximately 19% per annum for loans to finance household appliances and consumer electronics and 29% per annum for loans financing the purchase of mobile phones), RSB also charges a monthly fee calculated at the rate of 1.9% of the original loan amount. Terms of RSB’s consumer loans allow for prepayment of the loan by the borrower, subject to a charge payable by the borrower. In addition, retailers currently pay RSB a commission of up to 7% of the initial loan amount although it is expected that the payment of these commissions will decline to zero and that RSB may in the future have to pay a commission to the retailers. See “Risk Factors – Risks Related to RSB’s Business and the Banking Sector – *RSB relies heavily on its relationships with large consumer retail chains, but there is no guarantee that these relationships will continue in their current form or at all*”.

RSB and certain participating retailers currently run a number of promotions, including:

- “10% + 10* $\frac{1}{10}$ ” and “10% + 12* $\frac{1}{12}$ ” promotions which contemplate a 10% downpayment and repayment of the loan over 10 or 12 months in 10 or 12 equal instalments, respectively;
- an “8% + 8* $\frac{1}{8}$ ” promotion which contemplates an 8% downpayment and repayment of the loan over 8 months in 8 equal instalments; and
- a loan which does not require any downpayment and is repayable in 6 or 12 months.

Loans for the purchase of household goods are secured by pledges of the purchased goods. However, due to the time-consuming and cumbersome procedure of security enforcement in the Russian Federation, RSB’s experience is that the enforcement of such security is not always feasible or cost-effective. See “Risk Factors – Risks Related to RSB’s Business and the Banking Sector – *RSB may have difficulty enforcing security under Russian law, and this may have a material adverse effect on RSB’s results of operations.*” RSB also relies on other available remedies for more efficient loan collection, including civil proceedings based on claims of borrower fraud.

The following table sets forth a breakdown of RSB’s consumer loan portfolio by range in size of loan as of 31 December 2004:

Range in size of loans (in thousands of Roubles)	Number of loans
1-3	574,974
3-5	597,894
5-10	853,161
10-15	397,710
15-20	184,964
20-25	89,674
25-30	47,472
30-40	30,736
40-50	7,231
50-100	3,041
100-300	265
Total	<u>2,787,122</u>

As of 31 December 2004, the average size of a loan for purchasing household goods was approximately RUB 8,070 (approximately U.S.\$291) and approximately 72.9% of RSB’s consumer loans were in the range of RUB 3,000 to RUB 20,000 (approximately U.S.\$100 to U.S.\$700).

Car Loans

RSB offers its customers a range of car loans to finance purchases of cars costing up to the Rouble equivalent of U.S.\$10,000. As of 31 December 2004, the average car loan was RUB 118,585 (approximately U.S.\$4,273). RSB’s car loans typically have terms of 12, 24 or 36 months. RSB also offers a car loan that does not require the purchased vehicle to be insured but which carries a higher interest rate compared to car loans requiring such insurance. Car loans are secured by a pledge of the car. However, as with consumer loans, enforcement of this security is not always cost-effective or feasible.

As of 31 December 2004, car loans (net of provisions) represented approximately 3.8% of RSB’s aggregate consumer finance portfolio.

Since the inception of its car loan lending activities in 2001, RSB has extended over 28,000 car loans. In 2004, RSB granted more than 14,000 car loans.

RSB charges its customers 19% per annum in interest plus a monthly fee ranging from 0.9% to 1.9% of the original loan amount. RSB also typically receives commissions of up to 3% of the car loan amount from the merchant.

The following table sets forth a breakdown of RSB's car loan portfolio by range in size as of 31 December 2004:

Range in size of loans (in thousands of Roubles)	Number of loans
1-3	49
3-5	54
5-10	152
10-15	174
15-20	159
20-25	209
25-30	271
30-40	700
40-50	749
50-100	5,374
100-300	5,509
Total	13,400

Credit Cards

RSB has been a principal member of MasterCard™ International since 2000. In 2001, RSB became one of the first Russian banks to offer credit cards on the Russian retail market by offering its own branded credit cards as an extension of its consumer lending programme. In 2002, this move was followed by RSB offering its customers MasterCard™ Standard credit cards. RSB is also a member of VISA™ with authority to issue credit cards and plans to start issuing these cards by the end of 2005. In December 2005, RSB signed an agreement with American Express to issue and market American Express cards in Russia. This agreement was announced in April 2005. RSB expects to start issuing these cards by the end of 2005.

From 2005, in addition to its MasterCard™ Standard credit cards, RSB has offered MasterCard™ Electronic credit cards. As of the date of this Offering Circular, all new credit card issuances by RSB are either MasterCard™ Electronic or MasterCard™ Standard credit cards. MasterCard™ Electronic differs from MasterCard™ Standard in that the former requires an electronic authorisation, while the latter can operate manually using a credit card slip.

RSB's MasterCard™ Standard credit card is an international credit card with a credit limit of up to RUB 150,000 (approximately U.S.\$5,400). MasterCard™ Standard is issued by RSB on the basis of an application by an applicant who has not previously had a consumer loan with RSB. The relevant credit limit is assigned within three business days of the date of application after identity checks, credit scoring and other procedures have been completed. As of 31 December 2004, approximately 85% of the MasterCard™ Standard credit cards issued by RSB had been activated (a necessary step before they can be used).

Until early 2005, RSB also issued its own brand credit card with a credit limit of up to RUB 50,000 (approximately U.S.\$2,000). These were offered to those of RSB's customers who had successfully repaid an RSB consumer loan. Customers activated these cards by calling RSB's call centre. As of 31 December 2004, approximately 40% of RSB's own brand credit cards that had been sent to its customers had been activated. In early 2005, when RSB ceased issuing new (and replacement) own brand credit cards, RSB's own brand credit cards began to be replaced by MasterCard™ Electronic cards. This migration will continue until all of RSB's own brand credit cards have expired and been replaced by MasterCard™ Electronic cards.

In addition to its own brand cards still in circulation, RSB also has two co-branded cards in circulation (although these are no longer promoted). From 2001 to 2003, RSB issued co-branded credit cards with a number of leading Russian companies, including Aeroflot-Russian Airlines (Aeroflot-MasterCard™

Standard credit card) and Mir consumer electronics retail network (Mir-Russian Standard and Mir-MasterCard™ Standard credit cards). In addition to credit facilities, co-branded MasterCard™ cards provide their holders with additional bonuses and discounts when making purchases in RSB's co-branded retail partners' outlets.

RSB also issued approximately 200 MasterCard™ Gold cards to VIPs, including certain of its own employees. RSB does not promote this small segment of its credit card business.

The minimum monthly payment for all of RSB's credit cards where balances are outstanding is the lesser of 5% of the relevant credit limit and the outstanding balance. Operations on the credit card are blocked immediately following the credit card holder's failure to make any minimum monthly payment but immediately unblocked upon payment.

Unlike MasterCard™ credit cards, RSB's own brand credit cards can only be used for purchasing goods in RSB's retail partners' outlets and cash withdrawals in branches of RSB and its partner banks and through their ATMs.

RSB earns interest income from credit cards through the interest rate charged to the customer (which is currently approximately 23% per annum), a monthly charge currently equal to 1.9% of the outstanding balance, and, in the case of cash advances, an additional fee that is currently 4.9% of the advance. RSB earns a fee of between 2% and 6% of purchases from the merchant as well. Approximately 90% of the loans incurred by credit card users are cash advances which therefore attract an additional 4.9% fee.

As of 31 December 2004, RSB's aggregate outstanding credit card loans (net of provisions) amounted to RUB 11.0 billion, representing 33.4% of RSB's aggregate consumer finance portfolio (net of provisions).

RSB advertises its consumer finance products primarily by using the telemarketing capability of RSB's call centre and direct-marketing tools at RSB's points-of-sale. RSB's marketing and advertising budget for its credit card business for 2005 is set at U.S.\$28.5 million (compared to an actual spend of RUB 57 million or approximately U.S.\$2.0 million in 2004), an increase which reflects the increasingly competitive environment in which RSB operates.

Distribution of Consumer Finance Products

Consumer Loans

As of 31 December 2004, RSB's network consisted of 20 branches (all of which are located in Moscow), 30 ATMs, 30 cash-in machines, 11 regional centres, 88 representative offices and over 12,000 points-of-sale.

Under RSB's distribution network policy, the territory of the Russian Federation is divided into 11 regions, with regional centres opened in a city with a population of over 1 million people. RSB's regional centres are responsible for the development of the distribution network, establishment and implementation of the loan repayment and collection system and activities of representative offices in the respective region. RSB's representative offices are opened in major cities of the respective region and do not render any banking services, but rather coordinate the business of points-of-sale located in their respective cities. With respect to credit products sold through the regional points-of-sale, the lender of record is RSB in Moscow rather than its representative offices.

RSB establishes its presence in cities in which it estimates that it will be able to extend certain minimum numbers of consumer loans. For example, it typically establishes a representative office where it anticipates extending a certain minimum number of loans per month and smaller offices where it projects fewer loans per month.

RSB continues to expand its distribution network and make arrangements for new retailers to participate in RSB's consumer finance activities. Unlike its competitors, RSB works with smaller retailers as well as larger retailers.

The majority of RSB's consumer loans are sold through its points-of-sale located in retail outlets. RSB has developed and implemented a key client management system whereby a team of experienced managers is responsible for all aspects of RSB's relationship with major retail partners.

RSB's points-of-sale in retail partners' outlets are opened on the basis of distribution agreements concluded between RSB and the relevant retailer. These distribution agreements are generally concluded for an indefinite period and require retailers to pay RSB a commission, agreed from time to time, based on the amount of credit generated by sales and the type of credit product. None of these are exclusive arrangements and all can be terminated at will by retailers.

RSB's retail partners, none of whom are exclusive to RSB nor bound by any contractual lock-in provisions, include a number of Russian and foreign-owned retail chains, including Eldorado, Mir and M-Video Expert (all major Russian consumer electronics retail chains), IKEA and Shatura (major furniture and household appliances retail chains in Russia), the Auchan hypermarket chain, Mosmart and the Marktkauf DIY chain. RSB has also partnered with Euroset and Sviaznoy, leading Russian mobile phone retailers, to offer financing for the purchase of their phones. In the car sales sector, RSB has distribution agreements with the Avtomir, Inkom-Avto and Lada Favorit car dealerships that specialise in the sales of Russian-manufactured cars.

RSB has also established its points-of-sale in a number of major Russian department stores which allow RSB to offer its consumer loan products to customers of all the retailers located in those department stores.

The majority of RSB's points-of-sale are equipped with RSB's software allowing direct access to PASS. Some of RSB's points-of-sale (including those opened in Mir retail outlets) are also equipped to accept loan repayments. In 2004, with the assistance of a Western brand consultant, RSB re-designed its point-of-sale desks to allow customers to better identify RSB's points-of-sale and distinguish them from those of its competitors. Depending on the volume of sales and range of products offered, RSB's points-of-sale are staffed either with RSB loan officers or employees of RSB's retail partners (with each point-of-sale being staffed by between 1 and 8 persons). The responsibilities of the points-of-sale staff include both selling and actively promoting RSB's brand and consumer loan products. As of 31 December 2004, out of over 12,000 points-of-sale, approximately 2,050 were staffed with RSB's loan officers.

RSB's loan officers and employees of retail partners offering consumer loan products are trained and certified by RSB's training centre run by its Network Development Department and undergo a mandatory internal security check prior to their employment. Each of RSB's points-of-sale are subject to bi-weekly or monthly internal audits to ensure compliance with RSB's lending procedures. See "Employees".

Car Loans

The distribution of RSB's car loans is achieved through approximately 300 car dealerships with which RSB has developed relationships. Approximately 78% of car loans are extended in the Moscow area.

Credit Card Loans

Unlike consumer loans, credit cards are primarily offered by RSB to existing customers with an existing and satisfactory credit record. Therefore, initial contact is through RSB's consumer loan network. RSB sends qualifying customers a credit card via the post which must be activated by RSB before it can be used. Activation is generally accomplished by calling RSB's call centre and requesting activation. As of 31 December 2004, approximately 43% of RSB's issued credit cards had been activated. Credit cards may also be issued upon application independently of a consumer loan history with RSB. Credit cards typically have a limit of RUB 30,000 and a minimum monthly payment of the lower of 5% of the credit limit and any outstanding balance.

Consumer Lending Policy, Loan Repayment and Loan Collection

Lending Policy

Currently no national or international credit bureaus operate in Russia. While certain credit bureaus are in the process of setting up operations, they are not yet in business. As such, the principal body responsible for consideration of consumer loan applications and allocation of credit limits is RSB's Credit Department.

Consumer loan and car loan applications with respect to standard credit products are considered on the basis of a loan application consisting of 18 different fields of information and a photocopy of the borrower's identification document (typically, a passport). This information is entered into PASS either by RSB's loan officers or by authorised employees of its retail partners. In circumstances where the relevant point-of-sale is not linked to the main PASS server, applications and identification documents are sent to RSB's Credit Department in Moscow by facsimile. Approximately 90% of applications are processed by RSB's automated system.

In its assessment of the application, RSB considers the credit history of the prospective borrower, his or her age and education level, employment details, property ownership and monthly income, as such information is supplied by the applicant. For non-standard credit products, RSB also considers, where applicable, the size of the prospective borrower's deposit with RSB.

Information supplied by the prospective borrower is verified to the fullest extent possible through RSB's client database, which contains over 150 million entries. At present, RSB's client database does not contain information on outstanding consumer loans from other Russian or international banks, financial institutions or other lenders. RSB has also entered into access agreements with a number of Russian state institutions, entities and companies allowing it to verify some information supplied by applicants through these third party databases. As a matter of practice, information supplied by applicants is verified by RSB where possible through several different databases including an address database, a property database and a civil status database. In addition to various telephone, address and property directories, RSB also uses, by permission, the database of the Main Internal Affairs Directorate, which is a major city police command, to verify the marital status and the absence of a criminal record of its customers and to carry out passport checks. The CBR distributes blacklists and information on terrorists and identity fraud which RSB also uses in conjunction with its own blacklists.

Credit limits are generally adjusted by PASS based on the geographic location of the purchase being financed, the nature of the product and the maturity of the loan. The system uses certain proprietary weightings which take into account the acceptance level to risk level ratio. These weightings are periodically adjusted depending on the actual performance of RSB's consumer finance portfolio.

Credit limits for short-term loans (with terms of up to 12 months) are calculated in one of the following ways:

- automatically (where the requested amount does not exceed RUB 30,000)
- part-automatically (where the requested amount is in the range of RUB 30,000 to RUB 50,000), i.e. the credit limit calculated by PASS is subsequently adjusted by an RSB loan officer; and
- manually by RSB's loan officers (where the requested amount exceeds RUB 50,000).

Applications for long-term loans with maturities exceeding 12 months are always considered manually. Until recently, RSB only permitted its customers to have one outstanding consumer loan or car loan. Since December 2003, RSB has modified its system to allow its customers to have a number of outstanding loans, the aggregate value of which may not exceed the total credit limit assigned by PASS.

PASS is also able to identify loan applications originating from points-of-sale with higher levels of non-performing loans or with respect to default-prone consumer goods (including mobile phones, used cars and computer spare parts), in which case the loan application is considered manually. The allocation of types of consumer goods into a default-prone category is made on the basis of loan repayment default reports with a breakdown by type of consumer goods produced on a monthly basis.

At present, credit limits with respect to approximately 90% of RSB's loan applications are processed by the automated system, and the remaining 10% of loan applications are processed manually. Manually processed applications include applications that were initially rejected by the automated scoring system. PASS operates 24 hours a day, 7 days a week, and processes approximately 25,000 applications daily.

RSB evaluates its consumer finance portfolio on a regular basis by monitoring both the overall performance of each loan book, the performance of each loan book for each type of good financed as well as each particular consumer or car loan.

Loan Repayment

RSB's consumer loans can be repaid in the following ways:

- *RSB Network.* Borrowers can repay their consumer loans through RSB's branches (including cash-in machines). At present, RSB operates 20 branches and 30 cash-in machines, all of which are located in Moscow.
- *Russian Federal Post.* RSB has an agreement with the Russian Federal Post ("**RFP**") that allows RSB borrowers to repay their loans through RFP offices equipped to handle electronic wire transfers. Loan repayments through RFP offices are subject to a 1% commission fee payable to RFP by the relevant borrower. RSB estimates that over 75% of the loan payments originating outside of Moscow and 70% of total loan payments are made through RFP offices.
- *RSB Partner Banks.* RSB has entered into agreements with a number of Russian banks (including Impex Bank, Promstroybank, Tatinvestbank, Tatagroprombank and Tatecobank) allowing loan payments through the branch network of these Russian banks. Payments made through these banks are also subject to a commission fee varying from 0.75% to 2.2% that is payable by the borrower to the other bank.

Loan Collection

RSB strives to regularly improve its loan collection procedures. In particular, RSB has created a multi-stage collection system that has resulted in greater efficiency in the recovery of overdue loans.

RSB's loan collection system involves the following steps and procedures:

- *First Missed Payment.* Following the first missed payment, a telephone call is made to the relevant borrower informing them of the missed payment and advising on the repayment options. No late payment fee is charged.
- *Two Missed Payments.* In a situation where the borrower has failed to make two sequential payments, a follow-up call is made advising the borrower of the possible consequences of non-payment. In addition, the borrower is charged a late payment fee in the amount of RUB 300 (approximately U.S.\$10).
- *Three Missed Payments.* Following a third missed payment, a final statement (requiring repayment of all outstanding principal, accrued interest and other amounts payable within 30 days) is sent to the relevant borrower who is also contacted in person. An additional RUB 1,000 (approximately U.S.\$40) fee is also charged for late payment. A daily penalty of 0.2% of the outstanding balance is charged beginning 30 days after receipt of the final statement.
- *Assessment.* Loans that remain overdue for more than 90 days are reviewed by RSB's analysts (who are monitored by the Compliance Control Department) who are authorised to write-off loans that they classify as non-recoverable.
- *Assignment.* Loans that remain due but unpaid for 120 days but are still considered collectible are assigned to DCA. DCA is not paid a fee but all proceeds of collection are held on DCA's account with RSB. Economically, RSB uses these proceeds. Upon receipt of the assigned loans, DCA uses such legal methods as are available in attempting to recover the overdue amounts, including claiming the

overdue amounts in court or restructuring the outstanding indebtedness of the borrowers. The restructured schedule of payments under an assigned loan may not exceed 6 months.

- *Reassignment.* Pursuant to the terms of the assignment agreement between RSB and DCA, loans that remain overdue for more than 6 months from the date of assignment are reassigned to RSB for subsequent write-off.

RSB estimates that approximately 85% of overdue loans are collected during the first stage of loan collection, 6% during the second stage and 2.7% during the third stage. In addition DCA recovers 50% of assigned loans resulting in an effective loan recovery rate for RSB of 95.3%.

Call Centre

RSB's call centre is based in Moscow, operates 24 hours a day, seven days a week, every day of the year, and is currently serviced by approximately 230 operators working in shifts (with approximately 113 persons in each shift). In addition to calls from RSB's Moscow customers, the call centre also handles calls from the regions where RSB is present. RSB's call centre handles approximately 350,000 telephone calls per month.

Other Activities

RSB's treasury and trading business units engage in foreign currency exchange, securities and money market trading in order to manage RSB's liquidity and support the activities of its corporate clients.

RSB also undertakes limited trading in RSB's debt securities. RSB's treasury functions include the management of RSB's short-term liquidity, the funding of RSB's consumer finance portfolio and servicing of its corporate clients on the financial and money markets. On the interbank market, RSB's Treasury Department also acts as a net seller of banknotes received from RSB's borrowers during the course of repaying their loans.

RSB also provides payment and account services to and on behalf of its corporate clients through its correspondent banking network. RSB also provides current and term deposit accounts in Roubles as well as in foreign currencies. Its lending business offers a range of credit products to its corporate customers both in Roubles and in foreign currencies. As part of its corporate banking services, RSB issues bank guarantees for two principal purposes: (a) securing travel agencies' obligations to airlines and (b) guaranteeing customs payments and the submission of reports with respect to excise duties on spirits in the context of Roust's import activities. RSB supports its corporate clients' trading activities by providing import letters of credit, stand-by and revolving letters of credit and issuing guarantees. In particular, RSB issues letters of credit with respect to the trading activity of its retail partners and Roust.

RSB provides a limited range of retail accounts and deposits. These deposits do not constitute a material source of funding for RSB.

SUBSIDIARIES

The Consolidated Financial Statements of RSB for the year ended 31 December 2004 include DCA and RSF, each an affiliate of, and controlled by, RSB but owned by RSB's principal shareholder, RSC. RSB has had a 0.1% interest in both DCA and RSF since November 2004. RSF has been used by the Group as a special purpose vehicle to issue Rouble-denominated bonds on behalf of the Group and has no other operations. DCA is used by the Group to facilitate the debt collection process for RSB. RSB exercises control over both RSF and DCA through their respective management, the members of which are also employees of RSB.

The contribution of each of RSF and DCA to the total assets, profits and liabilities of the Group is not material.

EMPLOYEES

As of 31 December 2004, RSB employed 5,826 persons.

For personnel training purposes, RSB operates a training centre that runs a number of courses, including those for employees of the Client Support Department, Operations and Technology Department and Network Development Department and special courses aimed at the development and enhancement of management skills which are targeted at lower- to mid-level managers.

RSB's sales course runs for three days for RSB's sales staff and for two days for employees of RSB's retail partners that are engaged in promoting and selling RSB's consumer credit products. The course covers RSB's history, an overview of RSB's consumer credit products and sales techniques and procedures. Following the completion of the sales course, RSB's loan officers and employees of retail partners offering credit products receive training certificates which are renewable on an annual basis.

INFORMATION TECHNOLOGY INFRASTRUCTURE

Information technology is an integral part of RSB's daily operations. RSB regularly implements new technologies in order to support its present and future business. RSB is currently working on expanding and enhancing a centralised data processing system that links together RSB's branches, representative offices and points-of-sale to enable synchronised implementation of RSB's policies and reduce administrative costs.

The core of RSB's integrated banking information system, known as "Bankir", is comprised of RSB's call centre, credit card processing and credit scoring systems. Bankir also supports RSB's corporate banking services allowing for remote access to customers' accounts through RSB's "Bank-Client" systems.

In its business activities, RSB employs a number of sophisticated software solutions, including Bankier core banking system (manufactured by CSBI EE), the Transmaster credit card system (manufactured by Tieto Enator) and the "Bank-Client" remote account access and management system (manufactured by Komita).

To ensure the safety of collected data, RSB also uses SUN multi-processor cluster systems which allow back-up storage for both servers and processors. RSB's information technology systems also provide for the back-up of communication and power supply systems. Scalability of RSB's information technology systems allows RSB to increase capacity by adding new hardware, such as disks and processors.

RSB believes that its information technology systems can be easily adapted and modified to address RSB's growing business volumes and regional expansion. RSB's information technology infrastructure can be adjusted by incorporation of new modules to reflect the expansion of RSB's product range.

In order to provide high quality service to its consumer customers, RSB regularly seeks to improve the capacity and security of its call centre. With this in mind, in 2002 RSB implemented a Cisco IP Contact Centre, which is considered to be a highly secure and scalable solution for call centres.

LITIGATION

RSB has been, and continues to be, the subject of legal proceedings and adjudications from time to time, none of which has had, individually or in aggregate, a material adverse effect on RSB. There are no, and have not been, any legal or arbitration proceedings against or affecting RSB or the Group or any of its or the Group's assets or revenues, nor is RSB aware of any pending or threatened proceedings of such kind, which may have or have had during the 12 months prior to the date of this Offering Circular a significant effect on the consolidated financial position or results of operations of RSB or the Group.

In July 2004, BNP Paribas Group (through its French consumer credit subsidiary, Cetelem S.A.) signed a share purchase agreement with RSB's indirect shareholder, Roust Holdings Ltd. Pursuant to this agreement, Cetelem would have indirectly acquired approximately 50% of RSB's shares. This agreement was subsequently terminated in January 2005. RSB is not a party to any of the agreements related to the proposed structure and it is not anticipated that any such proceedings arising out of the termination of these agreements will have any effect on RSB's operations, financial condition or prospects.

ASSET, LIABILITY AND RISK MANAGEMENT

Introduction

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

Risk Management Organisational Structure

RSB's risk management organisation is divided between the bodies that are responsible for establishing risk management policies and procedures, including the establishment of limits, and bodies whose function is to implement those policies and procedures, including monitoring and controlling risks and limits on an ongoing basis.

Decision Making

The decision making level of RSB's risk management operations is comprised of the Board of Directors, the Management Board, the Credit Committee, the Asset and Liability Management Committee ("ALCO") and the Business Development Committee. These bodies perform the following functions:

The Board of Directors. The Board of Directors approves RSB's Credit Policy, appoints the Credit Committee and approves certain decisions that fall outside the scope of the Credit Committee's authority.

The Management Board. The Management Board has overall responsibility for RSB's asset, liability and risk management operations, policies and procedures. The Management Board delegates individual risk management functions to each of the various decision-making and execution bodies within RSB's risk management structures.

The Credit Committee. The Credit Committee supervises and manages RSB's credit risks. In particular, the Credit Committee sets the terms of RSB's standard credit products, approves individual credit transactions, establishes credit risk categories and provisioning rates and adopts decisions on the acceleration and write-off of non-performing loans. The Credit Committee is comprised of nine members and the Chairman of the Management Board acts as the Chairman of the Credit Committee. The Credit Committee meets on a weekly basis and makes its decision by a simple majority vote of all members present provided that a quorum of at least half of the elected members of the Credit Committee is present.

The ALCO. The ALCO establishes RSB's policy with respect to capital adequacy and market risks, including market limits, manages RSB's assets and liabilities, establishes RSB's medium-term and long-term liquidity risk management policy and sets interest rate policy and charges with respect to individual credit products. The ALCO is comprised of nine members and the Chairman of the Management Board acts as the Chairman of the ALCO. The ALCO meets on a weekly basis and makes its decision by simple majority provided that a quorum of at least half of the elected members of the ALCO is present.

The Business Development Committee. The Business Development Committee is responsible for the development, upgrade and marketing of RSB's consumer finance products and provides recommendations to RSB's risk management bodies with respect to changes to RSB's lending policy and procedures and the pricing of RSB's credit products. Members of the Business Development Committee are appointed by the Management Board. The Business Development Committee meets on a weekly basis and makes its decisions by a simple majority provided that a quorum consisting of at least half of the appointed members of the Business Development Committee is present.

Implementation

The implementation level of RSB's risk management is comprised of the Risk Control Department, Credit Department, Corporate Lending Department, Financial Institutions Department, Treasury Department and Compliance Control Department. These bodies perform the following functions:

Risk Analysis and Control Department. The Risk Control Department reports to the Head of the Financial Department and is responsible for monitoring compliance with the ratios established by RSB's Credit Policy, assisting the Credit Department with establishing credit risk categories and provisioning rates, monitoring industry risks and preparing recommendations on altering the industry composition of the loan portfolio. RSB's Risk Control Department is independent of other departments that are responsible for risk management.

Credit Department. The Credit Department is responsible for approving loan applications with respect to standard consumer finance products (including credit card issuance), monitoring of outstanding indebtedness due to RSB and collecting amounts due but unpaid from RSB's retail customers.

Corporate Lending Department and Financial Institutions Department. Each of the Corporate Lending Department and Financial Institutions Department is responsible for monitoring market and credit risks arising in the context of lending to corporates and financial institutions, respectively.

Treasury Department. The Treasury Department is responsible for managing RSB's short-term liquidity and open currency positions and monitoring the financial and business condition of RSB's corporate clients.

Compliance Control Department. The Compliance Control Department assesses the adequacy of, and compliance with, internal procedures at all levels throughout RSB.

Management Reporting

RSB has implemented a management reporting system that requires the preparation, by the departments of RSB responsible for the implementation of RSB's risk management system, of the following reports and calculations:

- Daily basis – sales report, treasury report (with respect to RSB's open foreign exchange positions, cash flow and limits) and operating expenses report;
- Weekly basis – consumer business report, balance sheet and profit and loss statements analysis, structural liquidity gap report, interest rate risk calculation and operational risk report; and
- Monthly basis – IFRS financial statements, analytical report on consumer credit risk and lending, report on the status of RSB's consumer finance business accompanied by comments and analysis and report on RSB's performance versus its budget.

These reports are submitted for the review of RSB's Board of Directors and Management Board.

Credit Risk

RSB is exposed to credit risk, which is the risk that a borrower or counterparty will be unable to pay amounts in full when due. Credit risk arises mainly in the context of RSB's consumer finance activities.

The general principles of RSB's credit policy are outlined in its Credit Policy approved by RSB's Board of Directors. This Credit Policy is reviewed at least every two years. This document also outlines credit risk control and monitoring procedures and RSB's credit risk management systems. RSB's overall credit risk limit is established by the Credit Committee on the basis of the Credit Policy and is approved on a regular basis by RSB's Board of Directors.

Credit limits with respect to consumer loan applications are established either by RSB's PASS or by the officers of the Credit Department. See "Consumer Banking Services – Consumer Lending Policy, Loan Repayment and Loan Collection" above.

The Credit Committee is also responsible for establishing exposure limits on a case-by-case basis with respect to corporate borrowers and financial institutions (on the basis of supporting documentation supplied by the Corporate Lending Department and Financial Institutions Department, respectively, and the Risk Control Department).

RSB structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and in relation to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, borrower and industry sector are set by the Credit Committee and approved regularly by the Board of Directors. The exposure to any one borrower, including banks, is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily. Exposure to credit risk is managed through regular analyses of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

RSB's maximum exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the consolidated balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. RSB uses the same credit policies in entering into conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Provisioning Policy

IFRS Provisioning

A provision for loan impairment is established if there is objective evidence that RSB will not be able to collect the amounts due under a loan according to the original contractual terms. The amount of the provision is the difference between the carrying amount and estimated recoverable amount calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the instrument's original effective interest rate. The provision for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component (with respect to consumer finance products) and the credit ratings assigned to the borrowers (for corporate borrowers and counterparties), and also reflect the current economic environment in which the borrowers operate.

Under IFRS, as of 31 December 2004, RSB's provision for loan impairment was 5.4% with respect to its consumer finance portfolio and 3.6% with respect to its portfolio of other loans.

CBR Provisioning

Starting from August 2004, CBR has liberalised the methodology to calculate loan provisioning and determine expected losses. For CBR regulatory purposes, RSB applies a methodology based on Russian accounting standards to calculate loan provisioning and determine expected losses. Under CBR regulations, provisions for loan impairment are established following the borrower's default under the loan or where there is an objective evidence of potential inability of the borrower to repay the loan. RSB creates provisions by reference to homogenous credit portfolios i.e., groups of loans consolidated on the basis of a certain credit risk criteria (e.g., type of credit product or the borrowers' industry sector or region of operation) as well as individual credit products. Provisions with respect to homogenous credit portfolios are created by reference to the aggregate of the amount of actual and expected losses. Provisions with respect to individual credit products are calculated based on the borrower's financial condition and debt service quality.

The table below sets out the loan classification for individual credit products that RSB applies for CBR regulatory purposes:

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

Under CBR regulations, as of 31 December 2004, RSB’s provisioning allowance was 5.8% with respect to its consumer finance loan portfolio and 1.2% with respect to its portfolio of other loans.

Market Risks

RSB takes on exposure to market risks which arise from open interest rate and currency positions, all of which are exposed to market volatility.

RSB has very limited trading operations. It has mismatches in its positions that arise generally due to relatively short-term lending in Roubles and relatively long-term borrowings in U.S. dollars. RSB manages the positions through hedging operations, matching, or controlled mismatching. RSB does establish limits, including value-at-risk limits.

Value-at-risk expresses the potential loss on the current portfolio from adverse market movements, assuming a specified time horizon before positions can be adjusted (or a holding period), and measured to a specific level of confidence. These estimates are based on historical simulation which involves assessing the impact of historical market movements on current positions.

For the value-at-risk numbers reported below, a 20-day time horizon and a 97.5% confidence level were used. This means that there is a one in 40 chance that net revenues will fall below the expected net revenues by an amount at least as large as the reported value-at-risk. Shortfalls on a single day or over the course of a 20-day period can exceed reported value-at-risk by significant amounts. Shortfalls can also accumulate over a longer time horizon.

The modelling of the risk characteristics of RSB’s trading positions involves a number of assumptions and approximations. While management believes that these assumptions and approximations are reasonable, there is no uniform industry methodology for estimating value-at-risk, and different assumptions and/or approximations could produce materially different value-at-risk estimates.

RSB uses historical data to estimate its value-at-risk. Given RSB’s reliance on historical data, value-at-risk is most effective in estimating risk exposures in markets in which there are no sudden fundamental changes or shifts in market conditions. An inherent limitation of value-at-risk is that past changes in market risk factors, even when weighted toward more recent observations, may not produce accurate predictions of future market risk. Moreover, value-at-risk calculated for a 20-day time horizon does not fully capture the market risk of positions that cannot be liquidated or offset with hedges within twenty days.

Value-at-risk also should be evaluated in light of the methodology’s other limitations. For example, when calculating the value-at-risk numbers shown below, RSB assumes that asset returns are normally distributed.

RSB sets a value-at-risk limit of 10% of projected net profits for the year. If the value-at-risk exceeds this level, RSB reduces the relevant position to be in compliance with the established limits. Open positions are subject to monthly review.

The following table represents the minimum, maximum and average values-at-risk for the year ended 31 December 2004, using quarterly calculations.

Value-at-Risk (20-day; 97.5 confidence)

	For the year ended 31 December 2004			
	Minimum	Maximum	Average of quarterly calculations	31 December 2004
	<i>(in thousands of Roubles)</i>			
Risk Type				
Interest rates	99,642	240,267	174,224	207,165
Foreign exchange	803	6,421	2,740	803
Total.....	<u>100,445</u>	<u>246,688</u>	<u>176,964</u>	<u>207,968</u>

The general principles of RSB's market risk management policy are set out by the ALCO. The goal of RSB's market risk management is to limit and reduce the amount of possible losses on open market positions that may be incurred by RSB due to negative changes in currency exchange rates and interest rates.

The ALCO manages market risks by establishing limits on possible losses for each type of operation and the Risk Control Department and the Treasury Department monitor compliance with such limits.

Some of RSB's methods of managing risk are based upon its use of observed historical market behaviour. As a result, these methods may not predict future risk exposures, which could be significantly greater than the historical measures indicate.

Currency Risk. RSB is exposed to fluctuations in prevailing foreign currency exchange rates on its consolidated financial position, results of operations and cash flows.

RSB's currency risk is calculated as an aggregate of open positions of RSB and is limited by CBR mandatory guidelines as well as EBRD and IFC covenants requiring that RSB's standalone open foreign exchange in any single currency not be more than 10% of its net equity. Within these limitations, the open positions are controlled by setting value-at-risk limits (established by the ALCO) with respect to current market fluctuations. The open positions are also tested on different stress scenarios which include both historic and hypothetical events.

RSB's open currency positions are managed by the Treasury Department on a daily basis and monitored by the Head of the Treasury Department on a real-time basis. The ALCO sets open currency position limits with respect to both overnight and intra-day positions and stop-loss limits. At present, RSB's proprietary trading position is limited to U.S.\$3 million. Compliance with these limits and the CBR open position limits is monitored on a daily basis by the Risk Control Department.

In order to hedge its foreign exchange risk, RSB enters into spot foreign exchange transactions with the largest Russian banks as well as foreign exchange forwards with major international banks and their Russian affiliates, such as Citibank ZAO, Barclays Bank PLC, BNP Paribas Bank ZAO, Standard Bank ZAO and ING Bank (Eurasia) ZAO.

The table below presents, on a consolidated basis, RSB's exposure to foreign currency exchange rate risk as of 31 December 2004. Included in the table are RSB's assets and liabilities, categorised by currency. Credit-related commitments include export, import and undrawn letters of credit, issued guarantees and commitments to extend credit, less allowance for losses.

As of 31 December 2004, RSB had the following position in currencies:

	As of 31 December 2004			Total
	RUB	U.S.\$	Other currencies	
	(in thousands of Roubles)			
Assets				
Cash and cash equivalents.....	2,540,932	217,565	91,792	2,850,289
Mandatory cash balances with the CBR.....	267,033	–	–	267,033
Trading securities	–	–	–	–
Due from other banks	–	2,009,065	–	2,009,065
Loans and advances to customers	33,522,548	420,652	421,173	34,364,373
Deferred tax assets	310,687	–	–	310,687
Other assets	398,739	66,342	25,328	490,409
Fixed and intangible assets	935,778	–	–	935,778
Total assets	37,975,717	2,713,624	538,293	41,227,634
Liabilities				
Due to other banks	1,955,783	2,379,537	431,413	4,766,733
Customer accounts	3,826,320	375,678	33,335	4,235,333
Debt securities in issue	5,788,644	17,729,632	144,499	23,662,775
Deferred tax liability	46,827	–	–	46,827
Other liabilities	736,718	159,805	7,151	903,674
Total liabilities	12,354,292	20,644,652	616,398	33,615,342
Net balance sheet position	25,621,425	(17,931,028)	(78,105)	7,612,292
Off-balance sheet net notional position.....	(17,949,062)	17,949,062	–	–
Credit-related commitments	11,586,718	350,578	666,842	12,604,138

Interest Rate Risk. RSB is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. Interest margins on assets and liabilities having different maturities may increase as a result of changes in market interest rates.

In line with Russian market practice, the majority of RSB's assets and liabilities have fixed interest rates. RSB manages its interest rate risk by setting value-at-risk limits with respect to interest rates and maintaining an interest rate margin (net interest income as a percentage of average total assets) sufficient to cover operational expenses and risk premium. For the year ended 31 December 2004, RSB's net interest rate margin was 38.2%.

The ALCO sets ranges of interest rates for different maturities at which RSB may place assets and attract liabilities with and without approvals. Compliance with the interest rate policy is monitored by the Treasury Department and the Risk Control Department (which prepares weekly interest rate risk reports submitted to the ALCO). In the absence of an effective market for hedging, RSB normally seeks to match its interest rate positions.

The table below summarises the effective compound interest rates by major currencies for major monetary financial instruments outstanding as of 31 December 2004. The analysis has been prepared using period-end effective rates.

As of 31 December 2004

	RUB	U.S.\$	Euro
		%	
Assets			
Cash and cash equivalents	0.6	3.1	1.0
Due from other banks	–	2.5	–
Loans and advances to customers			
– consumer loans	66.1	–	–
– credit card loans	91.6	65.2	–
– direct commercial loans	8.6	10.4	8.4
Liabilities			
Due to other banks	12.2	5.9	4.5
Customer accounts			
– term deposits of legal entities	11.1	3.1	–
– term deposits of individuals	12.4	8.1	6.3
Debt securities in issue			
– bonds	15.4	–	–
– loan participation notes	–	8.8	–
– promissory notes	15.7	5.6	7.6

For the year ended 31 December 2004, RSB's interest income was RUB 10.9 billion and its interest expense was RUB 2.1 billion, resulting in net interest income of RUB 8.9 billion.

The table below summarises RSB's exposure to interest rate risks. The table shows carrying amounts categorised by the earlier of contractual repricing or maturity dates.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Non- interest bearing	Total
Assets							
Cash and cash equivalents	2,850,289	–	–	–	–	–	2,850,289
Mandatory cash balances with the Central Bank of the Russian Federation	267,033	–	–	–	–	–	267,033
Due from other banks	1,703,558	277,758	27,749	–	–	–	2,009,065
Loans and advances to customers	8,932,188	9,584,346	9,177,296	6,081,481	589,062	–	34,364,373
Deferred tax asset	–	–	–	–	–	310,687	310,687
Other assets	–	–	–	–	–	490,409	490,409
Fixed and intangible assets	–	–	–	–	–	935,778	935,778
Total assets	13,753,068	9,862,104	9,205,045	6,081,481	589,062	1,736,874	41,227,634
Liabilities							
Due to other banks	1,242,329	1,108,377	2,416,027	–	–	–	4,766,733
Customer accounts	2,952,389	335,050	340,440	565,954	41,500	–	4,235,333
Debt securities in issue	420,815	1,770,341	1,522,491	1,628,577	18,320,551	–	23,662,775
Debt tax liabilities	–	–	–	–	–	46,827	46,827
Other liabilities	1,601	3,201	4,567	19,455	7,750	867,100	903,674
Total liabilities	4,617,134	3,216,969	4,283,525	2,213,986	18,369,801	913,927	33,615,342
Net sensitivity gap	9,135,934	6,645,135	4,921,520	3,867,495	(17,780,739)	822,947	7,612,292
Cumulative sensitivity							
gap as at December 2004..	9,135,934	15,781,069	20,702,589	24,570,084	6,789,345	7,612,292	–

Liquidity Risks

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

RSB's short-term liquidity position is managed by the Risk Control Department through interbank lending and reduction of its NOSTRO accounts balances. Structural (i.e. medium- and long-term) liquidity is managed by the ALCO through weekly liquidity gap reports which include 3-month projections.

RSB does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The liquidity risk is managed by the ALCO. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of RSB. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of RSB and its exposure to changes in interest and exchange rates. Management believes that despite a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of RSB would indicate that these customer accounts provide a long-term and stable source of funding for RSB. Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because RSB does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

RSB's principal sources of funding are debt instruments (including bonds, promissory notes (veksels) and credit linked notes), interbank loans and loans granted by supranational financial institutions (including IFC and EBRD). In addition, RSB derives funds from customer accounts and deposits from retail and corporate customers. For further information, see "Business – Banking Services and Activities – Funding".

The table below sets out RSB's assets and liabilities as at 31 December 2004 by their remaining contractual maturity, unless there is evidence that any of these assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement is used. Some of the assets, however, may be of a longer-term nature. For example, credit card loans are frequently renewed and accordingly short-term loans can have a longer-term duration.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets							
Cash and cash equivalents	2,850,289	–	–	–	–	–	2,850,289
Mandatory cash balances with the Central Bank of the Russian Federation	267,033	–	–	–	–	–	267,033
Due from other banks	1,635,831	277,758	50,357	45,119	–	–	2,009,065
Loans and advances to retail customers	8,932,188	9,584,346	9,177,296	6,081,481	589,062	–	34,364,373
Deferred tax asset	–	–	–	–	–	310,687	310,687
Other assets	239,079	140,436	24,806	16,855	32,104	37,129	490,409
Fixed and intangible assets	–	–	–	–	–	935,778	935,778
Total assets	<u>13,924,420</u>	<u>10,002,540</u>	<u>9,252,459</u>	<u>6,143,455</u>	<u>621,166</u>	<u>1,283,594</u>	<u>41,227,634</u>

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Liabilities							
Due to other banks.....	652,195	1,108,377	1,988,253	584,977	432,931	–	4,766,733
Customer accounts.....	2,952,389	335,050	340,440	565,954	41,500	–	4,235,333
Debt securities in issue	420,815	1,770,341	1,522,491	1,628,577	18,320,551	–	23,662,775
Deferred tax liabilities	–	–	–	–	–	46,827	46,827
Other liabilities	18,710	695,800	76,226	105,055	7,883	–	903,674
Total liabilities	4,044,109	3,909,568	3,927,410	2,884,563	18,802,865	–	33,615,342
Net liquidity gap	9,880,311	6,092,972	5,325,049	3,258,892	(18,181,699)	1,236,767	7,612,292
Cumulative liquidity gap	9,880,311	15,973,283	21,298,332	24,557,224	6,375,525	7,612,292	–

Overdue assets are fully provided against and thus have no impact on the above table.

MANAGEMENT

The management of RSB is separated into various levels and sub-levels, each responsible for different aspects of RSB's overall activities. The highest level of management, and the ultimate decision-making body, is the General Shareholders' Meeting. This is followed by the Board of Directors, which is responsible for the general management of RSB, including strategy coordination and general supervision. The Board of Directors elects the Management Board, which is the executive body of RSB and responsible for day-to-day operations. A brief description of each of the General Shareholders' Meeting, the Board of Directors and the Management Board is set out below. RSB's internal business divisions report to the Chairman of the Management Board. This structure is also set out below.

General Shareholders' Meeting

The General Shareholders' Meeting is RSB's highest governance body. RSB's shareholders' meetings are convened by RSB's Board of Directors at least once a year. The following matters can only be dealt with by the General Shareholders' Meeting and may not be delegated to other governance bodies of RSB:

- alteration of RSB's charter (save for amendments related to the establishment of representative offices and branches);
- reorganisation and liquidation of RSB, appointment of a liquidation committee and approval of interim and final liquidation balance sheets;
- determination of the composition of the Board of Directors, election of its members and early termination of their powers;
- determination of the amount, nominal value and type of authorised shares;
- increases and reductions in RSB's share capital;
- appointment of RSB's auditor;
- approval of dividends;
- approval of the annual statutory accounting and reports;
- approval of RSB's participation in financial groups, holdings and associations; and
- certain other matters provided for by law and under RSB's charter.

Board of Directors

The Board of Directors is responsible for general management matters, with the exception of those matters that are designated by law and by RSB's charter as being the exclusive responsibility of the General Shareholders' Meeting. RSB's Board of Directors meets as necessary, but not less than once a quarter, and makes its decisions, generally, by simple majority of those present provided that a quorum of at least half of the elected members of the Board of Directors is present. Members of the Board of Directors are elected for terms until the next annual General Shareholders' Meeting and may be re-elected an unlimited number of times.

There are currently 9 members of RSB's Board of Directors. The current members of the Board of Directors were elected by RSB shareholders at a General Shareholders' Meeting held on 23 March 2005. The name, position and certain other information for each member of the Board of Directors of RSB are set out below.

Name	Title	Member of the Board Since
Roustam V. Tariko	Chairman	July 1999
Dmitry D. Levin	Member	November 2001
Dmitry V. Rudenko	Member	November 2001
Igor B. Kosarev	Member	May 2000
Irina V. Alexandrova	Member	September 2002
Nelya R. Nuriakhmetova	Member	September 2002
Irving Kuczynski	Member	June 2004
José Aragon	Member	March 2005
Rafael Carrascosa Caballero	Member	March 2005

Unless otherwise indicated, members of RSB's Board of Directors do not hold positions with companies outside of the Group.

Roustam V. Tariko (age 43) has been the Chairman of RSB's Board of Directors since May 2000 and a member of RSB's Board of Directors since July 1999. Previously, Mr. Tariko acted as the General Director of RSC and was a member of the Board of Directors of ATB.

Dmitry O. Levin (age 39) has been a member of RSB's Board of Directors since November 2001. He is also Chairman of RSB's Management Board. Mr. Levin previously headed RSB's Interbank Operations and Financial Markets Department. Prior to joining RSB, Mr. Levin headed the Capital Markets Department of OJSC Mezhsobcombank.

Dmitry V. Rudenko (age 35) has been a member of RSB's Board of Directors since November 2001. He is also a Deputy Chairman of RSB's Management Board. Prior to that, Mr. Rudenko was responsible for managing the Retail Banking Department at ATB and, following its rebranding in 1999, RSB. He was also involved in the reorganisation of ATB in 1999.

Igor B. Kosarev (age 43) has been a member of RSB's Board of Directors since May 2000. Mr. Kosarev also acts as the General Director of RSC. Prior to that, Mr. Kosarev was the General Director of Roust.

Irina V. Alexandrova (age 31) has been a member of RSB's Board of Directors since September 2002. Ms. Alexandrova is also the Chief Legal Counsel of Roust.

Nelya R. Nuriakhmetova (age 51) has been a member of RSB's Board of Directors since September 2002. Ms. Nuriakhmetova also acts as a director of Roust Trading Limited. Previously, she was a financial controller of Roust and a CIS import and export manager at Fimona GmbH.

Irving Kuczynski (age 58) has been a member of RSB's Board of Directors since June 2004. Mr. Kuczynski is also the Corporate Adviser of the International Finance Corporation. From 1978 to 1998 Mr. Kuczynski was the Head of the Financial Sector and Operational Policy of the International Finance Corporation.

José Aragon (age 56) has been a member of RSB's Board of Directors since March 2005. Mr. Aragon is also the President of Aragon Consulting Inc. From 1980 to 1999 Mr. Aragon was the Vice-President of Bacardi-Martini, and from 1999 to 2001, Mr. Aragon was the Vice-President of Spherion Corporation.

Rafael Carrascosa Caballero (age 37) has been a member of RSB's Board of Directors since March 2005. From 2000 to 2003 Mr. Carrascosa was the Marketing Consulting Director of American Express, GNS Global Marketing Group, and from 2003 to 2005 Mr. Carrascosa was a Vice-President of MasterCard International.

The business address of Roustam V. Tariko, Irina V. Alexandrova, Nelya R. Nuriakhmetova, Igor B. Kosarev is 12, Krasnopresnenskaya Embankment, Office 1508, 123610 Moscow, Russia. The business address of Mr. Kuczynski is 2121 Pennsylvania N.W., Washington D.C., 20433, USA. The business address of Dmitry O. Levin, Dmitry V. Rudenko and Rafael Carrascosa Caballero is 6/1/2, Kadashevskaya emb., Building. 1, 119017 Moscow, Russia. The business address of José Aragon is 4160 La Playa Boulevard., Miami, FL 33133, U.S.A.

Management Board

The Management Board is RSB's collective executive body and is elected by the Board of Directors. Members of the Management Board may be re-elected an unlimited number of times. The Management Board meets as necessary and makes its decisions by simple majority provided that a quorum of at least half of the elected members of the Management Board is present. The Management Board is responsible for RSB's day-to-day management and administration. The Chairman of the Management Board represents RSB and acts as its Chief Executive Officer.

Name	Title	Member of the Management Board Since
Dmitry O. Levin	Chairman	March 2000
Dmitry V. Rudenko	Member, Deputy Chairman	March 2000
Mikhail Y. Berezov	Member, Deputy Chairman	April 2002
Denis A. Gubanov	Member	June 2002
Vladimir N. Pyshny	Member	December 2002
Andrey P. Frolov	Member	March 2002
Irina V. Khaustova	Member	March 2000

The name, position and certain other information for each member of the Management Board (and not previously set out under the preceding section entitled "**Board of Directors**") is set out below. Unless otherwise indicated, members of RSB's Management Board do not hold positions with companies outside of the Group.

Mikhail Y. Berezov (age 34) has been Deputy Chairman of RSB's Management Board since April 2002 and a member of RSB's Management Board since June 2002. Mr. Berezov is also Director and Senior Vice President of the Finance Department of RSB. Previously, Mr. Berezov worked for OJSC Mezhsobcombank as deputy chief accountant and expert in the Tax Planning and Audit Department.

Denis A. Gubanov (age 34) has been a member of RSB's Management Board since June 2002. He is also a Director of the Credit Department and a Senior Vice-President of RSB. Previously, Mr. Gubanov worked at RSB's Retail Operations Department.

Vladimir N. Pyshny (age 35) has been a member of RSB's Management Board since December 2002. He is also a Director of the Network Development Department and a Senior Vice-President of RSB. Previously, Mr. Pyshny was the head of the New Banking Technologies Department at Elbim-Bank.

Andrey P. Frolov (age 42) has been a member of RSB's Management Board since March 2002. He is also a Director of the Information Technology Department and a Senior Vice-President of RSB. Prior to joining RSB, Mr. Frolov was a deputy director of the IT functional block of JSCB Investment Banking Group NIKOil. Mr. Frolov was also involved in the reorganisation of ATB in 1999.

Irina V. Khaustova (age 43) has been a member of RSB's Management Board since March 2000. She is also Director of the Operations and Technology Department and a Senior Vice-President of RSB. Prior to that, Ms. Khaustova was a Director of the Settlements Department of OJSC Mezhsobcombank.

The business address of the members of the Management Board is 6/1/2, Kadashevskaya emb., Building 1, 119017 Moscow, Russia.

Allocation of Responsibilities

Within the joint responsibility of RSB's management and shareholders are such areas as strategy, development of business plans, strategic alliances and key executive appointments. RSB's management cannot adopt decisions within these areas without prior consultations with RSB's shareholders.

Responsibility for overseeing the various sub-levels of RSB's day-to-day management is divided between the Chairman of the Management Board and the Chief Executive Officer of RSB (the "**Chairman**") and the Deputy Chairmen of the Management Board (each, a "**Deputy Chairman**").

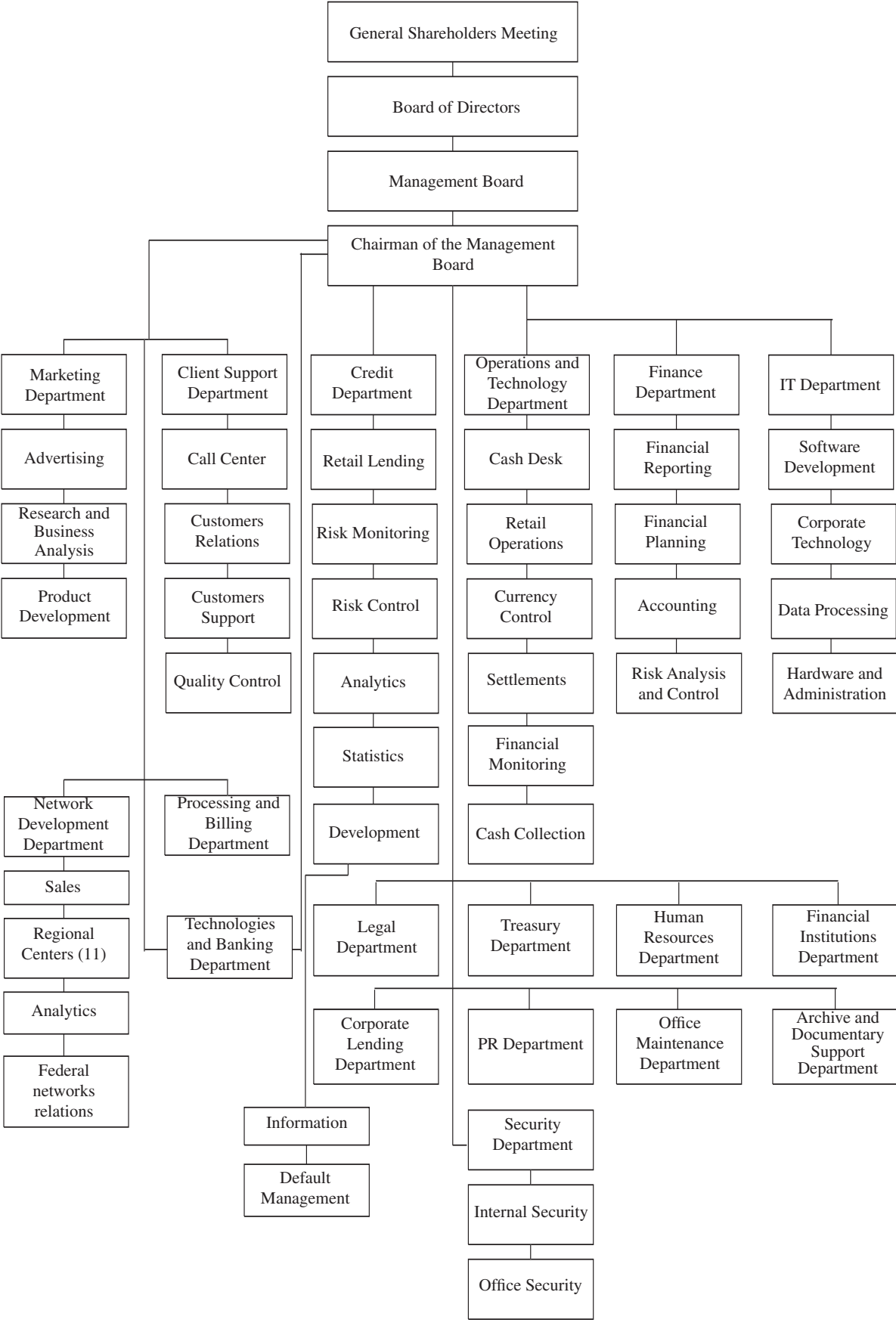
The Chairman is responsible for overseeing 18 departments combining operational and administrative activities. These include the Operations and Technology Department (which manages the cash desk, retail, currency control, settlements, financial monitoring and cash collection operations of RSB), the Financial Institutions Department (which is responsible for correspondent banking, structured finance and depository services), the Corporate Lending Department and the Public Relations Department. The Credit Department, also under the supervision of the Chairman, is responsible for RSB's reporting functions, consumer finance operations, risk monitoring, analytics and management of DCA. Furthermore, the Chairman oversees the Finance Department (responsible for risk control, reporting, financial planning and accounting), the Information Technology Department (responsible for software development, corporate technology, data processing and hardware administration), the Security Department, the Legal Department as well as the Treasury Department, Human Resources, Office Maintenance, and Archive and Documentary Support Departments. Finally, the Chairman supervises the activity of the Compliance Control Department (which is responsible for controlling risks associated with all aspects of RSB's operations).

The Deputy Chairmen are responsible for overseeing 5 departments, combining operational, administrative and marketing activities. The principal operational departments under the Deputy Chairmen's supervision are the Network Development Department (which is responsible for credit card sales, key account managers, a training centre, retailer support, development of RSB's trading network and regional sales branches and representative offices) and the Client Support Department (which is responsible for RSB's call centre, customer support and quality control). At an administrative level, the Deputy Chairmen oversee the Processing and Billing Department, whose activities include operating the processing centre, data input, debit and credit card protection and managing the billing centre. Finally, the Deputy Chairmen oversee the Marketing Department (responsible for advertising, research, product development and communications development) as well as the Methodology and Banking Technology Department.

In the year ended 31 December 2004, the total remuneration of the 14 members of the Board of Directors and Management Board, including discretionary compensation, amounted to RUB 302.8 million (approximately U.S.\$10.9 million).

Internal Business Structure of RSB

The following table sets out RSB’s management and internal business division:



SHAREHOLDING

As of 31 December 2004, the authorised and issued share capital of RSB was (prior to IAS 29 adjustment for inflation in 2001) RUB 1,272,883,000 comprised of 1,272,883 ordinary registered shares with a nominal value of RUB 1,000 each. In addition, RSB has 6,263,117 authorised but unissued shares (comprised of 4,383,117 ordinary shares and 1,880,000 preferred shares).

The following table sets forth RSB's principal shareholders as of 31 December 2004:

Shareholder	Number of Shares	Percentage
Closed Joint Stock Company Russian Standard Company ⁽¹⁾	1,155,150	90.75
International Finance Corporation ⁽²⁾	81,724	6.42
Closed Joint Stock Company Roust Inc.	35,936	2.82
Others	73	0.01
Total	1,272,883	100

Notes:

- (1) 99.97% of the share capital of RSC and 100% of the share capital of Roust are held by Roust Trading Limited, a company incorporated in Bermuda with its registered address at Milner House, 18 Parliament Street., Hamilton, Bermuda, which is indirectly controlled by Mr Roustam Tariko. 0.03% of the share capital of Closed Joint Stock Company Russian Standard Company is held by Mr. Roustam Tariko, who is also the Chairman of RSB's Board of Directors.
- (2) IFC is a member of the World Bank Group and its activity is aimed at promotion of sustainable private sector investment in developing countries. IFC has 176 member countries, which collectively determine its policies and approve investments. IFC's share capital is provided by its member countries and voting is in proportion to the number of the shares held.

Rights of RSB's Shareholders

Under RSB's charter and Russian legislation, RSB's shareholders have the right to:

- participate and vote in the General Shareholders' Meeting on all the matters which fall under the competence of the meeting;
- approve and receive dividends;
- receive a liquidation quota upon any liquidation of RSB;
- have access to information and documents relating to RSB's activities and financial condition;
- elect and be elected into RSB's management bodies;
- demand, in cases stipulated by Russian legislation and RSB's charter, that part or all of a shareholder's shares be repurchased by RSB; and
- exercise other rights provided by Russian legislation and RSB's Charter.

RELATED PARTY TRANSACTIONS

Under IAS 24, Related Party Disclosures, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. RSB enters into banking transactions in the normal course of business with (a) shareholders and other companies controlled by Mr Roustam Tariko, and (b) directors and management of RSB. These transactions include extending loans and trade finance, accepting deposits, settlements and foreign exchange transactions. During 2004 these transactions were priced predominantly at market rates, with the exception of guarantees received, free of charge, from Roust Trading Limited (vehicle through which Mr Roustam Tariko ultimately controls RSB) in relation to bonds issued by RSB.

The following table sets forth the outstanding balances with Roust Trading Limited and its related companies as well as Roustam Tariko, the beneficial owner of Roust Trading Limited, as at 31 December 2004, 2003 and 2002.

	As of 31 December		
	2004	2003	2002
	<i>(in thousands of Roubles)</i>		
<i>Loans and advances to customers</i>			
Loans and advances (contractual interest rate: 2004: 12% per annum on the loans denominated in U.S.\$, 15% per annum on the loans denominated in RUB) ⁽¹⁾	182,182	–	62,066
<i>Due to other banks</i>			
Current term placements of other banks guaranteed by Roust Trading Limited and its related companies	–	–	317,373
<i>Customer accounts</i>			
Term deposits (contractual interest rates: 2004: 10-12% per annum on deposits denominated in RUB, 3% per annum on deposits denominated in U.S.\$)	147,658	–	3,572
Current accounts	140,062	120,401	379,520
<i>Debt securities in issue</i>			
Bonds guaranteed by Roust Trading Limited and its related companies	3,608,274	1,524,241	524,643
Promissory notes	62,119	–	156,099
<i>Credit-related commitments</i>			
Guarantees and letters of credit issued by RSB	643,928	419,954	189,604

(1) These loans and advances included a RUB 16 million personal cash loan to Mr. Roustam Tariko

The following table sets forth the outstanding balances with RSB's shareholder, the IFC, as at 31 December 2004, 2003 and 2002.

	As of 31 December		
	2004	2003	2002
	<i>(in thousands of Roubles)</i>		
Loan facility from IFC	817,950	603,361	–
Bonds guaranteed by IFC	–	300,000	–
Promissory notes guaranteed by IFC	–	–	115,500

The following table sets forth the outstanding balances with RSB's management as at 31 December 2004, 2003 and 2002.

	As of 31 December		
	2004	2003	2002
	<i>(in thousands of Roubles)</i>		
<i>Loans and advances to customers</i>			
Loans and advances (contractual interest rate: 2004: 10-15% per annum on the loans denominated in U.S. \$, 2003: 12% per annum on the loans denominated in U.S.\$) ⁽¹⁾	10,086	786	3,299
<i>Customer accounts</i>			
Term deposits (contractual interest rates: 2004: 13% per annum on deposits denominated in RUB; 2003: 12-22% per annum on deposits denominated in RUB, 8-11% per annum on deposits denominated in U.S.\$)	118,527	91,305	20,338
Current accounts	17,475	–	654
<i>Other liabilities</i>			
Staff costs ⁽²⁾	192,441	–	–

(1) These loans and advances were extended to Irina Alexandrova, Janna Shennikova, Dmitry Levin and Nina Filimonova. Those of Mr Levin and Mrs Filimonova are in the form of credit card loans, while those of Mrs Alexandrova and Mrs Shennikova are in the form of personal loans. All are on arms-length terms.

(2) These amounts refer to directors' bonuses for 2004 which were accrued but not paid in 2004.

The following table sets forth the income statement items associated with RSB's principal shareholder and its related companies for the years ended 31 December 2004, 2003 and 2002.

	For the year ended 31 December		
	2004	2003	2002
	<i>(in thousands of Roubles)</i>		
<i>Loans and advances to customers</i>			
Interest income during the period.....	19,961	4,209	11,151
Consumer loans sold to DCA during the period ⁽¹⁾	–	81,591	76,628
Consumer loans re-acquired from DCA during the period ⁽¹⁾	–	24,446	5,883
<i>Customer accounts</i>			
Interest expense during the period	2,286	–	182
<i>Debt securities in issue</i>			
Interest expense on promissory notes during the period	–	9,330	11,852
<i>Credit-related commitments</i>			
Fee and commission income.....	10,363	6,522	3,224
<i>Other transactions</i>			
Other income/(expenses), net	(183)	359	3,771

(1) Loans were sold and reacquired at a price equal to the principal amount of the relevant loan plus interest due as of the date of the sale. Within the Group, no gain or loss resulted from such operations.

The following table sets forth the income statement items associated with RSB's shareholder, the IFC, for the years ended 31 December 2004, 2003 and 2002.

	For the year ended 31 December		
	2004	2003	2002
	<i>(in thousands of Roubles)</i>		
<i>Due to other banks</i>			
Interest expense during the period	85,977	1,953	–

The following table sets forth the income statement items associated with RSB's management for the years ended 31 December 2004, 2003 and 2002.

	For the year ended 31 December		
	2004	2003	2002
	<i>(in thousands of Roubles)</i>		
<i>Loans and advances to customers</i>			
Interest income on loans during the period	527	18	82
<i>Customer accounts</i>			
Interest expense on term deposits during the period	13,551	6,205	1,983

In October 2003, RSB gained control over DCA, which was included in the Consolidated Financial Statements of RSB for the first time from 1 October 2003. Prior to the acquisition date, during the nine month period ended 30 September 2003, RSB sold consumer loan receivables to DCA with the nominal amount of RUB 81 million (2002: RUB 76 million; 2001: RUB 16 million) and re-acquired the consumer loan receivables in the amount of RUB 24 million (2002: RUB 5 million; 2001: nil), which were previously sold by RSB to DCA.

THE ISSUER

The Issuer, Russian Standard Finance S.A., was incorporated as a société anonyme on 31 March, 2005 for an unlimited duration with limited liability under the laws of the Grand Duchy of Luxembourg. Its Articles of Incorporation will be published in the Mémorial Journal Officiel du Grand-Duché de Luxembourg, Recueil des Sociétés et Associations in due course. Its registration with the Register of Commerce and Companies, Luxembourg and its registration number are both pending. Before a newly incorporated Luxembourg company is registered with the trade register (the “*Registre de Commerce et des Sociétés*” or “**RCS**”), the deed of incorporation of such company has to be submitted to, and stamp duty paid to, the Indirect Tax Administration (“*Administration de l’Enregistrement*”). The duly stamped deed of incorporation is then lodged with the RCS, together with a registration request containing some additional factual information on the company, such as the place and date of birth of the company’s directors. The registration request is then processed internally by the RCS. Once processed, a registration number is issued to the company and a file is opened in the name of the company.

As regards the Issuer, the duly stamped deed of incorporation was submitted to the Indirect Tax Administration (“*Administration de l’Enregistrement*”) shortly after the date of incorporation. The registration request was lodged with the RCS on 8 April 2005 and the Issuer anticipates obtaining an RCS registration number by the end of April 2005.

The RCS registration number of any Luxembourg company is available to the public at the RCS or on the RCS’s website. The Issuer’s registered office is located at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg.

Share Capital

As at the date of this Offering Circular, the Issuer’s subscribed share capital amounts to euro 31,000 divided into 310 registered shares with a par value of euro 100 each. All of the shares are fully paid up. Three hundred and nine shares are owned by Stichting Russian Standard Finance and one share by Stichting Participatie DITC Amsterdam.

Board of Directors

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

- (1) Rolf Caspers, banker, having his professional address at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg;
- (2) Tom Verheyden, banker, having his professional address at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg; and
- (3) Vincent de Rycke, banker, having his professional address at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg.

Domiciliation Agent

Deutsche Bank 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 by either party giving two months’ prior written notice to the other party or it may be terminated with immediate effect by either party upon a serious breach of an administrative services and domiciliation agreement (which breach would include a material failure on the part of the parties to perform any of their legal or regulatory obligations under such agreement). Upon termination of the appointment of the domiciliation agent, the Issuer will appoint another company to act as the domiciliation agent. Deutsche Bank Luxembourg S.A. may (but is under no obligation to) assist the Issuer in identifying another administrator and will provide it with a list of at least three suitable service providers.

Corporate Object

The corporate object of the Issuer, as described in Article 3 of its Articles of Incorporation is the granting of loans or other forms of financing directly or indirectly (e.g. including, but not limited to, by subscription of bonds, debentures, other debt instruments, advances, the granting of pledges or the issuing of other guarantees of any kind) to Closed Joint Stock Company Russian Standard Bank.

The Issuer may finance itself in whatever form including, without being limited to, through borrowing or through issuance of listed or unlisted notes and other debt instruments (e.g. including but not limited to bonds, notes, loan participation notes and subordinated notes including under medium term note and commercial paper programmes).

The Issuer may also:

- (a) grant security for funds raised, including notes and other debt instruments issued, and for indemnities given by the Issuer; and
- (b) enter into all necessary agreements, including, but not limited to underwriting agreements, marketing agreements, management agreements, advisory agreements, administration agreements and other contracts for services, selling agreements, deposit agreements, hedging agreements, interest and/or currency exchange agreements and other financial derivative agreements, bank and cash administration agreements, liquidity facility agreements, credit insurance agreements and any agreements creating any kind of security interest.

In addition to the foregoing, the Issuer can perform all legal, commercial, technical and financial investments or operation and in general, all transactions which are necessary or useful to fulfil its objects as well as all operations connected directly or indirectly to facilitating the accomplishment of its purpose in all areas described above, however without taking advantage of the Act of 31 July 1929, on holding companies.

Statutory Auditor

Elpers & Co. Réviseurs d'entreprises S.à.r.l., having its registered office at 11, Boulevard du Prince Henri, L-1724 Luxembourg, has been appointed to act as statutory auditors to the Issuer.

Capitalisation

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

	As of 18 April 2005
	<i>(Euro)</i> <i>(unaudited)</i>
Short-term debt	–
Shareholders Equity	
Issued and fully subscribed share capital	31,000
Total capitalisation	<u>31,000</u>

Other than as detailed above, Russian Standard Finance S.A. does not have any loan capital or borrowings (whether secured or unsecured, guaranteed or unguaranteed), contingent liabilities or guarantees.

Financial Statements

Since its incorporation on 31 March 2005, no annual financial statements of the Issuer have been prepared and it has not traded. Russian Standard Finance S.A. intends to publish its first annual financial statements in respect of the period ending on 31 December 2005. 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 FACILITY AGREEMENT

The following is the text of the Facility Agreement, save for the signature page which has been excluded.

This Facility Agreement is made on 18 April 2005 between:

- (1) **CLOSED JOINT STOCK COMPANY RUSSIAN STANDARD BANK**, a company established under the laws of the Russian Federation whose registered office is at Kadashevskaya nab., 6/1/2, Building 1, 119017 Moscow, Russian Federation (“**RSB**”); and
- (2) **RUSSIAN STANDARD FINANCE S.A.**, a société anonyme established under the laws of Luxembourg whose registered office is at 2, Bd. Konrad-Adenauer L-1115 Luxembourg, registered with the Register of Commerce and Companies, Luxembourg (registration pending) (the “**Lender**”).

WHEREAS:

- (A) The Lender has at the request of RSB agreed to make available to RSB a loan facility in the maximum amount of the Programme Limit (as defined below) on the terms and subject to the conditions of this Facility Agreement, as amended and supplemented in relation to each Loan (as defined below) by a loan supplement dated the relevant Closing Date substantially in the form set out in Schedule 1 hereto (each, a “**Loan Supplement**”); and
- (B) It is intended that, concurrently with the extension of any Loan under this loan facility, the Lender will issue certain loan participation notes in the same nominal amount and bearing the same rate of interest as such Loan.

Now it is hereby agreed as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

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

“**Account**” means an account in the name of the Lender with the Principal Paying Agent as specified in the relevant Loan Supplement.

“**Affiliate**” has the meaning ascribed to it in Rule 405 under the Securities Act.

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

“**Agency Agreement**” means the paying agency agreement relating to the Programme dated 18 April 2005 between the Lender, RSB, the Trustee and the agents named therein, as may be amended or supplemented from time to time.

“**Arrangers**” means Barclays Bank PLC and Citigroup Global Markets Limited or any additional or replacement arranger appointed, and excluding any Arranger whose appointment has terminated pursuant to the Dealer Agreement.

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

“**Authorised Signatory**” means, in relation to RSB, any person who is duly authorised (in such manner as may be reasonably acceptable to the Lender) and in respect of whom the Lender has

received a certificate signed by a director or another Authorised Signatory of RSB setting out the name and signature of such person and confirming such person's authority to act.

"BIS Guidelines" means the guidelines on capital adequacy standards (including the constituents of capital included in the capital base, the risk weights by category for on-balance-sheet assets, the credit conversion factors for off-balance-sheet items, and the target standard ratio) for international banks contained in the July 1998 text of the Basel Capital Accord, published by the Basel Committee on Banking Supervision (as amended, updated or supplemented from time to time), without any amendment or other modification by any other Agency.

"Business Day" means (save in relation to Clause 4) a day (other than a Saturday or Sunday) on which (a) banks and foreign exchange markets are open for business generally in the relevant place of payment, and (b) if on that day a payment is to be made in a Specified Currency other than euro hereunder, where payment is to be made by transfer to an account maintained with a bank in the Specified Currency, foreign exchange transactions may be carried on in the Specified Currency in the principal financial centre of the country of such Specified Currency and (c) if on that day a payment is to be made in euro hereunder, a day on which the TARGET System is operating and (d) in relation to a Loan corresponding to a Series of Notes to be sold pursuant to Rule 144A under the Securities Act, banks and foreign exchange markets are open for business generally in New York City.

"Calculation Agent" means, in relation to a Loan, Deutsche Bank AG, acting through its London branch, or any person named as such in the relevant Loan Supplement or any successor thereto.

"Capital" means RSB's Capital as such term is defined in the BIS Guidelines.

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

"Central Bank" means the Central Bank of the Russian Federation.

"Closing Date" means the date specified as such in the relevant Loan Supplement;

"Day Count Fraction" has the meaning specified as such in the relevant Loan Supplement.

"Dealer Agreement" means the dealer agreement relating to the Programme dated 18 April 2005 between the Lender, RSB, the Arrangers and the other dealers appointed pursuant to it, as may be amended or supplemented from time to time.

"Debt Collection Agency" means "OOO Debt Collection Agency", a limited liability company established under the laws of the Russian Federation.

"Definitive Notes" means the definitive notes in fully registered form representing the Notes to be issued in limited circumstances pursuant to the Trust Deed.

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

"euro" or **"€"** means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome, as amended.

"Event of Default" has the meaning assigned to such term in Clause 11.1 hereof.

"Exposure" means:

- (a) the aggregate principal or nominal amount (net of specific provisions for losses) owed to RSB, whether direct or contingent, by a counterparty, or, in the case of a Single Party, by a group of counterparties, in respect of money borrowed, equity or debt raised, guarantees, letters of credit or debt instruments issued or confirmed and other off-balance sheet engagements in the ordinary course of RSB's commercial and consumer lending business; less

(b) any such amount which is fully secured by rights of off-set against the Liquid Assets in equivalent amounts and comparable maturities placed with RSB.

“**Fee Side Letter**” means the letter specified as such in the relevant Loan Supplement.

“**Fixed Rate Loan**” means a Loan specified as such in the relevant Loan Supplement.

“**Floating Rate Loan**” means a Loan specified as such in the relevant Loan Supplement.

“**Funded Exposure**” means any Exposure that RSB would, in accordance with IFRS, as consistently applied, include under “loans and advances to customers” in the balance sheet of RSB prepared in accordance with IFRS.

“**Global Notes**” has the meaning assigned to it in the Trust Deed.

“**Group**” means RSB and its Subsidiaries taken as a whole.

“**Guarantee**” means any financial obligation, contingent or otherwise, of any person directly or indirectly guaranteeing any Indebtedness or other obligation of any other person and any obligation, direct or indirect, contingent or otherwise, of such person (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise) or (b) entered into for the purpose of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided, however, that the term “**Guarantee**” will not include endorsements for collection or deposit in the ordinary course of business. The term “**Guarantee**” used as a verb has a corresponding meaning.

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

“**Indebtedness**” means any indebtedness, in respect of any person for, or in respect of, moneys borrowed or raised including, without limitation, any amount raised by acceptance under any acceptance credit facility; any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument; any amount raised pursuant to any issue of shares which are expressed to be redeemable either on a compulsory basis or at the option of the shareholder; any amount raised under any other transaction (including, but without limitation to, any forward sale or purchase agreement) having the economic or commercial effect of a borrowing; and the amount of any liability in respect of any Guarantee or indemnity for any of the items referred to above.

“**Independent Appraiser**” means any expert in the matter to be determined of international standing selected by RSB and approved by the Trustee (such approval not to be unreasonably withheld), provided, however, that such Independent Appraiser is not an Affiliate of the Group.

“**Interest Payment Date**” means the date(s) specified as such in the relevant Loan Supplement, or, in the event of a prepayment in whole (but not in part) in accordance with Clauses 5.2 or 5.3 the date set for such redemption in respect of the Loan.

“**Interest Period**” means each period beginning on (and including) an Interest Payment Date or, in the case of the first Interest Period, the Interest Commencement Date, and ending on (but excluding) the next Interest Payment Date.

“**Lead Manager(s)**” means the Relevant Dealer(s) specified as such in the relevant Subscription Agreement.

“Lender Agreements” means the Dealer Agreement, this Facility Agreement, the Agency Agreement, the Principal Trust Deed and together with, in relation to each Loan, the relevant Subscription Agreement, Loan Supplement and Supplemental Trust Deed.

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

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

“Loan” means each loan to be made pursuant to, and on the terms specified in this Facility Agreement and the relevant Loan Supplement, and includes each Fixed Rate Loan and Floating Rate Loan.

“Loan Agreement” means this Facility Agreement and (unless the context requires otherwise), in relation to a Loan, means this Facility Agreement as amended and supplemented by the relevant Loan Supplement.

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

“Material Subsidiary” means (i) any Affiliate of RSB which, in accordance with IFRS, as consistently applied, would be included in the IFRS consolidated financial statements of the Group; or (ii) at any given time, a Subsidiary of RSB which:

(a) has gross income representing 10 per cent. or more of the consolidated gross income of the Group; or

(b) has total assets representing 10 per cent. or more of the consolidated total assets of the Group,

in each case calculated on a consolidated basis in accordance with IFRS, as consistently applied.

Compliance with the conditions set out in paragraphs (a) and (b) above shall be determined by reference to the latest audited or unaudited consolidated annual or, as the case may be, audited or unaudited consolidated interim financial statements of that Subsidiary and the latest audited consolidated annual or, as the case may be, audited or unaudited consolidated interim financial statements of the Group, provided however, that an Officers’ Certificate that a Subsidiary of RSB is or is not a Material Subsidiary, accompanied by a report by the Auditors addressed to the Directors of RSB as to proper extraction of the figures used in the Officers’ Certificate in determining the Material Subsidiaries of RSB and mathematical accuracy of the calculations shall, in the absence of manifest error, be conclusive and binding on all parties.

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

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

“Noteholder” means, in relation to a Note, the person in whose name such Note is registered from time to time in the register of the noteholders (or in the case of joint holders, the first named holder thereof).

“Notes” means the loan participation notes that may be issued from time to time by the Lender under the Programme in Series, each Series corresponding to a Loan and, in relation to a Loan, as defined in the relevant Loan Supplement.

“Officers’ Certificate” means a certificate signed on behalf of RSB by two officers of RSB at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of RSB, in a form similar to that set out in Schedule 2 hereto.

“Original Financial Statements” means:

- (a) the most recent audited IFRS consolidated financial statements of the Group; and
- (b) the most recent audited IFRS unconsolidated financial statements of the Group.

“Permitted Liens” means:

- (a) any Lien over or affecting any asset acquired by a member of the Group after the date hereof and subject to which such asset is acquired, if:
 - (i) such Lien was not created in contemplation of the acquisition of such asset by a member of the Group;
 - (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such asset by a member of the Group; and
 - (iii) such Lien is removed or discharged within three calendar months of the date of acquisition of such asset;
- (b) any Lien over or affecting any asset of any company which becomes a member of the Group after the date hereof, where such Lien is created prior to the date on which such company becomes a member of the Group, if:
 - (i) such Lien was not created in contemplation of the acquisition of such company;
 - (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such company; and
 - (iii) such Lien is removed or discharged within three calendar months of such company becoming a member of the Group;
- (c) any netting or set-off arrangement entered into by any member of the Group in the normal course of its banking arrangements for the purpose of netting debit and credit balances;
- (d) any Lien upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any securitisation of receivables, asset-backed financing or similar financing structure and whereby all payment obligations secured by such Lien or having the benefit of such Lien, are to be discharged solely from such assets or revenues, provided that the aggregate value of assets or revenues subject to such Lien when added to the aggregate value of assets or revenues which are the subject of any securitisation of receivables, asset-backed financing or similar financing structure permitted pursuant to Clause 10.3, does not, at any such time, exceed 30 per cent. of the loans and advances to customers, as determined at any time by reference to the most recent quarterly balance sheet of RSB prepared in accordance with IFRS;
- (e) any title transfer or retention of title arrangement entered into by any member of the Group in the normal course of its trading activities on the counterparty’s standard or usual terms;
- (f) any Lien arising by operation of law and in the normal course of business, if such Lien is discharged within 10 days of arising;
- (g) Liens incurred, or pledges and deposits in connection with workers’ compensation, unemployment insurance and other social security benefits, and leases, appeal bonds and other obligations of like nature in the ordinary course of business;
- (h) Liens for ad valorem, income or property taxes or assessments and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which

RSB has set aside in its books of account reserves to the extent required by IFRS, as consistently applied;

- (i) any Lien granted by any Subsidiary of RSB in favour of RSB;
- (j) Liens upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any Repo transaction;
- (k) Liens arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market relating to the establishment of margin deposits and similar arrangements in connection with interest rate and foreign currency hedging operations; and
- (l) any other Lien where the aggregate value of the assets or revenues subject to such Lien does not exceed U.S.\$5,000,000.

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

“**Potential Event of Default**” means any event which, after notice or passage of time or both, would be an Event of Default.

“**Principal Trust Deed**” means the principal trust deed dated 18 April 2005 between the Lender and the Trustee, as it may be amended or supplemented from time to time.

“**Programme**” means the programme for the issuance of loan participation notes of the Lender.

“**Programme Limit**” means U.S.\$1,500,000,000 or its equivalent in other currencies, being the maximum aggregate principal amount of Notes that may be issued and outstanding at any time under the Programme as may be increased in accordance with the Dealer Agreement.

“**Rate of Interest**” has the meaning assigned to such term in the relevant Loan Supplement.

“**Related Party**” means with respect to any person, (a) an Affiliate of such person or (b) any of its Affiliates or (c) a group of its Affiliates.

“**Relevant Time**” means, in relation to a payment in a Specified Currency, the time in the principal financial centre of such Specified Currency and, in relation to a payment in euro, Brussels time.

“**Repayment Date**” has the meaning assigned to such term in the relevant Loan Supplement.

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

“**Risk Weighted Assets**” means the aggregate of the Group’s consolidated balance sheet assets and off-balance sheet commitments, weighted for credit and market risk in accordance with the BIS Guidelines.

“**Roubles**” means the lawful currency of the Russian Federation.

“**RSB Account**” means an account in the name of RSB as specified in the relevant Loan Supplement for receipt of Loan funds.

“**RSB Agreements**” means this Facility Agreement, the Agency Agreement and the Dealer Agreement and, in relation to each Loan, the foregoing agreements together with the relevant Subscription Agreement and Loan Supplement.

“Same-Day Funds” means funds for payment, in the Specified Currency as the Lender may at any time determine to be customary for the settlement of international transactions in the principal financial centre of the country of the Specified Currency or, as the case may be, euro funds settled through the TARGET System or such other funds for payment in euro as the Lender may at any time reasonably determine to be customary for the settlement of international transactions in Brussels of the type contemplated hereby.

“Securities Act” means the U.S. Securities Act of 1933.

“Series” means a series of Notes that (except in respect of the first payment of interest and their issue price) have identical terms on issue and are expressed to have the same series number.

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

“Specified Currency” means the currency specified as such in the relevant Loan Supplement.

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

“Subscription Agreement” means the agreement specified as such in the relevant Loan Supplement.

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

“Supplemental Trust Deed” means a supplemental trust deed in respect of a Series of Notes which constitutes and secures, inter alia, such Series dated the relevant Closing Date and made between the Lender and the Trustee (substantially in the form set out in Schedule 9 of the Principal Trust Deed).

“TARGET System” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System or any successor thereof.

“Trust Deed” means the Principal Trust Deed as supplemented by the relevant Supplemental Trust Deed and specified as such in the relevant Loan Supplement.

“Trustee” means Deutsche Trustee Company Limited, as trustee under the Trust Deed and any other trustee or trustees thereunder.

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

“Warranty Date” means the date hereof, the date of each Loan Supplement, each Closing Date, each date on which the Offering Circular is amended, supplemented or replaced and each date on which the Programme Limit is increased.

1.2 Other Definitions

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

1.3 Interpretation

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

- 1.3.1 All references to “Clause” or “sub-Clause” are references to a Clause or sub-Clause of this Facility Agreement.
- 1.3.2 The terms “hereof”, “herein” and “hereunder” and other words of similar import shall mean the relevant Loan Agreement as a whole and not any particular part hereof.
- 1.3.3 Words importing the singular number include the plural and vice versa.
- 1.3.4 All references to “taxes” include all present or future taxes, levies, imposts and duties of any nature and the terms “tax” and “taxation” shall be construed accordingly.
- 1.3.5 The table of contents and the headings are for convenience only and shall not affect the construction hereof.
- 1.3.6 Any reference herein to a document being in “agreed form” means that the document in question has been agreed between the proposed parties thereto, subject to any amendments that such parties may agree upon prior to the Issue Date.

2. LOANS

2.1 Loans

On the terms and subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, the Lender hereby agrees to make available to RSB Loans up to the total aggregate amount equal to the Programme Limit.

2.2 Purpose

The proceeds of each Loan will be used for general banking purposes (unless otherwise specified in the relevant Loan Agreement), but the Lender shall not be concerned with the application thereof.

2.3 Separate Loans

It is agreed that with respect to each Loan, all the provisions of this Facility Agreement and the Loan Supplement shall apply *mutatis mutandis* separately and independently to each such Loan and the expressions “**Account**”, “**Arrangement Fee**”, “**Closing Date**”, “**Day Count Fraction**”, “**Interest Payment Date**”, “**Loan Agreement**”, “**Notes**”, “**Rate of Interest**”, “**Repayment Date**”, “**Specified Currency**”, “**Subscription Agreement**” and “**Trust Deed**”, together with all other terms that relate to such a Loan shall be construed as referring to those of the particular Loan in question and not of all Loans unless expressly so provided, so that each such Loan shall be made pursuant to this Facility Agreement and the relevant Loan Supplement, together comprising the Loan Agreement in respect of such Loan and that, unless expressly provided, events affecting one Loan shall not affect any other.

3. DRAWDOWN

3.1 Drawdown

On the terms and subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, on the Closing Date thereof the Lender shall make a Loan to RSB and RSB shall make a single drawing in the full amount of such Loan.

3.2 Loan Arrangement Fee

In consideration of the Lender's undertaking to make a Loan available to RSB, RSB hereby agrees that it shall, one Business Day before each Closing Date, pay to the Lender, in Same-Day Funds, an Arrangement Fee (as defined in the relevant Loan Supplement) in connection with the financing of such Loan. The total amount of the Arrangement Fee as increased by the front-end commissions, fees and expenses to be as specified in the relevant Loan Supplement.

3.3 Disbursement

Subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, on each Closing Date the Lender shall transfer the full amount of the relevant Loan to the RSB Account specified in the relevant Loan Supplement.

3.4 Ongoing Fees and Expenses

In consideration of the Lender establishing and maintaining the Programme and agreeing to make Loans to RSB, RSB shall pay on demand to the Lender as and when such payments are due an amount or amounts to reimburse the Lender for its expenses relating to its management and operation in servicing the Loans as set forth to RSB in an invoice from the Lender.

4. INTEREST

4.1 Rate of Interest for Fixed Rate Loans

Each Fixed Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the applicable Rate of Interest.

If a Fixed Amount or a Broken Amount is specified in the relevant Loan Supplement, the amount of interest payable on each Interest Payment Date will amount to the Fixed Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified in the relevant Loan Supplement.

4.2 Payment of Interest for Fixed Rate Loans

Interest at the Rate of Interest shall accrue on each Fixed Rate Loan from day to day, starting from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date and shall be paid in arrear by RSB to the Account not later than 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date.

4.3 Interest for Floating Rate Loans

4.3.1 *Interest Payment Dates:* Each Floating Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date at the rate per annum (expressed as a percentage) equal to the applicable Rate of Interest, which interest shall be paid in arrear by RSB to the relevant Account not later than 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date. Such Interest Payment Date(s) is/are either shown in the relevant Loan Supplement as Specified Interest Payment Date(s) or, if no Specified Interest Payment Date(s) is/are shown in the relevant Loan Supplement, Interest Payment Date shall mean each date which falls the number of months or other period shown in the relevant Loan Supplement as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

4.3.2 *Business Day Convention*: If any date referred to in the relevant Loan Supplement that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

4.3.3 *Rate of Interest for Floating Rate Loans*: The Rate of Interest in respect of Floating Rate Loans for each Interest Accrual Period shall be determined in the manner specified in the relevant Loan Supplement and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the relevant Loan Supplement.

(i) ISDA Determination for Floating Rate Loans

Where ISDA Determination is specified in the relevant Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (i), “**ISDA Rate**” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (a) the Floating Rate Option is as specified in the relevant Loan Supplement;
- (b) the Designated Maturity is a period specified in the relevant Loan Supplement; and
- (c) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Loan Supplement.

For the purposes of this sub-paragraph (i), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**”, “**Reset Date**” and “**Swap Transaction**” have the meanings given to those terms in the ISDA Definitions.

(ii) Screen Rate Determination for Floating Rate Loans

Where Screen Rate Determination is specified in the relevant Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent at or about the Relevant Time on the Interest Determination Date in respect of such Interest Accrual Period in accordance with the following:

- (a) if the Primary Source for Floating Rate is a Page, subject as provided below, the Rate of Interest shall be:
 - (I) the Relevant Rate (where such Relevant Rate on such Page is a composite quotation or is customarily supplied by one entity); or
 - (II) the arithmetic mean of the Relevant Rates of the persons whose Relevant Rates appear on that Page,

in each case appearing on such Page at the Relevant Time on the Interest Determination Date;

- (b) if the Primary Source for the Floating Rate is Reference Banks or if sub-paragraph (a)(I) above applies and no Relevant Rate appears on the Page at the Relevant Time on the Interest Determination Date or if sub-paragraph (a)(II) above applies and fewer than two Relevant Rates appear on the Page at the Relevant Time on the Interest Determination Date, subject as provided below, the Rate of Interest shall be the arithmetic mean of the Relevant Rates that each of the Reference Banks is quoting to leading banks in the Relevant Financial Centre at the Relevant Time on the Interest Determination Date, as determined by the Calculation Agent; and
- (c) if paragraph (b) above applies and the Calculation Agent determines that fewer than two Reference Banks are so quoting Relevant Rates, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) that the Calculation Agent determines to be the rates (being the nearest equivalent to the Benchmark) in respect of a Representative Amount of the Specified Currency that at least two out of five leading banks selected by the Calculation Agent in the Relevant Financial Centre of the country of the Specified Currency or, if the Specified Currency is euro, in Europe as selected by the Calculation Agent are quoting at or about the Relevant Time on the date on which such banks would customarily quote such rates for a period commencing on the Effective Date for a period equivalent to the Specified Duration (I) to leading banks carrying on business in Europe, or (if the Calculation Agent determines that fewer than two of such banks are so quoting to leading banks in Europe) (II) to leading banks carrying on business in the Relevant Financial Centre; except that, if fewer than two of such banks are so quoting to leading banks in the Relevant Financial Centre, the Rate of Interest shall be the Rate of Interest determined on the previous Interest Determination Date (after readjustment for any difference between any Margin, Rate Multiplier or Maximum or Minimum Rate of Interest applicable to the preceding Interest Accrual Period and to the relevant Interest Accrual Period).

4.4 Accrual of Interest

Interest shall cease to accrue on each Loan on the due date for repayment unless payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the applicable Rate of Interest to, but excluding, the date on which payment in full of the principal thereof is made.

4.5 Margin, Maximum/Minimum Rates of Interest, Rate Multipliers and Rounding

- 4.5.1 If any Margin or Rate Multiplier is specified in the relevant Loan Supplement (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Clause 4.3 above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin or multiplying by such Rate Multiplier, subject always to the next paragraph.
- 4.5.2 If any Maximum or Minimum Rate of Interest is specified in the relevant Loan Supplement, then any Rate of Interest shall be subject to such maximum or minimum, as the case may be.
- 4.5.3 For the purposes of any calculations required pursuant to a Loan Agreement (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and

(z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “unit” means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

4.6 **Calculations**

The amount of interest payable in respect of any Loan for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding principal amount of such Loan by the Day Count Fraction, unless an Interest Amount (or a formula for its calculation) is specified in the relevant Loan Supplement in respect of such period, in which case the amount of interest payable in respect of such Loan for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

4.7 **Determination and Notification of Rates of Interest and Interest Amounts**

As soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, it shall determine such rate and calculate the Interest Amounts in respect of such Floating Rate Loan for the relevant Interest Accrual Period, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date to be notified to RSB, the Trustee, the Lender, each of the Paying Agents and any other Calculation Agent appointed in respect of such Floating Rate Loan that is to make a further calculation upon receipt of such information. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Clause 4.3.2, the Interest Amounts and the Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made with the consent of RSB and the Lender by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If such Floating Rate Loan becomes due and payable under Clause 11, the accrued interest and the Rate of Interest payable in respect of such Floating Rate Loan shall nevertheless continue to be calculated as previously in accordance with this Clause. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

4.8 **Determination or Calculation by Trustee**

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount in relation to a Floating Rate Loan, the Lender and RSB agree that such determination or calculation may be made by or at the direction of the Trustee. The Trustee shall incur no liability in respect of such determination or calculation.

4.9 **Definitions**

In this Clause 4, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“**Benchmark**” has the meaning specified in the relevant Loan Supplement;

“**Business Day**” means:

- (i) in the case of a Specified Currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such Specified Currency; and/or

- (ii) in the case of euro, a day on which the TARGET system is operating (a “**TARGET Business Day**”); and/or
- (iii) in the case of a Specified Currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest on any Loan for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period, the “**Calculation Period**”):

- (i) if “**Actual/365**” or “**Actual/Actual – ISDA**” is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (ii) if “**Actual/365 (Fixed)**” is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365;
- (iii) if “**Actual/360**” is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 360;
- (iv) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified in the relevant Loan Supplement, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month));
- (v) if “**30E/360**” or “**Eurobond Basis**” is specified in the relevant Loan Supplement, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of a Calculation Period ending on the Repayment Date, the Repayment Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month); and
- (vi) if “**Actual/Actual-ISMA**” is specified in the relevant Loan Supplement:
 - (a) If the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
 - (b) if the Calculation Period is longer than one Determination Period, the sum of:
 - (I) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
 - (II) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

“Determination Period” means the period from and including a Determination Date in any year to but excluding the next Determination Date.

“Determination Date” means the date specified in the relevant Loan Supplement or, if none is so specified, the Interest Payment Date.

“Effective Date” means, with respect to any Floating Rate to be determined on an Interest Determination Date, the date specified as such in the relevant Loan Supplement or, if none is so specified, the first day of the Interest Accrual Period to which such Interest Determination Date relates.

“Interest Accrual Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

“Interest Amount” means the amount of interest payable, and in the case of Fixed Rate Loans, means the Fixed Amount or Broken Amount, as the case may be.

“Interest Commencement Date” means the Closing Date or such other date as may be specified in the relevant Loan Supplement.

“Interest Determination Date” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the relevant Loan Supplement or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London and for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

“Interest Period” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

“Interest Period Date” means each Interest Payment Date unless otherwise specified herein.

“ISDA Definitions” means the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the relevant Loan Supplement.

“Page” means such page, section, caption, column or other part of a particular information service (including, but not limited to, Reuters Markets 3000 (**“Reuters”**) and Moneyline Telerate (**“Moneyline Telerate”**)) as may be specified for the purpose of providing a Relevant Rate, or such other page, section, caption, column or other part as may replace it on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to that Relevant Rate.

“Reference Banks” means the institutions specified as such in the relevant Loan Supplement or, if none, four major banks selected by the Calculation Agent in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that are most closely connected with the Benchmark (which, if EURIBOR is the relevant Benchmark, shall be Europe).

“Relevant Financial Centre” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the financial centre as may be specified as such in the relevant Loan Supplement or, if none is so specified,

the financial centre with which the relevant Benchmark is most closely connected (which, in the case of EURIBOR, shall be Europe) or, if none is so connected, London.

“**Relevant Rate**” means the Benchmark for a Representative Amount of the Specified Currency for a period (if applicable or appropriate to the Benchmark) equal to the Specified Duration commencing on the Effective Date.

“**Relevant Time**” means, with respect to any Interest Determination Date or Repayment Date, the local time in the Relevant Financial Centre specified in the relevant Loan Supplement or, if no time is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Specified Currency in the interbank market in the Relevant Financial Centre and for this purpose “**local time**” means, with respect to Europe as a Relevant Financial Centre, 11.00 hours, Brussels time.

“**Representative Amount**” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the amount specified as such in the relevant Loan Supplement or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time.

“**Specified Duration**” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the duration specified in the relevant Loan Supplement or, if none is specified, a period of time equal to the relevant Interest Accrual Period, ignoring any adjustment pursuant to Clause 4.3.2.

4.10 Calculation Agent and Reference Banks

The Lender (failing which RSB) shall procure that there shall at all times be specified no less than four Reference Banks (or such other number as may be required) with offices in the Relevant Financial Centre and appointed one or more Calculation Agents if provision is made for them in a Loan Supplement and for so long as any amount remains outstanding under a Loan Agreement. If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Lender shall (with the prior approval of RSB) appoint another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. Where more than one Calculation Agent is appointed in respect of a Loan, references in the relevant Loan Agreement to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the relevant Loan Agreement. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, or to comply with any other requirement, the Lender shall (with the prior approval of RSB) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid. Both RSB and the Lender agree that such successor Calculation Agent will be appointed on the terms of the Agency Agreement in relation to the relevant Loan Agreement.

5. REPAYMENT AND PREPAYMENT

5.1 Repayment

Except as otherwise provided herein and in the applicable Loan Supplement, RSB shall repay each Loan not later than 10.00 a.m. (Relevant Time) one Business Day prior to the Repayment Date therefor.

5.2 **Prepayment in the event of Taxes or Increased Costs**

If, as a result of the application of or any amendments or clarification of, or change (including a change in interpretation or application) in, the double tax treaty between the Russian Federation and Luxembourg or the laws or regulations of the Russian Federation or Luxembourg or of any political sub-division thereof or any authority therein having power to tax or the enforcement of the security provided for in any Trust Deed, RSB would thereby be required to make or increase any payment due pursuant to a Loan Agreement as provided in Clauses 6.2 or 6.3 (other than, in each case, where the increase in payment is in respect of any amounts due or paid pursuant to Clauses 3 and 13), or if (for whatever reason) RSB would have to or has been required to pay additional amounts pursuant to Clause 8, and in any such case such obligation cannot be avoided by RSB taking reasonable measures available to it, then RSB may (without premium or penalty), upon not less than 30 days' notice to the Lender (which notice shall be irrevocable), prepay the Loan relating to such Loan Agreement in whole (but not in part) on any Interest Payment Date, in the case of a Floating Rate Loan, or at any time, in the case of a Fixed Rate Loan.

Prior to giving any such notice in the event of an increase in payment pursuant to Clause 6.2, RSB shall deliver to the Lender an Officers' Certificate confirming that it would be required to increase the amount payable, supported by an opinion of an independent tax adviser addressed to the Lender.

5.3 **Prepayment in the event of Illegality**

If, at any time after the date of the relevant Loan Agreement, the Lender reasonably determines that it is or would be unlawful or contrary to any applicable law, regulation, regulatory requirement or directive of any Agency of any state or otherwise for the Lender to allow all or part of the Loan relating to such Loan Agreement or the corresponding Series of Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with the relevant Loan Agreement and/or to charge or receive or to be paid interest at the rate then applicable to such Loan (an "**Event of Illegality**"), then upon notice by the Lender to RSB in writing, RSB and the Lender shall consult in good faith as to a basis which eliminates the application of such Event of Illegality; provided, however, that the Lender shall be under no obligation to continue such consultation if a basis has not been determined within 30 days of the date on which it so notified RSB. If such a basis has not been determined within the 30 days, then upon written notice by the Lender to RSB and the Trustee, RSB shall prepay such Loan in whole (but not in part), in the case of a Fixed Rate Loan, on the next Interest Payment Date therefor, in the case of a Floating Rate Loan, or on the next Interest Payment Date or on such earlier date as the Lender shall (acting reasonably) certify to be necessary to comply with such requirements.

5.4 **Reduction of a Loan Upon Cancellation of Corresponding Notes**

RSB may from time to time deliver to the Lender Definitive Notes, having an aggregate principal value of at least U.S.\$1,000,000 (or its equivalent in a Specified Currency), together with a request for the Lender to present such Definitive Notes to the Registrar for cancellation, and may also from time to time procure the delivery to the Registrar of the relevant Global Notes with instructions to cancel a specified aggregate principal amount of Notes (being at least U.S.\$1,000,000 or its equivalent in a Specified Currency) represented thereby (which instructions shall be accompanied by evidence satisfactory to the Registrar that RSB is entitled to give such instructions), whereupon the Lender shall, pursuant to Clause 8.1 of the Agency Agreement, request the Registrar to cancel such Notes (or specified aggregate principal amount of Notes represented by the relevant Global Notes). Upon any such cancellation by or on behalf of the Registrar, the principal amount of the Loan corresponding to the principal amount of such Notes together with accrued interest and other amounts (if any) thereon shall be extinguished for all purposes as of the date of such cancellation.

5.5 Payment of Other Amounts

If a Loan is to be prepaid by RSB pursuant to any of the provisions of Clauses 5.2 or 5.3 or pursuant to the terms of the relevant Loan Agreement, RSB shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to the date of actual payment and all other sums payable by RSB pursuant to the relevant Loan Agreement. For the avoidance of doubt, if the principal amount of such Loan is reduced pursuant to the provisions of Clause 5.4, then no interest shall accrue or be payable during the Interest Period in which such reduction takes place in respect of the amount by which such Loan is so reduced and RSB shall not be entitled to any interest in respect of the cancelled Notes.

5.6 Provisions Exclusive

RSB shall not prepay or repay all or any part of any Loan except in accordance with the express terms of the relevant Loan Agreement. Any amount prepaid may not be reborrowed under such Loan Agreement.

6. PAYMENTS

6.1 Making of Payments

All payments of principal, interest and additional amounts (other than those in respect of Reserved Rights) to be made by RSB under each Loan Agreement shall be made unconditionally by credit transfer to the Lender not later than 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date or the Repayment Date (as the case may be) in Same-Day Funds to the relevant Account or as the Trustee may otherwise direct following the occurrence of a Potential Event of Default, an Event of Default or a Relevant Event. RSB shall, before 10.00 a.m. (Relevant Time) on the second Business Day prior to each Interest Payment Date or the Repayment Date or such other date (as the case may be), procure that the bank effecting such payments on its behalf confirms to the Principal Paying Agent by tested telex or authenticated SWIFT the payment instructions relating to such payment. The Lender agrees with RSB that it will not deposit any other monies into such Account and that no withdrawals shall be made from such Account other than as provided for and in accordance with the relevant Trust Deed and the Agency Agreement.

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

All payments to be made by RSB under each Loan Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any taxes. If RSB shall be required by applicable law to make any deduction or withholding from any payment under a Loan Agreement for or on account of any such taxes, it shall, on the due date for such payment, increase any payment of principal interest or any other payment due under such Loan Agreement to such amount as may be necessary to ensure that the Lender receives a net amount in the Specified Currency equal to the full amount which it would have received had payment not been made subject to such taxes, shall promptly account to the relevant authorities for the relevant amount of such taxes so withheld or deducted within the time allowed for such payment under the applicable law and shall deliver to the Lender without undue delay evidence satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant taxing authority. If the Lender pays any amount in respect of such taxes (including penalties or interest, but excluding any amount referable to taxes payable by the Lender on its overall net income (except to the extent that the Lender is unable to obtain a deduction for tax purposes on payments to the Noteholders which offsets any tax liability on equivalent amounts received under this Facility Agreement)), RSB shall reimburse the Lender in the Specified Currency for such payment on demand.

6.3 **Withholding on Notes**

Without prejudice to the provisions of Clause 6.2, if the Lender notifies RSB that it has become obliged to make any withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Luxembourg or any political subdivision or any authority thereof or therein having the power to tax from any payment which it is obliged to make under or in respect of a Series of Notes, RSB agrees to pay to the Lender, not later than 10:00 a.m. (Relevant Time) one Business Day prior to the date on which payment is due to the Noteholders of such Series in Same-Day Funds to the relevant Account, such additional amounts as are equal to the additional amounts which the Lender would be required to pay in order that the net amounts received by the Noteholders, after such withholding or deduction, will equal the respective amounts which would have been received by the Noteholders in the absence of such withholding or deduction; provided, however, that the Lender shall procure that immediately upon receipt from any Paying Agent of any reimbursement of the sums paid pursuant to this provision, to the extent that any Noteholders of such Series, are not entitled to such additional amounts pursuant to the Conditions of such Series of Notes, pay such amounts received by way of such reimbursement to RSB (it being understood that neither the Lender, nor the Principal Paying Agent nor any Paying Agent shall have any obligation to determine whether any Noteholder of such Series or such other Party is entitled to any such additional amount).

Any notification by the Lender to RSB in connection with this Clause 6.3 shall be given as soon as reasonably practicable after the Lender becomes aware of any obligation on it to make any such withholding or deduction.

6.4 **Reimbursement**

6.4.1 To the extent that the Lender subsequently obtains or uses any tax credit or allowance or other reimbursements relating to a deduction or withholding with respect to which RSB has made a payment pursuant to this Clause 6, it shall pay to RSB so much of the benefit it received as will leave the Lender in substantially the same position as it would have been in had no additional amount been required to be paid by RSB pursuant to this Clause 6; provided, however, that the question of whether any such benefit has been received, and accordingly, whether any payment should be made to RSB, the amount of any such payment and the timing of any such payment, shall be determined solely by the Lender, provided that the Lender shall notify RSB promptly upon determination that it has received any such benefit. The Lender shall have the absolute discretion whether, and in what order and manner, it claims any credits or refunds available to it, and the Lender shall in no circumstances be obliged to disclose to RSB any information regarding its tax affairs or computations.

6.4.2 If as a result of a failure to obtain relief from deduction or withholding of any taxes referred to in Clause 6.2 (i) such taxes are deducted or withheld by RSB and pursuant to Clause 6.2 an increased amount is paid by RSB to the Lender in respect of such deduction or withholding and (ii) following the deduction or withholding of taxes as referred to above the Lender (upon instructions by RSB) applies to the competent taxing authority for a withholding tax refund and such withholding tax is refunded or repaid by the relevant taxing authority, the Lender shall as soon as reasonably practicable notify RSB of the receipt of such withholding tax refund and promptly transfer the actually received amount of the withholding tax refund in the currency actually received and less any applicable costs to a bank account of RSB specified for that purpose by RSB.

6.5 **Representations of the Lender**

The Lender represents that, at the date hereof, (a) it is at the date hereof a resident of Luxembourg, is subject to taxation in Luxembourg on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in Luxembourg merely on income from sources in Luxembourg or connected with property located in Luxembourg and it will

be able to receive certification to this effect from the Luxembourg taxing authorities, (b) it does not have a permanent establishment in the Russian Federation and (c) does not have any current intentions to effect, during the term of any Loan, any corporate action or reorganisation or change of taxing jurisdiction that would result in the Lender ceasing to be a resident of Luxembourg and subject to taxation in Luxembourg.

6.6 Notification and Substitution

6.6.1 The Lender agrees upon becoming aware of such, promptly to notify RSB if it ceases to be resident in Luxembourg or opens a permanent establishment in Russia or if any of the representations set forth in Clause 6.4 are no longer true and correct.

6.6.2 If the Lender ceases, as a result of the Lender's actions, to be tax resident in a jurisdiction for the purposes of a double taxation treaty between the Russian Federation and such jurisdiction, and such cessation results in RSB being required to make payments pursuant to Clause 6.2, then, except in circumstances where the Lender has ceased to be tax resident in such jurisdiction by reason of any change of law (as described in Clause 5.3) (including, without limitation, a change in a double taxation treaty or in such law or treaty's application or interpretation), RSB may require the Lender to seek the substitution of the Lender as Issuer of the Notes and as lender under any Loan Agreement pursuant to and in accordance with the provisions of Clause 17 of the Trust Deed. RSB shall bear all costs and expenses relating to or arising out of such substitution.

6.7 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of RSB to make any deduction, withholding or payment as described in Clauses 6.2 or 6.3, then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or RSB's obligations, under such Clauses, the Lender shall, upon becoming aware of the same, notify RSB thereof, and, in consultation with RSB and to the extent it can lawfully do so and without prejudice to its own position, take all reasonable steps to remove such circumstances or mitigate the effects of such circumstances; provided that the Lender shall be under no obligation to take any such action if, in its reasonable opinion, to do so might reasonably be expected to have any adverse effect upon its business, operations or financial condition or might be in breach of any provision of the Trust Deed or the Notes.

6.8 Tax Treaty Relief

The Lender shall, provided that in each case a corresponding request from RSB is received by the Lender no later than 25 Business Days prior to the first Interest Payment Date or, as applicable, the beginning of each calendar year, and at RSB's cost, to the extent it is able to do so under applicable law including, without limitation, Russian laws, use commercially reasonable efforts to obtain and to deliver to RSB no later than 10 Business Days before the first Interest payment Date or, as applicable, the beginning of each calendar year a certificate issued by the competent taxing authority in Luxembourg confirming that the Lender is tax resident in Luxembourg and such other information or forms as may need to be duly completed and delivered by the Lender to enable RSB to apply to obtain relief from deduction or withholding of Russian taxes after the date of this Agreement or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian taxes has not been obtained. The Lender shall, at the request of RSB and at RSB's cost, to the extent it is able to do so under applicable law including, without limitation, Russian laws, from time to time use its commercially reasonable efforts to obtain and to deliver to RSB any additional duly completed application forms as need to be duly completed and delivered by the Lender to enable RSB to apply to obtain relief from deduction or withholding of Russian taxes or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian taxes has not been obtained. The certificate and, if required, other forms referred to in this Clause 6.8 shall be duly signed by the Lender, if applicable, and stamped or otherwise approved by the competent taxing authority in

Luxembourg, if applicable. Together with any such certificate and, if required, other forms, the Lender shall deliver to the Borrower a copy of the same, certified by a Luxembourg notary to be a true and up to date copy of the original document. Any such notary's certificate shall be apostilled or otherwise legalised. If a relief from deduction or withholding of Russian taxes under this Clause 6.8 has not been obtained and further to an application of RSB to the relevant Russian taxing authorities the latter requests the Lender's rouble bank account details, the Lender shall at the request of RSB (a) use its commercially reasonable efforts, at RSB's cost, to procure that such rouble bank account of the Lender is duly opened and maintained, and (b) thereafter furnish RSB with the details of such rouble bank account.

7. CONDITIONS PRECEDENT

7.1 Documents to be Delivered

The obligation of the Lender to make each Loan shall be subject to the receipt by the Lender on or prior to the relevant Closing Date of evidence that the persons mentioned in Clauses 14.12.3 and 14.12.4 hereof have agreed to receive process in the manner specified therein.

7.2 Further Conditions

The obligation of the Lender to make each Loan shall be subject to the further conditions precedent that as of the relevant Closing Date (a) the representations and warranties made and given by RSB in Clause 9 shall be true and accurate as if made and given on the relevant Closing Date with respect to the facts and circumstances then existing, (b) no event shall have occurred and be continuing that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, an Event of Default, (c) RSB shall not be in breach of any of the terms, conditions and provisions of the relevant Loan Agreement, (d) the relevant Subscription Agreement, Trust Deed and the Agency Agreement shall have been executed and delivered, and the Lender shall have received the full amount of the proceeds of the issue of the corresponding Series of Notes pursuant to such Subscription Agreement and (e) the Lender shall have received in full the amount referred to in Clause 3.2, if due and payable, above, as specified in the relevant Loan Supplement.

8. CHANGE IN LAW OR INCREASE IN COST

8.1 Compensation

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

- 8.1.1 subjects or will subject the Lender to any taxes with respect to payments of principal of or interest on such Loan or any other amount payable under such Loan Agreement (other than any taxes payable by the Lender on its overall net income or any taxes referred to in Clauses 6.2 or 6.3); or
- 8.1.2 increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on such Loan or any other amount payable under such Loan Agreement (other than any such increase or change which arises by reason of any increase in the rate of tax payable by the Lender on its overall net income or as a result of any taxes referred to in Clauses 6.2 or 6.3); or

8.1.3 imposes or will impose on the Lender any other condition affecting such Loan Agreement or such Loan,

and if as a result of any of the foregoing:

- (i) the cost to the Lender of making, funding or maintaining such Loan is increased; or
- (ii) the amount of principal, interest or additional amounts payable to or received by the Lender under such Loan Agreement is reduced; or
- (iii) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from RSB hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of such Loan, then subject to the following, and in each such case:

(a) the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to RSB, together with a certificate describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and demonstrating the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, and providing all relevant supporting documents evidencing the matters set out in such certificate; and

(b) upon demand by the Lender to RSB, RSB, in the case of Clauses (i) and (iii) above, shall on demand by the Lender, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of Clause (ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or foregone interest or other return; provided however, that the amount of such increased cost, reduced amount or payment made or foregone shall be deemed not to exceed an amount equal to the proportion which is directly attributable to this Facility Agreement, and provided, further, that the Lender will not be entitled to such additional amount where such reduction, payment or foregone interest or other return arises as a result of the negligence or wilful default of the Lender,

provided that this Clause 8.1 will not apply to or in respect of any matter for which the Lender has already been compensated under Clauses 6.2 or 6.3.

8.2 Mitigation

In the event that the Lender becomes entitled to make a claim pursuant to Clause 8.1 the Lender shall consult in good faith with RSB and shall use reasonable efforts (based on the Lender's reasonable interpretation of any relevant tax, law, regulation, requirement, official directive, request, policy or guideline) to reduce, in whole or in part, RSB's obligations to pay any additional amount pursuant to such Clause except that nothing in this Clause 8.2 shall obligate the Lender to incur any costs or expenses in taking any action hereunder which, in the reasonable opinion of the Lender, is prejudicial to it unless RSB agrees to reimburse the Lender such costs or expenses.

9. REPRESENTATIONS AND WARRANTIES

9.1 RSB's Representations and Warranties

RSB does, and on each Warranty Date shall be deemed to, represent and warrant to the Lender, with the intent that such shall form the basis of each Loan Agreement:

- 9.1.1 RSB and each of its Material Subsidiaries is duly organised and incorporated and validly existing under the laws of its respective jurisdiction of incorporation and has the power and legal right to own its property, to conduct its business as currently conducted and, in the case

of RSB only, to enter into and to perform its obligations under each Loan Agreement and to borrow Loans; RSB has taken all necessary corporate, legal and other action required to authorise the borrowing of Loans on the terms and subject to the conditions of each Loan Agreement and to authorise the execution and delivery of each Loan Agreement and all other documents to be executed and/or delivered by it in connection with each Loan Agreement, and the performance of each Loan Agreement in accordance with its respective terms;

- 9.1.2 the Loan Agreement, including, in relation to a Loan, the Loan Supplement in relation thereto, has been duly executed and delivered by RSB and constitutes a legal, valid and binding obligation of RSB enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, (i) to general principles of equity, (ii) to the fact that the gross-up provisions contained in Clause 6.2 or 6.3 may not be enforceable under Russian law and (iii) with respect to the enforceability of a judgment, to the laws of the relevant jurisdiction where such judgment must be enforced and whether there is a treaty in force relating to the mutual recognition of foreign judgments;
- 9.1.3 the execution, delivery and performance of each Loan Agreement, including, in relation to a Loan, the Loan Supplement in relation thereto, by RSB will not conflict with or result in any breach or violation of (i) any law or regulation or any order of any governmental, judicial, arbitral or public body or authority in the Russian Federation, (ii) the constitutive documents, rules and regulations of RSB or any of its Material Subsidiaries or the terms of the general banking licence granted to RSB by the Central Bank or (iii) any agreement or other undertaking or instrument to which RSB or any of its Material Subsidiaries is a party or which is binding upon RSB or any of its Material Subsidiaries or any of their respective assets, nor result in the creation or imposition of any Liens on any of their respective assets pursuant to the provisions of any such agreement or other undertaking or instrument;
- 9.1.4 all consents, licences, notifications, authorisations or approvals of, or filings with, any governmental, judicial or public bodies or authorities of the Russian Federation (including, without limitation, the Central Bank) required by RSB in connection with the execution, delivery, performance, legality, validity, enforceability, and admissibility in evidence of each Loan Agreement have been obtained or effected and are and shall remain in full force and effect;
- 9.1.5 no event has occurred that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, an Event of Default or a default under any agreement or instrument evidencing any Indebtedness of RSB or any Material Subsidiary, and no such event will occur upon the making of the relevant Loan;
- 9.1.6 there are no judicial, arbitral or administrative actions, proceedings or claims (including, but without limitation to, with respect to taxes) which have been commenced or are pending or, to the knowledge of RSB, threatened, against RSB or any of its Material Subsidiaries, the adverse determination of which could reasonably be expected to have a Material Adverse Effect;
- 9.1.7 except for Liens of the types referred to in the definition of Permitted Liens in Clause 1.1, RSB and each of its Material Subsidiaries has good title to its property free and clear of all Liens and RSB's obligations under the Loan Agreement will rank at least *pari passu* with all its other unsecured and unsubordinated Indebtedness;
- 9.1.8 the latest audited IFRS consolidated financial statements of the Group:
- (i) were prepared in accordance with IFRS, as consistently applied;
 - (ii) unless not required by IFRS, as consistently applied, disclose all liabilities (contingent or otherwise) and all unrealised or anticipated losses of the Group; and

- (iii) save as disclosed therein, present fairly in all material respects the assets and liabilities of the Group as at that date and the results of operations of the Group during the relevant financial year;
- 9.1.9 there has been no material adverse change since the date of the latest audited IFRS consolidated financial statements of the Group in the condition (financial or otherwise), results of business, operations or immediate prospects of RSB or any of its Material Subsidiaries or on RSB's ability to perform its obligations under any Loan Agreement;
- 9.1.10 the execution, delivery and enforceability of each Loan Agreement is not subject to any tax, duty, fee or other charge, including, but without limitation to, any registration or transfer tax, stamp duty or similar levy, imposed by or within the Russian Federation or any political subdivision or taxing authority thereof or therein;
- 9.1.11 neither RSB nor any Material Subsidiary nor their respective property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to each Loan Agreement;
- 9.1.12 RSB and each Material Subsidiary is in compliance in all material respects with all applicable provisions of law;
- 9.1.13 there are no material strikes or other employment disputes against RSB or any Material Subsidiary which have been started or are pending or, to its knowledge, threatened;
- 9.1.14 in any proceedings taken in the Russian Federation in relation to each Loan Agreement, the choice of English law as the governing law of each Loan Agreement and any arbitration award obtained in England in relation to each Loan Agreement will be recognised and enforced in the Russian Federation after compliance with the applicable procedures and rules and all other legal requirements in Russia;
- 9.1.15 subject to the performance by the relevant parties of the relevant established procedures in connection with the obtaining of an applicable withholding tax exemption for payments hereunder, no withholding in respect of any taxes is required to be made from any payment by RSB under each Loan Agreement;
- 9.1.16 all material licences, consents, examinations, clearances, filings, registrations and authorisations which are or may be necessary to enable RSB or any of its Material Subsidiaries to own its assets and carry on its business are in full force and effect and RSB and its Material Subsidiaries are conducting such business in accordance with such licences, consents, examinations, clearances, filings registrations and authorisations;
- 9.1.17 RSB is subject, without reservation, to civil and commercial law with respect to its obligations under each Loan Agreement, and its execution of each Loan Agreement constitutes, and its exercise of its rights and performance of its obligations thereunder will constitute, private and commercial acts done and performed for private and commercial purposes; and
- 9.1.18 RSB and each Material Subsidiary has no material overdue tax liabilities other than those which have been disclosed in the Offering Circular.

9.2 **Lender's Representations and Warranties**

The Lender represents and warrants to RSB as follows:

- 9.2.1 the Lender is a duly incorporated company validly existing under the laws of and is resident for Luxembourg taxation purposes in Luxembourg and has full power and capacity to execute the Lender Agreements and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary action to approve and authorise the same;

- 9.2.2 the execution of the Lender Agreements and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of Luxembourg or any agreement or instrument to which it is a party or by which it is bound or in respect of indebtedness in relation to which it is a surety;
- 9.2.3 the Lender Agreements have been duly executed by and constitute legal, valid and binding obligations of the Lender subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally; and
- 9.2.4 all authorisations, consents and approvals required by the Lender for or in connection with the execution of the Lender Agreements, the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect.

10. COVENANTS

So long as any amount remains outstanding under a Loan Agreement:

10.1 Negative Pledge

RSB shall not, and shall not permit any of its Material Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Liens, other than Permitted Liens, on any of its assets, now owned or hereafter acquired, or any income or profits therefrom, securing any Indebtedness, unless, at the same time or prior thereto, RSB's obligations hereunder are to the satisfaction of the Trustee secured equally and rateably with such other Indebtedness.

10.2 Mergers

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

10.3 Disposals

RSB shall not and shall ensure that its Material Subsidiaries do not (in each case disregarding sales of stock in trade on an arm's length basis in the ordinary course of business) sell, lease, transfer or otherwise dispose of, by one or more transactions or series of transactions (whether related or not), the whole or any part (the book value of which is 10 per cent. or more of the book value of the whole) of its revenues or its assets unless, without prejudice to Clause 10.12, such transaction(s) is/are (a) on

an arm's length basis and on commercially reasonable terms and (b) has/have been approved by a resolution of the appropriate decision making body of RSB resolving that the transaction complies with the requirements of this Clause 10.3 and such resolution has been adopted by a majority of the members of such appropriate decision making body disinterested with respect to such transaction or series of transactions or, if there are insufficient disinterested members, by an Independent Appraiser. For the avoidance of doubt, this Clause 10.3 shall not apply to (i) any revenues or assets (or any part thereof) the subject of any securitisation of receivables, asset-backed financing or similar financing structure originated by RSB whereby all payment obligations are to be discharged solely from such assets or revenues, provided that the aggregate value of assets or revenues which are the subject of all such securitisations of receivables, asset-backed financing or similar financing structures, when added to the aggregate value of assets or revenues subject to any Lien described under (d) in the definition of "**Permitted Liens**" and permitted under the terms of the Loan Agreements, does not at any time exceed 30 per cent. of loans and advances to customers, as determined at any such time by reference to the most recent quarterly balance sheet of RSB prepared in accordance with IFRS (or its equivalent in other currencies), or (ii) any defaulted or non-performing loans transferred to Debt Collection Agency.

10.4 **Transactions with Affiliates**

RSB shall not and shall ensure that none of its Subsidiaries shall, directly or indirectly, conduct any business, enter into or permit to exist any transaction or series of related transactions (including, without limitation, the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an "**Affiliate Transaction**") including, without limitation, intercompany loans unless (a) the terms of such Affiliate Transaction are no less favourable to RSB or such Subsidiary, as the case may be, than those that could be obtained in a comparable arm's length transaction with a person that is not an Affiliate of RSB or such Subsidiary; or (b) such Affiliate Transaction is made pursuant to a contract existing on the date of this Facility Agreement (excluding any amendments or modifications thereof).

With the exception of any Affiliate Transaction involving the transfer of defaulted or non-performing loans to Debt Collection Agency, with respect to an Affiliate Transaction involving aggregate payments or value in excess of five per cent. of the Net Asset Value (or its equivalent in other currencies), RSB shall deliver to the Lender a written opinion from an Independent Appraiser to the effect that such Affiliate Transaction is fair, from a financial point of view, to RSB or the relevant Subsidiary, as the case may be.

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

10.5 **Maintenance of Authorisations**

RSB shall, and shall procure that each of its Material Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things reasonably necessary, in the opinion of RSB or the relevant Material Subsidiary, to ensure the continuance of its corporate existence, its business and intellectual property relating to its business and RSB shall take all necessary action to obtain, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Russian Federation for the execution, delivery or performance of the Loan Agreements or for the validity or enforceability thereof, provided that, in any case if RSB and/or the relevant Material Subsidiary, as the case may be, can remedy any failure to comply with this Clause 10.5 within 90 days of such failure or of the occurrence of such event, then this covenant shall be deemed not to have been breached.

10.6 Maintenance of Property

RSB shall, and shall ensure that its Material Subsidiaries will, cause all property used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as, in the judgment of RSB or any Material Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times, provided that if RSB or any such Material Subsidiary can remedy any failure to comply with the above within 90 days or any failure relates to property with a value not exceeding U.S.\$5,000,000 (or its equivalent in other currencies), this covenant shall be deemed not to have been breached.

10.7 Payment of Taxes and Other Claims

RSB shall, and shall ensure that its Material Subsidiaries will, pay or discharge or cause to be paid or discharged, before the same shall become overdue and without incurring penalties, (a) all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of, RSB and its Material Subsidiaries and (b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become a Lien (other than a Permitted Lien) upon the property of RSB or any of its Material Subsidiaries; provided, however, that none of RSB nor any Material Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (a) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS, as consistently applied or other appropriate provision has been made, or (b) whose amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims, does not in the aggregate exceed U.S.\$5,000,000 (or its equivalent in other currencies).

10.8 Withholding Tax Exemption

RSB shall give to the Lender all the assistance it reasonably requires to ensure that, prior to the first interest payment and at the beginning of each calendar year the Lender can provide RSB with the documents required under Russian laws for the relief of the Lender from Russian withholding tax in respect of payments hereunder.

10.9 Maintenance of Insurance

So long as any amount remains outstanding under any Loan Agreement, RSB shall and shall ensure that each of its Subsidiaries will, keep those of their properties which are of an insurable nature insured with insurers of good standing against loss or damage to the extent that property of similar character is usually so insured by corporations in the same jurisdictions similarly situated and owning like properties in the same jurisdictions.

10.10 Financial Information

10.10.1 RSB shall as soon as the same become available, but in any event within 120 days after the end of each of its financial years, deliver to the Lender the IFRS consolidated financial statements of the Group for such financial year, in each case audited by the Auditors.

10.10.2 RSB shall as soon as the same become available, but in any event within 90 days after the end of each half of each of its financial years, deliver to the Lender the IFRS consolidated financial statements of the Group for such period.

10.10.3 RSB shall, so long as any amount remains outstanding under any Loan Agreement, deliver to the Lender, without undue delay, such additional information regarding the financial position or the business of RSB and its Subsidiaries as the Lender may reasonably request including providing certification and a report of the Auditors as to the definition of “**Material Subsidiary**”.

10.10.4 RSB shall ensure that each set of IFRS consolidated financial statements of the Group delivered by it pursuant to this Clause 10.10 is:

- (i) prepared on the same basis as was used in the preparation of its Original Financial Statements and in accordance with IFRS and consistently applied; and
- (ii) in the case of the statements provided pursuant to Clause 10.10.1, accompanied by a report thereon of the Auditors referred to in Clause 10.10.1 (including opinions of such Auditors with accompanying notes and annexes) in each case, in a form satisfactory to the Lender; and
- (iii) in the case of the statements provided pursuant to Clause 10.10.2, certified by an Authorised Signatory of RSB as giving a true and fair view of the Group's consolidated financial condition as at the end of the period to which those IFRS consolidated financial statements of the Group relate and of the results of the Group's operations during such period.

10.10.5 RSB shall from time to time, on the request of the Lender or the Trustee, furnish the Lender with such information about the business and consolidated financial condition of RSB or the Group as the Lender or the Trustee may reasonably require or such Officer's Certificate as either the Lender or the Trustee may request.

10.11 Financial covenants

RSB shall (except as otherwise specifically provided or agreed by the Lender) at all times (save in respect of Clause 10.11.2 below, which will apply in respect of the time periods set out therein) maintain:

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

10.11.2 a ratio of Capital to Risk Weighted Assets:

- (i) at any time that (a) either the senior unsecured issuer rating given to RSB by Standard & Poor's is below BB or the issuer rating of RSB given to RSB by Moody's is below Ba2, or (b) neither Moody's nor Standard & Poor's is rating RSB, of not less than 13 per cent.; or
- (ii) at any time that either the senior unsecured issuer rating given to RSB by Standard & Poor's is at BB or above, or the issuer rating of RSB given to RSB by Moody's is at Ba2 or above, of not less than 10 per cent.;

10.11.3 a ratio of Exposure to any single borrower, which is not a Related Party, to Net Asset Value of not more than 20 per cent.; and

10.11.4 a ratio of Funded Exposure to any single borrower, which is not a Related Party, to Net Asset Value of not more than 10 per cent.

10.12 Change of business

RSB shall procure that no material change is made to the general nature of the business of itself or any of the Material Subsidiaries from that carried on at the date of this Facility Agreement.

10.13 Ranking of Claims

RSB shall ensure that at all times the claims of the Lender against it under each Loan Agreement rank at least *pari passu* with the claims of all its other unsecured creditors, save those whose claims are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application.

11. EVENTS OF DEFAULT

11.1 Events of Default

If one or more of the following events of default (each, an “**Event of Default**”) shall occur, the Lender shall be entitled to the remedies set forth in Clause 11.3.

11.1.1 RSB fails to pay any amount payable under the Loan Agreement as and when such amount becomes payable in the currency and in the manner specified herein, provided such failure to pay continues for more than five Business Days.

11.1.2 RSB fails to perform or observe any covenant or agreement under the Loan Agreement to be performed or observed by it, provided such failure continues for more than 30 Business Days.

11.1.3 Any representation or warranty of RSB or any statement deemed to be made by RSB in connection with the Loan Agreement or any other document, certificate or notice delivered by RSB in connection with the Lender Agreements or the issue of Notes proves to have been inaccurate, incomplete or misleading in any material respect in the opinion of the Lender at the time it was made or repeated or deemed to have been made or repeated.

11.1.4 (i) Any Indebtedness of RSB or any of its Material Subsidiaries is not paid when due (after the expiry of any applicable grace period); or

(ii) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of RSB or (as the case may be) the relevant Material Subsidiary or (provided that no event of default, howsoever described, has occurred) any person entitled to such Indebtedness,

provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above, individually or in the aggregate, exceeds U.S.\$5,000,000 (or its equivalent amount in any other currency or currencies).

11.1.5 The occurrence of any of the following events: (i) any of RSB, or any of its Material Subsidiaries seeking or consenting to the introduction of proceedings for its liquidation or the appointment of a liquidation commission (*likvidatsionnaya komissiya*) or a similar officer of any of RSB, or any of its Material Subsidiaries as the case may be; (ii) the presentation or filing of a petition in respect of any of RSB or its Material Subsidiaries in any court, arbitration court or before any agency alleging, or for, the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceedings) of any of RSB or its Material Subsidiaries, unless such petition is demonstrated to the reasonable satisfaction of the Lender to be vexatious or frivolous; (iii) the institution of the supervision (*nablyudeniye*), financial rehabilitation (*finansovoye ozdorovlenie*), external management (*vneshneye upravleniye*), bankruptcy management (*konkursnoye proizvodstvo*) over RSB or any of its Material Subsidiaries, (iv) the entry by RSB or any of its Material Subsidiaries into, or the agreeing by RSB or any of its Material Subsidiaries to enter into, amicable settlement (*mirovoye soglashenie*) with its creditors, as such terms are defined in the Federal Law of Russia No. 127-FZ “On Insolvency (Bankruptcy)” dated 26 October 2002 (as amended or replaced from time to time); (v) the institution of the financial rehabilitation (*finansovoye ozdorovlenie*), pursuant to the request of the Central Bank, temporary administration (*vremennoye upravleniye*) or reorganisation (*reorganizatsiya*) with respect to RSB or any of its Material Subsidiaries as such terms are defined in the Federal Law of the Russian Federation No – 40-FZ “On Insolvency (Bankruptcy) of Credit Organisations” dated 25 February 1999 (as amended or replaced from time to time); (vi) any judicial liquidation in respect of RSB or any of its Material Subsidiaries; and/or (vii) revocation of the general banking licence or the licence for taking deposits from individuals of RSB or, if applicable, of any of its Material Subsidiaries.

11.1.6 RSB or any of its Material Subsidiaries is unable or admits inability to pay its debts as they fall due, generally suspends making payments on its debts or, by reason of actual or

anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling any of its Indebtedness; the value of the assets of any of RSB or its Material Subsidiaries is less than its liabilities; and/or a moratorium is declared in respect of any Indebtedness of any of RSB or its Material Subsidiaries.

- 11.1.7 Any expropriation, attachment, sequestration, execution or distress is levied against, or an encumbrancer takes possession of or sells, the whole or any material part of, the property, undertaking, revenues or assets of RSB or any of its Material Subsidiaries.
- 11.1.8 Any governmental authorisation necessary for the performance of any obligation of RSB under the Loan Agreement fails to be in full force and effect.
- 11.1.9 Any government, Agency or court takes any action that, in the opinion of the Lender, has a Material Adverse Effect on RSB or any of its Material Subsidiaries, including, without prejudice to the foregoing: (i) the management of any member of the Group is wholly or partially displaced or the authority of any member of the Group in the conduct of its business is wholly or partially curtailed; or (ii) all or a majority of the issued shares of any member of the Group or the whole or any part (the book value of which is 20 per cent. or more of the book value of the whole) of its revenues or assets is seized, nationalised, expropriated or compulsorily acquired; or (iii) RSB's banking licence or its licence for taking deposits from individuals is revoked.
- 11.1.10 The shareholders of RSB shall have approved any plan of liquidation or dissolution of RSB.
- 11.1.11 The aggregate amount of unsatisfied judgments, decrees or orders of courts or other appropriate law-enforcement bodies for the payment of money against RSB and other Material Subsidiaries in the aggregate exceeds U.S.\$5,000,000, or the equivalent thereof in any other currency or currencies and there is a period of 60 days following the entry thereof during which such judgment, decree or order is not appealed, discharged, waived or the execution thereof stayed and such default continues for 10 days after the notice specified in Clause 11.2.
- 11.1.12 At any time it is or becomes unlawful for RSB to perform or comply with any or all of its obligations under the Loan Agreement or any of such obligations (subject as provided in Clause 9.1.2) are not, or cease to be, legal, valid, binding and enforceable.
- 11.1.13 RSB or any of its Material Subsidiaries ceases to carry on the principal business it carried on at the date hereof.
- 11.1.14 RSB repudiates or evidences an intention to repudiate any of the Lender Agreements.
- 11.1.15 The charter of RSB is amended in a way which would contravene or result in the contravention of any material provision of the Loan Agreement.
- 11.1.16 Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing Clauses.

11.2 Notice of Default

RSB shall deliver to the Lender within (i) 10 days of any written request by the Lender or (ii) within 30 days after the occurrence thereof, written notice in the form of an Officers' Certificate, substantially in the form set out in Schedule 2, stating whether any Potential Event of Default or Event of Default has occurred, its status and what action RSB is taking or proposes to take with respect thereto.

11.3 Default Remedies

If any Event of Default shall occur and be continuing, the Lender may, by notice to RSB, (a) declare the obligations of the Lender under the relevant Loan Agreement to be terminated, whereupon such

obligations shall terminate, and (b) declare all amounts payable under such Loan Agreement by RSB 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 RSB; provided, however, that if any event of any kind referred to in Clause 11.1.5, 11.1.6, 11.1.7 or 11.1.10 occurs, the obligations of the Lender under such Loan Agreement shall immediately terminate, and all amounts payable under such Loan Agreement by RSB that would otherwise be due after the occurrence of such event shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by RSB.

11.4 **Rights Not Exclusive**

The rights provided for in the Loan Agreement are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

12. **INDEMNITY**

12.1 **Indemnification**

RSB undertakes to the Lender, that if the Lender or any of its Affiliates, each director, officer, employee or agent of the Lender and each person controlling the Lender within the meaning of the United States securities laws (each an “**indemnified party**”) incurs any loss, liability, cost, claim, charge, expense (including without limitation taxes, legal fees, costs and expenses), demand or damage (a “**Loss**”) as a result of or in connection with the Loan, the Loan Agreement (or enforcement thereof), and/or the issue, constitution, sale, listing and/or enforcement of the Notes and/or the Notes corresponding to such Loan or Loan Agreement being outstanding, RSB shall pay to the Lender on demand an amount equal to such Loss and all costs, charges and expenses which it or any indemnified party may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, charges and expenses are incurred unless such Loss was either caused by such indemnified party’s negligence or wilful misconduct or arises out of a breach of the representations and warranties of the Lender contained in the Dealer Agreement. The Lender shall not have any duty or obligation whether as fiduciary or trustee for any indemnified party or otherwise, to recover any such payment or to account to any other person for any amounts paid to it under this Clause.

12.2 **Independent Obligation**

Clause 12.1 constitutes a separate and independent obligation of RSB from its other obligations under or in connection with each Loan Agreement or any other obligations of RSB in connection with the issue of the Notes by the Lender and shall not affect, or be construed to affect, any other provision of any Loan Agreement or any such other obligations.

12.3 **Evidence of Loss**

A certificate of the Lender setting forth the amount of losses, expenses and liabilities described in Clause 12.1 and specifying in full detail the basis therefor shall, in the absence of manifest error, be conclusive evidence of the amount of such losses, expenses and liabilities.

12.4 **Currency Indemnity**

To the fullest extent permitted by law, the obligation of RSB under this Facility Agreement and any Subscription Agreement in respect of any amount due in the currency (the “**first currency**”) in which the same is payable shall, notwithstanding any payment in any other currency (the “**second currency**”) (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the first currency that the Relevant Dealer may, acting reasonably and in accordance with normal banking procedures, purchase with the sum paid in the second currency (after any premium and costs of exchange) on the Business Day immediately following the day on which the Relevant

Dealer receives such payment. If the amount in the first currency that may be so purchased for any reason falls short of the amount originally due (the “**Due Amount**”), RSB hereby agrees to indemnify and hold harmless each Relevant Dealer against any deficiency in the first currency. Any obligation of RSB not discharged by payment in the first currency shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided in this Facility Agreement and any Subscription Agreement, shall continue in full force and effect.

12.5 **Survival**

The obligations of RSB pursuant to Clauses 6.2, 6.3, 12 and 14.2 shall survive the execution and delivery of each Loan Agreement and the drawdown and repayment of the relevant Loan, in each case by RSB.

13. **EXPENSES**

13.1 **Reimbursement of Front-end Expenses for the Extension of the Loan by the Lender**

RSB shall, pursuant to Clause 3.2 hereof and the relevant Loan Supplement, reimburse the Lender in the Specified Currency for all reasonable costs and expenses incurred by the Lender in connection with the negotiation, preparation and execution of each Loan Agreement and all related documents and other expenses connected with the extension of each Loan, including, without limitation, the fees and expense of its counsel.

13.2 **Payment of Ongoing Expenses**

In addition, RSB hereby agrees to pay to the Lender on demand in the Specified Currency all ongoing commissions, costs, fees and expenses (including, without limitation, enforcement costs), payable by the Lender under or in respect of the Lender Agreements and the letter entered into between RSB, the Lender, the Trustee and the Agents dated 18 April 2005 in respect of the Programme (the “**Fee Side Letter**”). RSB shall also pay the Lender for any indemnification or other payment obligations of the Lender under or in respect of the Agency Agreement, Trust Deed and/or the Fee Side Letter (other than the obligation of the Lender to make payments of principal, interest or additional amounts in respect of the corresponding Series of Notes). Payments to the Lender referred to in this Clause 13.2 shall be made by RSB at least one Business Day before the relevant payment is to be made or expense incurred.

14. **GENERAL**

14.1 **Evidence of Debt**

The entries made in the relevant Account shall, in the absence of manifest error, constitute prima facie evidence of the existence and amounts of RSB’s obligations recorded therein.

14.2 **Stamp Duties**

14.2.1 RSB shall pay all stamp, registration and documentary taxes or similar charges (if any) imposed on RSB by any person in the United Kingdom, the Russian Federation, Luxembourg or the United States of America which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Loan Agreement and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by RSB to pay such taxes or similar charges.

14.2.2 RSB agrees that if the Lender incurs a liability to pay any stamp, registration and documentary taxes or similar charges (if any) imposed by any person in the United Kingdom, the Russian Federation, Luxembourg or the United States of America which may be payable or determined to be payable in connection with the execution, delivery, performance,

enforcement, or admissibility into evidence of any Loan Agreement, RSB shall repay the Lender on demand an amount equal to such stamp or other documentary taxes or duties and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by RSB to procure the payment of such taxes or similar charges.

14.3 **Waivers**

No failure to exercise and no delay in exercising, on the part of the Lender or RSB, any right, power to privilege under any Loan Agreement and any documents related thereto, and no course of dealing between RSB and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies provided in each Loan Agreement are cumulative and not exclusive of any rights, or remedies provided by applicable law.

14.4 **Notices**

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

14.4.1 if to RSB:

Closed Joint Stock Company Russian Standard Bank
Kadashevskaya nab. 6/1/2, building 1
119017 Moscow
Russian Federation

Fax: +7 (095) 797 8440
Attention: Mr. Levan Zolotarev, Senior Vice-President

14.4.2 if to the Lender:

Russian Standard Finance S.A.
2, Bd. Konrad-Adenauer
L-1115 Luxembourg

Fax: +352 421 22 718
Attention: The Directors

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

14.5 **Assignment**

14.5.1 Each Loan Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under such Loan Agreement. Any reference in a Loan Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender, following the enforcement of the security and/or assignment referred to in Clause 14.5.3 below, shall be references to the exercise of such rights or discretions by the Trustee (as Trustee). Notwithstanding the foregoing, the Trustee shall not be entitled to participate in any determinations by the Lender, or any discussions between the Lender and RSB or any agreements of the Lender or RSB pursuant to Clauses 6.4 or 6.6 or Clause 8.

14.5.2 RSB shall not be entitled to assign or transfer all or any part of its rights or obligations hereunder to any other person.

14.5.3 Subject to Clause 25 of the Trust Deed, the Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under any Loan Agreement (other than the Reserved Rights) except (i) the charge by way of first fixed charge granted by the Lender in favour of the Trustee (as Trustee) of certain of the Lender's rights and benefits under such Loan Agreement and (ii) the absolute assignment by the Lender to the Trustee of certain rights, interests and benefits under such Loan Agreement, in each case, pursuant to Clause 6 of the relevant Supplemental Trust Deed.

14.6 **Prescription**

Subject to the Lender having received the principal amount thereof or interest thereon from RSB, the Lender shall forthwith repay to RSB the principal amount or the interest amount thereon, respectively, of any Series of Notes upon such Series of Notes becoming void pursuant to Condition 11 of such Notes.

14.7 **Contracts (Rights of Third Parties) Act 1999**

A person who is not a party to a Loan Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of such Loan Agreement.

14.8 **Choice of Law**

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

14.9 **Jurisdiction**

Each of RSB and the Lender hereby irrevocably agrees that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes which may arise out of or in connection with any Loan Agreement (respectively, "**Proceedings**" and "**Disputes**") and, for such purposes, irrevocably submits to the jurisdiction of such courts.

14.10 **Appropriate Forum**

Each of the parties to this Facility Agreement irrevocably waives any objection which it may now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agrees not to claim that any such court is not a convenient or appropriate forum and further irrevocably agrees that a final and conclusive judgment in any Proceedings or Disputes brought in the English courts with competent jurisdiction shall be conclusive and binding and, subject to the existence of a treaty relating to the mutual recognition of foreign judgments, may be enforced in the courts of any other jurisdiction.

14.11 **Non-exclusivity**

Nothing contained in any Loan Agreement shall limit the right of any party to take Proceedings or Disputes against another party in any other court of competent jurisdiction to the extent permitted by any applicable law, nor shall the taking of Proceedings or Disputes in connection with such Loan Agreement in one or more jurisdictions preclude the taking of Proceedings or Disputes in any other jurisdiction (whether concurrently or not) or in any other court of competent jurisdiction in connection with such Loan Agreement to the extent permitted by any applicable law.

14.12 **Arbitration**

14.12.1 RSB hereby agrees that, at the option of the Lender, any Proceedings or Disputes brought by any party against another party or arising out of or relating to any Loan Agreement may be

settled by arbitration in accordance with the Rules of the London Court of International Arbitration, which rules are deemed to be incorporated by reference into this Clause. The place of arbitration shall be London, England and the language of the arbitration shall be English. The number of arbitrators shall be three, each of whom shall have no interest in the Proceedings or Disputes, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions. Each party shall nominate an arbitrator, who, in turn, shall nominate the Chairman of the Tribunal. If Proceedings or Disputes shall involve more than two parties, the parties thereto shall attempt to align themselves in two sides (i.e. claimant and respondent) each of which shall appoint an arbitrator as if there were only two sides to such Proceedings or Disputes. If such alignment and appointment shall not have occurred within twenty (20) calendar days after the initiating party serves the arbitration demand or if a Chairman has not been selected within thirty (30) calendar days of the selection of the second arbitrator, the Arbitration Court of the London Court of International Arbitration shall appoint the three arbitrators or the Chairman, as the case may be. The parties and the Arbitration Court may appoint arbitrators from among the nationals of any country, whether or not a party is a national of that country. The arbitrators shall have no authority to award punitive or other punitive type damages and may not, in any event, make any ruling, finding or award that does not conform to the terms and conditions of this Facility Agreement.

14.12.2 Fees of the arbitration (excluding each party's preparation, travel, attorneys' fees and similar costs) shall be borne in accordance with the decision of the arbitrators. The decision of the arbitrators shall be final, binding and enforceable upon the parties and judgment upon any award rendered by the arbitrators may be entered in any court having jurisdiction thereof. In the event that the failure of a party to comply with the decision of the arbitrators requires any other party to apply to any court for enforcement of such award, the non-complying party shall be liable to the other for all costs of such litigation, including reasonable attorneys' fees.

14.12.3 **Lender's Process Agent:** The Lender irrevocably appoints Law Debenture Corporate Services Limited of Fifth Floor, 100 Wood Street, London EC2V 7EX to receive for it and on its behalf, service of process in any Proceedings in England. Such service shall be deemed completed on delivery to such process agent (whether or not it is forwarded to and received by the Lender). If such person is not or ceases to be effectively appointed to accept service of process on the Lender's behalf, the Lender shall, on the written demand of RSB, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, RSB shall be entitled to appoint such a person by written notice to the Lender, at RSB's cost. Nothing in this Clause shall affect the right of RSB to serve process in any other manner permitted by law.

14.12.4 **RSB's Process Agent:** RSB irrevocably appoints Law Debenture Corporate Services Limited of Fifth Floor, 100 Wood Street, London EC2V 7EX to receive, for it and on its behalf, service of process in any Proceedings in England. Such service shall be deemed completed on delivery to such process agent (whether or not it is forwarded to and received by RSB). If such person is not or ceases to be effectively appointed to accept service of process on RSB's behalf, RSB shall, on the written demand of the Lender, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Lender shall be entitled to appoint such a person by written notice to RSB, at RSB's cost. Nothing in this Clause shall affect the right of the Lender to serve process in any other manner permitted by law.

14.13 Counterparts

Each Loan Agreement may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same agreement.

14.14 Language

The language which governs the interpretation of each Loan Agreement is the English language.

14.15 Amendments

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

14.16 Partial Invalidity

The illegality, invalidity or unenforceability to any extent of any provision of each Loan Agreement under the law of any jurisdiction shall affect its legality, validity or enforceability in such jurisdiction to such extent only and shall not affect its legality, validity or enforceability under the law of any other jurisdiction, nor the legality, validity or enforceability of any other provision.

14.17 Severability

In case any provision in or obligation under any Loan Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

IN WITNESS WHEREOF, the parties hereto have caused this Facility Agreement to be executed on the date first written above.

For and on behalf of CLOSED JOINT STOCK COMPANY RUSSIAN STANDARD BANK:

By:

Title:

By:

Title:

For and on behalf of RUSSIAN STANDARD FINANCE S.A.:

By:

Title:

By:

Title:

Schedule 1
Form of Loan Supplement
[DATE]

CLOSED JOINT STOCK COMPANY RUSSIAN STANDARD BANK
and
RUSSIAN STANDARD FINANCE S.A.

LOAN SUPPLEMENT

to be read in conjunction with a Facility Agreement dated 18 April 2005

in respect of
a Loan of [●]
Series [●]

This Loan Supplement is made on [SIGNING DATE] **between:**

- (1) **RUSSIAN STANDARD FINANCE S.A.**, a société anonyme established under the laws of Luxembourg whose registered office is at 2, Bd. Konrad-Adenauer L-1115 Luxembourg, Luxembourg, registered with the Register of Commerce and Companies, Luxembourg under number B - [●] (the “**Lender**”); and
- (2) **CLOSED JOINT STOCK COMPANY RUSSIAN STANDARD BANK**, a company established under the laws of the Russian Federation whose registered office is at Kadashevskaya nab. 6/1/2, Building 1, 119017 Moscow, Russian Federation (“**RSB**”).

Whereas:

- (D) RSB has entered into a facility agreement dated 18 April 2005 (the “**Facility Agreement**”) with the Lender in respect of RSB’s U.S.\$1,500,000,000 Programme for the Issuance of Loan Participation Notes (the “**Programme**”).
- (E) RSB proposes to borrow [●] (the “**Loan**”) and the Lender wishes to make such Loan on the terms set out in the Facility Agreement and this Loan Supplement.

It is agreed as follows:

1. **Definitions**

Capitalised terms used but not defined in this Loan Supplement shall have the meaning given to them in the Facility Agreement save to the extent supplemented or modified herein.

2. **Additional Definitions**

For the purpose of this Loan Supplement, the following expressions used in the Facility Agreement shall have the following meanings:

“**Account**” means the account in the name of the Lender with the Principal Paying Agent (account number [●], [●]) or such other account as may from time to time be agreed between the Lender and the Trustee pursuant to the Trust Deed and notified to the Borrower in writing at least 5 Business Days in advance of such change;

[“**Calculation Agent**” means Deutsche Bank AG, acting through its London Branch;]

“**Closing Date**” means [●];

“**Loan Agreement**” means the Facility Agreement as amended and supplemented by this Loan Supplement;

“**Notes**” means [●] [[●] per cent.][Floating Rate] Loan Participation Notes due [●] issued by the Lender as Series [●] under the Programme;

“**Repayment Date**” means [●] [*amend as required for Floating Rate Notes*];

“**RSB Account**” means the account in the name of RSB (account number [●])[FURTHER DETAILS];

“**Specified Currency**” means [●];

“**Subscription Agreement**” means an agreement between the Lender, RSB and [MANAGERS] dated [●] relating to the Notes; and

“**Trust Deed**” means the Principal Trust Deed between the Lender and the Trustee dated 18 April 2005 as amended and supplemented by a Supplemental Trust Deed dated [●] constituting and securing the Notes.

3. **Incorporation by Reference**

Except as otherwise provided, the terms of the Facility Agreement shall apply to this Loan Supplement as if they were set out herein and the Facility Agreement shall be read and construed, only in relation to the Loan constituted hereby, as one document with this Loan Supplement.

4. **The Loan**

4.1 **Drawdown**

Subject to the terms and conditions of the Loan Agreement, the Lender agrees to make the Loan on the Closing Date to RSB and RSB shall make a single drawing in the full amount of the Loan.

4.2 **Interest**

The Loan is a [Fixed Rate][Floating Rate] Loan. Interest shall be calculated, and the following terms used in the Facility Agreement shall have the meanings, as set out below:

- | | |
|---|---|
| 4.2.1 Fixed Rate Loan Provisions | [Applicable/Not Applicable]
<i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i> |
| (i) Interest Commencement Date | [●] |
| (ii) Rate[(s)] of Interest: | [●] per cent. per annum [payable [annually/semi-annually] in arrear] |
| (iii) Interest Payment Date(s): | [●] in each year [adjusted in accordance with <i>[specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]</i>]/not adjusted] |
| (iv) Fixed Amount[(s)]: | [●] per [●] in principal amount |
| (v) Broken Amount: | <i>[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Amount [(s)] and the Interest Payment Date(s) to which they relate]</i> |
| (vi) Day Count Fraction (Clause 4.9): | [●]
(Day count fraction should be Actual/Actual-ISMA for all fixed rate loans other than those denominated in U.S. dollars, unless specified) |
| (vii) Determination Date(s) (Clause 4.9): | [●] in each year. <i>[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last interest period]**</i> |
| (viii) Other terms relating to the method of calculating interest for Fixed Rate Loans: | [Not Applicable/give details] |
| 4.2.2 Floating Rate Loan Provisions | [Applicable/Not Applicable] <i>(If not applicable, delete the remaining sub-paragraphs of this paragraph)</i> |
| (i) Interest Commencement Date | [●] |

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

- (ii) Interest Period(s):
- (iii) Specified Interest Payment Dates:
- (iv) Business Day Convention: Floating Rate Business Day Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ other (*give details*)
- (v) Business Centre(s) (Clause 4.9):
- (vi) Manner in which the Rate(s) of Interest is/are to be determined: Screen Rate Determination/ ISDA Determination/ other (*give details*)
- (vii) Interest Period Date(s): [Not Applicable/*specify dates*]
- (viii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):
- (ix) Screen Rate Determination (Clause 4.3.3):
- Relevant Time:
 - Interest Determination Date: [TARGET] Business Days in [*specify city*] for [*specify currency*] prior to [*the first day in each Interest Accrual Period/each Interest Payment Date*]
 - Primary Source for Floating Rate: [*Specify relevant screen page and rate* or “Reference Banks”]
 - Reference Banks (if Primary Source is “Reference Banks”): [*Specify four*]
 - Relevant Financial Centre: [*The financial centre most closely connected to the Benchmark - specify if not London*]
 - Benchmark: [*LIBOR, LIBID, LIMEAN, EURIBOR or other benchmark*]
 - Representative Amount: [*Specify if screen or Reference Bank quotations are to be given in respect of a transaction of a specified notional amount*]
 - Effective Date: [*Specify if quotations are not to be obtained with effect from commencement of Interest Accrual Period*]
 - Specified Duration: [*Specify period for quotation if not duration of Interest Accrual Period*]
- (x) ISDA Determination (Clause 4.3):
- Floating Rate Option:
 - Designated Maturity:
 - Reset Date:

- ISDA Definitions: (if different from those set out in the Conditions)
- (xi) Margin(s): [+/-] per cent. per annum
- (xii) Minimum Rate of Interest: per cent. per annum
- (xiii) Maximum Rate of Interest: per cent. per annum
- (xiv) Day Count Fraction (Clause 4.9):
- (xv) Rate Multiplier:
- (xvi) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Loans, if different from those set out in the Facility Agreement:

5. Fees and Expenses

Pursuant to Clause 3.2 of the Facility Agreement and in consideration of the Lender making the Loan to RSB, RSB hereby agrees that it shall, one Business Day before the Closing Date, pay to the Lender, in Same-Day Funds, the total amount of , being the “**Arrangement Fee**” in respect of the Loan, representing the reasonable costs and expenses incurred by the Lender in connection with such Loan, increased by front-end fees, commissions and expense, which shall include the amount of all of the commissions, fees, costs and expenses as set forth in Clause 5.1 of the Subscription Agreement, paragraph 1 of the Fee Side Letter and Clauses 3.2 and 13.1 of the Facility Agreement pursuant to an invoice submitted by the Lender to RSB in the total amount.

6. Governing Law

This Loan Supplement shall be governed by and construed in accordance with English law.

This Loan Supplement has been entered into on the date stated at the beginning.

CLOSED JOINT STOCK COMPANY RUSSIAN STANDARD BANK

By: _____ By: _____

RUSSIAN STANDARD FINANCE S.A.

By: _____ By: _____

Schedule 2

Form of Officers' Certificate

To: Deutsche Trustee Company Limited
Winchester House
1 Great Winchester Street
London EC2N 2DB

From: Closed Joint Stock Company Russian Standard Bank

Dated:

Dear Sirs

Closed Joint Stock Company Russian Standard Bank – Facility Agreement dated 18 April 2005 (the “Facility Agreement”)

We refer to the Facility Agreement. Terms defined therein shall mean the same herein. This is an Officers' Certificate for the purposes thereof:

For and on behalf of Closed Joint Stock Company Russian Standard Bank

Signed:

.....
principal executive officer/principal accounting officer/principal financial officer of Closed Joint Stock Company Russian Standard Bank	[officer] of Closed Joint Stock Company Russian Standard Bank

[encl:] *[Auditors' report as to extraction]*

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes, which contain summaries of certain provisions of the Trust Deed, and which (subject to completion and amendment in accordance with the provisions of the relevant Pricing Supplement) will be attached to the Notes in definitive form, if issued, and (subject to the provisions thereof) apply to the Global Notes representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of the Pricing Supplement or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such definitive Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed and the relevant Pricing Supplement. Those definitions will be endorsed on the definitive Notes. References in the Conditions to “Notes” are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are constituted by, are subject to, and have the benefit of, a supplemental trust deed dated the Issue Date specified hereon (the “**Supplemental Trust Deed**”) supplemental to a trust deed (as amended or supplemented as at the Issue Date, the “**Principal Trust Deed**”) dated 18 April 2005, each made between Russian Standard Finance S.A. (the “**Issuer**”) and Deutsche Trustee Company Limited (the “**Trustee**”, which expression shall include any trustee or trustees for the time being under the Trust Deed) as trustee for the holders of the Notes (the “**Noteholders**”). The Principal Trust Deed and the Supplemental Trust Deed as modified from time to time in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified, are together referred to as the “**Trust Deed**”.

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing a loan (the “**Loan**”) as specified hereon to Closed Joint Stock Company Russian Standard Bank (“**RSB**”). The Issuer and RSB have recorded the terms of the Loan in a facility agreement (the “**Facility Agreement**”) dated 18 April 2005, as supplemented on the Issue Date specified hereon by a loan supplement (the “**Loan Supplement**”) and, together with the Facility Agreement, the “**Loan Agreement**”) each between the Issuer and RSB. In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights (as defined below). Noteholders must therefore rely solely and exclusively on the covenant to pay under the Loan Agreement and the credit and financial standing of RSB. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer. None of the Noteholders, the Trustee or the other creditors (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors or the Trustee for so long as the Notes are outstanding, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

The Issuer has charged by way of first fixed charge in favour of the Trustee certain of its rights and interests as lender under the Loan Agreement (other than any rights and benefits constituting Reserved Rights) as security for its payment obligations in respect of the Notes and under the Trust Deed (the “**Charge**”) and has assigned absolutely certain other rights under the Loan Agreement to the Trustee (together with the Charge, the “**Security Interests**”). “**Reserved Rights**” are the rights excluded from the Charge, being all and any rights, interests and benefits of the Issuer in respect of the obligations of RSB under Clauses 3.4, 5.3 (other than the right to receive any amount payable under such Clause), 6.2 (to the extent that RSB shall reimburse the Issuer on demand for any amount paid by the Issuer in respect of Russian Federation taxes, penalties or interest), 6.3 (only to the extent that the Issuer has received amounts to which the Noteholders are not entitled), 3.2, 8, 10.8, 12.1-12.3, 13.1 and 14.2 (to the extent that RSB shall reimburse the Issuer for any

amount paid by the Issuer in respect of such taxes, charges or costs) of the Facility Agreement and, for the avoidance of doubt, Clauses 6.4, 6.5 and 6.6 of the Facility Agreement.

In certain circumstances, the Trustee can (subject to it being indemnified and/or secured to its satisfaction) be required by Noteholders holding at least one quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Security Interests).

The Notes have the benefit of, and payments in respect of the Notes will be made (subject to the receipt of the relevant funds from RSB) pursuant to, a paying agency agreement (the “**Agency Agreement**”) dated 15 April 2005 and made between the Issuer, Deutsche Bank Luxembourg S.A., Deutsche Bank Trust Company Americas, and Deutsche Bank AG, acting through its London branch. Deutsche Bank AG, acting through its London branch will act as principal paying agent (the “**Principal Paying Agent**” and a “**Paying Agent**”), a transfer agent (a “**Transfer Agent**”) and calculation agent (the “**Calculation Agent**”). Deutsche Bank Luxembourg S.A. will act as Luxembourg paying agent (the “**Luxembourg Paying Agent**” and a “**Paying Agent**”), a transfer agent (a “**Transfer Agent**”) and registrar in respect of Regulation S Notes (the “**Luxembourg Registrar**”). Deutsche Bank Trust Company Americas will act as United States paying agent (the “**U.S. Paying Agent**” and a “**Paying Agent**”), a transfer agent (a “**Transfer Agent**”) and registrar in respect of the 144A Notes (the “**U.S. Registrar**”). The U.S. Registrar and the Luxembourg Registrar are together the “**Registrars**”.

Copies of the Trust Deed, the Loan Agreement, the Agency Agreement and the Pricing Supplement are available for inspection by Noteholders during normal business hours at the principal office of the Trustee being, at the date hereof, at Winchester House, 1 Great Winchester Street, London EC2N 2DB, at the specified office of the Principal Paying Agent and at the specified office of the Luxembourg Paying Agent.

Certain provisions of these terms and conditions (the “**Conditions**”) include summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Pricing Supplement, the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions thereof.

1. Status

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amount in respect of Reserved Rights.

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights, will be made *pro rata* among all Noteholders, on the date of, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. As provided therein, neither the Issuer nor the Trustee shall be under any obligation to exercise in favour of the Noteholders any rights of set-off or of banker’s lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and RSB.

Noteholders have notice of, and have accepted, these Terms and Conditions, the Pricing Supplement and the contents of the Trust Deed, the Agency Agreement and the Loan Agreement. It is hereby expressly provided that, and Noteholders are deemed to have accepted that:

- 1.1 neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, save as otherwise expressly provided in the Trust Deed or in paragraph 1.6 below, liability or obligation in respect of the performance and observance by RSB of

its obligations under the Loan Agreement or the recoverability of any sum of principal or interest (or any additional amounts) due or to become due from RSB under the Loan Agreement;

- 1.2 neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the financial condition, creditworthiness, affairs, status or nature of RSB;
- 1.3 neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of RSB under or in respect of the Loan Agreement;
- 1.4 neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Principal Paying Agent, any of the Paying Agents, the Registrars or the Transfer Agents, of their respective obligations under the Agency Agreement;
- 1.5 the financial servicing and performance of the terms of the Notes depend solely and exclusively upon performance by RSB of its obligations under the Loan Agreement and its covenant to make payments under the Loan Agreement and its credit and financial standing. RSB has represented and warranted to the Issuer in the Loan Agreement that the Loan Agreement constitutes a legal, valid and binding obligation of RSB; and
- 1.6 the Issuer and the Trustee shall be entitled to rely on certificates signed by two duly authorised officers of RSB (and, where applicable, certification by third parties) as a means of monitoring whether RSB is complying with its obligations under the Loan Agreement and identifying Material Subsidiaries and shall not otherwise be responsible for investigating any aspect of RSB's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to the property which is the subject of the Trust Deed and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the assigned property which is subject to the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee has no responsibility for the value of such security.

The obligations of the Issuer in respect of the Notes rank *pari passu* and rateably without any preference among themselves.

In the event that the payments under the Loan Agreement are made by RSB to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent, they will *pro tanto* satisfy the obligations of the Issuer in respect of the Notes.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's right under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Loan Agreement or direct recourse to RSB except through action by the Trustee pursuant to the relevant Security Interests granted to the Trustee in the Trust Deed. Neither the Issuer nor, following the enforcement of the Security Interests created in the Trust Deed, the Trustee shall be required to take proceedings to enforce payment under the Loan Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction.

2. **Form, Denomination and Title**

The Notes will be issued in fully registered form, and in the Specified Denomination shown hereon (which shall be not less than EUR 50,000 or its equivalent in other currencies) or integral multiples in excess thereof, without interest coupons, provided that (i) interests in the Rule 144A Notes shall be held in amounts of not less than U.S.\$100,000 and (ii) Notes with a maturity of less than 365 days shall be held in amounts not less than £100,000 (or its equivalent in other currencies).

A Note issued under the Principal Trust Deed may be a Fixed Rate Note, a Floating Rate Note, a combination of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis specified hereon.

3. **Register, Title and Transfers**

3.1 **Registers**

The Luxembourg Registrar will maintain a register in respect of the Regulation S Notes (the “**Regulation S Registrar**”) and, the U.S. Registrar will maintain a register in respect of the Rule 144A Notes (the “**Rule 144A Register**”) and, together with the Regulation S Register, the “**Registers**”), all in accordance with the provisions of the Agency Agreement. In these Conditions the “**holder**” of a Note means the person in whose name such Note is for the time being registered in the relevant Register (or, in the case of a joint holding, the first named thereof) and “**Noteholder**” shall be construed accordingly. A Note will be issued to each Noteholder in respect of its registered holding. The Issuer will also maintain a register (the “**Issuer’s Register**”) at its registered office. Under the terms of the Agency Agreement, the Registrars will provide to the Issuer such information about changes in the Registers as shall enable the Issuer to maintain the Issuer's Register up-to-date. In case of inconsistency between the Registers and the Issuer's Register, the Issuer's Register shall prevail.

3.2 **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 Note relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note) and no person shall be liable for so treating such holder.

3.3 **Transfers**

Subject to Conditions 3.6 and 3.7, a Note may be transferred upon surrender of the relevant Note, with the endorsed form of transfer duly completed, at the specified office of the relevant Registrar or at the specified office of a Transfer Agent, together with such evidence as the relevant Registrar or such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer. Where not all the Notes represented by the surrendered Note are the subject of the transfer, a new Note in respect of the balance of the Note will be issued to the transferor.

3.4 **Registration and Delivery of Notes**

Within five Business Days of the surrender of a Note in accordance with Condition 3.3, the relevant Registrar will register the transfer in question and deliver a new Note to each relevant holder for collection at its specified office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, “**Business Day**” means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the relevant Registrar has its specified office.

3.5 **No Charge**

The transfer of a Note will be effected without charge but against such indemnity as the relevant Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

3.6 **Closed Periods**

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

3.7 **Regulations Concerning Transfers and Registration**

All transfers of Notes and entries on the Registers are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Lender with the prior written approval of the Trustee and the Registrars. A copy of the current regulations will be mailed (free of charge) by either Registrar to any Noteholder who requests in writing a copy of such regulations.

4. **Restrictive Covenants**

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee, agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Trust Deed or the Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14.

Save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee, shall not, *inter alia*, incur any indebtedness for borrowed moneys (other than issuing further Notes (which may be consolidated and form a single series with Notes of any Series) and/or creating or incurring further obligations relating to such Notes), engage in any business (other than entering into the Programme, issuing Notes thereunder from time to time for the sole purpose of financing Loans to RSB in accordance with the Facility Agreement and each Loan Supplement, entering into related agreements and transactions and performing any act incidental or necessary in connection with any of the foregoing), declare any dividends, have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity to any person (otherwise than as contemplated in these Conditions and the Trust Deed), issue any shares (other than such shares as are in issue at the date of the Principal Trust Deed), give any guarantee or assume any other liability, or subject to the laws of Luxembourg, petition for any winding-up or bankruptcy.

5. **Interest**

5.1 **Interest on Fixed Rate Notes**

Each Fixed Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the Rate(s) of Interest specified hereon which shall be equal to the rate per annum at which interest under the Loan accrues. Accordingly, on each Interest Payment Date or as soon as thereafter as the same is received the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest under the Loan received by or for the account of the Issuer pursuant to the Loan Agreement.

If a Fixed Coupon Amount or a Broken Amount is specified hereon, the amount of interest payable on each Interest Payment Date will be an amount equal to the Fixed Coupon Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified hereon or as soon as thereafter as the same is received.

5.2 **Interest on Floating Rate Notes**

- (i) *Interest Payment Dates:* Each Floating Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest specified hereon, which shall be equal to the rate per annum at which interest under the Loan accrues, such interest being payable in

arrears on each Interest Payment Date or as soon as thereafter as the same is received. Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date. Accordingly, on each such date, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest under the Loan received by or for the account of the Issuer pursuant to the Loan Agreement.

- (ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.
- (iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period (as defined in the Loan Agreement) shall be determined in the manner specified hereon and as set out in the Loan Agreement.

5.3 **Accrual of Interest**

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

5.4 **Calculations**

The amount of interest payable in respect of any Note for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding nominal amount of such Note by the Day Count Fraction as specified hereon and in the Loan Agreement, unless an Interest Amount (or a formula for its calculation) is specified in respect of such period, in which case the amount of interest payable in respect of such Note for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

5.5 **Publication of Rates of Interest and Interest Amounts**

As soon as practicable after calculating or determining the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date as set out in the Loan Agreement, the Calculation Agent shall cause such Rate of Interest and Interest Amounts to be notified to the Trustee, the Issuer, RSB, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination, but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such

time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5.2(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If a Loan becomes due and payable under Clause 11 of the relevant Loan Agreement, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

5.6 Determination or Calculation by Trustee

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount pursuant to the Loan Agreement, the Trustee shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

6. Redemption

6.1 Scheduled redemption

Unless the Loan is previously prepaid or repaid pursuant to Clause 5.2 or 5.3 of the Facility Agreement, RSB will be required to repay the Loan one Business Day (as defined in the Loan Agreement) before its Repayment Date (as defined in the Loan Agreement) and, subject to such repayment, as set forth in the Loan Agreement, all the Notes then remaining outstanding will be redeemed or repaid by the Issuer in the relevant Specified Currency on the Maturity Date specified hereon at their Final Redemption Amount (which, unless otherwise specified hereon, is 100 per cent. of the principal amount thereof).

6.2 Early redemption

If the Loan should become repayable (and be repaid) or be prepaid pursuant to the Loan Agreement prior to its scheduled repayment date, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at their Early Redemption Amount (which, unless otherwise specified hereon is par together with interest accrued to the date of redemption) and the Issuer will endeavour to give not less than fifteen nor more than thirty days' notice thereof to the Trustee and the Noteholders in accordance with Condition 14.

To the extent that the Issuer receives amounts of principal, interest and/or additional amounts if any (other than amounts in respect of the Reserved Rights) following acceleration of the Loan pursuant to Clause 11 of the Loan Agreement, the Issuer shall pay an amount equal to and in the same currency as such amounts on the Business Day following receipt of such amounts, subject as provided in Condition 7.

6.3 Rule 144A Notes

The Issuer may compel any beneficial owner of an interest in the Rule 144A Notes to sell its interest in such Notes, or may sell such interest on behalf of such holder, if such holder is a U.S. person that is not a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and a qualified purchaser (as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940).

6.4 Cancellation

The Facility Agreement also provides that RSB may, among other things, from time to time deliver Notes to the Issuer, having an aggregate principal value of at least U.S.\$1,000,000, together with a request for the Issuer to present such Notes to the relevant Registrar for cancellation, whereupon the Issuer shall, pursuant to the Agency Agreement, request the relevant Registrar to cancel such Notes. Upon any such cancellation by or on behalf of the relevant Registrar, the principal amount of the Loan corresponding to the principal amount of such Notes surrendered for cancellation shall be extinguished as of the date of such cancellation and no further payment shall be made or required to be made by the Issuer in respect of such Notes.

7. Payments and Agents

7.1 Principal

Payments of principal shall be made against presentation and surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of any Transfer Agent or Registrar and in the manner provided in the condition below.

7.2 Interest

Interest shall be paid to the person shown on the relevant Register at the opening of business on the fifteenth day before the due date for payment thereof (the “**Record Date**”). Payments of interest shall be made in the Specified Currency by cheque drawn on a bank in the principal financial centre for the Specified Currency or, in the case of euro, in a city in which banks have access to the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System or any successor thereof (a “**Bank**”) and mailed to the Noteholder (or to the first named of joint Noteholders) of such Note at its address appearing in the relevant Register. Upon application by the holder to the specified office of the relevant Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank, or by transfer to an account in the Specified Currency maintained by the payee with, a Bank in the principal financial centre of such Specified Currency or in the case of euro, a Bank specified by the payee or at the option of the payee, by a euro-cheque and (in the case of interest payable on redemption) upon surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of any Transfer Agent.

7.3 Payments subject to fiscal laws

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

7.4 Payments on Business Days

If the due date for payments of interest or principal is not a Business Day, a Noteholder shall not be entitled to payment of the amount due until the next following Business Day and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, “**Business Day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “**Financial Centres**” hereon, and (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency or (ii) (in the case of payment in euro) which is a TARGET business day.

7.5 **Accrued Interest**

The names of the initial Paying Agents and their initial specified offices are set out below. The Agency Agreement provides that the Issuer may at any time, with the prior written approval of the Trustee, vary or terminate the appointment of the Principal Paying Agent or any of the Paying Agents, and appoint additional or other paying agents provided that (i) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will be a paying agent and transfer agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority and (ii) there will be a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26–27 November 2000 on the taxation of savings income or any law implementing or complying with or introduced in order to conform to such Directive. Any such variation, termination or appointment shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days' and not less than 30 days' notice thereof shall have been given to the Noteholders in accordance with Condition 14.

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the Issue Date as specified hereon shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Loan Agreement.

7.6 **Payments by RSB**

Save as otherwise directed by the Trustee at any time after any of the Security Interests created in the Trust Deed becomes enforceable, the Issuer will, pursuant to Clause 6 of the Agency Agreement require RSB to make all payments of principal and interest and any additional amounts to be made pursuant to the Loan Agreement to the Principal Paying Agent to an account in the name of the Issuer (the "**Account**"). Under the Charge, the Issuer will charge by way of first fixed charge all the rights, title and interest in and to all sums of money then or in the future deposited in the Account in favour of the Trustee for the benefit of the Noteholders.

8. **Taxation**

All payments in respect of the Notes by or on behalf of the Issuer will be made without deduction or withholding for or on account of any present or future taxes, duties or assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Luxembourg or any political subdivision or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes or duties is required by law.

In such event, the Issuer shall make such additional payments as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required but only to the extent and only at such time as the Issuer receives an equivalent amount from RSB under the Loan Agreement. To the extent that the Issuer receives a lesser additional amount from RSB, the Issuer will account to each Noteholder for an additional amount equivalent to a pro rata proportion of such additional amount (if any) as is actually received by, or for the account of, the Issuer pursuant to the Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Issuer, provided that no such additional amount will be payable in respect of any Note:

- 8.1 to a Noteholder who (a) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (b) is liable for such taxes or duties by reason of his having some connection with Luxembourg other than the mere holding of such Note or the receipt of payments in respect thereof;

- 8.2 presented for payment of principal more than 30 days after the Relevant Date except to the extent that such additional payment would have been payable if such Note had been presented for payment on such 30th day;
- 8.3 where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- 8.4 presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union.

As used herein, “**Relevant Date**” (i) means the date on which any payment under the Loan Agreement first becomes due but (ii) if the full amount payable by RSB has not been received by, or for the account of, the Issuer pursuant to the Loan Agreement on or prior to such date, it means the date on which such moneys shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 14.

Any reference herein or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this Condition 8 or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

9. **Enforcement**

The Trust Deed provides that only the Trustee may pursue the remedies under the general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails or neglects to do so within a reasonable time and such failure or neglect is continuing.

At any time after the occurrence of an Event of Default (as defined in the Facility Agreement) or of a Relevant Event (as defined in the Trust Deed), the Trustee may, at its discretion and without notice and shall, if requested to do so by Noteholders holding 25 per cent. in aggregate principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified to its satisfaction, declare all amounts payable under the Loan Agreement by RSB to be due and payable (in the case of an Event of Default), or enforce the security created in the Trust Deed in favour of the Trustee (in the case of a Relevant Event). Upon repayment of the Loan following an Event of Default and a declaration as provided herein, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

10. **Meetings of Noteholders; Modification of Notes, Trust Deed and Loan Agreement; Waiver; Substitution of the Issuer; Appointment/Removal of Trustees**

10.1 **Meetings of Noteholders**

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes, the Loan Agreement or the Trust Deed. Noteholders will vote pro rata according to the principal amount of their Notes. Special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, *inter alia*, the amounts payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Loan Agreement. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

10.2 **Modification and Waiver**

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes and the Trust Deed or the Loan Agreement which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the interests of the Noteholders (as a class). The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Conditions or the Trust Deed or by RSB of the terms of the Loan Agreement, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement shall not be treated as such, if, in the opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders (as a class); provided always that (subject to certain exceptions) the Trustee may not exercise such power of waiver in contravention of any express direction by an Extraordinary Resolution of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 14.

10.3 **Substitution**

The Trust Deed contains provisions to the effect that the Issuer may, and at the request of RSB shall, having obtained the consent of RSB (if such substitution is not to be made at the request of RSB) and the Trustee (which latter consent may be given without the consent of the Noteholders) and having complied with such certain requirements as the Trustee may direct in the interests of the Noteholders, substitute any entity in place of the Issuer as creditor under the Loan Agreement, as issuer and principal obligor in respect of the Notes and as principal obligor under the Trust Deed, subject to the relevant provisions of the Trust Deed and the substitute's rights under the Loan Agreement being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes. Not later than 14 days after compliance with the aforementioned requirements, notice thereof shall be given by the Issuer to the Noteholder in accordance with Condition 14 or RSB shall use its best endeavours to ensure that the substitute obligor does so.

10.4 **Exercise of Powers**

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer, RSB or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

10.5 **Appointment and Removal of Trustee**

The Trust Deed contains provisions for the appointment or removal of a Trustee by a meeting of Noteholders passing an Extraordinary Resolution, provided that, in the case of removal of a Trustee, at all times there remains a trustee in office after such removal. Any appointment or removal of a Trustee shall be notified to the Noteholders by the Issuer in accordance with Condition 14. The Trustee may also resign such appointment giving not less than three months' notice to the Noteholders provided that such resignation shall not become effective unless there remains a trustee in office after such resignation.

11. **Prescription**

Notes will become void unless presented for payment within 10 years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect thereof.

12. **Indemnification of Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking proceedings to enforce payment unless indemnified to its satisfaction and to be paid its costs and expenses in priority to the claims of Noteholders. The Trustee is entitled to enter into contracts or transactions with the Issuer and/or RSB and any entity related to the Issuer and/or RSB without accounting for any profit, fees, corresponding interest, discounts or share of brokerage earned, arising or resulting from any such contract or transactions.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Loan Agreement or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed or by RSB in respect of the Loan Agreement. The Trustee has no liability to Noteholders for any shortfall arising from the Trustee being subject to tax as a result of the Trustee holding or realising the Security Interests.

13. **Replacement of Notes**

If any Note shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and stock exchange requirements, be replaced at the specified office of either Registrar or at the specified office of the Principal Paying Agent in London on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Issuer or the Trustee. Mutilated or defaced Notes must be surrendered before replacements will be issued.

14. **Notices**

All notices to the Noteholders shall be deemed to have been duly given if (i) posted to such Noteholders at their respective addresses as shown on the relevant Register and (ii) so long as the Notes are listed on the London Stock Exchange and the rules of that exchange so require, published in a daily newspaper of general circulation in London approved by the Trustee, currently expected to be the *Financial Times*. Any such notice shall be deemed to have been given on the first date on which both conditions shall have been met.

In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above, then such notification to such holders as shall be given with the approval of the Trustee shall constitute sufficient notice to such holders for every purpose hereunder.

15. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the amount and the date of the first payment of interest) so as to be consolidated and form a single series with the Notes. Such further Notes shall be constituted by a deed supplemental to the Trust Deed between the Issuer and the Trustee. The Trust Deed contains provisions for convening a single meeting of Noteholders and the holders of Notes of other series in certain circumstances where the Trustee so decides. In relation to any further issue which is to be consolidated and form a single series with the Notes, the Issuer will enter into a loan agreement supplemental to the Loan Agreement with RSB on substantially the same terms as the Loan Agreement (or in all respects except for the amount and the date of the first payment of interest on the further Notes). The Issuer will provide a further fixed charge in favour of the Trustee and amend the existing Security Interests in respect of certain of its rights and interests under such loan agreement and will assign absolutely certain of its rights under such loan agreement which will secure both the Notes and such further Notes and which will amend and supplement the Security Interests in relation to the existing Notes of such Series.

16. **Contracts (Rights of Third Parties) Act 1999**

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

17. **Governing Law**

The Notes, the Agency Agreement and the Trust Deed are governed by, and shall be construed in accordance with, English law. The Issuer has submitted in the Trust Deed to the jurisdiction of the courts of England and has appointed an agent for the service of process in England. For the avoidance of doubt, the provisions of articles 86 to 94-8 of the Luxembourg law of 10 August 1915, as amended, on commercial companies are excluded.

1 Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

FORM OF PRICING SUPPLEMENT

PRICING SUPPLEMENT DATED [●]

Closed Joint Stock Company Russian Standard Bank

Issue of [Aggregate Principal Amount of Series] [Title of Loan Participation Notes]
by Russian Standard Finance S.A. for the purpose of financing a Loan to
Closed Joint Stock Company Russian Standard Bank under a
U.S.\$1,500,000,000 Programme for the Issuance of Loan Participation Notes

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 18 April 2005 [and the supplemental Offering Circular dated [●]]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular [as so supplemented].

[The following alternative language applies if the first Series of an issue which is being increased was issued under an Offering Circular with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “**Conditions**”) set forth in the Offering Circular dated 18 April 2005. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [current date] [and the supplemental Offering Circular dated [●]], save in respect of the Conditions which are extracted from the Offering Circular dated 18 April 2005 and are attached hereto.]

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]

- | | | |
|----|--|--|
| 1. | (i) Issuer: | Russian Standard Finance S.A. |
| | (ii) Borrower: | Closed Joint Stock Company Russian Standard Bank |
| 2. | Series Number: | [●] |
| | [(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible.) | [●]] |
| 3. | Specified Currency: | [●] |
| 4. | Aggregate Principal Amount: | [●] |
| 5. | (i) Issue Price: | [●] per cent. of the Aggregate Principal Amount [plus accrued interest from [insert date] (<i>in the case of fungible issues only, if applicable</i>)] |
| | (ii) Proceeds: | [●] |
| | (iii) [Arrangement Fee:] | [●] [<i>(Required only for listed issues)</i>] |
| 6. | Specified Denominations: | [●] ¹ |

[Notes which may be admitted to the Official List of the UKLA and admitted to trading on the London Stock Exchange and/or admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system situated or operating in a member of the European Union may

not have a minimum denomination of less than EUR 1,000 (or nearest equivalent in another currency)]

7. (i) Issue Date: [●]
(ii) Interest Commencement Date: [●]
8. Maturity Date: *[specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]*

[If the Maturity Date is less than one year from the Issue Date and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, (i) the Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to “professional investors” or (ii) another applicable exemption from section 19 of the FSMA must be available]
9. Interest Basis: [[●] per cent. Fixed Rate]
[Floating Rate]
(further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par/other (specify)]
11. Change of Interest or Redemption/Payment Basis: *[Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]*
12. Status and Form of the Notes: Senior, Registered
13. Listing: [London/Other (specify)/None]
14. Method of distribution: [Syndicated/Non-syndicated]
15. Financial Centres (Condition 7): [●]
16. Loan: [●]

PROVISIONS RELATING TO INTEREST PAYABLE UNDER THE LOAN

17. Fixed Rate Note Provisions: [Applicable/Not Applicable] *(if not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate [(s)] of Interest: [●] per cent. per annum payable [annually/semi-annually] in arrear
- (ii) Interest Payment Date(s): [●] in each year [adjusted in accordance with *[specify Business Day Convention and any applicable Business Centre(s) for the definition of “Business Day”]*]/not adjusted]
- (iii) Fixed Coupon Amount [(s)]: [●] per [●] in principal amount

2 Only to be completed for an issue where Day Count Fraction is Actual/Actual ISMA.

- (iv) Broken Amount: *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)] and the Interest Payment Date(s) to which they relate]*
- (v) Day Count Fraction (Condition 5): *(Day count fraction should be Actual/Actual-ISMA for all fixed rate issues other than those denominated in U.S. dollars, unless the client requests otherwise)*
- (vi) Determination Date(s) (Condition 5): in each year. *[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon]²*
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: *[Not Applicable/give details]*
- 18. Floating Rate Note Provisions:** *[Applicable/Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Interest Period(s):
- (ii) Specified Interest Payment Dates:
- (iii) Business Day Convention: *[Floating Rate Business Day Convention/ Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day/Convention/other (give details)]*
- (iv) Additional Business Centre(s):
- (v) Manner in which the Rate(s) of Interest is/ are to be determined: *[Screen Rate Determination/ISDA Determination/ other (give details)]*
- (vi) Interest Period Date(s): *[Not Applicable/specify dates]*
- (vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):
- (viii) Screen Rate Determination: *As set out in the attached Loan Supplement*
- (ix) ISDA Determination: *As set out in the attached Loan Supplement*
- (x) Margin(s): *[+/-] per cent. per annum*
- (xi) Minimum Rate of Interest: per cent. per annum
- (xii) Maximum Rate of Interest: per cent. per annum
- (xiii) Day Count Fraction (Condition 5):
- (xiv) Rate Multiplier:
- (xv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Loans, if different from those set out in the Conditions:

PROVISIONS RELATING TO REDEMPTION

19. Final Redemption Amount of each Note: [[●] per Note of [●] specified denomination/Other]
20. Early Redemption Amount(s) of each Note payable if the Loan should become repayable under the Loan Agreement prior to the Maturity Date: [Principal amount/Other]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

21. Other terms or special conditions:⁽³⁾ [Not Applicable/give details]

DISTRIBUTION

22. (i) If syndicated, names of Managers: [Not Applicable/give names]
(ii) Stabilising Agent (if any): [Not Applicable/give name]
(iii) Dealer's Commission: [●]
23. If non-syndicated, name of Dealer: [Not Applicable/give name]
24. Additional selling restrictions: [Not Applicable/give details]

OPERATIONAL INFORMATION

25. ISIN Code: [●]
26. Common Code: [●]
27. Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
28. The Agents appointed in respect of the Notes are: [●]

GENERAL

29. Additional steps that may only be taken following approval by an Extraordinary Resolution in accordance with Condition 10: [Not Applicable/give details]
30. The aggregate principal amount of Notes issued has been translated into U.S. dollars at the rate of [●], producing a sum of (for Notes not denominated in U.S. dollars): [Not Applicable/U.S.\$[●]]

(3) If full terms and conditions are to be used, please add the following here:

"The full text of the Conditions which apply to the Notes [and which will be endorsed on the Notes in definitive form] are set out in [the Annex hereto], which Conditions replace in their entirety those appearing in the Offering Circular for the purposes of these Notes and such Conditions will prevail over any other provision to the contrary."

The first set of bracketed words is to be deleted where there is a permanent global Note instead of Notes in definitive form. The full Conditions should be attached to and form part of the pricing supplement.

[LISTING APPLICATION

This Pricing Supplement comprises the final terms required to list the issue of Notes described herein pursuant to the U.S.\$1,500,000,000 Programme for the Issuance of Loan Participation Notes of RSB.]

[STABILISING

In connection with this issue, [*insert name of Stabilising Agent*] (the “**Stabilising Agent**”) or any person acting for it may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilising Agent or any agent of his to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.]

RESPONSIBILITY

The Issuer and RSB accept responsibility for the information contained in this Pricing Supplement which, when read together with the Offering Circular [and the supplemental Offering Circular] referred to above, contains all information that is material in the context of the issue of the Notes.

Signed on behalf of Issuer:

Signed on behalf of RSB:

By:
Duly authorised

By:
Duly authorised

By:
Duly authorised

By:
Duly authorised

[THE FINAL FORM OF LOAN SUPPLEMENT WILL BE ATTACHED]

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

For the purposes of this summary, references to the “relevant Registrar” shall be to Deutsche Bank Luxembourg S.A. in respect of Regulation S Notes and to Deutsche Bank Trust Company Americas in respect of Rule 144A Notes.

The Global Notes

Each Series of Notes will be represented on issue by (i) in the case of Regulation S Notes, interests in a Regulation S Global Note deposited with, and registered in the name of a nominee for, a common depository for Euroclear and Clearstream, Luxembourg and (ii) in the case of Rule 144A Notes, interests in one or more Rule 144A Global Notes deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC.

Beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See “– Book-Entry Procedures for the Global Notes.” By acquisition of a beneficial interest in a Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person and that, prior to the expiration of 40 days after completion of the distribution of the Series of which such Notes are a part as determined and certified to the Principal Paying Agent by the relevant Dealer (or in the case of a Series of Notes sold to or through more than one relevant Dealer, by the Lead Manager on behalf of the relevant Dealers (the “**distribution compliance period**”), it will not offer, sell, pledge or otherwise transfer such interest except to a person whom the seller reasonably believes to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. See “Transfer Restrictions.” Rule 144A Global Notes may only be held through DTC at any time. See “– Book-Entry Procedures for the Global Notes.” By acquisition of a beneficial interest in a Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that if it is a U.S. person (within the meaning of Regulation S), it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Agency Agreement. See “Transfer Restrictions.”

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the Agency Agreement, and with respect to Rule 144A Global Note, as set forth in Rule 144A, and the Rule 144A Notes will bear the legends set forth thereon regarding such restrictions set forth under “Transfer Restrictions.”

Any beneficial interest in a Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note will, upon transfer, cease to have an interest in the Regulation S Global Note and have an interest in the Rule 144A Global Note, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Note for as long as it remains such an interest. Any beneficial interest in a Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note will, upon transfer, cease to have an interest in the Rule 144A Global Note and have an interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the relevant Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of Notes in definitive form (the “**Definitive Notes**”). The Notes are not issuable in bearer form.

Amendments to Conditions

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions:

- *Payments.* Payments of principal and interest in respect of Notes evidenced by a Global Note will be made against presentation for endorsement by the Principal Paying Agent and, if no further payment

falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant Notes.

- *Notices.* So long as any Notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of such Notes provided that for so long as the Notes are listed on the London Stock Exchange and the rules of the London Stock Exchange so require, notices will also be published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*).
- *Meetings.* The holder of each Global Note will be treated as being one person for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of Notes for which the relevant Global Note may be exchangeable.
- *Trustee's Powers.* In considering the interests of Noteholders while the relevant Global Note is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note and may consider such interests as if such accountholders were the holders of such Global Note.
- *Cancellation.* Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Note.

Exchange for Definitive Notes

Exchange

Each Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive, registered form if: (i) a Global Note is held by or on behalf of (A) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Note or ceases to be a “clearing agency” registered under the U.S. Securities Exchange Act of 1934 (the “**Exchange Act**”) or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (B) Euroclear or Clearstream, Luxembourg, and Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the relevant Registrar or any Transfer Agent or (ii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 which would not be suffered were the Notes in definitive form and a notice to such effect signed by two directors of the Issuer is delivered to the Trustee, by the Issuer giving notice to the relevant Registrar or any Transfer Agent and the Noteholders, of its intention to exchange the relevant Global Note for Definitive Notes on or after the Exchange Date (as defined below) specified in the notice.

On or after the Exchange Date, the holder of the relevant Global Note may surrender such Global Note to or to the order of the relevant Registrar or any Transfer Agent. In exchange for the relevant Global Note, as provided in the Paying Agency Agreement, the relevant Registrar will deliver, or procure the delivery of, an equal aggregate amount of duly executed and authenticated Definitive Notes in or substantially in the form set out in the relevant schedule to the Trust Deed.

The relevant Registrar will not register the transfer of, or exchange of interests in, a Global Note for definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

“Exchange Date” means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the relevant Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note shall be exchanged in full for Definitive Notes and the Issuer will, at the cost of RSB (but against such indemnity as the relevant Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the relevant Registrar with (a) a written order containing instructions and such other information as the Issuer and the relevant Registrar may require to complete, execute and deliver such Notes and (b) in the case of a Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB that is also a QP. Definitive Notes issued in exchange for a beneficial interest in a Rule 144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under “Transfer Restrictions.”

Legends

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the relevant Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Note in definitive form (“**Rule 144A Definitive Note**”) bearing the legend referred to under “Transfer Restrictions,” or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Issuer will deliver only Rule 144A Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the relevant Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

Book-Entry Procedures for the Global Notes

For each Series of Notes represented by interests in both Regulation S Global Note and a Rule 144A Global Note, custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See “– Book Entry Ownership – Settlement and Transfer of Notes.”

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers

and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders (“**Direct Participants**”) or indirectly (“**Indirect Participants**”) and together with Direct Participants, “**Participants**”) through organisations which are accountholders therein.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a “banking organisation” under the laws of the State of New York, a member of the U.S. Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the U.S. Securities Exchange Act of 1934 (the “**Exchange Act**”). DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in Rule 144A Global Notes directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the relevant Rule 144A Global Notes as to which such Participant or Participants has or have given such direction. However, in the circumstances described under “Exchange for Definitive Notes,” DTC will surrender the relevant Rule 144A Global Notes for exchange for individual Rule 144A Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Note representing Regulation S Notes of any Series will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depository on behalf of, Euroclear and Clearstream, Luxembourg.

DTC

The Rule 144A Global Note representing interests in Rule 144A Notes of any Series will have a CUSIP number and will be deposited with a custodian for and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC System.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the owner of an interest in a Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under the Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depository by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants’ or accountholders’ accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments

by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as beneficial interests in a Global Note are evidenced by the relevant Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited.

Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement ("**SDFS**") system in same-day funds, if payment is effected in U.S. Dollars, or free of payment, if payment is not effected in U.S. Dollars.

Where payment is not effected in U.S. Dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in a Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in a Regulation S Global Note (subject to the certification procedures provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Rule 144A Global Notes will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and (ii) increase the amount of Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Rule 144A Global Note (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depository for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depository for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Notes who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the relevant Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by a Regulation S Global Note; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by one or more Rule 144A Global Notes.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor on the Closing Date thereof, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the relevant Closing Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the relevant Closing Date should consult their own advisers.

TAXATION

The following is a general description of certain Russian and Luxembourg tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to each Series of the Notes, whether in those countries or elsewhere. Prospective purchasers of any Series of the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of any Series of the Notes and receiving payments of interest, principal and/or other amounts under any Series of the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this offering memorandum. The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving any Series of the Notes.

Russian Federation

Taxation of the Notes

General

The following is a general summary of certain Russian tax considerations relevant to the purchase, ownership and disposition of the Notes, as well as the taxation of interest on the Loan. The summary is based on the laws of Russia, in effect on the date of this Offering Circular, which are subject to change (possibly with retroactive effect). The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal authorities of Russia. Similarly, the summary does not seek to address the availability of double tax treaty relief in respect of the Notes, and prospective investors should note that there may be practical difficulties involved in claiming such double tax treaty relief. Prospective investors should consult their own advisers regarding the tax consequences of investing in the Notes. No representation with respect to the Russian tax consequences to any particular holder is made hereby.

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 financial markets or more developed taxation systems. 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 an individual actually present in Russia for an aggregate period of less than 183 days in a given calendar year (excluding days of arrival into Russia but including days of departure from Russia) or a legal person or organisation in each case not organised under Russian law which holds and disposes of the Notes, otherwise than through its permanent establishment in Russia.

The Russian tax treatment of interest payments made by RSB under each Loan Agreement may affect the holders of the Notes. See “*Taxation of Interest on each Loan*” below.

Non-Resident Holders

A non-resident holder will not be subject to any Russian taxes on receipt from the Issuer of amounts payable in respect of principal or interest on the Note subject to what is said in “*Taxation of Interest on each Loan*”.

A non-resident holder generally should not be subject to any Russian taxes in respect of gains or other income realised on redemption, sale or other disposition of the Notes outside of Russia provided that the proceeds from such disposition are not received from a source within Russia.

A non-resident holder which is a legal person or organisation generally should not be subject to withholding tax on any gain realised on the sale or on the disposition of the Notes even if proceeds are received from a source 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 Notes.

Accrued interest may be distinguished from the total gain and be subject to Russian withholding tax at 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 Notes. Non-resident holders should contact their own tax advisers with respect to this possibility. Withholding tax on interest may be reduced or eliminated in accordance with the provisions of an applicable double tax treaty. Advance treaty relief should be available, subject to the requirements of the laws of the Russian Federation.

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 Notes less any available cost deductions (including the original purchase price) where the proceeds of such disposal are received from a source within Russia, subject to any available double tax treaty relief. If the Notes are disposed to a resident of Russia and payment is made within or from Russia, the proceeds of such disposal are likely to be regarded for personal income tax purposes as income from a source within Russia. The tax may be withheld at source of payment or, if the tax is not withheld, then the non-resident physical person may be liable to pay the tax.

There is some uncertainty regarding the treatment of the portion of proceeds attributable to accrued interest. Subject to reduction or elimination under provisions of an applicable tax treaty related to interest income, proceeds attributable to accrued interest may be taxed at a rate of 30%, even if the disposal results in a capital loss. In order to use the double tax treaty relief a physical person should provide appropriate documentary proof of tax payments made outside of Russia on income with respect of which treaty benefits are claimed. Because of uncertainties regarding the form and procedures for providing such documentary proof, physical persons in practice may not be able to obtain advance relief on receipt of proceeds from a source within Russia and obtaining refund can be extremely difficult. Non-resident holders who are physical persons should consult their own tax advisers with respect to the tax consequences of the receipt of proceeds from a source within Russian in respect of a disposition of the Notes.

There is a risk that the taxable base may be affected by changes in the exchange rates between the currency of acquisition of the Notes and the currency of sale and Roubles.

Resident Holders

A holder of a Note who is an individual resident in Russia for tax purposes 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 Note, and interest received on the Notes.

Taxation of Interest on each Loan

In general, payments of interest on borrowed funds by a Russian entity to a non-resident legal person are subject to Russian withholding tax at a rate of 20%, subject to reduction or elimination pursuant to the terms of an applicable double tax treaty. Based on the professional advice it has received, RSB believes that, based on laws in effect as of the date hereof, interest payments on the relevant Loan made to the Issuer should not be subject to withholding under the terms of an applicable double taxation treaty between Russia and the Grand Duchy of Luxembourg. However, there can be no assurance that such double tax relief will continue to be available. In addition, if, as a result of the Trustee's enforcement of the security that the Issuer grants it by way of the security interests in the Trust Deed, interest under the Loan becomes payable to the Trustee, the benefit of the double tax treaty between Russia and the Grand Duchy of Luxembourg would cease and payments of interest may be subject to Russian withholding tax.

If the payments under a Loan are subject to any withholding taxes (as a result of which the Issuer would reduce payments under the Notes in the amount of such withholding taxes), RSB is obliged to increase payments as may be necessary so that the Issuer receives the net amount equal to the full amount it would have received in the absence of such withholding. It should be noted, however, that gross-up provisions in contracts may not be enforceable under Russian law. In the event that RSB fails to increase the payments, such failure would constitute an Event of Default under the Loan Agreement. If RSB is obliged to increase payments, it may prepay the relevant Loan in full. In such case, all outstanding Notes would be redeemable at par with accrued interest.

Russian VAT is not applied to the rendering of financial services involving the provision of a loan in monetary form. Therefore, no VAT is payable in Russia on any payment of interest or principal in respect of the Loan.

Luxembourg

The following general summary is based upon the tax laws of Luxembourg as in effect on the date of this Offering Circular and is subject to any change that may come into effect after that date. Under the existing laws of Luxembourg:

Withholding Tax

All payments of interest and principal by the Issuer under the Notes can be made free and clear of any withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein, in accordance with applicable Luxembourg law and a confirmation of the Luxembourg tax authorities which will be received by the Issuer and will be effective from the Closing Date (see, however “EU Directive on the Taxation of Savings Income”, which may be applicable in the event of the Issuer appointing a Paying Agent in Luxembourg);

Taxes on Income and Capital Gains

A holder of a Note who derives income from such Note or who realises a gain on the disposal or redemption thereof will not be subject to Luxembourg taxation on such income or capital gains unless:

- (i) such holder is, or is deemed to be, resident in Luxembourg for Luxembourg tax purposes (or for the purposes of the relevant provisions); or
- (ii) such income or gain is attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in Luxembourg;

Net Wealth Tax

Luxembourg net wealth tax will not be levied on a holder of a Note unless:

- (i) such holder is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or
- (ii) such Note is attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in Luxembourg;

Inheritance and Gift Tax

Where the Notes are transferred for no consideration, note in particular:

- (i) No Luxembourg inheritance tax is levied on the transfer of the Notes upon death of a holder of a Note in cases where the deceased holder was not a resident of Luxembourg for inheritance tax purposes.
- (ii) Luxembourg gift tax will be levied in the event that the gift is made pursuant to a notarial deed signed before a Luxembourg notary;

Value Added Tax

There is no Luxembourg value-added tax payable in respect of payments in consideration for the issue of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of a Note provided that Luxembourg value added tax may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg value added tax purposes such services are rendered, or are deemed

to be rendered, in Luxembourg and an exemption from value added tax does not apply with respect to such services.

Other Taxes and Duties

It is not compulsory that the Notes be filed, recorded or enrolled with any court or other authority in Luxembourg or that registration tax, transfer tax, capital tax, stamp duty or any other similar tax or duty (other than court fees and contributions for the registration with the Chamber of Commerce) be paid in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including any foreign judgment in the courts of Luxembourg) of the Notes in accordance therewith. However, ad valorem registration duties may be due on the Notes where ownership of the Notes is voluntarily registered, or where registration is ordered following (i) notarisation of the Notes; (ii) reference to the Notes in a public deed; or (iii) production of or reference to the Notes in judicial proceedings in Luxembourg or before any other Luxembourg official authority (autorité constituée).

Residence

A holder of a Note will not become resident, or deemed to be resident, in Luxembourg by reason only of the holding of such Note or the execution, performance, delivery and/or enforcement of that or any other.

Certain U.S. Federal Income Tax Considerations

The following is a summary of certain material U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes by a U.S. Holder (as defined below). This summary does not address the material U.S. federal income tax consequences of every type of Note which may be issued under the Programme, and the relevant Pricing Supplement will contain additional or modified disclosure concerning the material U.S. federal income tax consequences relevant to such type of Note as appropriate. This summary deals only with purchasers of Notes that are U.S. Holders that will hold the Notes as capital assets and whose functional currency is the U.S. dollar. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors, and does not address state, local, foreign or other tax laws. In particular, this summary does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes. Moreover, the summary deals only with Notes with a term of 30 years or less. The U.S. federal income tax consequences of owning Notes with a longer term will be discussed in the applicable Pricing Supplement.

As used herein, the term “**U.S. Holder**” means a beneficial owner of Notes that is, for U.S. federal income tax purposes, a citizen or resident of the United States or a domestic corporation or that otherwise is subject to United States federal income taxation on a net income basis in respect of a Note.

The summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended (the “**Code**”), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as currently in effect and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Characterisation of the Notes

There are no regulations, published rulings or judicial decisions addressing the characterisation for U.S. federal income tax purposes of securities issued under the same circumstances and with substantially the same terms as the Notes. The Issuer expects the Notes to be treated as debt for U.S. federal income tax purposes. However, no ruling will be obtained from the Internal Revenue Service (“**IRS**”) with respect to the characterisation of the Notes as debt, and there can be no assurance that the IRS or the courts would agree with this characterisation of the Notes. If the Notes were treated as equity interests in the Issuer, U.S. Holders would be treated as owning interests in a “passive foreign investment company” (a “**PFIC**”). Prospective investors should consult their tax advisers regarding the characterisation of the Notes and the consequences of owning an equity interest in a PFIC. The discussion below assumes that the Notes will be treated as debt for US federal income tax purposes.

Payments of Interest

Interest on a Note, whether payable in U.S. dollars or a currency other than U.S. dollars (a “**foreign currency**”), other than interest on a “Discount Note” that is not “qualified stated interest” (each as defined below under “Original Issue Discount — General”), will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder’s method of accounting for tax purposes. Interest paid by the Issuer on the Notes and OID, if any, accrued with respect to the Notes (as described below under “**Original Issue Discount**”) generally will constitute income from sources outside the United States.

Original Issue Discount

General

The following is a summary of the principal U.S. federal income tax consequences of the ownership of Notes issued with original issue discount (“**OID**”). The following summary does not discuss Notes that are characterised as contingent payment debt instruments for U.S. federal income tax purposes. In the event the Issuer issues contingent payment debt instruments, the applicable Pricing Supplement will describe the material U.S. federal income tax consequences thereof.

A Note, other than a Note with a term of one year or less (a “**Short-Term Note**”), will be treated as issued with OID (a “**Discount Note**”) if the excess of the Note’s “stated redemption price at maturity” over its “issue price” is equal to or more than a de minimis amount (0.25% of the Note’s stated redemption price at maturity multiplied by the number of complete years to its maturity). An obligation that provides for the payment of amounts other than qualified stated interest before maturity (an “**instalment obligation**”) will be treated as a Discount Note if the excess of the Note’s stated redemption price at maturity over its issue price is greater than or equal to 0.25% of the Note’s stated redemption price at maturity multiplied by the weighted average maturity of the Note. A Note’s weighted average maturity is the sum of the following amounts determined for each payment on a Note (other than a payment of qualified stated interest): (i) the number of complete years from the issue date until the payment is made multiplied by (ii) a fraction, the numerator of which is the amount of the payment and the denominator of which is the Note’s stated redemption price at maturity. Generally, the issue price of a Note will be the first price at which a substantial amount of Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers, or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers. The stated redemption price at maturity of a Note is the total of all payments provided by the Note that are not payments of “qualified stated interest.” The term “qualified stated interest” generally means stated interest that is unconditionally payable at least annually at a single fixed rate (with certain exceptions for lower rates paid during some periods), or, subject to certain conditions, at a variable rate based on one more interest indices.

U.S. Holders of Discount Notes must include OID in income calculated on a constant-yield method before the receipt of cash attributable to the income, and generally will have to include in income increasingly greater amounts of OID over the life of the Discount Notes. The amount of OID includible in income by a U.S. Holder of a Discount Note is the sum of the daily portions of OID with respect to the Discount Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Discount Note (“**accrued OID**”). The daily portion is determined by allocating to each day in any “accrual

period” a *pro rata* portion of the OID allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Note as long as (i) no accrual period is longer than one year and (ii) each scheduled payment of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (a) the product of the Discount Note’s adjusted issue price at the beginning of the accrual period and the Discount Note’s yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of qualified stated interest on the Note allocable to the accrual period. In the case of a Note that pays a variable rate of interest (a “**Variable Interest Rate Note**”) and that is a Discount Note, both the “yield to maturity” and “qualified stated interest” will generally be determined for these purposes as though the Discount Note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to the interest payments on the Note on its date of issue or in the case of certain Variable Interest Rate Notes, the rate that reflects the yield that is reasonably expected for the Note. (Additional rules may apply if interest on a Variable Interest Rate Note is based on more than one interest index.) The “adjusted issue price” of a Discount Note at the beginning of any accrual period is the issue price of the Note increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the Note that were not qualified stated interest payments.

Acquisition Premium

A U.S. Holder that purchases a Discount Note for an amount less than or equal to the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, but in excess of its adjusted issue price (any such excess being “acquisition premium”) and that does not make the election described below under “Election to Treat All Interest as Original Issue Discount,” is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. Holder’s adjusted basis in the Note immediately after its purchase over the Note’s adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, over the Note’s adjusted issue price.

Market Discount

A Note, other than a Short-Term Note, purchased in the secondary market generally will be treated as purchased at a market discount (a “**Market Discount Note**”) if the Note’s stated redemption price at maturity or, in the case of a Discount Note, the Note’s adjusted issue price, exceeds the amount for which the U.S. Holder purchased the Note by at least 0.25% of the Note’s stated redemption price at maturity or adjusted issue price, respectively, multiplied by the number of complete years to the Note’s maturity (or, in the case of a Note that is an instalment obligation, the Note’s weighted average maturity). If this excess is not sufficient to cause the Note to be a Market Discount Note, then the excess constitutes “de minimis market discount.”

In general terms, market discount is accrued on a rateable basis, or, at the U.S. Holder’s election, on a constant yield basis, but is not currently includible in taxable income. A constant yield election is irrevocable unless the IRS consents to a revocation. Upon disposition or maturity of a Market Discount Note, or upon receipt of a partial principal payment on a Market Discount Note that is an instalment obligation, any gain will be treated as ordinary income to the extent that the gain does not exceed the market discount that has accrued on the Note while held by such U.S. Holder. Alternatively, a U.S. Holder of a Market Discount Note may elect to include market discount in income currently (on either a rateable or constant yield basis) over the life of the Note. This election shall apply to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies. This election may not be revoked without the consent of the IRS. A U.S. Holder of a Market Discount Note that does not elect to include market discount in income currently will generally be required to defer deductions for interest on borrowings incurred to purchase or carry a Market Discount Note that is in excess of the interest and OID on the Note includible in the U.S. Holder’s income, to the extent that this excess interest expense does not exceed the portion of the market discount allocable to the days on which the Market Discount Note was held by the U.S. Holder.

Election to Treat All Interest as Original Issue Discount

A U.S. Holder may elect to include in gross income all interest that accrues on a Note using the constant yield method described above under “Original Issue Discount — General,” with certain modifications. For purposes of this election, interest includes stated interest, acquisition discount, OID, de minimis OID, market discount, de minimis market discount and unstated interest, as adjusted by any amortisable bond premium (described below under “Notes Purchased at a Premium”) or acquisition premium. This election will generally apply only to the Note with respect to which it is made and may not be revoked without the consent of the IRS. If the election to apply the constant-yield method to all interest on a Note is made with respect to a Market Discount Note, the electing U.S. Holder will be treated as having made the election discussed above under “Market Discount” to include market discount in income currently over the life of all debt instruments with market discount held or thereafter acquired by the U.S. Holder. U.S. Holders should consult their tax advisers concerning the propriety and consequences of this election.

Short-Term Notes

In general, an individual or other cash basis U.S. Holder of a Short-Term Note is not required to accrue OID (as specially defined below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on Short-Term Notes on a straight-line basis or, if the U.S. Holder so elects, under the constant-yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain realised on the sale or retirement of the Short-Term Note will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant yield method) through the date of sale or retirement. U.S. Holders who are not required and do not elect to accrue OID on Short-Term Notes will be required to defer deductions for interest on borrowings allocable to Short-Term Notes in an amount not exceeding the deferred income until the deferred income is realised.

For purposes of determining the amount of OID subject to these rules, all interest payments on a Short-Term Note are included in the Short-Term Note’s stated redemption price at maturity. A U.S. Holder may elect to determine OID on a Short-Term Note as if the Short-Term Note had been originally issued to the U.S. Holder at the U.S. Holder’s purchase price for the Short-Term Note. This election shall apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

Fungible Issue

The Issuer may, without the consent of the Holders of outstanding Notes, issue additional Notes with identical terms. These additional Notes, even if they are treated for non-tax purposes as part of the same series as the original Notes, in some cases may be treated as a separate series for U.S. federal income tax purposes. In such a case, the additional Notes may be considered to have been issued with OID even if the original Notes had no OID, or the additional Notes may have a greater amount of OID than the original Notes. These differences may affect the market value of the original Notes if the additional Notes are not otherwise distinguishable from the original Notes.

Notes Purchased at a Premium

A U.S. Holder that purchases a Note for an amount in excess of its principal amount, or for a Discount Note, its stated redemption price at maturity, may elect to treat the excess as “amortisable bond premium,” in which case the amount required to be included in the U.S. Holder’s income each year with respect to interest on the Note will be reduced by the amount of amortisable bond premium allocable (based on the Note’s yield to maturity) to that year. Any election to amortise bond premium shall apply to all bonds (other than bonds the interest on which is excludable from gross income for U.S. federal income tax purposes) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the IRS. See also “Original Issue Discount — Election to Treat All Interest as Original Issue Discount.”

Purchase, Sale and Retirement of Notes

A U.S. Holder's tax basis in a Note will generally be its cost, increased by the amount of any OID or market discount included in the U.S. Holder's income with respect to the Note (whether or not de minimis) and reduced by (i) the amount of any payments that are not qualified stated interest payments, and (ii) the amount of any amortisable bond premium applied to reduce interest on the Note.

A U.S. Holder will generally recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and the tax basis of the Note. Except to the extent described above under "Original Issue Discount — Market Discount" or "Original Issue Discount — Short-Term Notes" or attributable to accrued but unpaid interest or changes in exchange rates (as discussed below), gain or loss recognised on the sale or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder's holding period in the Notes exceeds one year. Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source.

Foreign Currency Notes

Interest

If an interest payment is denominated in, or determined by reference to, a foreign currency, the amount of income recognised by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

An accrual basis U.S. Holder may determine the amount of income recognised with respect to an interest payment denominated in, or determined by reference to, a foreign currency in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year).

Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

Upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Note) denominated in, or determined by reference to, a foreign currency, the U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars. If a payment received in a foreign currency is not immediately converted into U.S. dollars, the later disposition of the foreign currency may give rise to further exchange gain or loss.

OID

OID for each accrual period on a Discount Note denominated in, or determined by reference to, a foreign currency, will be determined in the foreign currency and then translated into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described above. Upon receipt of an amount attributable to OID (whether in connection with a payment on the Note or a sale of the Note), a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

Market Discount

Market Discount on a Note that is denominated in, or determined by reference to, a foreign currency, will be accrued in the foreign currency. If the U.S. Holder elects to include market discount in income currently, the accrued market discount will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. Holder's taxable year). Upon the receipt of an amount attributable to accrued market discount, the U.S. Holder may recognise U.S. source exchange gain or loss (which will be taxable as ordinary income or loss) determined in the same manner as for accrued interest or OID. A U.S. Holder that does not elect to include market discount in income currently will recognise, upon the disposition or maturity of the Note, the U.S. dollar value of the amount accrued, calculated at the spot rate on that date, and no part of this accrued market discount will be treated as exchange gain or loss.

Bond Premium

Bond premium (including acquisition premium) on a Note that is denominated in, or determined by reference to, a foreign currency, will be computed in units of the foreign currency, and any such bond premium that is taken into account currently will reduce interest income in units of the foreign currency. On the date bond premium offsets interest income, a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) measured by the difference between the spot rate in effect on that date, and on the date the Notes were acquired by the U.S. Holder. A U.S. Holder that does not elect to take bond premium (other than acquisition premium) into account currently will recognise a market loss when the Note matures.

Sale or Retirement

As discussed above under "Purchase, Sale and Retirement of Notes," a U.S. Holder will generally recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and its tax basis in the Note. A U.S. Holder's tax basis in a Note that is denominated in a foreign currency will be determined by reference to the U.S. dollar cost of the Note. The U.S. dollar cost of a Note purchased with foreign currency will generally be the U.S. dollar value of the purchase price on the date of purchase or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase.

The amount realised on a sale or retirement for an amount in foreign currency will be the U.S. dollar value of this amount on the date of sale or retirement or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale. Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

A U.S. Holder will recognise U.S. source exchange rate gain or loss (taxable as ordinary income or loss) on the sale or retirement of a Note equal to the difference, if any, between the U.S. dollar values of the U.S. Holder's purchase price for the Note (or, if less, the principal amount of the Note) (i) on the date of sale or retirement and (ii) the date on which the U.S. Holder acquired the Note. Any such exchange rate gain or loss will be realised only to the extent of total gain or loss realised on the sale or retirement.

Disposition of Foreign Currency

Foreign currency received as interest on a Note or on the sale or retirement of a Note will have a tax basis equal to the U.S. dollar amount taken into account as interest or proceeds from sale or retirement of a Note. Foreign currency that is purchased will generally have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase Notes or upon exchange for U.S. dollars) will be U.S. source ordinary income or loss.

Backup Withholding and Information Reporting

In general, payments of interest and accrued OID on, and the proceeds of a sale, redemption or other disposition of, the Notes, payable to a U.S. Holder by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding will apply to these payments and to accruals of OID if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders (including, among others, corporations) are not subject to backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

Reportable Transactions

U.S. Treasury regulations require a U.S. taxpayer that participates in a “reportable transaction” to disclose such participation to the IRS. The scope and application of these rules is not entirely clear. In the event the acquisition, holding or disposition of Notes constitutes participation in a “reportable transaction” for purposes of these rules, a U.S. Holder will be required to disclose its investment by filing Form 8886 with the IRS and the Issuer and its advisers may also be required to disclose the transaction to the IRS. In addition, the Issuer and its advisers may be required to maintain a list of U.S. Holders, and to furnish this list and certain other information to the IRS upon written request. Prospective purchasers are urged to consult their tax advisers regarding the application of these rules to the acquisition, holding or disposition of Notes.

EU Directive on the Taxation of Savings Income

On 3 June 2003, the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income. The directive has been scheduled to be applied by Member States beginning 1 July 2005, provided that certain non-EU countries adopt similar measures as of the same date. Under the directive, each Member State will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State. For a transitional period, however, Austria, Belgium and Luxembourg will be permitted to apply an optional information reporting system whereby if a beneficial owner does not comply with one of two procedures for information reporting, the Member State will levy a withholding tax on payments to such beneficial owner, at rates rising over the course of the transitional period to 35%. The transitional period is to commence on the date from which the directive is to be applied by Member States and to terminate at the end of the first fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. See “European Union Directive on the Taxation of Savings Income in the Form of Interest Payments (Council Directive 2003/48/EC).

CERTAIN ERISA CONSIDERATIONS

ERISA imposes fiduciary standards and certain other requirements on employee benefit plans subject thereto (collectively, “**ERISA Plans**”), including collective investment funds, separate accounts, and other entities or accounts whose underlying assets are treated as assets of such plans pursuant to the U.S. Department of Labor “plan assets” regulation, 29 CFR Section 2510.3-101 (the “**Plan Assets Regulation**”) and on those persons who are fiduciaries with respect to ERISA Plans.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code (together with ERISA Plans, “**Plans**”)) and certain persons (referred to as “**parties in interest**” or “**disqualified persons**”) having certain relationships to such Plans, unless a statutory or administrative exemption applies to the transaction. In particular, an extension of credit between a Plan and a “party in interest” or “disqualified person” may constitute a prohibited transaction. It is possible that the Notes, even if regarded as equity for purposes of the Plan Assets Regulations (as discussed below) would nevertheless be regarded as debt for purposes of the prohibited transaction rules of ERISA and Section 4975 of the Code. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes or other liabilities under ERISA and the Code.

The Issuer or the Trustee, directly or through affiliates, may be considered a party in interest or disqualified person with respect to many Plans. Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if the Notes are acquired by a Plan with respect to which the Issuer or the Trustee or any of their respective affiliates is a party in interest or a disqualified person, unless the Notes are acquired pursuant to and in accordance with an applicable exemption. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may apply depending in part on the type of Plan fiduciary making the decision to acquire a Note and the circumstances under which that decision is made. However, Notes may not be acquired by any Plans as discussed below.

Under a “look-through rule” set forth in the Plan Assets Regulations, if a Plan invests in an “equity interest” of an entity and no other exception applies, the Plan’s assets include both the equity interest and an undivided interest in each of the entity’s underlying assets. This rule will only apply where equity participation in an entity by benefit plan investors is “significant.” Equity participation by benefit plan investors is significant if 25% or more of the value of any class of equity interest in the entity is held by benefit plan investors. An equity interest does not include debt (as determined by applicable local law) which does not have substantial equity features. The term “benefit plan investor” includes (a) an employee benefit plan (as defined in Section 3(3) of ERISA) whether or not subject to Title I of ERISA, (b) a plan described in Section 4975(e)(1) of the Code or (c) an entity whose underlying assets include “plan assets” by reason of any such plan’s investment in the entity. Where the value of an interest in an entity relates solely to identified property of the entity, that property is treated as the sole property of a separate entity.

Because the Notes do not represent an interest in any property of the Issuer other than the relevant Loan, they may be regarded for ERISA purposes as equity interests in a separate entity whose sole asset is the relevant Loan. Further, the Issuer will not be able to monitor the Noteholders’ possible status as benefit plan investors. Accordingly, the Notes should not be acquired by any benefit plan investor.

BY ITS PURCHASE AND HOLDING OF A NOTE OR ANY INTEREST THEREIN, THE PURCHASER AND/OR HOLDER THEREOF AND EACH TRANSFEREE WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED AT THE TIME OF ITS PURCHASE AND THROUGHOUT THE PERIOD THAT IT HOLDS SUCH NOTE OR INTEREST THEREIN, THAT (1) IT IS NOT A BENEFIT PLAN INVESTOR (AS DEFINED IN THE PLAN ASSETS REGULATIONS) AND (2) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY SUCH NOTE OR INTEREST TO ANY PERSON WITHOUT FIRST OBTAINING THESE SAME FOREGOING REPRESENTATIONS AND WARRANTIES FROM THAT PERSON.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in a Dealer Agreement dated 18 April 2005 (the “**Dealer Agreement**”) between the Issuer, RSB, the Permanent Dealers and the Arrangers, the Notes will be offered from time to time by the Issuer to the Permanent Dealers or such other Dealers as may be appointed from time to time in respect of any Series of Notes pursuant to the Dealer Agreement. Any agreement for the sale of Notes will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, whether the placement of the Notes is underwritten or sold on an agency basis only, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) which are payable or allowable by the Issuer in respect of such purchase and the form of any indemnity to the Dealers against certain liabilities in connection with the offer and sale of the relevant Notes. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Dealer Agreement also provides for Notes to be issued in syndicated Series that may be jointly and severally underwritten by two or more Dealers.

Each of the Issuer and RSB has agreed to indemnify the Dealers against certain losses, as set out in the Dealer Agreement. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe for the Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Selling Restrictions

United States

The Notes and the corresponding Loans have not been and will not be registered under the Securities Act or the securities laws of any State or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

Each Dealer has agreed that it will not offer or sell the Notes of a Series (i) as part of their distribution at any time and (ii) otherwise until 40 days after the completion of the distribution of the Series of which such Notes are a part, as determined and certified by the relevant Dealer (or, in the case of a sale of a Series of Notes through more than one Dealer by the Lead Manager on behalf of the relevant Dealers) only in accordance with Rule 903 of Regulation S or Rule 144A under the Securities Act, and, at or prior to confirmation of a sale of Notes (other than a sale pursuant to Rule 144A), it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of each Series of Notes, an offer or sale of Notes of such Series within the United States by a dealer that is participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Terms used in the preceding three paragraphs have the meanings given to them by Regulation S under the Securities Act.

Notes offered and sold outside the United States may be sold in reliance on Regulation S. The Dealer Agreement provides that the Dealer(s) may directly or through their respective U.S. registered broker-dealer affiliates arrange for the offer and resale of Notes within the United States only to persons whom they reasonably believe are QIBs and who are QPs who can represent that (a) they are QPs who are QIBs within the meaning of Rule 144A, (b) they are not broker-dealers who own and invest on a discretionary basis less than U.S.\$25 million in securities of unaffiliated issuers, (c) they are not a participant-directed employee plan, such as 401(k) plan, (d) they are acting for their own account, or the account of one or more QIBs each of which is a QP, (e) they are not formed for the purpose of investing in the Issuer or the Notes, (f) each account for which they are purchasing will hold and transfer at least U.S.\$100,000 in principal amount of

Notes at any time, and (g) they will provide notice of the transfer restrictions set forth in this offering circular to any subsequent transferees.

This Offering Circular has been prepared by the Issuer and RSB for use in connection with the offer and sale of the Notes outside the United States and the resale of the Notes in the United States and for the listing of Notes on the London Stock Exchange. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States or to any U.S. person other than any QIB who is also a QP and to whom an offer has been made directly by one of the Dealers or its U.S. registered broker-dealer affiliates. Distribution of this Offering Circular by any non-U.S. person outside the United States or by any QIB that is a QP within the United States to any U.S. person or to any other person within the United States, other than to a QIB that is a QP and to those persons, if any, retained to advise such non-U.S. person or such QIB that is a QP with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, other than any QIB that is a QP and those persons, if any, retained to advise such non-U.S. person or QIB that is a QP, is prohibited.

United Kingdom

Each Dealer has represented, warranted and agreed that:

- (i) ***No offer to public – listed Notes:*** in relation to Notes which have a maturity of one year or more and which are to be admitted to the Official List of the UK Listing Authority, it has not offered or sold and will not offer or sell any such Notes to persons in the United Kingdom prior to admission of such Notes to listing in accordance with Part VI of the FSMA, 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 or the FSMA;
- (ii) ***No offer to public – unlisted Notes:*** in relation to Notes which have a maturity of one year or more and which are not to be admitted to the Official List of the UK Listing Authority, it has not offered or sold and, prior to the expiry of a period of six months from the Issue Date of such Notes will not offer or sell any such 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;
- (iii) ***No deposit-taking:*** in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any such Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of such Notes would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;
- (iv) ***Financial promotion:*** it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (v) ***General compliance:*** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Russian Federation

Each Dealer has represented, and agreed that it has not offered or sold or otherwise transferred and will not offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter any Notes to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation except in compliance with Russian law. The Notes may not be sold or offered to or for the benefit of any person (including legal entities) that are resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation except in compliance with Russian law.

Luxembourg

Each Dealer has represented and agreed that the Notes shall not be offered or sold to the public in or from the Grand Duchy of Luxembourg, directly or indirectly, and neither this Offering Circular nor any form of application, advertisement or other material may be distributed or published in the Grand Duchy of Luxembourg, unless the requirements of Luxembourg law concerning public offerings of securities have first been met.

General

Each Dealer has agreed that it has (to the best of its knowledge and belief) complied and will comply with all applicable laws and regulations in each jurisdiction in which it offers, sells or delivers Notes or distributes this Offering Circular (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Notes, the Issuer or RSB.

No action has been taken or will be taken in any jurisdiction by the Issuer, RSB, the Arrangers or any of the Dealers that would, or is intended to, permit a public offer of the Notes or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Accordingly, each Dealer has undertaken to the Issuer and RSB that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will (to the best of its knowledge and belief) result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

These selling restrictions may be modified by the agreement of the Issuer, RSB and the Dealers. Any such modification will be set out in the Pricing Supplement issued in respect of the issue of Notes to which it relates or in a supplement to this Offering Circular.

The Arrangers, the Dealers and their respective affiliates have engaged in transactions with RSB and other members of the Group (including, in some cases, credit agreements and credit lines) in the ordinary course of their banking business and the Arrangers and the Dealers have performed various investment banking, financial advisory, and other services for RSB and other members of the Group, for which they received customary fees, and the Arrangers, the Dealers and their respective affiliates may provide such services in the future.

TRANSFER RESTRICTIONS

Because of the following restrictions, you are advised to consult legal counsel prior to making any offer, resale or other transfer offered hereby.

Rule 144A Notes

Each purchaser of a beneficial interest in a Rule 144A Global Note, by accepting delivery of this Offering Circular and the interest in such Rule 144A Global Note, will be deemed to have represented, agreed and acknowledged that:

- (1) If it is a U.S. person within the meaning of Regulation S it is (a) a QIB that is also a QP, (b) not a broker-dealer which owns and invests on a discretionary basis less than U.S.\$25 million in securities of unaffiliated issuers, (c) not a participant-directed employee plan, such as a 401(k) plan, (d) acquiring such Notes for its own account, or for the account of one or more QIBs each of which is also a QP, (e) not formed for the purpose of investing in the Notes or the Issuer, and (f) aware, and each beneficial owner of such Notes has been advised, that the seller of such Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.
- (2) It is (a) purchasing not less than U.S.\$100,000 principal amount of such Notes and (b) will provide notice of the transfer restrictions set forth herein to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in the Issuer's securities from one or more book entry depositories.
- (3) It understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB and that is also a QP purchasing for its own account or for the account of one or more QIBs, each of which is also a QP or (b) to a non-U.S. person within the meaning of Regulation S in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, in each case in accordance with any applicable securities laws of any State of the United States.
- (4) It understands that the Issuer has the power to compel any beneficial owner of Rule 144A Notes that is a U.S. person and is not a QIB and a QP to sell its interest in the Rule 144A Notes, or may sell such interest on behalf of such owner. The Issuer has the right to refuse to honour the transfer of an interest in the Rule 144A Notes to a U.S. person who is not a QIB and a QP.
- (5) It understands and acknowledges that its purchase and holding of such Notes constitutes a representation and agreement by it that at the time of its purchase and throughout the period in which it holds such Notes or any interest therein (a) it is not an employee benefit plan as described in Section 3(3) of the United States Employee Retirement Income Security Act of 1974, as amended ("ERISA"), whether or not subject to the provisions of Title I of ERISA, a plan described in Section 4975(e)(1) of the United States Internal Revenue Code of 1986, as amended (the "Code"), or an entity whose underlying assets include plan assets by reason of a plan's investment in the entity and (b) it will not sell or otherwise transfer any such Note or interest to any person without first obtaining the same foregoing representations and warranties from that person.
- (6) It understands that the Rule 144A Global Note and any Rule 144A Definitive Notes issued in respect thereof, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE AND THE LOAN IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF

REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "QIB") AND THAT IS A QUALIFIED PURCHASER ("QP") WITHIN THE MEANING OF SECTION 2(a)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT") PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS EACH OF WHICH IS A QP WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN U.S.\$100,000 PRINCIPAL AMOUNT OF NOTES OR (2) IN AN OFFSHORE TRANSACTION TO A PERSON WHO IS NOT A U.S. PERSON WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT ("REGULATION S") IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S, AND, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID *AB INITIO*, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS NOTE, THE TRUSTEE OR ANY INTERMEDIARY. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR REALES OF THIS NOTE.

IF THE BENEFICIAL OWNER HEREOF IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S, SUCH BENEFICIAL OWNER REPRESENTS THAT (1) IT IS A QIB THAT IS ALSO A QP; (2) IT IS NOT A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.\$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (3) IT IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN; (4) IT IS HOLDING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, EACH OF WHICH IS A QP; (5) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THIS NOTE; (6) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITARIES AND (7) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES.

THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THIS NOTE IT IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S THAT IS NOT A QIB AND A QP, THE ISSUER MAY (A) COMPEL IT TO SELL ITS INTEREST IN THIS NOTE TO A PERSON WHO IS (I) A U.S. PERSON WHO IS A QIB AND A QP THAT IS, IN EACH CASE, OTHERWISE QUALIFIED TO PURCHASE THIS NOTE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (II) NOT A U.S. PERSON WITHIN THE MEANING OF REGULATION S OR (B) COMPEL THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THIS NOTE TO THE ISSUER OR AN AFFILIATE OF THE ISSUER OR TRANSFER ITS INTEREST IN THIS NOTE TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE ISSUER AT A PRICE EQUAL TO THE LESSER OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100% OF THE PRINCIPAL AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THIS NOTE TO A U.S. PERSON WHO IS NOT A QIB AND A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

EACH BENEFICIAL OWNER HEREOF REPRESENTS AND WARRANTS THAT FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN (1) IT IS NOT AND WILL NOT BE A BENEFIT PLAN INVESTOR (AS DEFINED IN 29 CFR SECTION 2510.3-101)

AND (2) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY NOTE OR INTEREST THEREIN TO ANY PERSON WITHOUT FIRST OBTAINING THE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS FROM THAT PERSON.

THE ISSUER MAY COMPEL EACH BENEFICIAL OWNER OF THIS NOTE THAT IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S TO CERTIFY PERIODICALLY THAT SUCH BENEFICIAL OWNER IS A QIB AND A QP.

- (7) It acknowledges that the Issuer, RSB, the Registrar, the Dealers and their respective affiliates, and others, will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer, RSB and the applicable Dealer(s). If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.
- (8) It understands that Rule 144A Notes of a Series will be represented by interests in one or more Rule 144A Global Notes. Before any interest in a Rule 144A Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of a beneficial interest in the Regulation S Notes, by accepting delivery of this Offering Circular and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) It is, or at the time Regulation S Notes are purchased it will be, the beneficial owner of such Regulation S Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer, RSB or a person acting on behalf of the Issuer, RSB or such an affiliate.
- (2) It understands that the Regulation S Notes have not been and will not be registered under the Securities Act and, prior to the expiration of the applicable distribution compliance period for such Notes, it will not offer, sell, pledge or otherwise transfer such Notes except in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
- (3) It understands that Regulation S Notes of a Series will be evidenced by a Regulation S Global Note. Before any interest in a Regulation S Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.
- (4) It understands and acknowledges that its purchase and holding of such Notes constitutes a representation and agreement by it that at the time of its purchase and throughout the period it holds such Notes or any interest therein (a) it is not an employee benefit plan as described in Section 3(3) of ERISA, whether or not subject to the provisions of Title I of ERISA, a plan described in Section 4975(e)(1) of the Code, or an entity whose underlying assets include plan assets by reason of a plan's investment in the entity and (b) it will not sell or otherwise transfer any such Note or interest to any person without first obtaining the same foregoing representations and warranties from that person.
- (5) It acknowledges that the Issuer, RSB, the Registrar, the Dealer(s) and their respective affiliates, and others, will rely upon the truth and accuracy of the above acknowledgements, representations and

agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Regulation S Notes is no longer accurate, it shall promptly notify the Issuer, RSB and the applicable Dealer(s). If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

SUMMARY OF CERTAIN DIFFERENCES BETWEEN IFRS AND U.S. GAAP

The financial information included in this offering circular has been prepared in accordance with IFRS. Certain differences remain which might be material to the financial information presented in this Offering Circular.

The following sections summarise the major differences between IFRS and U.S. GAAP that management believes apply to the Group's consolidated financial information. The Group has not prepared a complete reconciliation of its consolidated financial information and related footnote disclosure between IFRS and U.S. GAAP and has not quantified such differences. Accordingly, no assurance is provided that the following summary of differences between IFRS and U.S. GAAP is complete. Potential investors should consult their own professional advisers for an understanding of the differences between IFRS and U.S. GAAP, and how these differences might affect the financial information in this Offering Circular.

IFRS is a relatively young, principles-based set of standards while U.S. GAAP is more mature, rules-based and contains more specificity and implementation guidance. IFRS does not yet address many of today's technical issues, but does point users to the more developed bases of accounting, such as U.S. GAAP, when an issue is not addressed by IFRS.

IFRS

U.S. GAAP

Accounting framework

Historic cost, except that property, plant and equipment may be stated at estimated fair value and certain financial assets are stated at fair value.

Historic cost, except that certain financial assets and investments are stated at fair value.

Definition of a subsidiary

Focuses on the legal power to control in determining whether a parent/subsidiary relationship exists. Control is the parent's ability to govern the financial and operating policies of a subsidiary to obtain benefits. Subsidiaries are consolidated from the date on which effective control is transferred and are no longer consolidated from the date control ceases. In the absence of special shareholder and management agreements, the result is similar to U.S. GAAP.

Focuses on a controlling financial interest through ownership of a majority voting interest in an entity's equity. Also, variable interest entities ("VIEs") in which a parent does not have voting control but absorbs the majority of losses or returns must be consolidated.

Special Purpose Entities (SPEs)

Consolidate where the substance of the relationship indicates control.

SPEs must be consolidated if consolidation requirements for VIEs are met. To avoid consolidation, the SPE must be a qualifying SPE.

Revenue recognition

Based on several criteria, which require the recognition of revenue when risks and rewards have been transferred and the revenue and related costs can be reliably measured.

Revenue should be recognised only when all four of the following criteria have been met: persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed and determinable, and collectibility is reasonably assured. Extensive detailed guidance exists for specific transactions.

Provisions

Provisions are recorded for present obligations arising from past events if an outflow of resources is probable and can be reliably estimated.

Similar to IFRS, with rules for specific situations (employee termination costs, environmental liabilities, loss contingencies, etc).

Financial assets

All financial assets (not just securities) are classified as one of the following for the purposes of measurement:

- trading assets;
- held-to-maturity assets;
- originated loans or receivables,
- available-for-sale assets; or

Originated loans and receivables and held-to-maturity assets should be carried at amortised cost using the effective interest rate method. All other financial assets are carried at fair value.

Changes in the fair value of available-for-sale assets can be accounted for through the statement of operations or recognised directly in equity.

Financial assets are generally grouped into the following categories for measurement:

- trading securities;
- held-to-maturity debt securities; or
- available-for-sale securities

All debt instruments that are not securities or held-to-maturity, and all equity securities that are not marketable are usually carried at cost. All other financial assets are carried at fair value.

Changes in the fair value of available-for-sale assets, including that element due to exchange rate differences, are reported as a net amount in other comprehensive income (i.e. equity).

Guarantees

Guarantees are recognised as part of provisions and should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the guarantee is related to a derivative financial instrument, the obligation should be measured at fair value, with changes in fair value recognised in the income statement or equity based on whether the derivative is a qualifying or non-qualifying hedge instrument.

Upon issuance of a guarantee, the guarantor must recognise a liability for the fair value of the obligation it assumes under the guarantee. The fair value of guarantees may be represented by transactions for similar guarantees on a stand-alone basis or part of bundled transactions or the present value of future expected economic outflows. Subsequent to its initial recognition, the liability for a guarantee should not continue to be measured at its fair value but amortised into earnings through a systemic method over the term of the guarantee or released at the expiration of obligation based on the terms of the obligation. Specific requirements exist for product warranties including a tabular reconciliation of the warrantee liability for each period and a number of relationships have been excluded for treatments as guarantees including employee vacation, pension obligations, deferred compensation contracts and stock, residual value guarantees for capital leases, contingent rent, vendor rebates and guarantees between various member companies of a larger consolidated group.

Comprehensive income

Does not require disclosure of comprehensive income. However, IFRS requires separating the statement of recognised gains and losses as either in notes or separately highlighted in primary statement of changes in shareholder equity.

Requires disclosure of comprehensive income, which is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distribution to owners. Translation, unrealised gains and losses of qualified hedges and certain other transactions are elements of comprehensive income.

Property, plant and equipment

Assets may be revalued to fair value, which is market value or depreciated replacement cost. Any surplus arising on the revaluation is taken directly to a revaluation reserve within equity except to the extent that the surplus reversed a previous revaluation deficit on the same asset charged to the statement of operations, in which case the credit to the extent is recognised in the statement of operations. Any deficit of revaluation is charged to the statement of operations except that it reverses a previous revaluation surplus on the same asset, in which case it is taken directly to the revaluation reserve.

Revaluation of historical cost is not permitted except in connection with purchase or sale of a business or a significant assets.

If an asset is revalued, then all property, plant and equipment of the same class must be revalued and these revaluations must be kept up to date. Depreciation on a revalued asset is based upon its revalued amount, as are gains and losses on disposal.

The revaluation surplus may be transferred directly to retained earnings as the surplus is realised through depreciation and ultimate disposal.

Depreciation and amortisation

The depreciable amount of an item of property, plant and equipment must be expensed on a systematic basis over its useful life, reflecting the pattern in which each individual asset's benefits are consumed by the entity. Any changes in the depreciation method used are treated as a change in accounting estimates and reflected in the depreciation charge for current and prospective periods.

Similar to IFRS, except that U.S. GAAP classifies a change in the depreciation method as a change in accounting policy. The cumulative effect of the change is then reflected in the current year's statement of operations.

Related parties

There is no specific requirement to disclose the name of the related party or the amounts involved in a transaction. Disclosure of pricing policy' is required along with the elements of transactions necessary for an understanding of the financial statements, which would normally include the volumes of the transactions and the amounts of outstanding items.

Transactions involving related parties cannot be presumed to be carried out on an arm's length basis because the requisite conditions of competitive free market dealing may not exist. U.S. GAAP requires the disclosure of any changes in the method of establishing terms' for related party transactions and the resulting effect on the financial statements. In

addition disclosure of the nature of the relationship, a description of the transaction, the amounts for each period, and the amounts due to or from related parties is required. Similar to IFRS there is no specific requirements to disclose names of related parties.

Taxation

Current and deferred taxes are measured based on tax laws and rates that have been enacted or substantively enacted by the balance sheet date. In some jurisdictions announcements of tax rates have the substantive effect of actual enactment, which may follow the announcement by a period of several months. In these circumstances, tax assets and liabilities are measured using the announced rates.

Current and deferred taxes are measured using enacted tax laws and rates. Enactment of a new tax law is viewed as a discrete event of the period of enactment. The enactment date is the date that a tax rate change is signed into law.

Deferred taxes

Deferred tax assets are recognised when it is probable that future taxable profits will be available against which the deferred tax asset can be utilised. The carrying value of deferred tax assets are reviewed at each balance sheet date and reduced if appropriate.

Similar to IFRS but recognise all deferred tax assets and provide a valuation allowance if it is more likely than not that some or all of the deferred tax assets will not be realised.

A temporary difference arises when a foreign currency non-monetary asset is translated into the measurement currency at historical rates because changes in exchange rates change the tax base of the asset. A deferred tax asset or liability is calculated and recognised for this difference.

Prohibits the recognition of a deferred tax asset or liability on differences related to assets or liabilities that are re-measured from the local currency into the reporting currency using historical exchange rates and that result from changes in exchange rates.

Segment reporting

Report primary and secondary (business and geographic) segments based on risk and returns.

Report based on primary decision maker's use of information to manage and monitor the operations of the business. Operating segments are those business activities for which discrete information is available, and whose operating results are regularly reviewed by the primary decision maker in determining resource allocation and assessing performance.

Retirement benefits obligations

The present value of long-term employee benefits (namely defined benefit pension plans) are determined using the project unit credit method.

Similar to IFRS. However, there are a number of differences in specific treatment of certain items under the plan including actuarial gains and losses, expected return on plan assets, and gains and losses on curtailment or settlement.

The rate at which the obligation is discounted is that of high quality corporate or government bonds that have similar maturities to the obligations.

This discount rate should be based on the rate at which the obligation could be settled.

Plan assets are valued using market prices and are hence stated at fair value.	Generally similar asset valuation techniques are used, but market-related value calculations are permitted that recognise changes in value over a five year period.
Regular (not defined) actuarial valuations are required of obligations and assets.	Annual actuarial valuations are required of obligations and assets.
Any systematic method of recognising actuarial (or experience) gains/losses is permitted.	Actuarial (or experience) gains/losses greater than a 10% corridor amount are amortised over the average remaining service life of the employees concerned.
If the net effect of the actuarial calculations and asset valuations is an overall asset, then the asset to be recognised is further reduced to the present value of available contribution reductions or refunds plus unrecognised actuarial gains/losses and unrecognised past service costs.	There is no explicit limitation on the recognition of net (pension) assets.

GENERAL INFORMATION

1. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg and DTC. The Common Code and the International Securities Identification Number (ISIN) and (where applicable) the CUSIP number and the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Pricing Supplement. In addition, application may be made to have Rule 144A Notes designated as eligible for trading on PORTAL.
2. The admission of the Programme to listing on the Official List of the UK Listing Authority and to trading on the London Stock Exchange is expected to take effect on 21 April 2005. The listing of the Notes on the London Stock Exchange will be expressed as a percentage of their principal amount (exclusive of accrued interest). Any Series of Notes intended to be admitted to listing on the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange will be so admitted to listing and trading upon submission to the UK Listing Authority and the London Stock Exchange of the relevant Pricing Supplement and any other information required by the UK Listing Authority and the London Stock Exchange, subject in each case to the issue of the relevant Notes. Prior to official listing, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day in London after the day of the transaction.

However, Notes may be issued pursuant to the Programme which will not be admitted to listing, trading and/or quotation by the UK Listing Authority or the London Stock Exchange or any other listing authority, stock exchange and/or quotation system or which will be admitted to listing, trading and/or quotation by such listing authority, stock exchange and/or quotation system as the Issuer and the relevant Dealer(s) may agree.

3. RSB and the Issuer have obtained or will obtain all necessary consents, approvals and authorisations in Russia and Luxembourg in connection with any Loan, and the issue and performance of the corresponding Series of Notes. The establishment of the Programme was authorised by Board of Directors of the Issuer on 5 April 2005.
4. No consents, approvals or orders of any regulatory authorities are required by the Issuer under the laws of the Grand Duchy of Luxembourg for the maintenance of the Loan and for the issue of the corresponding Series of Notes.
5. Save as disclosed in this Offering Circular and since the last day of the financial period in respect of which the most recent consolidated audited financial statements of RSB have been prepared (that date being 31 December 2004), there has been no significant change in the financial or trading position of RSB or the Group and there has been no material adverse change in the financial position or prospects of RSB or the Group.
6. Since its incorporation, there has been no significant change in the financial or trading position of the Issuer and there has been no material adverse change in the financial position or prospects of the Issuer.
7. There are no and have not been any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which RSB is aware) which may have or have had during the 12 months prior to the date of this Offering Circular a significant effect on the consolidated financial position of RSB or the Group.
8. There are no and have not been any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have or have had since incorporation, a significant effect on the financial position of the Issuer.
9. PWC have audited, and rendered unqualified audit reports on, the Consolidated Financial Statements of the Group for the two years ended 31 December 2004 and have given and have not withdrawn their consent to the issue of this Offering Circular with the inclusion in it of their report in the form and context in which it is included and have authorised that part of the listing particulars for the purposes

of Article 6(1)(e) of the Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001.

10. Copies (and certified English translations where documents at issue are not in English) of the following documents may be inspected at the offices of the Principal Paying Agent in London during usual business hours on any weekday (Saturdays and public holidays excepted) for as long as any Notes can be issued under the Programme:
 - (a) the Charter of Russian Standard Finance S.A.;
 - (b) the Charter of RSB;
 - (c) the audited Consolidated Financial Statements of the Group as of and for the years ended 31 December 2004, 2003 and 2002;
 - (d) the report of PWC in respect of the audited Consolidated Financial Statements of the Group for the financial years ended 31 December 2004 and 2003;
 - (e) the Dealer Agreement and the Facility Agreement; and
 - (f) the Trust Deed and the Agency Agreement.
11. In March 2003 the European Commission published a proposal for a Directive of the European Parliament and of the Council on the harmonisation of transparency requirements with regard to information about issuers whose securities are admitted to trading on a regulated market in the European Union ((2003/0045(COD) (the “**Transparency Directive**”). If, as a result of the adoption of the Transparency Directive or any legislation implementing the Transparency Directive, the Issuer could be required to publish financial information either more regularly than it otherwise would be required to or according to accounting principles which are materially different from the accounting principles which it would otherwise use to prepare its published financial information, the Issuer may seek an alternative admission to listing, trading and/or quotation for the Notes by such other listing authority, stock exchange and/or quotation system outside the European Union as it may (with the approval of the Dealers decide.
12. Deutsche Bank Trust Company Americas will act as Registrar in relation to the Rule 144A Notes and Deutsche Bank Luxembourg S.A. will act as Registrar in relation to the Regulation S Notes. A register of the Notes will be kept at the Issuer’s registered office. In case of inconsistency between the register of the Notes kept by either of the Registrars and the one kept by the Issuer at its registered office, the register kept by the Issuer at its registered office shall prevail.

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

Infrastructure

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

History and Development of the Russian Banking Sector

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

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

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

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

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

Pursuant to Federal Law No. 87-FZ of 28 July 2004, the ARCO is to go into liquidation. It is expected that the liquidation procedures will be completed by the end of 2005.

As of 1 February 2005, the number of credit organisations operating in the Russian Federation amounted to approximately 1,296. However, poor corporate governance, risk management, transparency and weak management remain widespread among many Russian banks.

According to the CBR, as of 1 January 2005 the total assets of the Russian banking sector were valued at approximately RUB 7,136.9 billion, with own assets valued at approximately RUB 946.6 billion. The total charter capital of Russian credit organisations were just RUB 380.5 billion as of 1 January 2005.

In 2002, 2003 and 2004 the Russian banking sector continued to restore its creditability in the eyes of creditors and retail depositors facilitating the increase of the banks' resource base. The main source of growth of the banks financial resources is the increasing number of retail deposits. In January 2005 the amount of credit balances on Rouble and foreign currency accounts of individuals increased to approximately RUB 2,003 billion as compared to RUB 590 billion in September 2001. The second source of growth of financial resources are credit balances on accounts of corporate clients. The amount of credit balances on Rouble and

foreign currency accounts of corporate clients increased from approximately RUB 81 billion in July 1999 to RUB 564.0 billion in January 2005. The remaining sources of growth of the banking sector's resource base are increasing volumes of issue of debt securities (primarily promissory notes) and interbank credit operations amounting to RUB 644.15 billion and RUB 737.1 billion in January 2005, respectively, as compared to RUB 41.8 billion and RUB 105 billion in July 1999, respectively.

As of 1 January 2005 of the Russian banking sector's total assets, 62.5% are represented by account receivables under credit operations, 15.2% are represented by investments into securities, 9.7% and 3.2% are represented by credit balances on accounts with the CBR and correspondent banks, respectively, 9.4% are represented by other assets. Although the volume and amount of credit operations is increasing, Russian banks are focused mainly on short-term financing due to the insufficient creditworthiness and transparency of Russian entities. That in turn broadens the practice of tied loans and financing of affiliated parties.

In April-July 2004 the Russian banking sector experienced its first serious turmoil since the financial crisis of August 1998. As a result of the recent circulation of various market rumours and, in some cases, certain regulatory and liquidity problems, several Russian privately-owned banks have collapsed or ceased or significantly limited their operations. A number of Russian privately-owned banks were experiencing liquidity problems and were unable to attract funds on the interbank market or from their clients or shareholders. Simultaneously, they faced large withdrawals of deposits by both retail and corporate clients. According to the CBR, from 15 June until 1 August 2004 private depositors withdrew approximately RUB 30 billion from Russian banks, except for Sberbank.

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

Banking industry sector

The Russian banking sector is characterised by a high level of concentration of capital. As of 1 January 2005, approximately 73.3% of the banking sector's total assets were held by 50 of the largest Russian banks. Sberbank remains the largest bank in Russia in terms of assets, volume of banking operations, client base and branch offices.

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

Although it is not possible for foreign banks to directly conduct business on the Russian financial market, many major foreign banks have subsidiary banks in the Russian Federation. The aggregate level of participation of foreign capital within the Russian banking system is determined by federal law as proposed by the Government in conjunction with the CBR. At the moment, however, such law has not been yet adopted. As of 1 January 2005, 42 banks controlled by foreign groups through the holding of more than 50% of their shares were operating in the Russian Federation, of which three banks are ranked top 30 by the value of their assets. Foreign controlled banks focus primarily on cash and settlement services to non-residents and interbank operations. Although foreign controlled banks, such as Raiffeisenbank Austria, Citibank, Société

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

Retail banking

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

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

Role of the CBR

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

According to the CBR Law, neither the state nor the CBR are liable for the other’s obligations, unless it has accepted such liability under an agreement or such liability is imposed by Russian legislation. The assets of the CBR are under federal ownership. According to the latest available data, as of 1 January 2005, the CBR assets amounted to RUB 4,175,507 million (approximately U.S.\$150,068 million at then current exchange rate) and its gold and currency reserves (held together with the Ministry of Finance) amounted to U.S.\$136,400 million.

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

Pursuant to the CBR Law and the Law “On Banks and Banking Activity” No. 395-I dated 2 December 1990, as amended (the “**Banking Law**”), and the Law “On Currency Regulation and Currency Control” No. 173-FZ dated 10 December 2003, which entered into force on 17 June 2004, as amended (the “**New Currency Law**”), the CBR is authorised to issue and implement binding regulations with respect to banking and currency operations.

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

Issue of Money and Regulation of its Circulation

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

Financing/Monetary Policy

The CBR may re-finance banks by extending short-term loans at discount rates to private banks. The CBR also establishes reserve and capital adequacy and various ratio requirements for banks. The CBR implements

monetary policy by determining refinance interest rates, conducting currency interventions and issuing securities. The CBR is prohibited from extending loans to the Russian government for the purpose of financing budget deficit.

Registration and Licensing

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

Supervision and Control

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

Transactions with Banks

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

Federal Budget Implementation and External Debt Servicing

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

Exchange Control

In accordance with new currency legislation the CBR has retained its substantial powers with respect to regulation of foreign currency operations. Though the licence regime for performance of currency operation connected with movement of capital had been abolished, the CBR has powers to influence the foreign currency market by way of introducing reserve requirements in respect of certain currency operations specified in the new legislation.

Regulation of the Russian Banking Sector

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

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

Licensing

A credit organisation must be licensed by the CBR in order to conduct "**banking activities**" as defined in the Banking Law. The credit organisation must be incorporated in the Russian Federation. Licence applicants must submit to the CBR a feasibility report, detailed information on senior management and their

compliance with qualification requirements, documents certifying the source of funds contributed to the charter capital of the credit organisation.

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

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

Capital Requirements

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

Capital Adequacy

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

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

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

Compulsory Reserve Requirements

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

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

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

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

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

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

Provisioning and Loss Allowances

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

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

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

The CBR also established rules concerning creation of allowances for possible losses, other than loan losses, which may include losses from investments in securities, funds held in correspondent accounts of other banks, contingent liabilities, forward and other transactions. The CBR Instruction No. 232-P of 9 July 2003 requires banks to rank such assets and operations into five risk groups reflecting the following situations (i) no real or potential threat of losses; (ii) moderate potential threat of losses; (iii) serious potential or moderate real threat of losses; (iv) simultaneous potential and moderate real threat of losses or material real threat of losses; and (v) value of particular type of asset or operation is going to be lost completely. Banks are then required to provide allowances for each type of asset or operation in the amounts corresponding to the amounts of possible losses but within the following framework established by the 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 allowances monthly within ten days following the reporting month. The CBR and its regional units are responsible for monitoring the compliance of banks with these rules.

Liquidity Ratios

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

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

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

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

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

Credit limits

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

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

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

Regulation of Currency Exposure

In its Instruction No. 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 operational day the total amount of all long or short currency positions shall not exceed 20% of the bank's own funds. At the same time, at the end of each operational day the long or short position with respect to one particular currency or precious metal shall not exceed 10% of the bank's own funds.

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

Reporting Requirements

Banks must regularly submit balance sheets and other financial statements that reflect their financial position to the CBR. Financial statements must be disclosed to public by the bank on a quarterly and yearly basis. Annual financial statements must be published only after their certification by an independent auditor. Quarterly financial statements may be published without their certification by an independent auditor.

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

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

Accounting Practices

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

As of 1 January 2004, all credit organisations in the Russian Federation must prepare their financial statements according to both Russian accounting standards and IFRS.

Banking Reform

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

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

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

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

From now on, banks issued with a retail banking licence will be entered into the register of the Agency. Banks that hold a valid retail banking licence will need to apply to the Central Bank to become registered as a participant in the mandatory deposits' insurance system. There are a number of tests that such bank is expected to meet before it will be admitted: (i) the CBR must be comfortable that its financial accounts and reports are true; (ii) it is in full compliance with the CBR mandatory ratios (capital adequacy, liquidity etc.);

(iii) the CBR considers its solvency position sufficient; and (iv) the CBR has not cancelled such bank's banking licence etc. If a bank fails to comply with the above tests and or chooses not to participate in the deposits' insurance system, it will not be able to attract deposits from and open accounts for, individuals.

The targets of the Russian banking reform are also set out in the programme for the social and economic developments of the Russian Federation for the years 2003 to 2005, adopted by the Russian Government in August 2003. According to this programme, banking reform remains one of the priority tasks for the period until 2005. The programme contemplates, *inter alia*, simplification of procedures for banks' reorganisation and introduction of regulation of syndicated lending, affiliated parties' financing, credit bureaux and pledge of monies held in a bank account.

Insolvency Regime

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

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

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

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

However, under the Bank Insolvency Law, a temporary administration may be appointed to the bank prior to the revocation of its banking licence if (i) the bank fails to satisfy claims of creditors or make mandatory payments (e.g., taxes and duties) within seven days from the date of their maturity due to the absence or lack of funds on its correspondent accounts, (ii) the amount of own capital of the bank falls more than 30% below the maximum amount of own capital of the bank during the last 12 months with simultaneous violation of one of the capital adequacy or related requirements, (iii) the bank violates the current liquidity ratio on more than 20% during the last month; (iv) the bank does not fulfil the requirement of the CBR to change the management of the bank or to undertake financial recovery measures or a reorganisation in instances provided in the Bank Insolvency Law and (v) there are grounds for revocation of the banking licence of the

bank as provided in the Banking Law. Upon appointment of the temporary administration the authority of the bank's management may be limited or suspended. In the event the bank's management authorities are suspended the temporary administration performs the bank's management functions. During the term of its appointment, the temporary administration analyses the bank's financial standing, establishes whether there are grounds for revocation of the banking licence of the bank, participates in the development of measures for the financial recovery of the bank, oversees the bank's operations and issues approvals on the conduction of operations with assets valued at more than 1% of the total balance sheet value of the bank's assets.

Pursuant to the Bank Insolvency Law, the temporary administration may request that the CBR imposes a moratorium on the performance of monetary obligations of the bank. Such moratorium would cover all monetary obligations that arose prior to the appointment of the temporary administration regardless of the maturity date of such obligations.

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

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

Interested Party Transactions

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

Transactions at Under Value

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

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

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

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

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

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

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

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

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

RUSSIAN STANDARD BANK GROUP

Consolidated Financial Statements and Auditors' Report

31 December 2004

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AUDITORS' REPORT

To the Shareholders of Russian Standard Bank:

We have audited the accompanying consolidated balance sheets of Russian Standard Bank and its subsidiaries (the "Group" as defined in Note 1 to the consolidated financial statements) as at 31 December 2004 and 31 December 2003, and the related consolidated statements of income, of cash flows and of changes in shareholders' equity for the years then ended. These consolidated financial statements are the responsibility of the Group's Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall consolidated financial statements' presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2004 and 31 December 2003 and the consolidated results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Moscow, Russian Federation
16 March 2005

Russian Standard Bank Group
Consolidated Balance Sheet as at 31 December 2004
(in thousands of Russian Roubles)

	Note	2004	2003	2002
Assets				
Cash and cash equivalents	5	2 850 289	691 765	236 266
Mandatory cash balances with the Central Bank of the Russian Federation	23	267 033	226 818	103 822
Due from other banks	6	2 009 065	137 367	152 250
Loans and advances to customers	7	34 364 373	13 013 468	4 820 731
Deferred tax asset	19	310 687	236 722	50 065
Other assets	8	490 409	212 098	64 846
Fixed and intangible assets	9	935 778	332 752	180 602
Total assets		41 227 634	14 850 990	5 608 582
Liabilities				
Due to other banks	10	4 766 733	3 409 214	1 403 762
Customer accounts	11	4 235 333	2 720 764	1 133 595
Debt securities in issue	12	23 662 775	5 344 295	1 865 734
Deferred tax liability	19	46 827	–	–
Other liabilities	13	903 674	192 092	60 269
Total liabilities		33 615 342	11 666 365	4 463 360
Shareholders' equity				
Share capital	14	1 738 516	1 738 516	1 166 476
Share premium	14	672 932	672 932	317 619
Additional paid-in capital	14	148 286	–	–
Retained earnings/(accumulated deficit)	15	5 052 558	773 177	(338 873)
Total shareholders' equity		7 612 292	3 184 625	1 145 222
Total liabilities and shareholders' equity		41 227 634	14 850 990	5 608 582

Approved for issue by the Board of Directors and signed on its behalf on 16 March 2005.

/s/ D.O. Levin

D.O. Levin
Chairman of the Management Board

/s/ M.Y. Berezov

M.Y. Berezov
Finance Director

Russian Standard Bank Group
Consolidated Statement of Income for the Year Ended 31 December 2004
(in thousands of Russian Roubles)

	Note	2004	2003	2002
Interest income	16	10 926 759	4 436 670	1 512 388
Interest expense	16	(2 057 273)	(827 791)	(259 280)
Net interest income		8 869 486	3 608 879	1 253 108
Provision for loan impairment	7	(1 422 016)	(524 807)	(99 064)
Net interest income after provision for loan impairment		7 447 470	3 084 072	1 154 044
Fee and commission income		58 615	39 263	57 810
Fee and commission expense		(72 665)	(49 909)	(26 624)
Net trading gains	17	366 575	50 168	14 501
Other operating results, net		60 026	(50 828)	(15 520)
Operating income		7 860 021	3 072 766	1 184 211
Operating expenses	18	(2 066 411)	(1 272 790)	(758 259)
Monetary loss		–	–	(136 235)
Profit before taxation		5 793 610	1 799 976	289 717
Income tax expense	19	(1 400 621)	(435 189)	(107 265)
Net profit		4 392 989	1 364 787	182 452

Russian Standard Bank Group
Consolidated Statement of Cash Flows for the Year Ended 31 December 2004
(in thousands of Russian Roubles)

	2004	2003	2002
Cash flows from operating activities			
Interest received	10 216 239	4 699 339	1 470 400
Interest paid	(1 582 912)	(600 616)	(152 545)
Fees and commissions received	58 615	39 263	57 810
Fees and commissions paid	(73 916)	(50 293)	(24 885)
Net trading (losses)/gains	(70 140)	(37 959)	14 993
Other operating results	7 923	2 436	140
Operating expenses paid	(1 733 945)	(1 225 962)	(717 185)
Income tax paid	(1 231 366)	(555 990)	(125 563)
Cash flows from operating activities before changes in operating assets and liabilities	5 590 498	2 270 218	523 165
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation	(40 215)	(122 996)	(35 807)
Net increase in due from other banks	(2 137 537)	(12 269)	(112 223)
Net increase in loans and advances to customers	(22 086 468)	(8 992 031)	(3 418 387)
Net increase in other assets	(253 955)	(130 456)	(47 037)
Net increase in due to other banks	1 453 611	2 037 916	1 181 927
Net increase in customer accounts	1 545 223	1 610 761	726 687
Net increase in promissory notes issued	227 878	1 031 046	867 333
Net increase/(decrease) in other liabilities	45 478	26 625	(15 148)
Net cash used in operating activities	(15 655 487)	(2 281 186)	(329 490)
Cash flows from investing activities			
Proceeds from disposal and redemption of investment securities available for sale	–	–	2 012
Acquisition of fixed and intangible assets (Note 9)	(552 241)	(226 646)	(93 119)
Proceeds from disposal of fixed and intangible assets	3 884	–	491
Net cash used in investing activities	(548 357)	(226 646)	(90 616)
Cash flows from financing activities			
Issue of debt securities, other than promissory notes	19 186 241	2 289 493	517 406
Repayment of debt securities, other than promissory notes	(829 070)	–	–
Issue of ordinary shares (Note 14)	–	927 353	–
Dividends paid (Note 20)	–	(252 737)	–
Contributions from shareholders other than share issues (Note 14)	–	–	13 580
Net cash from financing activities	18 357 171	2 964 109	530 986
Effect of exchange rate changes on cash and cash equivalents	5 197	(778)	831
Effect of inflation on cash and cash equivalents	–	–	(27 879)
Net increase in cash and cash equivalents	2 158 524	455 499	83 832
Cash and cash equivalents as at the beginning of the year	691 765	236 266	152 434
Cash and cash equivalents as at the end of the year (Note 5)	2 850 289	691 765	236 266

Acquisition of fixed assets was partially through a non-cash transaction. Refer to Note 14.

Russian Standard Bank Group
Consolidated Statement of Changes in Shareholders' Equity
(in thousands of Russian Roubles)

	Share capital	Share premium	Additional paid-in capital	(Accumulated deficit)/ Retained earnings	Total shareholders' equity
Balance as at 31 December 2001	1 166 476	304 039	–	(521 325)	949 190
Net profit	–	–	–	182 452	182 452
Contributions from shareholders other than share issues (Note 14)	–	13 580	–	–	13 580
Balance as at 31 December 2002	1 166 476	317 619	–	(338 873)	1 145 222
Net profit	–	–	–	1 364 787	1 364 787
Share issue (Note 14)	572 040	355 313	–	–	927 353
Dividends paid (Note 20)	–	–	–	(252 737)	(252 737)
Balance as at 31 December 2003	1 738 516	672 932	–	773 177	3 184 625
Contributions from shareholders other than share issues, net of taxation (Note 14)	–	–	148 286	–	148 286
Net profit	–	–	–	4 392 989	4 392 989
Equity option settlement (Note 10)	–	–	–	(113 608)	(113 608)
Balance as at 31 December 2004	1 738 516	672 932	148 286	5 052 558	7 612 292

1 Principal Activities

These consolidated financial statements include the financial statements of Russian Standard Bank (the “Bank”) and its subsidiaries: OOO “Russian Standard – Finance” and OOO “Debt Collection Agency” (the “Subsidiaries”), which are controlled by the Bank, while being owned by the Bank’s principal shareholder Roust Trading Limited (referred to as the “principal shareholder” in these consolidated financial statements). The Bank and its subsidiaries together These consolidated financial statements include the financial statements of Russian Standard Bank (the “Bank”) and are referred to as the “Group” or the “Russian Standard Bank Group”.

The Bank is a closed joint stock company operating as a commercial bank owned by shareholders whose liability is limited. The Bank has operated under a full banking licence issued by the Central Bank of the Russian Federation (“CBRF”) since 1999. The Bank’s principal business activity is retail and commercial banking operations within the Russian Federation.

Originally established in 1992, in April 1999 the Bank was purchased by two companies, ZAO “Company Russian Standard” and ZAO “Roust Inc.”, which are members of a group, the ultimate owner of which is Roust Trading Limited. In February 2003 International Financial Corporation (“IFC”), a multilateral credit institution, became a shareholder of the Bank. As at 31 December 2004 the shareholders of the Bank were:

	2004	2003	2002
ZAO “Company Russian Standard”	90.75	90.75	94.86
International Financial Corporation	6.42	6.42	-
ZAO “Roust Inc.”	2.82	2.75	4.98
Other	0.01	0.08	0.16
Total	100.00	100.00	100.00

The Bank’s registered office is located at Spartakovskaya street, 2/1, building 6, Moscow, Russian Federation. The Bank’s principal place of business is Kadashevskaya Nab., 6/1/2, building 1, Moscow, Russian Federation. The number of the Bank’s employees as at 31 December 2004 was 5 826 (2003: 2 630; 2002: 1 367).

OOO “Russian Standard – Finance” is a special purpose entity (SPE) set up by the Bank in May 2002 to issue bonds on behalf of the Group and has no other operations.

In October 2003 the Group acquired control over OOO “Debt Collection Agency” (the “Agency”), a company based in the Russian Federation, which is used by the Group to facilitate the collection process at the Bank. The Agency is owned by the Bank’s principal shareholder and the Group’s control over the Agency is effected through the Agency’s management who are also employees of the Bank. The Agency has been included in the consolidated financial statements of the Group from 1 October 2003, the date on which effective control was transferred to the Group.

2 Operating Environment of the Group

Whilst there have been improvements in economic trends in the country, the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

The banking sector in the Russian Federation is particularly sensitive to adverse fluctuations in confidence and economic conditions. Furthermore, the need for further developments in the bankruptcy laws, the

2 Operating Environment of the Group (Continued)

absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in the Russian Federation.

In 2004, following a general fall in confidence in the Russian banking system, the Russian banking sector experienced a reduction in liquidity. Management is unable to predict what effect, if any, any further significant deterioration in liquidity or confidence in the Russian banking system could have on the financial position of the Group.

3 Basis of Preparation

Basis of Preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The Group maintains its accounting records in accordance with Russian banking and accounting regulations. These consolidated financial statements have been prepared from those accounting records and adjusted as necessary in order to be in accordance with IFRS.

These consolidated financial statements have been measured and presented in the national currency of the Russian Federation, Russian Roubles (“RR”).

The preparation of these consolidated financial statements requires the use of estimates and assumptions that effect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on Management’s best knowledge of current events and actions, actual results ultimately may differ from these estimates.

Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current year.

Early adoption of Standards. In 2004, the Group early adopted IAS 8 (revised 2003) “Accounting Policies, Changes in Accounting Estimates and Errors”. The 2003 consolidated financial statements have been amended as required, in accordance with the relevant requirements of IAS 8 (revised 2003).

As at 31 December 2004 the Group did not apply the following standards, which have been issued but are not yet in effect.

IAS 1 (revised 2003)	Presentation of Financial Statements
IAS 2 (revised 2003)	Inventories
IAS 10 (revised 2003)	Events after the Balance Sheet Date
IAS 16 (revised 2003)	Property, Plant and Equipment
IAS 17 (revised 2003)	Leases
IAS 21 (revised 2003)	The Effects of Changes in Foreign Exchange Rates
IAS 24 (revised 2003)	Related Party Disclosures
IAS 27 (revised 2003)	Consolidated and Separate Financial Statements
IAS 28 (revised 2003)	Investments in Associates
IAS 31 (revised 2003)	Interests in Joint Ventures
IAS 32 (revised 2003)	Financial Instruments: Disclosure and Presentation
IAS 33 (revised 2003)	Earnings per Share
IAS 39 (revised 2003)	Financial Instruments: Recognition and Measurement
IAS 40 (revised 2003)	Investment property
IFRS 2 (issued 2004)	Share-based Payments
IFRS 4 (issued 2004)	Insurance Contracts
IFRS 5 (issued 2004)	Non-current Assets Held for Sale and Discontinued Operations

All the above standards are effective from 1 January 2005.

3 Basis of Preparation (Continued)

Restatement of prior period financial data. The 2003 and 2002 corresponding balances have been restated for the following items.

To comply with the requirements of IAS 18 “Revenue”, sales commission received on loans issued by the Group through retail outlets and the commission received from credit card holders, which were previously recognized as income when the loans were issued, are now deferred and included in the effective yield on the loans issued by the Group. Operating costs related to loan origination, which were previously expensed as incurred in relation to these loans, are also now deferred and included in the effective yield.

As a result of these restatements the following adjustments have been made to the consolidated financial statements of the Group for the years ended 31 December 2003 and 31 December 2002:

31 December 2003	Balance as previously reported	Adjustment	Balance as restated
Loans and advances to customers	13 581 683	(568 215)	13 013 468
Deferred tax asset	104 885	131 837	236 722
Other assets	193 199	18 899	212 098
Total assets	15 268 469	(417 479)	14 850 990
Total shareholders' equity	3 602 104	(417 479)	3 184 625

31 December 2002	Balance as previously reported	Adjustment	Balance as restated
Loans and advances to customers	4 928 245	(107 514)	4 820 731
Deferred tax asset	24 260	25 805	50 065
Other assets	64 846	-	64 846
Total assets	5 690 291	(81 709)	5 608 582
Total shareholders' equity	1 226 931	(81 709)	1 145 222

Year ended 31 December 2003	Income/expense as previously reported	Adjustment	Income/ expense as restated
Interest income	3 426 850	1 009 820	4 436 670
Fee and commission income	1 403 152	(1 363 889)	39 263
Operating expenses	1 291 689	(18 899)	1 272 790
Income tax expense	541 221	(106 032)	435 189
Net profit	1 700 557	(335 770)	1 364 787

Year ended 31 December 2002	Income/expense as previously reported	Adjustment	Income/ expense as restated
Interest income	1 005 233	507 155	1 512 388
Fee and commission income	588 228	(530 418)	57 810
Operating expenses	761 122	(2 863)	758 259
Income tax	119 584	(12 319)	107 265
Net profit	221 460	(39 008)	182 452

4 Significant Accounting Policies

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to exercise control over financial and operating policies. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when

4 Significant Accounting Policies (Continued)

assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and are removed from consolidation from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, the equity instruments issued or the liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash within a day. All short term interbank placements, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Mandatory cash balances with the CBRF. Mandatory cash balances with the CBRF represent mandatory reserve deposits which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the Consolidated Statement of Cash Flows.

Originated loans and advances and provisions for loan impairment. Loans originated by the Group by providing money directly to the borrower or to a sub-participation agent at draw down, other than those that are originated with the intent of being sold immediately or in the short-term which are recorded as trading assets, are categorised as originated loans.

Originated loans and advances are recorded when monies are advanced to borrowers. Initially, originated loans and advances are recorded at cost, which is the fair value of the consideration given, and subsequently are carried at amortised cost less any provision for loan impairment. Amortised cost is based on the fair value of cash consideration given to originate those loans determinable by reference to market prices at origination date. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

Loans originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayments discounted at market interest rates for similar loans. The difference between the fair value and the nominal value at origination is credited or charged to the consolidated statement of income as gains on origination of assets at rates above market or losses on origination of assets at rates below market. Subsequently, the carrying amount of such loans is adjusted for the amortisation of the gains/losses on origination and the related income is recorded as interest income within the Consolidated Statement of Income using the effective yield method.

A credit risk provision for loan impairment is established if there is objective evidence that the Group will not be able to collect the amounts due according to the original contractual terms of the loan. The amount of the provision is the difference between the carrying amount and the estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the instrument's original effective interest rate.

The provision for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These losses have been estimated based upon historical patterns of losses in each component, the credit ratings assigned to borrowers and reflect the current economic environment in which the borrowers operate.

Where a loan is uncollectable, it is written off against the related provision for loan impairment. A loan is treated as uncollectable if the amount due in accordance with the original contractual terms of a loan has not been received by the Bank for a period of at least 12 months. Such loans are written off after all the necessary

4 Significant Accounting Policies (Continued)

procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the Consolidated Statement of Income.

If the amount of provision for loan impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for loan impairment in the Consolidated Statement of Income.

Purchased loans. Purchased loans are categorised as loans and advances to customers.

Purchased loans are initially recorded at cost (which includes transaction costs). Subsequently purchased loans are carried at amortised cost using the effective yield method, less any provision for impairment.

Interest earned whilst holding purchased loans is recorded in the Consolidated Statement of Income as interest income. All regular way purchases and sales of purchased loans are recorded at trade date, which is the date that the Group commits to purchase or sell the asset. Otherwise such transactions are treated as derivative instruments until settlement occurs.

Other credit related commitments. In the normal course of business, the Group enters into other credit related commitments including letters of credit and guarantees.

Fixed and intangible assets. Fixed and intangible assets are stated at cost restated to the equivalent purchasing power of the Russian Rouble as at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required.

Fixed and intangible assets of acquired subsidiaries are initially recorded in the Consolidated Balance Sheet at their estimated fair value at the date of acquisition.

Construction in progress is carried at cost, restated to the equivalent purchasing power of the Russian Rouble as at 31 December 2002 for assets acquired prior to 1 January 2003, less provision for impairment where required. Upon completion, assets are transferred to premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

At each reporting date the Group assesses whether there is any indication of an impairment of fixed and intangible assets. If any such indication exists, the Group estimates the recoverable amount, which is determined as the higher of an asset's net sale price or its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the Consolidated Statement of Income. An impairment loss recorded for an asset in prior years is reversed if there has been a change in the estimate used to determine the asset's recoverable amount.

Gains and losses on disposal of fixed and intangible assets are determined by reference to the carrying amount and are taken into account in determining profit/(loss). Repairs and maintenance are charged to the consolidated statement of income when the expenditure is incurred.

Depreciation. Depreciation is applied on a straight line basis over the estimated useful lives of the assets using the following rates:

Premises – 2% per annum;

Office equipment – 16.7% per annum;

Fixtures and fittings – 14% per annum;

Computers – 25% per annum;

Vehicles – 20% per annum; and

4 Significant Accounting Policies (Continued)

Intangible assets - over the term of the underlying rights.

Computer software development costs. Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Group and will probably generate economic benefits exceeding costs beyond one year, are recorded as intangible assets. Direct costs include staff costs of the software development team and an appropriate proportion of relevant overheads.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recorded as a capital improvement and added to the original cost of the software. Computer software development costs recorded as assets are amortised using the straight-line method over their useful lives, not exceeding a period of 10 years.

Borrowings. Borrowings are recorded initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the Consolidated Statement of Income over the term of the borrowings using the effective yield method.

Borrowings originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar borrowings. The difference between the fair value and the nominal value at origination is credited or charged to the Consolidated Statement of Income as gains on origination of liabilities at rates below market or losses on origination of liabilities at rates above market. Subsequently the carrying amount of such borrowings is adjusted for amortisation of the gains/losses on origination and the related expense is recorded as interest expense within the Consolidated Statement of Income using the effective yield method.

Debt securities in issue. Debt securities in issue include loan participation notes, promissory notes, bonds and certificates of deposit issued by the Group. Debt securities in issue are recorded initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, debt securities in issue are stated at amortised cost and any difference between the net proceeds and the redemption value is recorded in the Consolidated Statement of Income over the period of the security issue using the effective yield method.

If the Group purchases its own debt securities in issue, they are removed from the Consolidated Balance Sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

Operating leases. Where the Group is the lessee, the total lease payments, including those on expected termination, are charged by the lessee to the Consolidated Statement of Income on a straight-line basis over the period of the lease.

Share premium. Share premium represents the excess of considerations over the nominal value of the shares issued.

Contributions from shareholders other than from share issues. Contributions from shareholders other than from share issues where there is no obligation of the Group to return the funds are recognised as additional paid-in capital in equity when received.

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends declared after the balance sheet date are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

Income taxes. Taxation has been provided for in the Consolidated Financial Statements in accordance with Russian legislation currently in force. The income tax charge in the Consolidated Statement of Income for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the

4 Significant Accounting Policies (Continued)

expected taxable profit for the year, using the tax rates enacted at the balance sheet date. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recorded to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply during the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Deferred tax is charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or different period, directly to equity.

Income and expense recognition. Interest income and expense are recorded in the Consolidated Statement of Income for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all the contractual terms of the financial instrument (for example, a prepayment option) but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recorded based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Loan commitment fees for loans which are probable of being drawn down, commission on credit sales and commissions from borrowers are deferred (together with related direct costs) and recorded as an adjustment to the effective interest on the loan. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recorded on completion of the underlying transaction.

Foreign currency translation. Transactions denominated in foreign currency are recorded at the exchange rate ruling on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the Consolidated Statement of Income using the exchange rate ruling on the transaction date.

Monetary assets and liabilities denominated in foreign currency are translated into Russian Roubles at the official exchange rate of the CBRF at the balance sheet date. As at 31 December 2004 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 27.7487 (2003: USD 1 = RR 29.4545; 2002: USD 1 = RR 31.7844). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a freely convertible currency in most countries outside of the Russian Federation.

Derivative financial instruments. Derivative financial instruments relate to foreign exchange contracts and are initially recorded in the consolidated balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from using quoted market prices, option pricing models or an appropriate forward rate to the remaining position of the transaction to its maturity as the basis as appropriate. All derivative instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

4 Significant Accounting Policies (Continued)

Changes in the fair value of derivative financial instruments are included in gains less losses arising from trading in foreign currency.

Although the Group trades in derivative financial instruments for hedging purposes, these instruments do not qualify for hedge accounting.

Fiduciary assets. Assets and liabilities held by the Group in its own name, but on the account of third parties, are not reported on the consolidated balance sheet. Commissions received from such business are shown in fee and commission income within the Consolidated Statement of Income.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the Consolidated Balance Sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 “Financial Reporting in Hyperinflationary Economies” (“IAS 29”). Accordingly, prior to 1 January 2003 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the Russian Rouble in accordance with IAS 29.

IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. IFRS indicates that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at as 31 December 2002 are treated as the basis for the carrying amounts in these consolidated financial statements.

The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index (“CPI”), published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992. The CPI used to restate the consolidated financial statements is based on 1988 prices using 100 as the base index. The CPI for the five years ended 31 December 2002 and the respective conversion factors are the following:

	CPI	Conversion Factor
1998	1 216 400	2.24
1999	1 661 481	1.64
2000	1 995 937	1.37
2001	2 371 572	1.15
2002	2 730 154	1.00

Provisions. Provisions are recorded when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Staff costs and related contributions. The Group’s contributions to the Russian Federation state pension and social insurance funds in respect of its employees are expensed as incurred and included within staff costs.

Segmental reporting. A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and

4 Significant Accounting Policies (Continued)

whose revenue, result or assets are ten per cent or more of all the segments are reported separately. Geographical segments of the Group have been reported based on the location of the Group's customers, where the Group's products are sold and services are rendered.

5 Cash and Cash Equivalents

	2004	2003	2002
Cash in hand	266 942	277 277	76 493
Cash balances with the CBRF (other than mandatory reserve deposits)	1 747 586	274 965	134 307
Correspondent accounts and overnight placements with other banks			
– Russian Federation	625 937	68 022	2 903
– Other countries	209 824	71 501	22 563
Total cash and cash equivalents	2 850 289	691 765	236 266

The geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 22.

6 Due from Other Banks

	2004	2003	2002
Current term placements with other banks	1 888 251	110 472	129 365
Collateral deposits for term deals	67 727	–	–
Collateral for irrevocable commitments under letters of credit	27 749	–	–
Collateral deposits for credit cards	25 338	26 895	22 885
Total due from other banks	2 009 065	137 367	152 250

The geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 22. Fair values are disclosed in Note 24.

7 Loans and Advances to Customers

	2004	2003	2002
Loans originated by the Group			
<i>Loans to individuals</i>			
Consumer loans	23 455 890	9 827 079	3 277 804
Credit card loans	11 522 795	3 627 487	1 326 826
Other	104 085	22 066	15 549
<i>Loans to legal entities</i>			
Direct commercial loans	1 188 198	229 992	336 679
Loans purchased by the Group			
Factoring receivables	19 629	16 924	66 545
Gross loans and advances to customers	36 290 597	13 723 548	5 023 403
Less: Provision for loan impairment	(1 926 224)	(710 080)	(202 672)
Total loans and advances to customers	34 364 373	13 013 468	4 820 731

7 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment are as follows:

	2004	2003	2002
Provision for loan impairment as at 1 January	710 080	202 672	121 372
Increase in provision for loan impairment during the year	1 422 016	524 807	99 064
Loans and advances to customers written off during the year as uncollectable	(205 872)	(17 399)	(1 819)
Effect of inflation	–	–	(15 945)
Provision for loan impairment as at 31 December	1 926 224	710 080	202 672

As at 31 December 2004 the total aggregate amount of non-performing loans, i.e. loans which are not serviced according to the original contractual terms for at least 90 days, was RR 1 329 769 thousand (2003: RR 347 704 thousand; 2002: RR 168 706 thousand).

The approximate number of borrowers (in thousands) for each type of loans to individuals are, as follows:

	2004	2003	2002
Consumer loans	2 801	1 105	298
Credit card loans	531	174	69
Total number of individual borrowers	3 332	1 279	367

For the majority of consumer loans, the lending limits range between RR 5 thousand and RR 30 thousand, while the maximum credit card limit is RR 50 thousand.

Included in consumer loans are loans amounting to RR 2 440 053 thousand (2003: RR 3 940 651 thousand; 2002: RR 1 828 697 thousand), which have been pledged as collateral for amounts due to other banks (Note 10) and debt securities in issue (Note 12) in the event of the Group's default.

As at 31 December 2004, loans to legal entities originated or purchased by the Group of RR 1 092 589 thousand, or 92% of the gross amount of loans and advances to legal entities, were due from companies operating in the retail industry (2003: RR 158 680 thousand, or 64%; 2002: RR 337 490 thousand, or 84%).

The geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 22. Fair values are disclosed in Note 24. Information on related party balances is disclosed in Note 25.

8 Other Assets

	2004	2003	2002
Trade debtors and prepayments	315 435	147 032	38 489
Items in the course of settlement	99 545	63 245	25 009
Balances on transactions with derivative financial instruments (Note 23)	24 837	1 004	467
Prepaid taxes	989	817	–
Other	49 603	–	881
Total other assets	490 409	212 098	64 846

Geographical, currency and maturity analyses of other assets are disclosed in Note 22.

9 Fixed and Intangible Assets

	Premises	Office and Computer equipment	Intangible assets	Construction in progress	Total
Net book amount as at 31 December 2003	1 707	262 985	62 037	6 023	332 752
Book amount at cost					
Opening balance	1 808	368 752	100 371	6 023	476 954
Additions	277 317	404 929	37 704	27 404	747 354
Transfers	-	4 086	1 937	(6 023)	-
Disposals	-	(11 734)	(504)	-	(12 238)
Closing balance	279 125	766 033	139 508	27 404	1 212 070
Accumulated depreciation					
Opening balance	101	105 767	38 334	-	144 202
Depreciation and amortisation charge (Note 18)	2 032	118 954	19 458	-	140 444
Disposals	-	(8 279)	(75)	-	(8 354)
Closing balance	2 133	216 442	57 717	-	276 292
Net book amount as at 31 December 2004	276 992	549 591	81 791	27 404	935 778
	Office and Computer equipment	Intangible assets	Construction in progress	Premises	Total
Net book amount as at 31 December 2001	66 586	30 828	22 426	1 157	120 997
Book amount at cost					
Opening balance	96 059	42 216	22 426	1 200	161 901
Additions	79 590	10 859	2 670	-	93 119
Transfers	272	22 154	(22 426)	-	-
Disposals	(850)	-	-	-	(850)
Closing balance	175 071	75 229	2 670	1 200	254 170
Accumulated depreciation					
Opening balance	29 473	11 388	-	43	40 904
Depreciation and amortisation charge (Note 18)	23 854	9 141	-	24	33 019
Disposals	(355)	-	-	-	(355)
Closing balance	52 972	20 529	-	67	73 568
Net book amount as at 31 December 2002	122 099	54 700	2 670	1 133	180 602
Book amount at cost					
Opening balance	175 071	75 229	2 670	1 200	254 170
Additions	194 873	25 142	6 023	608	226 646
Transfers	2 670	-	(2 670)	-	-
Disposals	(3 862)	-	-	-	(3 862)
Closing balance	368 752	100 371	6 023	1 808	476 954

9 Fixed and Intangible Assets (Continued)

	Office and Computer equipment	Intangible assets	Construction in progress	Premises	Total
Accumulated depreciation					
Opening balance	52 972	20 529	–	67	73 568
Depreciation and amortisation charge (Note 18)	53 388	17 805	–	34	71 227
Disposals	(593)	–	–	–	(593)
Closing balance	105 767	38 334	–	101	144 202
Net book amount at 31 December 2003	262 985	62 037	6 023	1 707	332 752

Intangible assets are mainly represented by electronic data processing software used by the Group, while construction in progress consists of computer equipment and software, which is not yet installed by the Group as at the balance sheet date.

10 Due to Other Banks

	2004	2003	2002
Term placements of other banks	2 911 041	2 053 641	1 082 514
Loan facility from IFC	817 950	603 361	–
Syndicated loan	598 326	–	–
Loan facilities from EBRD	439 345	736 101	320 682
Other	71	16 111	566
Total due to other banks	4 766 733	3 409 214	1 403 762

Term placements of other banks represent borrowings obtained by the Group in the normal course of business. As at 31 December 2004 RR 780 000 thousand of the Group's consumer loans were agreed to be pledged as collateral for term placements of other banks in the case of the Group's default on these loans (2003: RR 1 453 634 thousand; 2002: nil). Refer to Note 7.

Included in current term placements of other banks as at 31 December 2002 is a deposit of RR 317 373 thousand which has been guaranteed by the Group's principal shareholder. Refer to Note 25.

Loan facility from IFC. In December 2003, a USD 40 000 thousand three year revolving loan facility was provided to the Group by IFC. The facility is drawn down in US Dollars, but the Group may choose to denominate the liability either in Russian Rouble or in US Dollar.

Under this facility, in December 2003, the Group obtained a RR loan in the equivalent of USD 21 000 thousand at a fixed interest rate of 8.65%, which was repaid on 21 June 2004. In March 2004, the Group obtained a Russian Rouble loan in the equivalent of USD 7 000 thousand bearing a fixed interest rate of 7.59% payable quarterly, which was repaid on 14 March 2005.

In June 2004, the Group obtained a further RR loan in the equivalent amount of USD 21 000 thousand, which is due on 20 June 2005 and bears a fixed interest rate of 10.8% payable quarterly. As at 31 December 2004 RR 1 010 053 thousand (2003: RR 804 108 thousand; 2002: nil) of the Group's consumer loans were agreed to be pledged as collateral in case of the Group's default on the loan facility from IFC. Refer to Note 7.

Syndicated Loan. In July 2004 the Group obtained from Citibank, Dresdner Bank Luxemburg S.A., ING Bank N.V. Netherlands, Vneshtorgbank and Emirates bank International PJSC a syndicated loan of USD 21 500 thousand. The loan is due in July 2005 and bears a floating rate of three month LIBOR plus 3.5% margin.

10 Due to Other Banks (Continued)

Loan facilities from EBRD. In 2002 the Group obtained a USD 10 000 thousand loan from European Bank for Reconstruction and Development (“EBRD”), which was due on 15 April 2006 and bearing a floating interest rate of six month LIBOR plus 4.5% fixed in advance for periods of six months. The loan was repayable in five equal semi-annual instalments, starting 15 April 2004. As at 31 December 2003 RR 382 909 thousand (2002: RR 413 197 thousand) of the Group’s consumer loans were agreed to be pledged as collateral for the loan in case of the Group’s default. Refer to Note 7.

As part of the above loan, the Bank also issued an option in favour of EBRD, which could be exercised at any time for as long as the loan remains outstanding. Under the terms of the option the Bank was required to allot a part of any future capital issue (up to 10.44% of the share capital after the new share issue) to EBRD on its demand, or to pay a settlement amount of USD 4 000 thousand as compensation to EBRD. The decision as to whether to issue the shares or pay the compensation is chosen by the Group. The exercise price of the option is USD 122.36 per share plus an amount equal to 3.5% p.a. of the loan provided to the Group by EBRD as interest on the loan until the date of demand for the option to be exercised.

EBRD has exercised its option in July 2004 by sending to the Bank a settlement demand requesting payment of the settlement amount or an allotment of 148 380 shares of the Bank. Following the settlement demand, the Bank prepaid the loan amount in full in December 2004 and agreed to pay USD 4 000 thousand settlement amount in compensation by 31 March 2005. The Bank has also agreed to pay interest on the settlement amount for the period from 28 August 2004 to 31 March 2005 at the rate of LIBOR plus 4.25%. As at 31 December 2004 the Russian Rouble equivalent of the amount of this liability to EBRD in the amount of RR 113 608 thousand was recorded in other liabilities (Note 13) and as a deduction from the Group’s equity.

In October 2003 the Group obtained a further loan facility from EBRD of USD 20 000 thousand. Under this facility, the Group has drawn down four (2003: three) USD 5 000 thousand tranches, which mature in May November 2007. The tranches are repayable in semi-annual instalments and bear a floating interest rate of six month LIBOR plus 4.25% fixed in advance for periods of six months.

In December 2004 the Group obtained a USD 90 000 thousand loan facility from EBRD (refer to Note 26).

The geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 22. Fair values are disclosed in Note 24. Information on related party balances is disclosed in Note 25.

11 Customer Accounts

	2004	2003	2002
Legal entities			
– Current/settlement accounts	272 518	359 703	598 133
– Term deposits	441 575	231 132	52 260
Individuals			
- Current/demand accounts	2 460 091	742 594	252 107
- Term deposits	1 061 149	1 387 335	231 095
Total customer accounts	4 235 333	2 720 764	1 133 595

10 Customer Accounts (Continued)

Economic sector concentrations within customer accounts of legal entities are as follows:

	2004		2003		2002	
	Amount	%	Amount	%	Amount	%
Retail	407 688	57	322 326	54	519 639	80
Finance	228 746	32	163 408	28	38 947	6
Professional services	69 062	9	88 417	15	8 553	1
State and public organisations	3 643	1	5 398	1	17 930	3
Other	4 954	1	11 286	2	65 324	10
Total accounts of legal entities	714 093	100	590 835	100	650 393	100

The geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 22. Fair values are disclosed in Note 24. Information on related party balances is disclosed in Note 25.

12 Debt Securities in Issue

	2004	2003	2002
USD 300 million 8.75% loan participation notes due April 2007	8 438 399	–	–
USD 300 million 7.8% loan participation notes due September 2007	8 434 911	–	–
Promissory notes issued	2 344 652	1 933 641	879 143
RR 2 000 million – 12.9% bonds due August 2007	2 072 868	–	–
RR 1 000 million 14% bonds due June 2006	999 085	994 348	–
USD 30 million 11% loan participation notes due May 2005	836 539	877 182	–
RR 500 million 20% bonds due August 2005	536 321	529 893	524 643
RR 500 million 12% bonds due October 2004	–	478 947	447 631
Certificates of deposit	–	62 237	14 317
USD 30 million 10% credit linked notes due March 2004	–	468 047	–
Total debt securities in issue	23 662 775	5 344 295	1 865 734

12 Debt Securities in Issue (Continued)

In April 2004 the Bank issued 8.75% loan participation notes due April 2007 with an aggregate nominal amount of USD 150 000 thousand, placed at par value. In September 2004 the Bank issued 7.8% loan participation notes due to September 2007 with an aggregate nominal amount of USD 300 000 thousand, placed at par value.

In December 2004 the Bank issued additional 8.75% loan participation notes due April 2007 with an aggregate nominal amount of USD 150 000 thousand, placed at par value.

Up to 55% of the nominal value of the promissory notes issued by the Bank in 2002, which were due December 2003 in the total nominal amount of RR 210 000 thousand, were guaranteed by IFC. RR 115 500 thousand of the Group's consumer loans were pledged as collateral for the guarantee in the case of the Bank's default (refer to Note 7). These promissory notes were redeemed in full prior to 31 December 2003.

In August 2004 the Bank issued at par value 2 000 thousand bonds with a nominal value of RR 1 000 each and a 12.9% fixed interest rate, due in August 2007. The bonds are guaranteed by the Group's principal shareholder.

The 14% bonds due June 2006 were issued by the Bank on June 2003 and are guaranteed by the Group's principal shareholder.

USD 30 000 thousand 11% loan participation notes due May 2005 were issued by the Bank in November 2003.

The 20% bonds due August 2005 were issued by the Bank's subsidiary in August 2002 and are guaranteed by the Bank and the Group's principal shareholder. RR 650 000 thousand of the Group's consumer loans were pledged as collateral for these bonds in the case of the Group's default (refer to Note 7).

The 12% bonds due October 2004 were issued by the Bank in November 2001 and were guaranteed by IFC (up to a limit of RR 300 000 thousand). In December 2002, the Group pledged RR 650 000 thousand of consumers loans as collateral for the guarantee in the case of the Group's default (refer to Note 7). These bonds were redeemed in full prior to 31 December 2004.

In September 2003 the Bank issued 10% six-month credit linked notes due on March 2004 with an aggregate nominal amount of USD 15 000 thousand, placed at par value. The total par value of the issue was RR 919 695 thousand (USD 30 000 thousand). These credit linked notes were redeemed in full prior to 31 December 2004.

The geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 22. Fair values are disclosed in Note 24. Information on debt securities in issue held by related parties is disclosed in Note 25.

13 Other Liabilities

	2004	2003	2002
Taxes payables	327 785	84 649	19 330
Staff costs	192 441	–	–
Balances on transactions with derivative financial instruments (Note 23)	170 612	523	1 125
Liability for option settlement (Note 10)	113 608	–	–
Items in course of settlement	49 029	9 765	7 056
Other	50 199	97 155	32 758
Total other liabilities	903 674	192 092	60 269

Staff costs represent bonuses to employees for the year 2004 accrued by the Group as at 31 December 2004.

13 Other Liabilities (Continued)

The geographical, currency and maturity analyses of other liabilities are disclosed in Note 23. Information on related party balances is disclosed in Note 25.

14 Share Capital, Share Premium and Additional Paid – in Capital

Authorised, issued and fully paid share capital of the Bank as at 31 December 2004 and 31 December 2003 comprises:

	Authorised		Issued and fully paid		Inflation adjusted amount
	Number of shares	Nominal amount	Number of shares	Nominal amount	
Ordinary shares	5 656 000	5 656 000	1 272 883	1 272 883	1 738 516
Preference shares	1 880 000	1 880 000	–	–	–
Total share capital	7 536 000	7 536 000	1 272 883	1 272 883	1 738 516

Authorised, issued and fully paid share capital of the Bank as at 31 December 2002 comprises:

	Authorised		Issued and fully paid		Inflation adjusted amount
	Number of shares	Nominal amount	Number of shares	Nominal amount	
Ordinary shares	5 656 000	5 656 000	700 843	700 843	1 166 476
Preference shares	1 880 000	1 880 000	–	–	–
Total share capital	7 536 000	7 536 000	700 843	700 843	1 166 476

All ordinary shares have a nominal value of RR 1 000 per share, rank equally and carry one vote.

A contribution of RR 13 580 thousand was obtained by the Group from its principal shareholder in 2002 and recorded as share premium in the consolidated statement of changes in shareholders' equity.

In July 2004, a contribution of RR 195 113 thousand was obtained by the Group from its principal shareholder. The contribution net of a deferred tax liability of RR 46 827 thousand (Note 19) amounted to RR 148 286 thousand, was made towards the purchase of a building on behalf of the Group and has been recorded as additional paid-in capital in the Consolidated Statement of Changes in Shareholders' Equity.

In March 2003, the Bank issued and registered 81 724 ordinary shares, which were placed with IFC at a price of RR 3 847.08 per share, resulting in a share premium of RR 232 675 thousand.

In October 2003, the Bank issued and registered 490 316 ordinary shares at a price of RR 1 250.12 per share resulting in a share premium of RR 122 638 thousand. 490 307 of these shares were placed with the Group's principal shareholder.

15 Retained Earnings

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's unaudited reserves under Russian Accounting Rules as at 31 December 2004 are RR 6 085 146 thousand (2003: RR 1 899 741 thousand; 2002: RR 357 645 thousand).

16 Interest Income and Expense

	2004	2003	2002
Interest income			
Loans to individuals	10 814 852	4 380 916	1 359 484
Due from other banks and overnight placements with other banks	57 079	11 022	7 580
Loans to legal entities, including factoring receivables	52 937	42 853	145 324
Other	1 891	1 879	–
Total interest income	10 926 759	4 436 670	1 512 388
Interest expense			
Credit linked notes and loan participation notes	624 879	42 367	–
Promissory notes issued	477 754	240 288	68 006
Bonds issued	419 090	273 501	129 764
Term deposits of other banks	345 785	158 511	35 356
Customer accounts	173 630	99 069	25 817
Certificates of deposit	12 808	14 055	337
Other	3 327	–	–
Total interest expense	2 057 273	827 791	259 280
Net interest income	8 869 486	3 608 879	1 253 108

17 Net Trading Gains

	2004	2003	2002
Foreign exchange translation gains less losses/(losses less gains)	582 972	86 988	(327)
(Losses less gains)/gains less losses arising from trading in foreign currencies	(70 854)	(38 667)	16 305
Losses less gains arising from revaluation of derivative financial instruments (Note 23)	(146 256)	1 139	(614)
Other	713	708	(863)
Total net trading gains	366 575	50 168	14 501

18 Operating Expenses

	2004	2003	2002
Staff costs	1 068 165	640 193	338 728
Administrative expenses	321 019	145 685	78 284
Rent expenses	185 632	110 348	67 257
Depreciation of fixed assets and amortisation of intangible assets (Note 9)	140 444	71 227	33 019
Taxes other than income tax	128 581	118 874	74 192
Other expenses related to maintenance of fixed and intangible assets	84 115	73 081	10 931
Advertising and marketing	56 759	68 126	108 478
Professional services	49 435	24 693	25 640
Other	32 261	20 563	21 730
Total operating expenses	2 066 411	1 272 790	758 259

19 Income Taxes

Income tax expense comprises the following:

	2004	2003	2002
Current tax charge	1 474 586	621 846	143 845
Deferred taxation movement due to origination and reversal of temporary differences	(27 138)	(186 657)	(36 580)
Less: Deferred tax recorded directly to equity (Note 14)	(46 827)	–	–
Income tax expense for the year	1 400 621	435 189	107 265

The income tax rate applicable to the majority of the Group's income is 24% (2003: 24%; 2002: 24%). A reconciliation between the expected and the actual taxation charge is provided below.

	2004	2003	2002
IFRS profit before tax	5 793 610	1 799 976	289 717
Theoretical tax charge at the applicable statutory rate (24%)	1 390 466	431 995	69 532
Tax effect of items, which are not deductible or assessable for taxation purposes:			
– Non temporary elements of monetary gains and losses	–	–	37 087
– Income which is exempt from taxation	(1 071)	–	–
– Other non deductible expenses	9 314	2 182	10 480
– Other non temporary differences	1 912	1 012	(5 784)
Non-recorded net deferred tax asset movement	–	–	(4 050)
Income tax expense for the year	1 400 621	435 189	107 265

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24% (2003: 24%; 2002: 24%), except for income on state securities that is taxed at 15% (2003: 15%; 2002: 15%).

	2002	Movement	2003	Movement	2004
Tax effect of deductible and taxable temporary differences					
Accruals, net	41 631	122 617	164 248	191 609	355 857
Difference in the amount of provision for losses on credit related commitments	4 748	12 784	17 532	(12 398)	5 134
Difference in the amount of provision for loan impairment	5 579	39 965	45 544	(70 414)	(24 870)
Fixed and intangible assets (Note 14)	–	–	–	(46 827)	(46 827)
Other differences, net	(1 893)	11 291	9 398	(34 832)	(25 434)
Net deferred tax asset	50 065	186 657	236 722	27 138	263 860

In the context of the Group's current structure, tax losses and current tax assets of different companies may not be offset against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, a deferred tax asset of one company of the Group may not be offset against a deferred tax liability of another company.

A deferred tax liability of RR 46 827 thousand (2003: nil; 2002: nil) has been recorded relating to the contribution from shareholders. Refer to Note 14.

20 Dividends

The Bank neither declared nor paid dividends during the year ended 31 December 2004. Refer to Note 26. During the year ended 31 December 2003 the Bank declared and paid dividends in the amount of RR 252 737 thousand, or RR 360.62 per share. All dividends were declared and paid in Russian Roubles. The Bank neither declared nor paid dividends during 2002.

21 Analysis by Segment

In 2003 the Group adopted a change in the reporting of the segmentation of its business compared with 2002: the Group's primary format for reporting segmental information became the geographical segments criterion, while business segments became the secondary format. The change reflected the growing importance of its retail banking segment in different geographical regions, which accounted for 97% of the Group's external revenues in 2003 (2002: 88%). Another reason for the change is the expansion of the Group's retail banking business outside of Moscow, with its regional retail business accounting for 36% of external revenues in the year ended 31 December 2003 (2002: 11%).

Transactions between the segments are performed based on the Group's standard commercial terms and conditions. Funds are reallocated between the segments, resulting in funding cost transfers disclosed as the revenues or charges from other segments. Interest charged for these funds is based on the calculation of the Group's cost of capital of 14% (2003, 2002: 20%). There are no other material items of income or expense between the segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the consolidated balance sheet, but excluding items such as taxation. Internal charges and transfer pricing adjustments have been reflected in the analysis of each business.

Geographical segments. The Group operates in Moscow, St. Petersburg and 13 other locations in Central Russia, Siberia and Urals. Of these locations, only Moscow represents a separately reportable segment, while the other locations are aggregated under the caption "Other regions".

The geographical segmental analysis of assets and liabilities of the Group is set out below:

	2004	2003	2002
Assets			
Moscow	17 536 033	8 673 399	4 449 921
Other regions	22 735 305	5 520 853	947 557
Unallocated assets	956 296	656 738	211 104
Total assets	41 227 634	14 850 990	5 608 582
Liabilities			
Moscow	31 489 666	11 237 478	4 387 334
Other regions	1 663 081	330 456	38 301
Unallocated liabilities	462 595	98 431	37 725
Total liabilities	33 615 342	11 666 365	4 463 360

21 Analysis by Segment (Continued)

Financial results for the main geographical segments of the Group for the year ended 31 December 2004 are set out below:

Year ended 31 December 2004	Moscow	Other regions	Unallocated	Eliminations	Total
External revenues	5 376 499	5 983 820	–	–	11 360 319
Revenues from other segments	989 305	–	664 688	(1 653 993)	–
Total revenues	6 365 804	5 983 820	664 688	(1 653 993)	11 360 319
Interest expense	(2 057 273)	–	–	–	(2 057 273)
Fee and commission expense	(72 665)	–	–	–	(72 665)
Provisions	(338 998)	(1 031 362)	–	–	(1 370 360)
Operating expenses	(1 298 846)	(539 466)	(228 099)	–	(2 066 411)
Charges from other segments	–	(1 653 993)	–	1 653 993	–
Segment results	2 598 022	2 758 999	436 589	–	5 793 610
Income tax expense					(1 400 621)
Net profit					4 392 989

Financial results for the main geographical segments of the Group for the year ended 31 December 2003 are set out below:

Year ended 31 December 2003	Moscow	Other regions	Unallocated	Eliminations	Total
External revenues	2 893 381	1 635 156	–	–	4 528 537
Revenues from other segments	250 149	–	359 816	(609 965)	–
Total revenues	3 143 530	1 635 156	359 816	(609 965)	4 528 537
Interest expense	(827 791)	–	–	–	(827 791)
Fee and commission expense	(49 909)	–	–	–	(49 909)
Provisions	(269 323)	(308 748)	–	–	(578 071)
Operating expenses	(889 699)	(223 501)	(159 590)	–	(1 272 790)
Charges from other segments	–	(609 965)	–	609 965	–
Segment results	1 106 808	492 942	200 226	–	1 799 976
Income tax expense					(435 189)
Net profit					1 364 787

21 Analysis by Segment (Continued)

Financial results for the main geographical segments of the Group for the year ended 31 December 2002 are set out below:

Year ended 31 December 2002	Moscow	Other regions	Unallocated	Eliminations	Total
External revenues	1 407 199	178 284	–	–	1 585 483
Revenues from other segments	–	–	182 419	(182 419)	–
Total revenues	1 407 199	178 284	182 419	(182 419)	1 585 483
Interest expense	(259 280)	–	–	–	(259 280)
Fee and commission expense	(26 624)	–	–	–	(26 624)
Provisions	(83 003)	(32 365)	–	–	(115 368)
Operating expenses	(558 739)	(89 727)	(109 793)	–	(758 259)
Charges from other segments	(84 540)	(97 879)	–	182 419	–
Monetary loss	–	–	(136 235)	–	(136 235)
Segment results	395 013	(41 687)	(63 609)	–	289 717
Income tax expense					(107 265)
Net profit					182 452

Business Segments. The Group is organised on the basis of three main business segments:

- Retail banking – representing consumer loans, credit and debit cards, deposits and other services;
- Financial markets – representing financial instruments trading and liquidity management; and
- Corporate banking – representing legal entities' current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.

A business segment breakdown of assets of the Group is set out below:

	2004	2003	2002
Assets			
Retail banking	34 214 892	12 965 162	4 468 083
Financial markets	4 889 425	830 135	401 866
Corporate banking	1 167 021	262 286	390 111
Unallocated assets	956 296	793 407	348 522
Total assets	41 227 634	14 850 990	5 608 582

Business segment breakdown of external revenue is set out below:

	2004	2003	2002
External revenue			
Retail banking	10 814 852	4 386 223	1 394 033
Financial markets	429 906	67 977	25 123
Corporate banking	115 561	72 800	166 327
Unallocated revenues	–	1 537	–
Total external revenue	11 360 319	4 528 537	1 585 483

External revenue comprises interest, fee and commission income, net trading gains and other operating results.

22 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay all amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, borrower and industry sector are set by the Credit Committee and approved regularly by the Management Board.

The exposure to any one borrower including banks is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

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

The Group's maximum exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the consolidated balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

22 Financial Risk Management (Continued)

Geographical risk. The geographical concentration of the Group's assets and liabilities as at 31 December 2004 is set out below:

	Russia	OECD	Non OECD	Total
Assets				
Cash and cash equivalents	2 640 465	209 824	–	2 850 289
Mandatory cash balances with the Central Bank of the Russian Federation	267 033	–	–	267 033
Due from other banks	1 277 716	731 349	–	2 009 065
Loans and advances to customers	33 794 117	427 330	142 926	34 364 373
Deferred tax asset	310 687	–	–	310 687
Other assets	398 965	75 404	16 040	490 409
Fixed and intangible assets	935 778	–	–	935 778
Total assets	39 624 761	1 443 907	158 966	41 227 634
Liabilities				
Due to other banks	1 301 172	3 145 824	319 737	4 766 733
Customer accounts	4 056 074	138 016	41 243	4 235 333
Debt securities in issue	5 891 391	17 709 849	61 535	23 662 775
Deferred tax liability	46 827	–	–	46 827
Other liabilities	716 237	181 855	5 582	903 674
Total liabilities	12 011 701	21 175 544	428 097	33 615 342
Net balance sheet position	27 613 060	(19 731 637)	(269 131)	7 612 292
Credit related commitments	12 417 685	1 000	185 453	12 604 138

As at 31 December 2003 and 31 December 2002 all correspondent accounts, loans and advances to banks and customers were placed in Russia and deposits of banks and customers were obtained from companies in Russia and citizens of Russia, except for certain assets and liabilities shown below which were placed in and obtained from OECD banks:

	2003	2002
Assets		
Correspondent accounts and overnight placements	71 501	22 563
Due from other banks	137 367	22 885
Liabilities		
Due to other banks	2 027 944	320 682

Included in debt securities in issue as at 31 December 2003 are loan participation notes due May 2005, which were issued on the Dublin Stock Exchange.

Currency risk. The Group takes on exposure to effects of fluctuations 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 currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk as at 31 December 2004. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency. 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 the Group's exposure to currency movements, and their fair values.

22 Financial Risk Management (Continued)

As at 31 December 2004, the Group has the following positions in currencies:

	RR	USD	Other currencies	Total
Assets				
Cash and cash equivalents	2 540 932	217 565	91 792	2 850 289
Mandatory cash balances with the Central Bank of the Russian Federation	267 033	–	–	267 033
Due from other banks	–	2 009 065	–	2 009 065
Loans and advances to customers	33 522 548	420 652	421 173	34 364 373
Deferred tax asset	310 687	–	–	310 687
Other assets	398 739	66 342	25 328	490 409
Fixed and intangible assets	935 778	–	–	935 778
Total assets	37 975 717	2 713 624	538 293	41 227 634
Liabilities				
Due to other banks	1 955 783	2 379 537	431 413	4 766 733
Customer accounts	3 826 320	375 678	33 335	4 235 333
Debt securities in issue	5 788 644	17 729 632	144 499	23 662 775
Deferred tax liability	46 827	–	–	46 827
Other liabilities	736 718	159 805	7 151	903 674
Total liabilities	12 354 292	20 644 652	616 398	33 615 342
Net balance sheet position	25 621 425	(17 931 028)	(78 105)	7 612 292
Credit related commitments	11 586 718	350 578	666 842	12 604 138
Off–balance sheet net notional position	(17 949 062)	17 949 062	–	–

22 Financial Risk Management (Continued)

At 31 December 2003, the Group had the following positions in currencies:

	RR	USD	Other currencies	Total
Assets				
Cash and cash equivalents	430 316	218 522	42 927	691 765
Mandatory cash balances with the Central Bank of the Russian Federation	226 818	–	–	226 818
Due from other banks	–	26 895	110 472	137 367
Loans and advances to customers	12 721 244	156 380	135 844	13 013 468
Deferred tax assets	236 722	–	–	236 722
Other assets	209 039	2 701	358	212 098
Fixed and intangible assets	332 752	–	–	332 752
Total assets	14 156 891	404 498	289 601	14 850 990
Liabilities				
Due to other banks	1 774 096	1 518 534	116 584	3 409 214
Customer accounts	1 641 799	965 459	113 506	2 720 764
Debt securities in issue	3 901 974	1 364 809	77 512	5 344 295
Other liabilities	180 593	6 506	4 993	192 092
Total liabilities	7 498 462	3 855 308	312 595	11 666 365
Net balance sheet position	6 658 429	(3 450 810)	(22 994)	3 184 625
Credit related commitments	2 988 640	263 915	969 552	4 222 107
Off-balance sheet net notional position	(3 254 722)	3 254 722	–	–

22 Financial Risk Management (Continued)

At 31 December 2002, the Group had the following positions in currencies:

	RR	USD	Other currencies	Total
Assets				
Cash and cash equivalents	169 195	56 799	10 272	236 266
Mandatory cash balances with the Central Bank of the Russian Federation	103 822	–	–	103 822
Due from other banks	–	102 479	49 771	152 250
Loans and advances to customers	4 562 921	257 810	–	4 820 731
Deferred tax asset	50 065	–	–	50 065
Other assets	50 703	14 104	39	64 846
Fixed and intangible assets	180 602	–	–	180 602
Total assets	5 117 308	431 192	60 082	5 608 582
Liabilities				
Due to other banks	800 765	602 997	–	1 403 762
Customer accounts	595 537	526 382	11 676	1 133 595
Debt securities in issue	1 586 159	231 465	48 110	1 865 734
Other liabilities	41 338	18 931	–	60 269
Total liabilities	3 023 799	1 379 775	59 786	4 463 360
Net balance sheet position	2 093 509	(948 583)	296	1 145 222
Credit related commitments	1 341 257	172 699	605 266	2 119 222
Off–balance sheet net notional position	(855 000)	855 000	–	–

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and guarantees. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high degree of certainty. Liquidity risk is managed by the Asset/Liability Committee of the Group.

The table below shows assets and liabilities as at 31 December 2004 by their remaining contractual maturity, unless there is evidence that any of these assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement is used. Some of the assets, however, may be of a longer term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer term duration.

22 Financial Risk Management (Continued)

The liquidity position of the Group as at 31 December 2004 is set out below.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets							
Cash and cash equivalents	2 850 289	–	–	–	–	–	2 850 289
Mandatory cash balances with the Central Bank of the Russian Federation	267 033	–	–	–	–	–	267 033
Due from other banks	1 635 831	277 758	50 357	45 119	–	–	2 009 065
Loans and advances to customers	8 932 188	9 584 346	9 177 296	6 081 481	589 062	–	34 364 373
Deferred tax asset	–	–	–	–	–	310 687	310 687
Other assets	239 079	140 436	24 806	16 855	32 104	37 129	490 409
Fixed and intangible assets	–	–	–	–	–	935 778	935 778
Total assets	13 924 420	10 002 540	9 252 459	6 143 455	621 166	1 283 594	41 227 634
Liabilities							
Due to other banks	652 195	1 108 377	1 988 253	584 977	432 931	–	4 766 733
Customer accounts	2 952 389	335 050	340 440	565 954	41 500	–	4 235 333
Debt securities in issue	420 815	1 770 341	1 522 491	1 628 577	18 320 551	–	23 662 775
Deferred tax liability	–	–	–	–	–	46 827	46 827
Other liabilities	18 710	695 800	76 226	105 055	7 883	–	903 674
Total liabilities	4 044 109	3 909 568	3 927 410	2 884 563	18 802 865	46 827	33 615 342
Net liquidity gap	9 880 311	6 092 972	5 325 049	3 258 892	(18 181 699)	1 236 767	7 612 292
Cumulative liquidity gap as at							
31 December 2004	9 880 311	15 973 283	21 298 332	24 557 224	6 375 525	7 612 292	–

22 Financial Risk Management (Continued)

The liquidity position of the Group as at 31 December 2003 is set out below:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets							
Cash and cash equivalents	691 765	–	–	–	–	–	691 765
Mandatory cash balances with the Central Bank of the Russian Federation	226 818	–	–	–	–	–	226 818
Due from other banks	137 367	–	–	–	–	–	137 367
Loans and advances to customers	1 596 049	3 235 134	3 419 208	3 033 451	1 729 626	–	13 013 468
Deferred tax asset	–	–	–	–	–	236 722	236 722
Other assets	132 308	44 350	6 919	12 043	16 478	–	212 098
Fixed and intangible assets	–	–	–	–	–	332 752	332 752
Total assets	2 784 307	3 279 484	3 426 127	3 045 494	1 746 104	569 474	14 850 990
Liabilities							
Due to other banks	130 857	1 458 230	1 199 616	137 413	483 098	–	3 409 214
Customer accounts	1 303 810	825 044	282 733	235 529	73 648	–	2 720 764
Debt securities in issue	35 781	782 505	737 594	1 584 582	2 203 833	–	5 344 295
Other liabilities	98 168	–	75 077	6 487	12 360	–	192 092
Total liabilities	1 568 616	3 065 779	2 295 020	1 964 011	2 772 939	–	11 666 365
Net liquidity gap	1 215 691	213 705	1 131 107	1 081 483	(1 026 835)	569 474	3 184 625
Cumulative liquidity gap	1 215 691	1 429 396	2 560 503	3 641 986	2 615 151	3 184 625	–

22 Financial Risk Management (Continued)

The liquidity position of the Group as at 31 December 2002 is set out below:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	236 266	–	–	–	–	236 266
Mandatory cash balances with the Central Bank of the Russian Federation	103 822	–	–	–	–	103 822
Due from other banks	136 338	15 912	–	–	–	152 250
Loans and advances to customers	910 157	3 271 101	573 022	66 451	–	4 820 731
Deferred tax asset	–	–	–	–	50 065	50 065
Other assets	25 501	362	–	–	38 983	64 846
Fixed and intangible assets	–	–	–	–	180 602	180 602
Total assets	1 412 084	3 287 375	573 022	66 451	269 650	5 608 582
Liabilities						
Due to other banks	284 929	800 989	–	317 844	–	1 403 762
Customer accounts	802 358	314 579	16 658	–	–	1 133 595
Debt securities in issue	99 423	596 013	344 226	826 072	–	1 865 734
Other liabilities	9 000	24 609	–	–	26 660	60 269
Total liabilities	1 195 710	1 736 190	360 884	1 143 916	26 660	4 463 360
Net liquidity gap	216 374	1 551 185	212 138	(1 077 465)	242 990	1 145 222
Cumulative liquidity gap	216 374	1 767 559	1 979 697	902 232	1 145 222	–

Mandatory cash balances with the CBRF are included within demand and less than one month as the majority of liabilities to which this balance relates to are also included within this category.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Group is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

22 Financial Risk Management (Continued)

The Asset/Liability Committee sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions.

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities as at 31 December 2004 at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Non- interest bearing	Total
Assets							
Cash and cash equivalents	2 850 289	–	–	–	–	–	2 850 289
Mandatory cash balances with the Central Bank of the Russian Federation	267 033	–	–	–	–	–	267 033
Due from other banks	1 703 558	277 758	27 749	–	–	–	2 009 065
Loans and advances to customers	8 932 188	9 584 346	9 177 296	6 081 481	589 062	–	34 364 373
Deferred tax asset	–	–	–	–	–	310 687	310 687
Other assets	–	–	–	–	–	490 409	490 409
Fixed and intangible assets	–	–	–	–	–	935 778	935 778
Total assets	13 753 068	9 862 104	9 205 045	6 081 481	589 062	1 736 874 41	227 634
Liabilities							
Due to other banks	1 242 329	1 108 377	2 416 027	–	–	–	4 766 733
Customer accounts	2 952 389	335 050	340 440	565 954	41 500	–	4 235 333
Debt securities in issue	420 815	1 770 341	1 522 491	1 628 577	18 320 551	–	23 662 775
Deferred tax liability	–	–	–	–	–	46 827	46 827
Other liabilities	1 601	3 201	4 567	19 455	7 750	867 100	903 674
Total liabilities	4 617 134	3 216 969	4 283 525	2 213 986	18 369 801	913 927 33	615 342
Net sensitivity gap	9 135 934	6 645 135	4 921 520	3 867 495	(17 780 739)	822 947	7 612 292
Cumulative sensitivity gap as at							
31 December 2004	9 135 934	15 781 069	20 702 589	24 570 084	6 789 345	7 612 292	–

22 Financial Risk Management (Continued)

The Group's assets and liabilities at their carrying amounts, categorised by the earlier of contractual repricing or maturity dates, as at 31 December 2003 are set out below:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Non- interest bearing	Total
Assets							
Cash and cash equivalents	691 765	–	–	–	–	–	691 765
Mandatory cash balances with the Central Bank of the Russian Federation	226 818	–	–	–	–	–	226 818
Due from other banks	137 367	–	–	–	–	–	137 367
Loans and advances to customers	1 596 049	3 235 134	3 419 208	3 033 451	1 729 626	–	13 013 468
Deferred tax asset	–	–	–	–	–	236 722	236 722
Other assets	–	–	–	–	–	212 098	212 098
Fixed and intangible assets	–	–	–	–	–	332 752	332 752
Total assets	2 651 999	3 235 134	3 419 208	3 033 451	1 729 626	781 572	14 850 990
Liabilities							
Due to other banks	130 857	1 458 230	1 815 643	4 484	–	–	3 409 214
Customer accounts	1 303 810	825 044	282 733	235 529	73 648	–	2 720 764
Debt securities in issue	35 781	782 505	737 594	1 584 582	2 203 833	–	5 344 295
Other liabilities	–	–	–	–	–	192 092	192 092
Total liabilities	1 470 448	3 065 779	2 835 970	1 824 595	2 277 481	192 092	11 666 365
Net sensitivity gap	1 181 551	169 355	583 238	1 208 856	(547 855)	589 480	3 184 625
Cumulative sensitivity gap	1 181 551	1 350 906	1 934 144	3 143 000	2 595 145	3 184 625	–

22 Financial Risk Management (Continued)

The Group's assets and liabilities at their carrying amounts, categorised by the earlier of contractual repricing or maturity dates, as at 31 December 2002 are set out below.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	236 266	–	–	–	–	236 266
Mandatory cash balances with the Central Bank of the Russian Federation	103 822	–	–	–	–	103 822
Due from other banks	136 338	15 912	–	–	–	152 250
Loans and advances to customers	910 157	3 271 101	573 022	66 451	–	4 820 731
Deferred tax asset	–	–	–	–	50 065	50 065
Other assets	–	–	–	–	64 846	64 846
Fixed and intangible assets	–	–	–	–	180 602	180 602
Total assets	1 386 583	3 287 013	573 022	66 451	295 513	5 608 582
Liabilities						
Due to other banks	284 927	1 118 835	–	–	–	1 403 762
Customer accounts	802 358	314 579	16 658	–	–	1 133 595
Debt securities in issue	99 423	596 012	344 226	826 073	–	1 865 734
Other liabilities	–	–	–	–	60 269	60 269
Total liabilities	1 186 708	2 029 426	360 884	826 073	60 269	4 463 360
Net sensitivity gap	199 875	1 257 587	212 138	(759 622)	235 244	1 145 222
Cumulative sensitivity gap	199 875	1 457 462	1 669 600	909 978	1 145 222	–

22 Financial Risk Management (Continued)

The table below summarises the effective interest rates by major currencies for major monetary financial instruments. The analysis has been prepared based on period-end effective rates used for the amortisation of the respective assets/liabilities.

	2004			2003		
	RR	USD	Euro	RR	USD	Euro
Assets						
Cash and cash equivalents	0.6	3.1	1.0	0.0	2.1	1.0
Due from other banks	–	2.5	–	–	0.5	2.1
Loans and advances to customers						
– consumer loans	66.1	–	–	74.6	–	–
– credit card loans	91.6	65.2	–	83.2	57.0	–
– direct commercial loans	8.6	10.4	8.4	27.3	11.2	10.5
Liabilities						
Due to other banks	12.2	5.9	4.5	14.8	7.2	6.9
Customer accounts						
– term deposits of legal entities	11.1	3.1	–	14.5	5.5	–
– term deposits of individuals	12.4	8.1	6.3	16.6	9.1	9.5
Debt securities in issue						
– bonds	15.4	–	–	18.6	–	–
– loan participation notes	–	8.8	–	–	12.9	–
– promissory notes	15.7	5.6	7.6	18.1	9.2	6.0

	2002		
	RR	USD	Euro
Assets			
Due from other banks	–	2.1	3.0
Loans and advances to customers			
– consumer loans	98.5	–	–
– credit card loans	79.9	32.9	–
– direct commercial loans	24.3	17.4	–
Liabilities			
Due to other banks	23.7	4.9	–
Customer accounts			
– term deposits of legal entities	20.4	7.6	–
– term deposits of individuals	18.2	10.2	–
Debt securities in issue			
– bonds	22.1	–	–
– promissory notes	23.0	11.7	5.6
– certificates of deposit	24.3	–	–

The sign “–” in the table above means that the Group does not have the respective assets or liabilities in corresponding currency.

23 Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice the Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these consolidated financial statements.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Accordingly, as at 31 December 2004 no provision for potential tax liabilities had been recorded in this regard (2003: nil; 2002: nil).

Capital commitments. As at 31 December 2004 the Group has capital commitments in respect of the purchase of fixed and intangible assets for regional offices totalling RR 18 963 thousand (2003: RR 99 089 thousand). The Group's Management has already allocated the necessary resources in respect of this commitment. The Group's Management believes that future net revenues and funding will be sufficient to cover this and any similar such commitments.

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non cancellable premises operating leases are as follows:

	2004	2003	2002
Not later than 1 year	142 512	95 679	70 022
Later than 1 year and not later than 5 years	137 949	83 835	115 071
Total operating lease commitments	280 461	179 514	185 093

Credit related commitments. Outstanding credit related commitments are as follows:

	2004	2003	2002
Undrawn credit lines on credit cards, net	11 252 043	2 779 674	1 192 925
Guarantees issued, net	848 897	458 775	281 609
Undrawn credit lines on loans to customers, net	439 118	293 204	193 508
Import letters of credit, net	59 945	73 496	–
Commitments to extend credit	4 135	52 842	–
Export letters of credit	–	564 116	451 180
Total credit related commitments	12 604 138	4 222 107	2 119 222

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

Undrawn credit lines on credit cards and loans to customers represent unused portions of authorisations to extend credit in the form of loans. Guarantees issued represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties and thus carry the same credit risk as loans.

Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods, to which they relate, or cash deposits.

23 Contingencies, Commitments and Derivative Financial Instruments (Continued)

With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in the amount equal to the total of unused commitments. However, the likely amount of loss is less than the total unused commitments since most of the commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Derivative financial instruments. Foreign exchange derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions.

The principal amounts of certain types of financial instruments provide a basis for comparison with instruments recorded on the Consolidated Balance Sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative financial instruments have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in foreign exchange rates relative to their terms. The aggregate contractual or principal amount of derivative financial instruments on hand, the extent to which instruments have favourable or unfavourable conditions and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The principal or agreed amounts and fair values of derivative instruments held are set out in the following table.

	2004			2003		
	Contract/ notional amount	Fair values		Contract/ notional amount	Fair values	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange spot deals	7 479 204	1 352	(2 222)	3 549 267	1 004	(523)
Foreign exchange forward deals	11 376 967	23 485	(168 390)	–	–	–
Total recognised derivative assets/(liabilities)	18 856 171	24 837	(170 612)	3 549 267	1 004	(523)
				2002		
				Contract/ notional amount	Fair values	
					Assets	Liabilities
Foreign exchange spot deals				1 071 134	467	(1 125)
Total recognised derivative assets/(liabilities)				1 071 134	467	(1 125)

Derivatives with positive fair values are included into other assets, while derivatives with negative fair values are included into other liabilities. Refer to Notes 8 and 13 respectively.

Fiduciary assets. These assets are not included in the Group's consolidated balance sheet as they are not the assets of the Group. As at 31 December 2004 the Group held promissory notes of Russian companies with nominal value of RR 13 501 thousand (2003: RR 162 165 thousand; 2002: nil).

23 Contingencies, Commitments and Derivative Financial Instruments (Continued)

Assets pledged. Assets pledged by the Group have been disclosed within the notes to the relevant assets and liabilities included in these consolidated financial statements.

As at 31 December 2004 mandatory cash balances with the CBRF in the amount of RR 267 033 thousand (2003: RR 226 818 thousand; 2002: RR 103 822 thousand) represent mandatory reserve deposits, which are not available to finance the Group's day-to-day operations.

24 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may not be reflective of the values for financial instruments, which would be determined in an efficient, active market involving willing buyers and willing sellers. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's consolidated balance sheet at their fair value.

	2004		2003		2002	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets						
Due from other banks (Note 6)	2 009 065	2 009 065	137 367	137 331	152 250	152 250
Loans and advances to customers (Note 7)	34 364 373	34 364 373	13 013 468	12 981 908	4 820 731	4 820 731
Financial liabilities						
Due to other banks (Note 10)	4 766 733	4 766 733	3 409 214	3 417 005	1 403 762	1 403 762
Customer accounts (Note 11)	4 235 333	4 235 333	2 720 764	2 720 764	1 133 595	1 133 595
Debt securities in issue (Note 12)	23 662 775	23 725 565	5 344 295	5 373 978	1 865 734	1 886 540

Loans originated carried at amortised cost less provision for impairment. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Liabilities carried at amortised cost. The fair value of instruments with a quoted market price is based on quoted market prices. The estimated fair value of instruments with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest rate instruments without a quoted market price is based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of derivative financial instruments is disclosed in Note 23.

25 Related Party Transactions

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

Banking transactions are entered into in the normal course of business with shareholders and other companies controlled by the principal shareholder, and with the directors and management of the Group. During 2002, 2003 and 2004 these transactions were priced predominantly at market rates with the exception of guarantees received free of charge from the principal shareholder in relation to bonds issued by the Group (refer to Note 12).

25 Related Party Transactions (Continued)

The outstanding balances at 31 December 2004, 31 December 2003 and 31 December 2002 with related parties are as follows:

	2004	2003	2002
Principal shareholder of the Group and related companies			
<i>Loans and advances to customers</i>			
Loans and advances (contractual interest rate: 2004: 12% per annum on the loans denominated in US dollars, 15% per annum on the loans denominated in RR)	182 182	–	62 066
<i>Due to other banks</i>			
Current term placements of other banks guaranteed by the principal shareholder	–	–	317 373
<i>Customer accounts</i>			
Term deposits (contractual interest rates: 2004: 10-12% per annum on deposits denominated in RR, 3% per annum on deposits denominated in US dollars)	147 658	–	3 572
Current accounts	140 062	120 401	379 520
<i>Debt securities in issue</i>			
Bonds guaranteed by the principal shareholder	3 608 274	1 524 241	524 643
Promissory notes	62 119	–	156 099
<i>Credit related commitments</i>			
Guarantees and letters of credit issued by the Group	643 928	419 954	189 604
IFC			
Loan facility from IFC	817 950	603 361	–
Bonds guaranteed by IFC	–	300 000	–
Promissory notes guaranteed by IFC	–	–	115 500
Management of the Group			
<i>Loans and advances to customers</i>			
Loans and advances (contractual interest rate: 2004: 10-15% per annum on loans denominated in US dollars; 2003: 12% per annum on loans denominated in US dollars)	10 086	786	3 299
<i>Customer accounts</i>			
Term deposits (contractual interest rate: 2004: 13% per annum on deposits denominated in RR; 2003: 12-22% per annum on deposits denominated in RR, 8-11% per annum on loans denominated in US dollars)	118 527	91 305	20 338
Current accounts	17 475	–	654
<i>Other liabilities</i>			
Staff costs	192 441	–	–

25 Related Party Transactions (Continued)

The results of the transactions with related parties for the years ended 31 December 2004, 31 December 2003 and 31 December 2002 were, as follows:

	2004	2003	2002
Principal shareholder of the Group and related companies			
<i>Loans and advances to customers</i>			
Interest income during the period	19 961	4 209	11 151
Consumer loans sold to the Agency during the period	–	81 591	76 628
Consumer loans re-acquired from the Agency during the period	–	24 446	5 883
<i>Customer accounts</i>			
Interest expense during the period	2 286	–	182
<i>Debt securities in issue</i>			
Interest expense on promissory notes during the period	–	9 330	11 852
<i>Credit related commitments</i>			
Fee and commission income	10 363	6 522	3 224
<i>Other transactions</i>			
Other income/(expense), net	(183)	359	3 771
IFC			
<i>Due to other banks</i>			
Interest expense during the period	85 977	1 953	–
Management of the Group			
<i>Loans and advances to customers</i>			
Interest income on loans during the period	527	18	82
<i>Customer accounts</i>			
Interest expense on term deposits during the period	13 551	6 205	1 983

In October 2003 the Group gained control over OOO “Debt Collection Agency”. Prior to the acquisition date, during the nine-month period ended 30 September 2003 the Group sold consumer loan receivables to the Agency with a nominal amount of RR 81 591 thousand (2002: RR 76 628 thousand) and re-acquired consumer loan receivables in the amount of RR 24 446 thousand (2002: RR 5 883 thousand), which had been previously sold by the Group to the Agency.

In 2004 the total remuneration of members of the Board of Directors and of the Management Board, including discretionary compensation, amounted to RR 302 784 thousand (2003: RR 96 857 thousand; 2002: RR 31 219 thousand).

26 Subsequent Events

In December 2004 the Group obtained a USD 90 000 thousand loan facility from EBRD. Under this facility, in January 2005 the Group obtained two loans in the amounts of USD 30 000 thousand and USD 60 000 thousand. The first loan bears a floating interest rate of LIBOR plus 3.0% margin and is repayable in four equal semi-annual instalments, starting 22 November 2006. The second loan bears a floating interest rate of LIBOR plus 2.6% margin and is repayable on 22 November 2006.

In February 2005 the Bank issued a loan to a related party on the amount of USD 26 000 thousand with maturity in May 2005. The loan bears a fixed interest rate of 9% payable at maturity date.

26 Subsequent Events (Continued)

In March 2005 the Bank issued bonds due on March 2008 with an aggregate nominal amount of RR 3 000 000 thousand, placed at par value. The Bank has also published an offer to repurchase these bonds at 10 March 2006. The bonds bear a fixed interest rate of 8.99% until March 2006. The interest rate for the period starting from March 2006 will be set by the Board of Directors of the Bank subject to the conditions that it can not be lower than 5.0%.

In March 2005 the Board of Directors made a decision to declare a dividend for the year 2004 in the amount of RR 1 387 442 thousand (RR 1 090 per share). The dividends are subject to further authorisation at the Shareholders Meeting.

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