IMPORTANT NOTICE

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

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

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THIS PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND, IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of the Representation: In order to be eligible to view this Prospectus or make an investment decision with respect to the securities described herein, investors must not be a U.S. person (within the meaning of Regulation S under the Securities Act). This Prospectus is being sent to you on the basis that by accepting the e-mail and accessing this Prospectus, you shall be deemed to have represented to us that you are not a U.S. person, the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the U.S., its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), and that you consent to delivery of such Prospectus by electronic transmission.

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

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer in such jurisdiction.

Under no circumstances shall this Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the securities described herein in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this Prospectus who intend to subscribe for or purchase the securities described herein are reminded that any subscription or purchase may only be made on the basis of the information contained in this Prospectus. This Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply to the Issuer.

This Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and, consequently, none of the Issuer, CJSC Russian Standard Bank ("**RSB**"), Barclays Bank PLC and Credit Suisse Securities (Europe) Limited nor any person who controls the Issuer, RSB, Barclays Bank PLC or Credit Suisse Securities (Europe) Limited nor any director, officer, employee or agent of the Issuer, RSB, Barclays Bank PLC and Credit Suisse Securities (Europe) Limited nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from Barclays Bank PLC or Credit Suisse Securities (Europe) Limited.

€400,000,000

6.825 per cent. Loan Participation Notes due 2009

issued by, but with limited recourse to,

Russian Standard Finance S.A.

for the sole purpose of financing a loan to

Closed Joint Stock Company RUSSIAN STANDARD BANK

Issue Price: 100 per cent.

Russian Standard Finance S.A. (the "**Issuer**"), is issuing an aggregate principal amount of €400,000,000 6.825 per cent. Loan Participation Notes due 2009 (the "**Notes**") issued by, but with limited recourse to the Issuer for the sole purpose of financing a loan (the "**Loan**") to Closed Joint Stock Company Russian Standard Bank ("**RSB**") on the terms of a loan agreement dated 13 September 2006 (the "**Loan Agreement**") between the Issuer and RSB. The Notes will be constituted by, be subject to, and have the benefit of, a trust deed to be dated 15 September 2006 (the "**Trust Deed**") between the Issuer and Deutsche Trustee Company Limited as trustee (the "**Trustee**") for the benefit of the Noteholders (as defined in the Terms and Conditions of the Notes). In the Trust Deed, the Issuer will charge, in favour of the Trustee, by way of a first fixed charge as security for its payment obligations in respect of the Notes and under the Trust Deed, certain of its rights and interests under the Loan Agreement and the Account (as defined in the Trust Deed). In addition, the Issuer will assign absolutely certain of its administrative rights under the Loan Agreement to the Trustee.

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

Interest on the Notes will be payable at an annual rate equal to 6.825 per cent. Subject to receipt of the funds necessary therefor, the Issuer will make interest payments on the Notes annually in arrear on 16 September of each year, commencing on 16 September 2007. Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 16 September 2009. Payments on the Notes will be made free and clear of, and without withholding or deduction for or on account of, any taxes that the Grand Duchy of Luxembourg imposes, except as described under "Terms and Conditions of the Notes – Taxation". In certain circumstances, the Loan may be prepaid at its principal amount, together with accrued interest and additional amounts (if any), at the option of RSB if RSB is required to increase its payments under the Loan in respect of Russian or Luxembourg withholding tax applicable to payments under the Loan or the Notes, or to pay certain increased costs of the Issuer. The Loan may also be prepaid if it becomes unlawful for the Loan or the Notes to remain outstanding, as set out in the Loan Agreement. Upon prepayment of the Loan (subject to the receipt of the relevant funds from RSB), the principal amount of all outstanding Notes will be prepaid by the Issuer, together with accrued interest and additional amounts (if any).

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 Prospectus and in 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.

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

The Notes will be issued in fully registered form in denominations of €50,000 and higher integral multiples of €1,000 without interest coupons attached. The Notes will initially be represented by interests in a global certificate in fully registered form (the "**Global Certificate**") without interest coupons, which will be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"), on or about 15 September 2006 (the "**Issue Date**"). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by, Euroclear or Clearstream, Luxembourg and their respective participants. See "Summary of the Provisions Relating to the Notes in Global Form". Individual definitive certificates in registered form will only be available in certain limited circumstances as described herein.

This Prospectus (including the financial statements) comprises a prospectus for the purposes of Article 5.4 of Directive 2003/71 /EC (the "**Prospectus Directive**") and for the purpose of giving information with respect to RSB, the Issuer, the Loan and the Notes.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 4 OF THIS PROSPECTUS BEFORE INVESTING IN THE NOTES.

THE NOTES AND THE LOAN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), AND, SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("REGULATION S")).

Joint Lead Managers

Barclays Capital **Credit Suisse**

Managers

Alpha Bank **Banco Finantia** **RZB**

The date of this Prospectus is 13 September 2006

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

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

No representation or warranty, express or implied, is made by the Managers named under ''Subscription and Sale'' (the ''**Managers**''), 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 Prospectus.

Certain information and data contained in ''Presentation of Financial and Other Information'', ''Risk Factors'', ''Management's Discussion and Analysis of Financial Condition and Results of Operation'', ''Business'' and ''Overview of the Banking Sector and Banking Regulation in the Russian Federation'' 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. Each of RSB and the Issuer accepts responsibility that such publicly available information and data has been accurately reproduced and, as far as RSB and the Issuer are aware and are able to ascertain, no facts have been omitted which would render such information inaccurate or misleading. 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 Prospectus from official data published by Russian government agencies, such as the Central Bank of the Russian Federation (the ''**CBR**''). The official data published by Russian federal, regional and local governments is substantially less complete or researched than data published by governmental agencies of Western countries. Official statistics may also be compiled on different bases than those used in Western countries. Any discussion of matters relating to the Russian Federation in this Prospectus may, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. The veracity of some official data released by the Russian government may be questionable. See ''Risk Factors – Risks Related to the Russian Federation – The official data upon which prospective investors may base their investment decision may not be as reliable as equivalent data from official sources in the West''.

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

Neither the Issuer nor RSB intends to provide any post issuance transaction information regarding the Notes or the performance of the Loan. No person is authorised to provide any information or to make any representation not contained in this Prospectus, and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, RSB, the Trustee or the Managers. The delivery of this document at any time does not imply that the information contained in it is correct as at any time subsequent to its date. Without limitation to the generality of the foregoing, the contents of RSB's website as at the date hereof or as at any other date do not form any part of this Prospectus (and, in particular, are not incorporated by reference herein).

All references herein to "Russia" are to the Russian Federation, all references to "Luxembourg" are to the Grand Duchy of Luxembourg and all references to a "Member State" are to a Member State of the European Economic Area.

FORWARD LOOKING STATEMENTS

Some statements in this Prospectus, 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 "Risk Factors", "Business" and other sections of this Prospectus. 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 Prospectus, or if any underlying assumptions prove to be incomplete or inaccurate, its results of operations may vary from those it expected, estimated or projected.

Forward looking statements that may be made by 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 at 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 Prospectus 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 Prospectus. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place reliance on these forward looking statements.

ENFORCEABILITY OF JUDGMENTS

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 Prospectus 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 on RSB or any of RSB's directors or executive officers named in this Prospectus. 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 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 and Luxembourg), 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 Loan.

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

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

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

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

Certain financial information set out herein has been extracted without material adjustment from the audited consolidated financial statements of RSB and its six subsidiaries, Limited Liability Company Russian Standard Finance ("**RSF**"), Management Company Russian Standard Ltd. ("**MCRS**"), Credit Bureau Russian Standard Ltd (**"CBRS"**), Russian Consumer Loans No.1 S.A. ("**RCL**"), Russian Consumer Finance Nr. 1 S.A. (**"RCF"**) and Limited Liability Company Debt Collection Agency ("**DCA**" and, together with CBRS, MCRS, RSF, RCL, RCF and RSB, the "**Group**") as at, and for the year ended, 31 December 2005 (the "**Consolidated 2005 Financial Statements**"), as at, and for the years ended 31 December 2004 and 2003 (the "**Consolidated 2004 and 2003 Financial Statements**") and as at, and for the six months ended, 30 June 2006 and 2005 (together with the Consolidated 2005 Financial Statements and the Consolidated 2004 and 2003 Financial Statements, the "**Consolidated Financial Statements**"), that are set out on pages F-1 to F-145 of this Prospectus.

RCL, a company incorporated in Luxembourg on 2 November 2005, is owned by foundations established under the laws of The Netherlands. RCF, a company incorporated in Luxembourg on 11 January 2006, is owned by foundations established under the laws of The Netherlands. RCL and RCF have been established for the purpose of structuring securitisation transactions. RCL and RCF have been included in the consolidated financial statements of the Group from the date of incorporation, since they are in substance controlled by the RSB.

MCRS, a company established by the Bank in 2006 in the Russian Federation, is owned and controlled by the Bank.

CBRS, a company registered in the Russian Federation, is owned by the shareholders of RSB and in substance is controlled by the RSB. The only activity of CBRS is the collection and storage of information about the loan portfolio sold by the Bank in its securitisation transactions.

RSF and DCA are controlled by RSB but owned by Roust Trading Limited. 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.

The 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 at and for the year ended 31 December 2003 have been restated. See "Restatement of Prior Period Financial Data" below.

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 at and for the years ended 31 December 2005, 2004 and 2003, and as at and for the six months ended 30 June 2006, included in this Prospectus. PwC is a corporate member of the Institute of Professional Accountants of Russia and a member of the Audit Chamber of Russia.

Currency

In this Prospectus, the following currency terms are used:

- "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;
- "Euro", "EUR" or "€" means the lawful currency of the Member States that adopted the single currency introduced at the start of the third stage of the European economic and monetary union pursuant to the Treaty establishing the European Union, as amended; and
- "GBP" means the lawful currency of the United Kingdom.

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 compliance with IAS 18, the Group restated its financial data as at and for the years ended 31 December 2003.

As a result of these restatements, certain adjustments have been made to the consolidated financial statements as at, and for the year ended, 31 December 2003 included herein. See Note 3 to the Consolidated 2004 and 2003 Financial Statements set out on pages F-102 to F-145 of this Prospectus.

Adoption of New Standards

In 2005, the Group adopted the following new or amended standards relevant to its operations that became effective for the Group from 1 January 2005:

IAS 1 (revised 2003)	Presentation of Financial Statements
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 32 (revised 2003)	Financial Instruments: Disclosure and Presentation
IAS 39 (revised 2003)	Financial Instruments: Recognition and Measurement
IFRS 3 (issued 2004)	Business Combinations
IAS 36 (revised 2004)	Impairment of Assets
IAS 38 (revised 2004)	Intangible Assets

The consolidated financial statements as at and for the year ended 31 December 2004 have been amended as required in accordance with the transitional provisions of the new or amended standards. The adoption of the new or amended standards resulted in certain changes to the Group's accounting policies, but had no impact on 2004 comparative amounts, except that equity as at 1 January 2004 decreased and total liabilities as at 1 January 2004 increased by RUB 113,608 thousand as a result of the change in classification of and accounting for an option agreement with EBRD in accordance with provisions of IAS 32 (revised 2003) "Financial Instruments: Disclosure and Presentation".

Certain new IFRSs became effective for the Group from 1 January 2006. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies.

IAS 39 (Amendment) — Financial Guarantee Contracts (effective from 1 January 2006). Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognition of financial assets or result in continuing involvement accounting.

IFRIC 4 "Determining whether an Arrangement contains a Lease". IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

The effect of adoption of the above new or revised standards on the Group's financial position as at 30 June 2006 and 31 December 2005 and on the results of its operations for six-months period ended 30 June 2006 was not significant.

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 Prospectus contains translations of some Rouble amounts into U.S. dollars at the official exchange rate quoted by the CBR on 30 June or 31 December, as applicable, of the relevant year. RSB and the Issuer do not make any representation that the Rouble amounts referred to in this Prospectus could have been or could be exchanged into U.S. dollars at the above translation rate, at any other rate or at all.

U.S. dollar/Rouble Interbank Exchange Rate

	High	Low	Average	Period End
	(Roubles per U.S. dollar)			
2006 (up to and including 30 June 2006)	28.4834	26.7089	27.6178	27.0789
2005	28.9799	27.4611	28.2205	28.7825
2004	29.4545	27.7487	28.8080	27.7487
2003	31.8846	29.2450	30.5648	29.4545
2002	31.8600	30.1372	30.9986	31.7844

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

Rounding

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

RSB Market Share Information

RSB has calculated its market share information set out in this Prospectus 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, its car loan portfolio and its credit card loan portfolio.

Effective Interest Rates and Average Interest Rates

In this Prospectus, 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.

CONTENTS

OVERVIEW OF THE OFFERING

Notes to be issued	€400,000,000 6.825 per cent. Loan Participation Notes due 2009 in reliance on Regulation S under the Securities Act.
Issuer	Russian Standard Finance S.A.
Borrower	Closed Joint Stock Company Russian Standard Bank
Trustee	Deutsche Trustee Company Limited
Principal Paying Agent	Deutsche Bank AG, London Branch
Registrar	Deutsche Bank Luxembourg S.A. 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 the Registrar 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, London Branch and Deutsche Bank Luxembourg S.A.
Issue Price	100 per cent. of the principal amount of the Notes.
Interest	On each Interest Payment Date (being 16 September in each year commencing on 16 September 2007), the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by, or for the account of, the Issuer pursuant to the Loan Agreement, which interest under the Loan is equal to 100 per cent. per annum (as set out in Clause 4 of the Loan Agreement).
Status of the Notes	The Notes constitute secured and unsubordinated obligations of the Issuer and shall at all times rank *pari passu* and without preference amongst themselves.
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 Loan to RSB pursuant to the terms of the Loan Agreement. The Issuer will only account to the Noteholders for all amounts equivalent to those (if any) received from RSB under the Loan Agreement or held on deposit in the Account (as defined in the Trust Deed) less amounts in respect of the Reserved Rights (as defined in the Trust Deed), all as more fully described under "Terms and Conditions of the Notes".
Security	The 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 Trust Deed) (in each case, other than the Reserved Rights), all as more fully described under "Terms and Conditions of the Notes". In addition, the Issuer with full title guarantee will assign certain of its 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	The Notes will be issued in registered form. The Notes will be in denominations of €50,000 and higher integral multiples of €1,000 in excess thereof. The Notes will be represented by interests in a Global Certificate. The Global Certificate will only be exchangeable for definitive certificates in the limited circumstances described under "Summary of Provisions Relating to the Notes in Global Form".

Early Redemption at the Option of the Issuer	The 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 then due (if any) if RSB, pursuant to the provisions of the 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 relating to the Loan Agreement	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.
Negative Pledge and Other Covenants	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, amongst 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 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 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 the 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.
Ratings	The Notes are expected to be rated B+ by Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc. ("**Standard & Poor's**") and Ba2 by Moody's Investors Service Limited ("**Moody's**"). Credit ratings assigned to the Notes do not necessarily mean that the Notes are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or RSB could adversely affect the price that a subsequent purchaser would be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.
Withholding Tax	All payments under the Loan Agreement and in respect of the Notes will be made without withholding or deduction for, or on account of, any taxes (in the case of the Loan Agreement) or any present or future taxes, duties, assessments or governmental charges of the Grand Duchy of Luxembourg (in the case of the

	Notes) save (in each case) as required by law. If any such taxes, duties, assessments or governmental charges are payable, RSB shall (subject to certain exceptions) pay such additional amounts as will result (i) in the event of withholding or deduction on payments made by RSB under the Loan, in the receipt by the Issuer of such amounts as would have been received had no such deduction or withholding been required and (ii) in the event of any withholding or deduction on payments made by the Issuer under the Notes, in the receipt by the Noteholders, following payment by the Issuer, 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".
Use of Proceeds	The proceeds of the Notes will be used by the Issuer for the sole purpose of financing the Loan to RSB. In connection with the receipt of the Loan, RSB will pay an arrangement fee. See "Use of Proceeds".
Admission to Trading	Applications have been made to the UK Listing Authority for the Notes to be admitted to listing on the Official List and to the London Stock Exchange for the Notes to be admitted to trading on the Regulated Market.
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, Hong Kong, Singapore, the Federal Republic of Germany, Luxembourg and the Republic of Italy) only in compliance with applicable laws and regulations. See "Subscription and Sale".
Governing Law	The Notes will be governed by English law. The provisions of articles 86 to 94-8 of the Luxembourg law of 10 August 1915, as amended, on commercial companies are excluded.
Risk Factors	An investment in the Notes involves a high degree of risk. See "Risk Factors".
Security Codes	ISIN: XS0267953387 Common Code: 026795338

RISK FACTORS

An investment in the Notes involves a high degree of risk. Prospective investors should consider carefully 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 loans, car loans and credit card loans have declined in 2003, 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, products for which intense 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 2005, 2004 and 2003 – Net Interest Income before Provision for Loan Impairment". Average interest rates for consumer and car loans increased to 44% as of 30 June 2006 from 43.6% in 2005 and 52.1% in 2004 and 63.6% in 2003. Similarly, effective interest rates for consumer loans and car loans declined from 74.6% in 2003 to 66.1% in 2004 and 55.1% in 2005 and 53.7% as of 30 June 2006. Since consumer loans have until recently 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. While RSB expects that its margins for consumer loans and car loans will continue to decrease in the future, RSB cannot predict whether or when the decrease in its margins will slow down or its margins will stabilise. In the medium term, RSB believes that margins in its consumer loan business may contract to levels at which such business is used principally as a vehicle for acquiring credit card customers.

Credit card loan average interest rates increased slightly from 2003 to 2004, but decreased in 2005. The effective interest rate on U.S. dollar credit card loans increased from 57.0% in 2003 to 65.2% in 2004, decreased to 63.8% in 2005 and slightly increased to 64.7% as of 30 June 2006. The effective interest rate on Rouble credit card loans increased from 83.2% in 2003 to 91.6% in 2004, decreased to 68.6% in 2005 and slightly increased to 69.1% as of 30 June 2006. In January 2005, RSB reduced the interest rates on outstanding balances charged to customers on all of its credit cards from 29% per year to 23% per year. As the credit card loan market matures and competition increases, RSB expects these interest rates to decline from their current levels.

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

As of 1 August 2006, 99.99% 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 RSB's outstanding share capital). 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 RSB's shareholders 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 obligations under a settlement agreement with BNP Paribas could adversely affect RSB.

In July 2004 BNP Paribas (through its subsidiary Cetelem SA) (BNP Paribas and Cetelem SA are together referred to herein as "**BNP Paribas**") entered into an agreement with the principal shareholders of RSB (Roustam Tariko and entities directly or indirectly controlled by him) to acquire an equity ownership interest in RSB (the "**Transaction**"). A dispute arose out of and in relation to the Transaction between BNP Paribas and such shareholders of RSB. In May 2005, BNP Paribas and such shareholders of RSB signed an agreement in principle pursuant to which BNP Paribas and such shareholders of RSB agreed to settle the dispute among them. Following this agreement, a settlement agreement was executed on 7 September 2005 among BNP Paribas, RSB and such shareholders of RSB to settle the dispute. The settlement involves, among other provisions applicable to RSB's principal shareholders, (i) withdrawal of all pending claims relating to the dispute, (ii) an undertaking by the principal shareholders of RSB for a specified period of time, compliance with which (or breach of which) is in the control of such principal shareholders and (iii) subject to specified exceptions, an undertaking by RSB for such specified period of time not to sell, lease, transfer or otherwise dispose of more than 10% of its assets (or any of its assets, if such transaction could have a material adverse effect on RSB), other than in the ordinary course of business. In the event of a breach of the undertaking by the principal shareholders of RSB referred to in (ii) above, the settlement agreement provides that RSB and the principal shareholders of RSB will be jointly and severally liable to pay liquidated damages to BNP Paribas, subject, in the case of RSB, to a maximum of U.S.$25 million. In the event of a breach of RSB's undertaking regarding the disposition of assets referred to in (iii) above, the settlement agreement provides that RSB and the principal shareholders of RSB will be jointly and severally liable to pay liquidated damages to BNP Paribas in an amount that would be material to RSB. RSB believes, based on its current and proposed business and operations, that a breach of RSB's undertaking regarding the disposition of assets referred to in (iii) above is unlikely.

Any breach or alleged breach by RSB or its principal shareholders (over whom RSB has no control) of their respective undertakings in the settlement agreement could result in a material adverse effect on RSB's business, results of operations, financial condition and prospects. As of the date of this Prospectus, RSB has made no provision for any payment that may be required of it under the settlement agreement, although RSB has recorded an off balance sheet guarantee in respect of its potential U.S.$25 million liability in the event of a breach by the principal shareholders of RSB of their undertaking in the settlement agreement referred to in (ii) above.

RSB's financial condition and results of operations depend on consumers' consumption and income levels as well as consumer understanding of credit products, 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, although an increasing percentage of its consumer loans are for mobile phones. 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 consumer goods to decrease, resulting in a corresponding decrease in demand for RSB's consumer loans and other consumer finance products. The development of the Russian consumer finance market is also dependent on increasing consumer understanding and acceptance of credit products, particularly in smaller population centres outside of Moscow. As a substantial portion of RSB's customer base consists of lower-income Russians with relatively little experience or understanding of credit products, RSB's continued growth depends on maintaining and increasing consumer acceptance of credit products.

There is as Tax Risk in Relation to Taxation of Securitisations Transactions

RSB has entered into securitisation transactions in the past, and may enter into securitisation transactions in the future. With respect to the loans in the aggregate amount of RUB 10,141.1 million (approximately U.S.$367.2 million) issued by the Bank and subsequently sold under the securitisation entered into after 1 January 2006, the Tax Code of the Russian Federation (the "**Tax Code**") does not provide clear guidance on whether VAT should be levied on the securitisation of such loans (when the underlying assets – consumer loans are not subject to VAT). While RSB's Management believes that, based on relevant legislation and the existing market practice, no VAT should arise as a result of these securitisation transactions, there is a risk that VAT, calculated at 18% of the aggregate amount of the loans securitised, could be due which would significantly increase the cost of funding raised by RSB under the securitisation.

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 1 July 2006, 1,221 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 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 from its principal competitors, who are:

- in the point-of-sale consumer loan market, Home Credit and Finance Bank, Rosbank, Investsberbank and Finansbank;
- in the credit card loan market, Home Credit and Finance Bank, Alfa-bank, Rosbank and Investsberbank;
- in the car loans financing market, Sberbank, Rosbank, International Moscow Bank, UralSib Financial Corporation, Raiffeisenbank Austria, Soyuz Bank, Moscow Credit Bank and MDM-Bank; and
- in the cash loans market, Sberbank and the Bank of Moscow.

The moderate size of RSB's balance sheet compared to other Russian and international banks 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 down payments on its consumer loans based on the creditworthiness of the applicant and the nature of the goods being financed. For example, mobile phone loans have historically been associated with a higher level of loan defaults, and minimum down payments, 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 or zero down payments on mobile phones. RSB's competitors also offer lower and zero down payments 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% down payments, 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% down payments to eventually become a standard term for all consumer loans, which would increase RSB's credit risk. In the past, RSB has experienced increases in its credit risk as the composition of its loan portfolio changed with the introduction of riskier products, and has managed such increased risks by adjusting its credit policies. RSB continues to monitor carefully its exposure to credit risk as it adds riskier products to its consumer loan portfolio and will continue to seek to offset any increased credit risk through credit policy adjustments. However, RSB cannot assure prospective investors that it will be able to offset all such increases in credit risk in the future. 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 adequately 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 has recently expanded (and plans further to expand) its portfolio of products and services, and there is no guarantee that this expansion will be successful.

RSB has recently started to offer unsecured cash loans to both existing and new customers. The market for cash loans is competitive and evolving, and RSB cannot assure prospective investors that it has sufficient financial or management resources to compete with established banks with greater financial resources, such as Sberbank, or new entrants. Similarly, if RSB were to begin to offer other new products and services such as home mortgages, RSB could fail due to strong competition, the lack of market development, the inability to raise capital-efficient funding or other reasons. If RSB's expansion of its portfolio of products and services were to fail, it could have a material adverse effect on RSB's 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. For the year ended 31 December 2005, Eldorado generated approximately 13% of all RSB's point-of-sale consumer loans. Previously, RSB had exclusive agreements with certain chains such as Eldorado. However, such arrangements ceased by the end of 2003 and RSB's relationship with these retail chains is not exclusive. 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, seek to provide consumer finance services directly themselves or seek to renegotiate with RSB. As a result, RSB's business, financial condition, results of operations or prospects could be adversely affected.

Moreover, some retail chains currently pay RSB (and other consumer finance banks) commissions on the sale of appliances and products financed by RSB or such other banks, although RSB pays commissions to many major retailers located in Moscow or operating through retail networks throughout Russia. In August 2006, the average commission retailers paid to RSB was 1.0% of the loan amount (calculated on the basis of all loans and net of commissions paid to retailers by RSB). During the same month, 63% of loans extended generated no commission to RSB. Increased competition in the market has led to lower commissions being paid to RSB, a greater proportion of loans being made for which no commission is paid to RSB, and, in the case of larger retailers, RSB being required to pay commissions to the retail chains for some loan products.

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 Western-style central credit rating agencies in Russia. Moreover, while RSB has access to several databases of information which help it to assess more accurately 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 (including expansion into new product lines, such as cash loans, which may attract a new customer base) may result in RSB facing increased credit delinquencies in its consumer finance portfolio. While RSB has detailed procedures in place to deal with problem loans, there can be no assurance that these procedures will result in full or partial recovery of its problem loans.

As of 30 June 2006, 4.1% (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, car loans and credit card loans accounted for 84.2% of RSB's assets as of that date. There can be no assurance that RSB's current level of loan recovery 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 instability in the Russian banking sector, RSB's customers could withdraw some or all of their deposits.

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 were to decline, 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 were to increase, RSB may be unable 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 30 June 2006, RSB had U.S.$225.0 million of outstanding indebtedness bearing interest at floating rates linked to LIBOR, consisting of a U.S.$91.8 million facility arranged by the European Bank for Reconstruction and Development (the "**EBRD**"), a U.S.$10.3 million loan from the EBRD and a U.S.$122.9 million loan from Russian and international banks.

As of 31 December 2005 the Group had EUR 221.0 million of outstanding indebtedness bearing interest at floating rates linked to EURIBOR, consisting of a EUR 190.8 million senior notes and a EUR 30.2 million mezzanine notes.

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 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 could have a material adverse effect on the business, financial condition, results of operations or prospects of RSB.

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

Unlike some of its competitors, including state-owned competitors, to date RSB does not have significant retail deposits, which are considered in the banking industry to be one of the principal means of achieving inexpensive funding, but it is considering drawing more on this source of funding in the future. According to the Russian Civil Code, term deposits may 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 that are individuals result in liquidity gaps, RSB will be able to replace such funding in a manner as cost-effective 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 past three years and its capital adequacy ratio in accordance with the CBR Regulations as of 30 June 2006 was 12.3% (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 Bank of International Settlements ("**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 its regional distribution network as well as its contemplated expansion into the Ukraine 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 as well as contemplates expansion into the Ukraine, less information is available to assess accurately applicants' creditworthiness. These factors increase, or may increase in the future RSB's aggregate credit risk exposure. If RSB were unable to adequately model and provide for this risk, its business would be adversely affected. In addition, if RSB were required 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 to implement its strategy and the operation of its day-to-day business. In addition, retailer and other business relationships of members of senior management are 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 confirm independently information provided by credit applicants regarding the total credit extended to the applicant. As a result, customers may be overextended by virtue of other credit obligations about which RSB is unaware. 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 decentralised credit bureaus, however, may offer 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 database.

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 result in the assertion of violations where they are negligible or non-existent. Such findings could result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of 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 RSB's business, financial condition, results of operations or prospects.

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 lose effectiveness.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict. Russian military and paramilitary forces have been engaged in the Chechen Republic in the recent past and continue to maintain a presence there. 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 was a siege of a school in Beslan in 2004, which resulted in many casualties. The spread or intensification of violence could have significant political consequences, including the imposition of a state of emergency in part or all 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 his conviction in May 2005 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's principal production subsidiary, Yuganskneftegas, 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

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

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 at various times has experienced:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high levels of state debt relative to gross domestic product;
- a weak banking system providing limited liquidity to Russian enterprises;
- high levels of loss-making enterprises that 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, the inflation rate (CPI) in the Russian Federation was 15% in 2002, 12% in 2003, 11.7% in 2004 and 10.9% in 2005. The Government expects inflation to be between 7% and 8.5% in 2006. Although the rate of inflation has been declining, any return to heavy and sustained inflation could lead to market instability, new financial crises, reductions in consumer purchasing power and erosion of consumer confidence. Any one of these events could lead to decreased demand for RSB's products and services.

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

Federal Law No. 173-FZ "On Currency Regulation and Currency Control" published on 15 December 2003 ("**Currency Law**") introduced a new currency control regime. According to the Currency Law, only a limited number of restrictions can be imposed in respect of currency operations (until very recently, these included, *inter alia*, reserve requirements or requirements to effect relevant operations through special-purpose accounts). Following recent amendments to the Currency Law, certain restrictions which could formerly be imposed by the CBR (such as the reserve requirements) have been lifted. However, until 1 January 2007 the CBR remains authorised to introduce special account (as well as some other) requirements with respect to certain operations of Russian corporations. While to date no such restrictions have been introduced with respect to Russian banks, the CBR and the Government still may enact further regulations under the Currency Law until the end of 2006. Until all of the regulations for the effective implementation of the Currency Law are published and implemented, before and after 1 January 2007, there may be uncertainties and disputes in the interpretation of the Currency Law. Accordingly, there can be no assurance that the Currency Law and the related regulations will not have a material adverse effect on RSB's business, financial condition, results of operations or prospects.

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

Official statistics and other data published by the CBR, Russian federal, regional and local governments, and federal agencies may be substantially less complete or researched and, consequently, less reliable than those published by comparable bodies in other jurisdictions. Accordingly, 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 the Soviet era 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 illegally. Moreover, the state also has the power in certain circumstances, by regulation or act, to interfere with the performance of, nullify or terminate contracts. Unlawful or arbitrary state actions have included withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities have also used common defects in matters surrounding documentation of financing activities as pretexts for court claims and other demands to invalidate such activities and/or to void transactions, often for political purposes. Unlawful or arbitrary state action, if directed at 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 2 December 1990 No. 395-I ("On Banks and Banking Activity"), as amended (the "**Banking Law**"), Russia has adopted and continues to develop new banking legislation.

In December 2003, President Putin signed into law the Federal Law of 23 December 2003 No. 177-FZ "On Insurance of Deposits Placed by Individuals with Banks in the Russian Federation" (the

"**Retail Deposit Insurance Law**"), which 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 has increased 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 requires 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 these 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, although it may be viewed as contrary to Russian constitutional law, Russian tax authorities have applied certain taxes retroactively, issued tax claims for periods for which the statute of limitations had expired and reviewed the same tax period multiple times. In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions. On 14 July 2005, the Russian Constitutional Court issued a decision that allows the statute of limitations for tax liabilities to be extended beyond the three year term set forth in the tax laws if a court determines that the taxpayer has obstructed or hindered a tax inspection. Because none of the relevant terms is defined, tax authorities may have broad discretion to argue that a taxpayer has "obstructed or hindered" an inspection and ultimately seek penalties beyond the three year term. In addition, tax laws are unclear with respect to deductibility of certain expenses. This uncertainty could possibly expose 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.

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

Transfer pricing legislation became effective in the Russian Federation on 1 January 1999. This legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions, provided that the transaction price differs from the market price by more than 20%. "Controlled" transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties with significant price fluctuations (i.e. if the price of such transactions differs from the prices on similar transactions by more than 20% within a short period of time). Transfer pricing adjustments are also applicable to the trading of securities and derivatives. There has been no formal guidance (although some court precedents are available) as to how these rules will be applied. If the tax authorities were to impose significant additional tax liabilities as a result of transfer pricing adjustments, it could have a material adverse impact on RSB's business, financial condition and results of operations.

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.

The Noteholders have no direct recourse 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, 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 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 favourable 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 legal entity or organisation 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 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 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 Loan Agreement.

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.

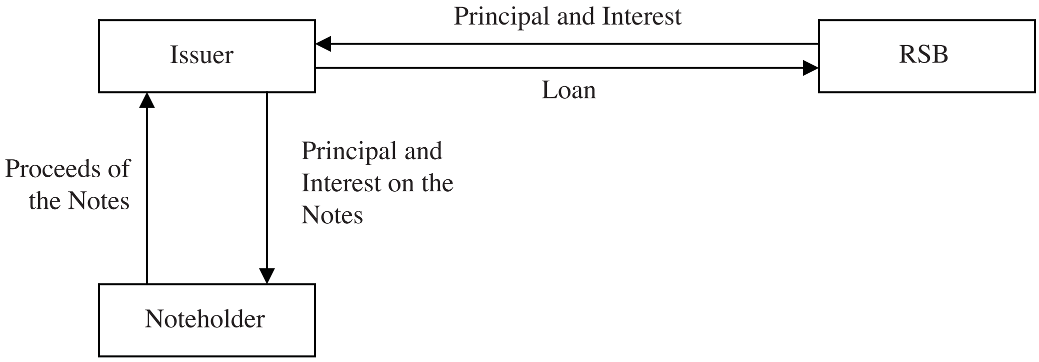
Risks Related to Luxembourg Law

The Issuer is subject to Luxembourg insolvency law.

The Issuer could be declared bankrupt upon petition by a creditor of the Issuer or at the initiative of the Court or at the request of the Issuer in accordance with the relevant provisions of Luxembourg insolvency law. If granted, the Luxembourg courts would 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 Prospectus. Other insolvency proceedings under Luxembourg law include controlled management, and moratorium of payments (*gestion controlee et sursis de paiement*) of the Issuer, composition proceedings (*concordat*) and judicial liquidation proceedings (*liquidation judiciare*).

DESCRIPTION OF THE TRANSACTION

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



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

As provided in the Trust Deed, the Issuer will charge in favour of the Trustee for the benefit of the Noteholders as security for its payment obligations in respect of the Notes (a) its rights to all principal, interest and additional amounts (if any) payable by RSB to the Issuer under the 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 Loan Agreement and (c) all its rights, title and interest in and to all sums of money now or in the future deposited in an account with the Principal Paying Agent in the name of the Issuer (the "**Account**"), together with the debts represented thereby (collectively, the "**Charged Property**"), in each case other than the Reserved Rights (as defined in the Trust Deed) and amounts relating thereto. The Issuer will assign certain of its rights under the Loan Agreement to the Trustee for the benefit of the Noteholders. 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, following a Default or a Relevant Event, as otherwise instructed by the Trustee.

So long as any of the Notes remain outstanding, 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, *inter alia*, pledge, charge or otherwise deal with the Loan or the Charged Property or any right or benefit either present or future arising under or in respect of the Loan Agreement or the Account or any part thereof or any interest therein (in each case except in relation to the Reserved Rights). Any amendments, modifications, waivers or authorisations made with the Trustee's consent shall be notified to the Noteholders in accordance with Condition 14 (*Notices*) of the "Terms and Conditions of the Notes" and will be binding on the Noteholders.

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

Payments in respect of the Notes will be made without any deduction or withholding for, or on account of, taxes of 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 Loan Agreement will be made without any deduction or withholding for, or on account of, any taxes, except as required by law, in which event RSB will be obliged to increase the amounts payable under the Loan Agreement. See "Risk Factors-Risks Related to the Notes and the Trading Market".

In certain circumstances, RSB may at its option repay the 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 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 Loan if it becomes unlawful for the Loan or the Notes to remain outstanding, as set out in the Loan Agreement. In each case (to the extent that the Issuer has actually received the relevant funds from RSB), the Issuer will prepay the Notes together with accrued interest and additional amounts (if any) to the Noteholders. See "The Loan Agreement – Repayment and Prepayment – Prepayment in the Event of Taxes or Increased Costs/Prepayment in the Event of Illegality; Change in Law or Increase in Cost" and "Terms and Conditions of the Notes – Redemption".

CAPITALISATION

The following table sets out the Group's consolidated capitalisation and indebtedness as at 30 June 2006. 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 Prospectus. Save as disclosed below, there has been no material change in the consolidated capitalisation, indebtedness, guarantees or contingent liabilities of the Group since 30 June 2006.

	As of 30 June 2006
	(in thousands of Roubles)
Total short-term debt	**68,326,766**
Long-term debt	
Due to other banks	3,839,880
Customer accounts	1,723
Debt securities in issue	56,609,692
Subordinated debt	4,951,388
Other liabilities	—
Total long-term debt	**65,402,683**
Total indebtedness[1 2]	**133,729,449**
Shareholders' equity	
Share capital[3]	1,738,516
Share premium	672,932
Additional paid-in capital	148,286
Retained earnings	14,688,808
Total shareholders' equity	**17,248,542**
Total capitalisation	**82,651,225**
Total contingent liabilities of the Group	**24,251,224**

1 Of the Group's total indebtedness as at 30 June 2006, RUB 15,451 million was guaranteed by RSC (one of the Group's principal shareholders). The remainder of indebtedness was not guaranteed. In relation to RUB 1,150 million of the Group's indebtedness which was not guaranteed, consumer loans and car 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 In July 2006 the Group organised through several international banks a syndicated loan of USD 202,500,000. The loan was received by the Group in August 2006. The loan bears a floating rate of three months LIBOR plus 1.0% payable quarterly and is due one year after the date it was received.

In August 2006 the Group authorised two RUB denominated bonds issues, each with a nominal amount of RUB 5,000,000,000 and each will be for a term of five years. The bonds are planned to be issued in September and in December 2006, respectively. The interest rate for the bonds will be set at the relevant issue date.

3 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 preferred shares with a nominal value of RUB 1,000 per share. At the date of this Prospectus, no preferred shares of RSB have been issued nor was there any agreement by RSB to issue preferred shares. RSB has not agreed to issue any further capital. All issued share capital has been paid up in full.

USE OF PROCEEDS

The proceeds from the offering of the Notes, expected to amount to €400,000,000, will be used by the Issuer for the sole purpose of financing the Loan to RSB. RSB will use the proceeds of the Loan to fund its lending activities and for general banking purposes. Total commissions and expenses payable by RSB in connection with the issuance of the Notes and the granting of the Loan are expected to be approximately €1,820,234.51 and total expenses payable by RSB in connection with the admission to trading of the Notes are expected to be approximately GBP2,275.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The consolidated income statement and balance sheet data for RSB have been derived from (unless otherwise specified) the Consolidated Financial Statements as at and for the years ended 31 December 2005, 2004 and 2003 (2003 as restated (see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Basis of Preparation – Restatement of prior period financial data")) and as at and for the six months ended 30 June 2006 and 2005, prepared in accordance with IFRS, and the notes thereto included elsewhere in this Prospectus. The data below should be read together with the Consolidated Financial Statements, as well as the sections entitled "Capitalisation", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Selected Financial Review". Selected financial ratios and other information, profitability, liquidity and capital adequacy data have been calculated based on consolidated financial information for RSB with respect to the annual and interim dates and periods discussed below.

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

In 2005 and 2006, RSB adopted a number of new or amended International Financial Reporting Standards relevant to its operations that became effective from 1 January 2005 and 1 January 2006 respectively. See "Presentation of Financial and Other Information-Adoption of New Standards".

The Consolidated Financial Statements as at and for the six months ended 30 June 2005 have been amended as required in accordance with the transitional provisions of the new or amended standards. The adoption of the new or amended standards resulted in certain changes to the Group's accounting policies, but had no impact on 2004 comparative amounts, except that equity as at 1 January 2004 decreased and total liabilities as at 1 January 2004 increased by RUB 113,608 thousand as a result of the change in classification of and accounting for an option agreement with EBRD in accordance with provisions of IAS 32 (revised 2003) "Financial Instruments: Disclosure and Presentation".

Russian Standard Bank Selected Consolidated Income Statement Data

	For the six months ended 30 June		For the year ended 31 December		
	2006	**2005**	**2005**	**2004**	**2003**
					(Restated)
	(in thousands of Roubles)				
Interest income	25,589,519	9,229,869	23,591,358	10,926,759	4,436,670
Interest expense	(4,199,658)	(1,649,846)	(4,094,384)	(2,057,273)	(827,791)
Net interest income	21,389,861	7,580,023	19,496,974	8,869,486	3,608,879
Provision for loan impairment	(8,054,883)	(2,476,550)	(7,258,032)	(1,422,016)	(524,807)
Net interest income after provision for loan impairment	13,334,978	5,103,473	12,238,942	7,447,470	3,084,072
Fee and commission income	976,828	51,806	892,143	58,615	39,263
Fee and commission expense	(103,145)	(21,018)	(73,657)	(72,665)	(49,909)
Net trading gains	(4,449,147)	326,471	507,399	(216,397)	(36,820)
Other operating results, net	3,660,938	(634,062)	(909,870)	642,998	36,160
Operating income	13,420,452	4,826,670	12,654,957	7,860,021	3,072,766
Operating expenses	(4,808,730)	(1,565,108)	(4,905,094)	(2,066,411)	(1,272,790)
Profit before taxation	8,611,722	3,261,562	7,749,863	5,793,610	1,799,976
Income tax expense	(2,056,928)	(791,828)	(1,886,904)	(1,400,621)	(435,189)
Net profit	6,554,794	2,469,734	5,862,959	4,392,989	1,364,787

Russian Standard Bank Selected Consolidated Balance Sheet Data

	As of 30 June	As of 31 December		
	2006	**2005**	**2004**	**2003**
				(Restated)
		(in thousands of Roubles)		
Assets				
Cash and cash equivalents	12,434,897	5,325,823	2,850,289	691,765
Due from other banks	1,897,572	3,786,325	2,009,065	137,367
Loans and advances to customers	129,135,974	98,678,095	34,364,373	13,013,468
Other assets[1]	7,509,548	4,945,622	2,003,907	1,008,390
Total assets	150,977,991	112,735,865	41,227,634	14,850,990
Liabilities				
Due to other banks	34,993,116	22,905,047	4,766,733	3,409,214
Customer accounts	9,256,816	10,523,005	4,235,333	2,720,764
Debt securities in issue	81,916,896	59,970,790	23,662,775	5,344,295
Subordinated loan	5,403,059	5,744,156	—	—
Other liabilities	2,159,562	1,505,058	950,501	192,092
Total liabilities	133,729,449	100,648,056	33,615,342	11,666,365
Total shareholders' equity	17,248,542	12,087,809	7,612,292	3,184,625
Total liabilities and shareholders' equity	150,977,991	112,735,865	41,227,634	14,850,990

1 Other assets includes "mandatory cash balances with the Central Bank of the Russian Federation", "deferred tax asset", "premises and equipment", "intangible assets" and "other assets" in RSB's consolidated balance sheet.

Selected Financial Ratios and Other Information

	As of 30 June		As of 31 December		
	2006	2005	2005	2004	2003
					(Restated)
	(in thousands of Roubles)				
Average total assets[1]	130,349,481	46,545,228	63,379,348	26,075,453	8,797,454
Average shareholders' equity[1]	14,462,110	7,998,599	9,137,843	5,266,160	1,950,406
Profitability					
Return on average shareholders' equity[2]	90.6%	61.8%	64.2%	83.4%	70.0%
Return on average total assets[3]	10.1%	10.6%	9.3%	16.8%	15.5%
Average shareholders' equity as a percentage of average total assets	11.1%	17.2%	14.4%	20.2%	22.2%

	As of 30 June	As of 31 December		
	2006	2005	2004	2003
				(Restated)
		(in thousands of Roubles)		
Liquidity				
Net loans/total assets[4]	98.39%	87.5%	83.4%	87.6%
Net loans/customer accounts[5]	1395.0%	937.7%	811.4%	478.3%
Customer accounts/total liabilities[6]	6.9%	10.5%	12.6%	23.3%
Capital adequacy				
Tier one capital ratio (BIS)[7]	12.3%	11.3%	20.3%	21.8%
Shareholders' equity/total assets[8]	11.4%	10.7%	18.5%	21.4%
Dividends payout ratio[9]	—	23.8%	31.6%	—

1 Average total assets and average shareholders' equity are calculated as a simple average of balances as of 1 January, 31 March, 30 June, 30 September and 31 December of the relevant period, as applicable. Financial information as of 31 March and 30 September of the relevant period used for the purpose of calculation of the data in the table above is unaudited.

2 Net profit 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, 30 September and 31 December of the relevant period, as applicable. Financial information as of 31 March and 30 September of the relevant period used for the purpose of calculation of the data in the table above is unaudited.

3 Net profit 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, 30 September and 31 December of the relevant period, as applicable. Financial information as of 31 March and 30 September of the relevant period used for the purpose of calculation of the data in the table above is unaudited.

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 and, in the case of 30 June information, as of 30 June of the relevant year.

5 Loans and advances to customers (net of provision for loan impairment) divided by customer accounts, calculated as of 31 December of the relevant year and, in the case of 30 June information, as of 30 June of the relevant year.

6 Customer accounts divided by total liabilities, calculated as of 31 December of the relevant year and, in the case of 30 June information, as of 30 June 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 and, in the case of 30 June information, as of 30 June of the relevant year.

9 Dividends declared for the particular year divided by net profit for that year. On 28 March 2006, RSB paid dividends of RUB 1,095 per share for a total of RUB 1,394 million in respect of the year ended 31 December 2005.

Russian Standard Bank Credit-Related Commitments

	As of 30 June	As of 31 December		
	2006	2005	2004	2003
				(Restated)
	(in thousands of Roubles)			
Undrawn credit lines on credit cards	22,013,171	16,376,993	11,252,043	2,779,674
Guarantees issues	1,358,487	2,025,820	848,897	458,775
Export letters of credit	—	—	—	564,116
Undrawn credits lines on loans to customers	808,219	365,734	439,118	293,204
Import letters of credit	71,347	139,489	59,945	73,496
Commitments to extend credit	—	—	4,135	52,842
Total credit-related commitments	24,251,224	18,908,036	12,604,138	4,222,107

MANAGEMENT'S DISCUSSIONS AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATION

The following discussion and analysis of the consolidated financial condition and results of operations of RSB covers the fiscal years ended 31 December 2005, 2004 and 2003. 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 Prospectus. Certain information contained in the discussion and analysis set forth below and elsewhere in this Prospectus includes "forward-looking statements". Such forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. See the section entitled "Forward-Looking Statements". 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 2005, interest, fees and other amounts payable on consumer loans and car loans to individuals contributed 58.2% of RSB's interest income, while interest, fees and other amounts payable on credit card loans contributed 40.3% of its interest income. In 2004, interest, fees and other amounts payable on consumer loans and car loans to individuals contributed 64.3% of RSB's interest income, while interest, fees and other amounts payable on credit card loans contributed 34.6% 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. As of 30 June 2006, RSB operated through its network of 13 regional centres and 173 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 of Moscow, the development of its credit card business, additional consumer credit products such as cash loans and, potentially, mortgages, 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, relatively high inflation and economic growth.

The following table sets forth certain Russian economic indicators for the years ended 31 December 2005, 2004 and 2003.

	As at 31 December		
	2005	**2004**	**2003**
Nominal gross domestic product (GDP) (billions of Roubles)	21,598.0	16,966.4	13,243.2
Surplus of Russian Federal budget (billions of Roubles)	1,612.9	730.7	227.6
Foreign currency reserves (millions of U.S. dollars)	182,240.0	124,500.0	76,938.0
Inflation (CPI)	10.9%	11.7%	12.0%
Nominal (appreciation) depreciation of the RUB against the U.S. dollar	1.9%	6.5%	2.2%
Real appreciation of the RUB against the U.S. dollar	10.8%	15.1%	13.6%

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 United States, as well as taking into account certain other macroeconomic parameters which are calculated by the CBR.

In 2005, Russia enjoyed its sixth 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 large 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 table below shows historical year-on-year growth of real GDP for Russia:

	2005	**2004**	**2003**	**2002**	**2001**
Real GDP growth	6.4%	7.2%	7.3%	4.7%	5.1%

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 and 2005. The average interest rate on consumer and car loans decreased to 43.6% in 2005, from 52.1% in 2004 and 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 ''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 has in the past experienced relatively high levels of inflation, and was considered to be hyperinflationary as defined by IAS 29.

However, according to the CBR, the inflation rate (CPI) in Russia was 12.0% in 2003, 11.7% in 2004 and 10.9% in 2005. 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 the provisions of IAS 29.

Significant Factors Affecting Results of Operations

Over the period from 2003 through 31 December 2005, 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 applicable to most types of loans (in the case of consumer loans and car 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 period from 2002 to 2004, and this decrease further accelerated during 2005, both in the regions outside of Moscow and particularly in Moscow. RSB expects these commissions to decrease further to zero. 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 administrative and other operating expenses. RSB's interest expense is almost entirely attributable to interest payments due on its debt securities in issue and, to a lesser extent, liabilities due to other banks.

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 relatively 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, 66.1% in 2004 and 55.1% in 2005. Average interest rates on consumer and car loans declined from 63.4% in 2002 and 63.6% in 2003 to 52.1% in 2004 and 43.6% in 2005. 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 2005, 2004 and 2003 – *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 and expanding the range of products it offers (e.g., cash loans). RSB expects, however, that within the next year, 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 any 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% down payment 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 down payments 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% down payment 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 down payment or no down payment. In order to reflect the greater risk associated with loans to finance goods with 0% down payment and mobile phones, RSB has increased its provisions for losses, both in absolute terms and as a percentage of loan balances.

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 near term, RSB has continued to develop its credit card loan business. The effective interest rates on credit card loans increased over the period from 2002 to 2004, 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, and decreased in 2005 to 63.8% on U.S. dollar loans and 68.6% on Rouble loans. By contrast, the effective interest rate on consumer loans and car loans decreased from 98.5% in 2002 to 74.6% in 2003, 66.1% in 2004 and 55.1% in 2005. As a result in part of the movements in effective interest rate on credit card loans and the decreasing effective interest rates on consumer loans and car loans from 2002 through 2004, consumer loan and car loan interest income constituted 58% of total interest income in 2005, as compared to 64% in 2004, 72% in 2003 and 69% in 2002. By contrast, credit card loan interest income contributed 40% of total interest income in 2005, as compared to 35% in 2004, 27% in 2003 and 21% in 2002. The substantial majority of credit card loans is in the form of cash advances which incur a onetime

4.9% fee in addition to the interest rate and commission charges. Based on these trends, RSB expects the gap between the contribution to total interest income from credit card loans, consumer loans and car loans to narrow further in the future, and expects credit cards to overtake consumer loans and car loans as the largest contributor to its total interest income.

Russia has in the past few years experienced relatively high levels of inflation. The inflation rate (CPI) was 12.0% in 2003, 11.7% in 2004 and 10.9% in 2005. 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 relative to other currencies such as the euro and the U.S. dollar, discretionary spending could 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.

Restatement of Prior Period Financial Data

RSB's 2003 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. Marginal 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 at and for the year ended 31 December 2003:

Balance Sheet

	As at 31 December 2003		
	Balance as previously reported	**Adjustment**	**Balance as restated**
	(in thousands of Roubles)		
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

Income Statement

	For the year ended 31 December 2003		
	Income / expense as previously reported	**Adjustment**	**Income / expense as restated**
	(in thousands of Roubles)		
Interest income	3,426,850	1,009,820	4,436,670
Fee and commission income	1,403,152	(1,363,889)	39,263
Administrative and other 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

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 Prospectus 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 appearing elsewhere in this Base Prospectus.

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 Prospectus.

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 uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed, the Credit Committee of the Group has formally recognised loans as uncollectible 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.

Income and Expense Recognition

Interest income and expense are recorded in the consolidated statement of income for all instruments measured at amortised cost 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 administrative and other 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 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 a different period) directly to equity.

Adoption of New Standards

In 2005, the Group adopted the following new or amended standards relevant to its operations that become effective for the Group from 1 January 2005:

IAS 1 (revised 2003)	Presentation of Financial Statements
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 32 (revised 2003)	Financial Instruments: Disclosure and Presentation
IAS 39 (revised 2003)	Financial Instruments: Recognition and Measurement
IFRS 3 (issued 2004)	Business Combinations
IAS 36 (revised 2004)	Impairment of Assets
IAS 38 (revised 2004)	Intangible Assets

The consolidated financial statements as at and for the year ended 31 December 2004 have been amended as required in accordance with the transitional provisions of the new or amended standards. The adoption of the new or amended standards resulted in certain changes to the Group's accounting policies, but had no impact on 2004 comparative amounts, except that equity as at 1 January 2004 decreased and total liabilities as at 1 January 2004 increased by RUB 113,608 thousand as a result of the change in classification of and accounting for an option agreement with EBRD in accordance with provisions of IAS 32 (revised 2003) "Financial Instruments: Disclosure and Presentation".

Certain new IFRSs became effective for the Group from 1 January 2006. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies:

IAS 39 (revised 2005) Financial Instruments: Recognition and Measurement

IFRIC 4 Determining Whether an Arrangement Contains a Lease

The effect of adoption of the above revised standards on the Group's financial position as at 30 June 2006 and 31 December 2005 and on the results of its operations for six-months period ended 30 June 2006 was not significant.

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 Prospectus. See "– Critical Accounting Policies – Income and Expense Recognition" for a description of the method of calculation of effective interest rates.

	2005			2004			2003		
	Average balance	Interest Income/ Expense	Average Rate	Average balance	Interest Income/ Expense	Average Rate	Average balance	Interest Income/ Expense	Average Rate
								(Restated)	
					(in thousand of Roubles)				
Interest earning assets									
Due from banks[(1)]	1,946,901	181,177	9.3%	2,728,737	57,079	2.1%	180,864	11,022	6.1%
Consumer and car loans[(1)(2)]	31,480,065	13,727,186	43.6%	13,495,304	7,029,362	52.1%	5,016,003	3,191,447	63.6%
Credit card loans[(1)(2)]	21,342,554	9,513,883	44.6%	6,443,787	3,781,633	58.7%	2,090,367	1,187,598	56.8%
Other loans[(1)(2)]	1,694,440	169,112	10.0%	561,751	56,794	10.1%	273,599	44,724	16.3%
Securities[(3)]	—	—	—	12,409	1,891	15.2%	38,403	1,879	4.9%
Total interest earning assets	56,463,960	23,591,358	41.8%	23,241,988	10,926,759	47.0%	7,599,236	4,436,670	58.4%
Interest bearing liabilities									
Due to other banks	10,404,538	748,952	7.2%	3,902,054	345,785	8.9%	1,529,156	158,511	10.4%
Customer accounts	6,006,775	188,596	3.1%	3,013,220	173,630	5.8%	1,851,643	99,069	5.4%
Debt securities in issue and subordinated debt	37,095,683	3,156,836	8.7%	13,553,178	1,537,858	11.3%	3,355,606	570,211	17.0%
Total interest bearing liabilities	53,506,996	4,094,384	7.7%	20,468,452	2,057,273	10.1%	6,736,405	827,791	12.3%
Net interest spread[(4)]			34.1%			36.9%			46.1%
Net interest income		19,496,974			8,869,486			3,608,879	
Net interest margin[(5]			34.5%			38.2%			47.5%

(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 consolidated 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 2004.

(4) The difference between the average interest rate on interest-earning assets and the average 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. Financial information as at and for the periods ended 31 March, 30 June and 30 September of the relevant period used for the purpose of calculation of the data in the table above was not audited.

(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 principally the result of the increase in the number of RSB's customers who take out loans, particularly consumer loans, car 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 of 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 2003 to 2004 and from 2004 to 2005. The significant increase in interest bearing liabilities was primarily attributable to debt securities in issue, which included RSB's London Stock Exchange listed loan participation notes issued in 2004 and Rouble and dollar denominated bonds and loan participation notes issued in 2005. The temporarily unused cash received from the issuance of bonds and loan participation notes generally 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 2005 and 2004 as compared to 2003.

Net interest spread and net interest margin decreased in 2004 compared to 2003 and in 2005 compared to 2004. The decreases in 2004 and 2005 were largely due to decreases in RSB's interest rates charged on consumer loans, car loans and credit card loans, which were 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 years ended 31 December[1]								
	2005/2004			2004/2003			2003/2002		
	Increase/(decrease) due to changes in			Increase/(decrease) due to changes in			Increase/(decrease) due to changes in		
	Volume	Rate	Net change	Volume	Rate	Net change	Volume	Rate	Net change
								(Restated)	
				(in thousands of Roubles)					
Interest Income									
Due from banks	(20,681)	144,779	124,098	48,309	(2,252)	46,057	4,789	(1,347)	3,442
Consumer and car loans	8,008,514	(1,310,690)	6,697,824	4,299,094	(461,179)	3,837,915	2,148,746	4,166	2,152,911
Credit card loans	6,839,430	(1,107,180)	5,732,250	2,553,598	40,437	2,594,035	873,354	(5,773)	867,581
Other loans	113,056	(738)	112,318	18,925	(6,856)	12,069	(77,273)	(24,258)	(101,531)
Securities[2]	(1,891)	0	(1,891)	(6)	18	12	1,879	0	1,879
Total interest income	**14,938,428**	**(2,273,829)**	**12,664,599**	**6,919,920**	**(429,832)**	**6,490,088**	**2,951,494**	**(27,212)**	**2,924,282**
Interest Expense									
Due to other banks	479,018	(75,851)	403,167	206,594	(19,320)	187,274	86,604	36,551	123,155
Customer accounts	118,655	(103,689)	14,966	66,410	8,151	74,561	63,594	9,658	73,252
Debt securities in issue	2,087,495	(468,517)	1,618,978	1,086,428	(118,781)	967,647	366,877	5,227	372,104
Total interest expense	2,685,168	(648,057)	2,037,111	1,359,432	(129,950)	1,229,482	517,075	51,436	568,511
Net change in net interest income	**12,253,260**	**(1,625,772)**	**10,627,488**	**5,560,488**	**(299,882)**	**5,260,606**	**2,434,419**	**(78,648)**	**2,355,771**

(1) Financial information as at and for the periods ended 31 March and 30 September of the relevant period used for the purpose of calculation of the data in the table above was not audited.

(2) Interest income on securities appeared in the Consolidated 2004 and 2003 Financial Statements within the interest income line designated "Other", and in the Consolidated 2005 Financial Statements within the interest income line item designated "Loans to legal entities".

Results of Operations

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	
	2005	**2004**	**2003** *(Restated)*	**2005**	**2004**
	(in thousands of Roubles)			*(percentages)*	
Interest income	23,591,358	10,926,759	4,436,670	115.9%	146.3%
Interest expense	(4,094,384)	(2,057,273)	(827,791)	99.0%	148.5%
Net interest income	**19,496,974**	**8,869,486**	**3,608,879**	**119.8%**	**145.8%**
Provision for loan impairment	(7,258,032)	(1,422,016)	(524,807)	410.4%	171.0%
Operating income	**12,654,957**	**7,860,021**	**3,072,766**	**61.0%**	**155.8%**
Administrative and other operating expenses	(4,905,094)	(2,066,411)	(1,272,790)	137.4%	62.4%
Profit before taxation	**7,749,863**	**5,793,610**	**1,799,976**	**33.8%**	**221.9%**
Income tax expense	(1,886,904)	(1,400,621)	(435,189)	34.7%	221.8%
Net profit	**5,862,959**	**4,392,989**	**1,364,787**	**33.5%**	**221.9%**
Cost/Income Ratio[(1)]	24.6%	22.4%	34.9%	—	—

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

RSB's net profit grew to RUB 5,863.0 million in 2005 from RUB 4,393.0 million in 2004, which, in turn, increased from RUB 1,365 million in 2003.

The increase in net profit in 2005 compared to 2004 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 of Moscow. These benefits were offset by a significant growth in provision for loan impairment as a result of the expansion of the consumer finance portfolio to include borrowers outside of Moscow, as well as RSB's diversification into products such as mobile phone loans for which RSB's past experience shows higher rates of default.

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 of Moscow from the beginning of 2004.

For the reasons for the expansion of RSB's consumer loan activity, see "– Results of Operations for the years ended 31 December 2005, 2004 and 2003 – Interest Income".

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

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 each year under review.

	For the year ended 31 December			Change from prior year	
	2005	**2004**	**2003** *(Restated)*	**2005**	**2004**
	(in thousands of Roubles)			*(percentages)*	
Interest income					
Due from banks	181,177	57,079	11,022	217.4%	417.9%
Consumer and car loans	13,727,186	7,029,362	3,191,447	95.3%	120.3%
Credit card loans	9,513,883	3,781,633	1,187,598	151.6%	218.4%
Other loans	169,112	56,794	44,724	197.8%	27.0%
Securities	—	1,891	1,879	—	0.6%
Total interest income	**23,591,358**	**10,926,759**	**4,436,670**	**115.9%**	**146.3%**
Interest expense	**(4,094,384)**	**(2,057,273)**	**(827,791)**	**99.0%**	**148.5%**
Net interest income	19,496,974	8,869,486	3,608,879	119.8%	145.8%
Provision for loan impairment	(7,258,032)	(1,422,016)	(524,807)	410.4%	171.0%
Net interest income after provision for loan impairment	12,238,942	7,447,470	3,084,072	64.3%	141.5%
Average interest-earning assets					
Due from banks	1,946,901	2,728,737	180,864	(28.7%)	1,408.7%
Consumer and car loans	31,480,065	13,495,304	5,016,003	133.3%	169.0%
Credit card loans	21,342,554	6,443,787	2,090,367	231.2%	208.3%
Other loans	1,694,440	561,751	273,599	201.6%	105.3%
Securities	—	12,409	38,403	(100.0%)	(67.7%)
Total average interest-earning assets	**56,463,960**	**23,241,988**	**7,599,236**	**142.9%**	**205.8%**

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, car loans and credit card loans. During the years ended 31 December 2005, 2004 and 2003, interest income RSB earned on its consumer loans represented the largest component of interest income. The growth of interest income from consumer loans and car loans and credit card 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 (c) interest paid by credit institutions, which have borrowed funds from RSB at interbank terms and rates.

Interest income increased by 115.9%, or by RUB 12,664.6 million, to RUB 23,591.4 million in 2005 from RUB 10,926.8 million in 2004, which increased by 146.3%, or by RUB 6,490.1 million, from RUB 4,436.7 million in 2003.

These increases were primarily due to an increase in average balances of loans and advances to customers and other interest earning assets of 142.9% from 2004 to 2005 (RUB 56,464.0 million in 2005, RUB 23,242.0 million in 2004) and 205.8% from 2003 to 2004 (RUB 7,599.2 million in 2003), which reflect the significant increases in the size of the consumer finance portfolio. These increases in the consumer finance portfolio were attributable to increasing demand for consumer loans, car loans and credit cards, 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, car loans and credit card loans was offset, in part, by a decrease in the average interest rate on interest earning assets to 41.8% in 2005 from 47.0% in 2004. In particular, average interest rates on consumer and car loans and credit card loans decreased significantly. In 2005, the average interest rate on consumer and car loans was 43.6% as compared to 52.1% a year earlier and 63.6% in 2003. Consumer loans represented 51% and 64% of total loans outstanding as of 31 December 2005 and 2004, respectively. In 2005, the average interest rate on credit card loans was 44.6% as compared to 58.7% a year earlier and 56.8% in 2003. Credit card loans represented 48% and 32% of total loans outstanding as of 31 December 2005 and 2004, respectively. The decrease in average interest rate for those loans was therefore significant.

Unlike in prior years, the commissions that large retail chains pay to RSB to help generate sales of appliances and other consumer goods have reduced considerably. In addition, similar arrangements with many car dealerships with respect to car loans ceased. Market Conditions have already led to RSB being required to pay commissions to the large retail chains for certain high margin products. 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 have been, and likely will continue to 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 2005, 2004 and 2003.

	For the years ended 31 December					
	2005	**% of total interest income**	**2004**	**% of total interest income**	**2003**	**% of total interest income**
					(Restated)	
	(in thousands of Roubles except percentages)					
Total interest income	23,591,358		10,926,759		4,436,670	
of which						
from consumer and car loans	13,727,186	58.2%	7,029,362	64.3%	3,191,447	71.9%
from credit card loans	9,513,883	40.3%	3,781,633	34.6%	1,187,598	26,8%
from other loans(1)	350,289	1.5%	115,764	1.1%	57,625	1.3%

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

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 2005, 2004 and 2003 and average interest-bearing liabilities, calculated as the average of the opening, quarterly and closing balances for each year under review.

	For the year ended 31 December			Change from prior year	
	2005	2004	2003	2005	2004
			(Restated)		
	(in thousands of Roubles)			*(percentages)*	
Interest expense					
Term deposits of other banks	748,952	345,785	158,511	116.6%	118.1%
Customer accounts	188,596	173,630	99,069	8.6%	75.3%
Debt securities in issue(1)	3,156,836	1,537,858	570,211	105.3%	169.7%
Total interest expense	**4,094,384**	**2,057,273**	**827,791**	99.0%	148.5%
Average interest-bearing liabilities					
Due from banks(1)	10,404,538	3,902,054	1,529,156	166.6%	155.2%
Customer accounts	6,006,775	3,013,220	1,851,643	99.3%	62.7%
Debt securities in issue	37,095,683	13,553,178	3,355,606	173.7%	303.9%
Total average interest-bearing liabilities	**53,505,996**	**20,468,452**	**6,736,405**	**161.4%**	**203.8%**

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

Interest expense increased by 99.0% in 2005 to RUB 4,094.4 million from RUB 2,057.3 million in 2004, which, in turn, represented a 148.5% increase from RUB 827.8 million in 2003. 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, car loans and credit card loans. Average interest bearing liabilities grew by 161.4% to RUB 53,507.0 million from RUB 20,468.5 million in 2004, which, in turn, represented a 203.8% increase from RUB 6,736.4 million in 2003.

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 interest rate on interest bearing liabilities from 12.3% in 2003 to 10.1% in 2004 and to 7.7% in 2005.

The most significant increase in interest expense was attributable to debt securities in issue; in aggregate, interest expense on debt securities in issue and subordinated debt increased in 2005 by 105.3% to RUB 3,156.8 million from RUB 1,537.9 million in 2004, which represented a 169.7% increase from RUB 570.2 million in 2003. In 2005, average balances of debt securities in issue and subordinated debt increased by 173.7% to RUB 37,095.7 million from RUB 13,553.2 million in 2004, which increased by 303.9% from RUB 3,355.6 million in 2003. The increase in interest expense attributable to the increase in debt securities in issue and subordinated debt in 2005 was offset in part by a decrease in the average interest rates on debt securities in issue to 8.7% in 2005 from 11.3% in 2004 and 17.0% in 2003.

Net Interest Income before Provision for Loan Impairment

In 2005, 2004 and 2003, net interest income before provision for loan impairment accounted for 154.1%, 112.8% and 117.4%, respectively, of operating income. Net interest income before provision for loan impairment increased by RUB 10,627.5 million in 2005 to RUB 19,497.0 million, from RUB 8,869.5 million in 2004, which represented an increase by RUB 5,260.6 from RUB 3,608.9 million in 2003. RSB's net interest margin, defined as net interest income before provision for loan impairment as a percentage of average interest earning assets, was 34.5% for the year ended 31 December 2005, compared to 38.2% and 47.5% for 2004 and 2003, 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 34.1% for the year ended 31 December 2005, compared to 36.9% for 2004 and 46.1% for 2003. The decreases in 2005 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 41.8% in 2005 from 47.0% in 2004, in spite of the increase in the portfolio's volume. This decrease was offset, in part, by a decrease in the average interest rate paid on interest bearing liabilities to 7.7% in 2005 from 10.1% in 2004.

The tables below summarise the effective interest rates by major currencies for major monetary financial instruments for the years ended 31 December 2005, 2004 and 2003. The analysis has been prepared based on period-end effective rates used for amortisation of the respective assets and 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".

	Year ended 31 December								
	2005			**2004**			**2003 (restated)**		
	RUB	**U.S.$**	**Euro**	**RUB**	**U.S.$**	**Euro**	**RUB**	**U.S.$**	**Euro**
					(percentages)				
Assets									
Cash balances with the CBRF	0.0	—	—	0.0	—	—	0.0	—	—
Mandatory cash balances with the CBRF	0.0	—	—	0.0	—	—	0.0	—	—
Correspondent accounts and overnight placements with other banks	0.6	3.2	2.1	0.6	3.1	1.0	0.0	2.1	1.0
Due from other banks	—	5.0	5.8	—	2.5	—	—	0.5	2.1
Loans and advances to customers									
– consumer and car loans	55.1	—	—	66.1	—	—	74.6	—	—
– credit card loans	68.6	63.8	—	91.6	65.2	—	83.2	57.0	—
– direct commercial loans	14.1	9.6	8.8	8.6	10.4	8.4	27.3	11.2	10.5
Liabilities									
Due to other banks	9.7	7.7	3.3	12.2	5.9	4.5	14.8	7.2	6.9
Customer accounts									
– term deposits of legal entities	9.3	6.0	5.0	11.1	3.1	—	14.5	5.5	—
– term deposits of individuals	11.2	6.2	5.8	12.4	8.1	6.3	16.6	9.1	9.5
Debt securities in issue									
– bonds	10.0	—	—	15.4	—	—	18.6	—	—
– loan participation notes	—	8.3	—	—	8.8	—	—	12.9	—
– EUR denominated notes	—	—	5.4	—	—	—	—	—	
– promissory notes	9.3	—	8.0	15.7	5.6	7.6	18.1	9.2	6.0
Subordinated debt	—	9.2	—	—	—	—	—	—	—

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 2005, 2004 and 2003.

	As at 31 December		
	2005	2004	2003
			(Restated)
	(in thousands of Roubles)		
Provision for loan impairment as at 1 January	1,926,224	710,080	202,672
Increase in provision for loan impairment during the year	7,258,032	1,422,016	524,807
Loans and advances to customers written off during the year as uncollectible	(2,321,031)	(205,872)	(17,399)
Provision for loan impairment as at 31 December	**6,863,225**	**1,926,224**	**710,080**
Gross loans and advances to customers	**105,541,320**	**36,290,597**	**13,723,548**
Provision for loan impairment as a percentage of gross loans and advances to customers	6.5%	5.3%	5.2%

As at 31 December 2005, the provision for loan impairment as a percentage of gross loans and advances to customers increased to 6.5% from 5.3% and 5.2% as at 31 December 2004 and 2003, respectively. The increase in provisions as a percentage of gross loans and advances to customers was a result of the expansion of RSB's consumer finance portfolio to include borrowers outside of Moscow in 2005, 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 also recorded loss rates higher on average in smaller population centres into which it is expanding outside of Moscow. These higher loss rates reflected 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, net trading gains/(losses) and other operating results, net, are included in non-interest income/(expense). The following table sets out the principal components of RSB's non-interest income/(expense) for the years ended 31 December 2005, 2004 and 2003.

	For the year ended 31 December			Change from prior year	
	2005	2004	2003	2005	2004
			(Restated)		
	(in thousands of Roubles)			*(percentages)*	
Non-interest income					
Fee and commission income	892,144	58,615	39,263	1,422.0%	49.3%
Fee and commission expense	(73,658)	(72,665)	(49,909)	1.4%	45.6%
Net trading gains/(losses)	(386,705)	366,575	50,168	(205.5)%	630.7%
Other operating results, net	(15,766)	60,026	(50,828)	(126.3)%	—
Total non-interest income/(expense)	**416,015**	**412,551**	**(11,306)**	**0.8%**	**—**

Fee and commission income consists mainly of commissions for services as an agent in relation to sales of insurance policies of RSB's affiliate ZAO Russian Standard Insurance. RSB began to accrue these commissions in 2005 (2005: RUB 736.8 million), which explains the significant increase in fee and commission income over the prior year. In addition, a contingent asset of RUB 261.4 million remains outstanding as a result of limitations that RSI's regulator places on the amount of commission income RSI can pay to RSB. Subject to a relaxation of such limitations imposed by the regulator, which RSB expects will take place in 2006, growth of RSI's business, revised product tariffs and RSI's capital availability, RSB expects to receive the full amount of the contingent asset. However, there can be no assurances that RSI will be able to pay such a contingent asset to RSB in the future. RSB is seeking to develop this income stream to offset the declining margin on its consumer loan portfolio. For more information, see "Business – Banking Service and Activities – Insurance".

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 mostly of net foreign exchange translation gains less losses. For the year ended 31 December 2005, net trading results decreased and amounted to a loss of RUB 386.7 million, as compared to a gain of RUB 366.6 million in 2004 which, in turn, increased from RUB 50.2 million in 2003. These changes were explained in part by the appreciation of the Rouble against the U.S. dollar in 2003 and 2004, and the depreciation of the Rouble against the U.S. dollar in 2005. Most of these results were unrealised non-cash results as at the years then ended.

Administrative and Other Operating Expenses

Administrative and other 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 administrative and other operating expenses for the years ended 31 December 2005, 2004 and 2003.

	For the year ended 31 December			Change from prior year	
	2005	**2004**	**2003**	**2005**	**2004**
			(Restated)		
	(in thousands of Roubles)			*(percentages)*	
Staff costs	2,258,274	1,068,165	640,193	111.4%	66.9%
Administrative expenses	950,471	321,019	145,685	196.1%	120.4%
Rent expenses	350,654	185,632	110,348	88.9%	68.2%
Depreciation of fixed assets and amortization of intangible assets	317,217	140,444	71,227	125.9%	97.2%
Taxes other than income tax	318,594	128,581	118,874	147.8%	8.2%
Other expenses related to maintenance of fixed and intangible assets	185,709	84,115	73,081	120.8%	15.1%
Advertising and marketing	226,035	56,759	68,126	298.2%	(16.7%)
Professional services	125,568	49,435	24,693	154.0%	100.2%
Other	172,572	32,261	20,563	434.9%	56.9%
Total administrative and other operating expenses	**4,905,094**	**2,066,411**	**1,272,790**	**137.4%**	**62.4%**

Staff Costs

For the year ended 31 December 2005, staff costs increased by 111.4% to RUB 2,258.3 million from RUB 1,068.2 million in 2004, which, in turn, represented an 66.9% increase from RUB 640.2 million in 2003. These year-on-year increases were primarily due to increases in the number of employees to support the growth in RSB's branch network, regional expansion and new products such as American Express cards.

RSB and its subsidiaries employed 16,943 persons as at 31 December 2005, which represented a 187.9% increase over the 5,886 employees employed by RSB and its subsidiaries as at 31 December 2004. Staff costs in 2005 increased by only 111.4%, despite the 187.9% increase in headcount, due to the fact that a majority of the new employees added in 2005 were employed in the smaller population centres outside of Moscow where salary levels remain significantly lower than in Moscow. As at 31 December 2003, RSB had 2,630 employees.

Administrative Expenses

Administrative expenses increased to RUB 950.5 million for the year ended 31 December 2005 from RUB 321.0 million for the year ended 31 December 2004 and RUB 145.7 million for the year ended 31 December 2003, which represented an increase of 196.1% and 120.4%, respectively. This increase reflected increased costs associated with the continued expansion of RSB's branch network in Moscow, as well as costs incurred in connection with its regional expansion.

Rent Expenses

Rent expenses increased by 88.9% to RUB 350.7 million from RUB 185.6 million in 2004 which, in turn, increased by 68.2% from RUB 110.3 million in 2003. 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.

Depreciation and Amortisation

Depreciation of fixed assets and amortisation of intangible assets increased to RUB 317.2 million for the year ended 31 December 2005 from RUB 140.4 million for the year ended 31 December 2004 and RUB 71.2 million for the year ended 31 December 2003, which represented an increase of 125.9% and 97.2%, respectively. These increases reflected growth in fixed assets, associated with RSB's continued expansion of its branch network in Moscow and its regional expansion.

Taxes Other Than Income Tax

Taxes other than income tax increased to RUB 318.6 million for the year ended 31 December 2005 from RUB 128.6 million for the year ended 31 December 2004 and RUB 118.9 million for the year ended 31 December 2003, which represented an increase of 147.8% and 8.2%, respectively. These increases were largely due to the VAT paid on the increasing amounts of materials and services RSB purchased.

Advertising and Marketing

Advertising and marketing expenses increased to RUB 226.0 million for the year ended 31 December 2005 from RUB 56.8 million for the year ended 31 December 2004. This increase reflected overall growth in advertising activity associated with RSB's expansion of its branch network in Moscow and other cities and followed a decrease from RUB 68.1 million for the year ended 31 December 2003.

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 2005, 2004 and 2003:

	For the years ended 31 December		
	2005	2004	2003
			(Restated)
	(in thousands of Roubles)		
Cash flows from operating activities before changes in operating assets and liabilities	12,091,008	5,590,498	2,270,218
Net cash used in operating activities	(37,033,730)	(15,655,487)	(2,281,186)
Net cash used in investing activities	(1,410,906)	(548,357)	(226,646)
Net cash from financing activities	40,776,081	18,357,171	2,964,109
Effect of exchange rate changes on cash and cash equivalents	144,089	5,197	(778)
Net increase in cash and cash equivalents	2,475,534	2,158,524	455,499
Cash and cash equivalents at the end of the year	5,325,823	2,850,289	691,765

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 at 31 December 2005, RSB had contractual capital expenditure commitments in respect of premises and equipment totalling RUB 327.9 million. RSB's management believes that future net income and funding will be sufficient to cover this and any similar commitment.

Short Term Borrowings

The table below sets forth RSB's short term borrowings as at the dates indicated:

	2005	2004	2003
	(in thousands of Roubles except percentages)		
Outstanding as of 31 December[1]	28,770,021	6,837,242	5,555,171
Maximum amount outstanding at any quarter-end during the year	28,770,021	6,837,242	5,555,171
Average amount outstanding during the year[2]	11,893,121	5,831,636	2,834,478
Interest expense for the year ended 31 December	717,960	639,577	349,617
Weighted-average interest rate during the year[3]	6.0%	11.0%	12.3%
Weighted-average interest rate at year-end	9.0%	9.8%	13.2%

(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.

RSB's short term borrowings fluctuate considerably depending on its current 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 at 31 December 2005, 2004 and 2003:

	As of 31 December					
	2005	% of total funding	2004	% of total funding	2003	% of total funding
	(in thousands of Russian Roubles)					
Due to banks and other financial institutions:						
Deposits accepted	22,904,196	23.1	4,766,662	14.7	3,393,103	29.6
Other	851	0	71	0.0	16,111	0.2
Total	**22,905,047**	**23.1**	**4,766,733**	**14.7**	**3,409,214**	**29.8**
Debt securities in issue						
USD 500 million 7.5% loan participation notes due Oct 2010	14,572,379	14.7	—	—	—	—
USD 300 million 8.75% loan participation notes due April 2007	8,816,822	8.9	8,438,399	25.8	—	—
USD 300 million 7.8% loan participation notes due September 2007	8,767,020	8.9	8,434,911	25.8	—	—
USD 300 million 8.125% loan participation notes due April 2008	8,722,029	8.8				
USD 300 million 11% loan participation notes due May 2005	—	—	836,539	2.6	877,182	7.6
USD 30 million 10% credit linked notes due March 2004	—	—	—	—	468,047	4.1
RUB 5,000 million 7.5% bonds due September 2010	5,093,307	5.1	—	—	—	—
RUB 3,000 million 8.99% bonds due March 2008	3,074,608	3.1	—	—	—	—
RUB 2,000 million 12.9% bonds due August 2007	1,918,830	1.9	2,072,868	6.3	—	—
RUB 1,000 million 14% bonds due June 2006	1,004,039	1.0	999,085	3.1	994,348	8.6
RUB 500 million 12% bonds due August 2005	—	—	536,321	1.5	529,893	4.6
RUB 500 million 12% bonds due October 2004	—	—	—	——	478,947	4.2
EUR denominated notes due in November 2008	7,554,523	7.6	—	—	—	—
Promissory notes issued	447,233	0.5	2,344,652	7.2	1,933,641	16.8
Certificate of deposit	—	—	—	—	62,237	0.6
Total	**59,970,790**	**60.5**	**23,662,775**	**72.3**	**5,344,295**	**46.5**
Subordinated debt						
USD 200 million 8.875% loan participation notes due December 2015	5,744,156	5.8	—	—	—	—
Customer accounts						
Current accounts and other demand deposits	7,925,966	8.0	2,732,609	8.4	1,102,297	9.6
Term deposits	2,597,039	2.6	1,502,724	4.6	1,618,467	14.1
Total	**10,523,005**	**10.6**	**4,235,333**	**13.0**	**2,720,764**	**23.7**
Total	**99,142,998**	**100.0**	**32,664,841**	**100.0**	**11,474,273**	**100.0**

In November 2005, RSB completed a securitisation transaction whereby it privately placed Euro 190.0 million Class A and Euro 30.0 million Class B notes. Class A notes bear a floating interest rate of EURIBOR plus 2.5% per annum payable monthly. Class B notes bear a floating interest rate of EURIBOR plus 3.5% per annum payable monthly.

In December 2005, RSB obtained a U.S.$100 million loan facility from IFC. Under this facility, in December 2005 the Group obtained a RUB loan in the equivalent of U.S.$ 40,000 thousand. The loan is repayable in October 2008 and bears a fixed interest rate of 8.65% payable semi-annually. Also under this facility, in January 2006 RSB obtained a loan in the amount of U.S.$60 million which was not included in the table above. The loan is repayable in January 2008 and bears a floating interest rate of LIBOR plus 2% payable semi-annually.

In December 2005, the Group issued loan participation notes due in December 2015 with a total nominal amount of U.S.$ 200 million, placed at nominal value. The notes bear a fixed interest rate of 8.875% until December 2010. The interest rate for the period starting from December 2010 will be set at the U.S. Treasury Notes rate plus 1.5% per annum. The Bank has the right to repurchase these notes at nominal value at 16 December 2010. The claims of the lenders against the Group in respect of the principal and interest on the notes will be subordinated to the claims of other creditors in accordance with the legislation of the Russian Federation.

In January 2006, RSB obtained a RUB 900 million loan from EBRD. The loan bears a floating interest rate of MosPrime rate plus 3.0% and is repayable in seven equal semi-annual instalments, starting January 2007.

In February 2006, the Group obtained a RUB loan from IFC in the equivalent of U.S.$ 20 million due in February 2007 at a fixed rate of 8.92% payable quarterly.

In February 2006, RSB issued bonds due February 2011 with a total nominal amount of RUB 6 billion, placed at nominal value. The Bank has also published an offer to repurchase these bonds at nominal value on 23 August 2007. The bonds bear a fixed interest rate of 8.1% until February 2007. The interest rate for the period starting from February 2007 will be set by the Board of Directors of RSB and it cannot be lower than 5.0% per annum.

In February 2006, the Issuer issued 6.72% loan participation notes due February 2007 with a total nominal amount of U.S.$200 million placed at nominal value.

For bonds issued in March 2005 at nominal amount of RUB 3 billion, the Group published an offer to repurchase these bonds at nominal value at 10 March 2006. In March 2006 the Group executed an offer to repurchase the bonds and repurchased bonds at nominal value of RUB 798.4 million. The interest rate for the period starting from March 2006 was set by the Board of Directors of the Bank at 8.25% per annum. In March and in May 2006 the Group sold back to the market bonds at nominal amount of RUB 10 million and RUB 5 million, respectively at 100.1% of nominal value.

In November 2005, the RSB completed the first securitisation transaction whereby it privately placed EUR 190,000 thousand Class A and EUR 30 million Class B notes through RCL. Class A notes bear a floating interest rate of EURIBOR plus 2.5% per annum payable monthly. Class B notes bear a floating interest rate of EURIBOR plus 3.5% per annum payable monthly. The claims of Class B noteholders against RSB in respect of the principal and interest on the notes are subordinated to the claims of Class A noteholders. Both Class A and Class B notes are due in November 2008 and secured by consumer loans originated by RSB.

In April 2006, RSB partly repaid the notes placed in the course of the first securitisation transaction. Repurchased notes included Class A notes with nominal amount of EUR 115 million and Class B notes with nominal amount of EUR 30 million. The maturity of the remaining part of Class A notes was changed to December 2009 and the interest rate was changed to EURIBOR plus 2.0%, effective from 6 April 2006. The Group has also obtained the right to repurchase the remaining part of Class A notes at nominal value in April 2007. In April 2006 consumer loans with the total principal amount of RUB 5,876.2 million were repurchased by RSB from RCL.

As at 30 June, 2006 consumer loans with the total principal amount of RUB 3,107.54 million (compared to RUB 8,456.9 million as of 31 December 2005) represent the outstanding amount of loans which were sold by RSB to RCL in the first securitisation transaction.

In the course of the first securitisation transaction RSB placed a deposit with the transaction arranger to finance the acquisition by the transaction arranger of Class B notes. As at 31 December 2005, the deposit had a carrying value of RUB 735.93 million (RUB equivalent of EUR 21.5 million), bore interest of EURIBOR plus 3.5% per annum and was repayable subject to repayment by RSB of Class B notes with a total nominal value of EUR 21.5 million held by the transaction arranger. In April 2006, the notes were purchased from the transaction arranger and the deposit was repaid.

In April 2006, RSB completed the second securitisation transaction whereby it placed three classes of notes: EUR 228.3 million Class A1, EUR 39.3 million Class A2 and EUR 32.4 million Class B floating interest rate notes. The notes were placed via RCF, a special purpose vehicle incorporated in Luxembourg. Class A1 notes bear a floating interest rate of EURIBOR plus 1.65% per annum payable monthly. Class A2 notes bear a floating interest rate of EURIBOR plus 3.5% per annum payable monthly. Class B notes bear a floating interest rate of EURIBOR plus 3.25% per annum payable monthly. Repayments of principal on Class A2 notes are deposited on an escrow account to provide protection against commingling losses. The claims of Class B noteholders against RSB in respect of the principal and interest on the notes are subordinated to the claims of Class A1 and Class A2 noteholders. RSB has also the right to repurchase these notes at nominal value in March 2009. All Class A1, Class A2 and Class B notes are due in January 2012 and secured by consumer loans originated by RSB.

As at 30 June, 2006 consumer loans with the total principal amount of RUB 10,141.18 million (compared to nil as of 31 December 2005) represent the outstanding amount of loans which were legally sold by RSB to RCF in the second securitisation transaction. In the course of the securitisation transactions the amount of originated consumer loans legally sold by RSB to RCF and RCL since 1 January 2006 was RUB 21,652,420 thousand.

In the course of the second securitisation transaction RSB placed two deposits with the transaction arranger to finance the acquisition by the transaction arranger of Class A2 and Class B notes. As at 30 June 2006, the deposits had a carrying value of RUB 316.87 million (RUB equivalent of EUR 9.33 million), bore interest of EURIBOR plus 3.5% per annum and were repayable subject to repayment by RSB of Class A2 notes with a total nominal value of EUR 9.3 million held by the transaction arranger and carrying value of RUB 81.76 million (RUB equivalent of EUR 9.4 million), bore interest of EURIBOR plus 3.25% per annum and was repayable subject to repayment by RSB of Class A2 notes with a total nominal value of EUR 9.3 million held by the transaction arranger.

In May 2006 the Group obtained U.S.$ 3.25 million, Euro 1.25 million and Euro 4 million loans from EBRD, which bear floating interest rates of LIBOR plus 2.25%, EURIBOR plus 2.25% and EURIBOR plus 2.25% respectively, payable semi-annually. The principal on all of these loans is due in May 2007.

In May 2006 the Group issued U.S.$ 350 million 8.625% loan participation notes due May 2011 with a total nominal amount of U.S.$ 350 million placed at nominal value.

Loan Portfolio

As at 31 December 2005, RSB's total loans and advances to customers were RUB 98,678.1 million, representing 87.5% of its total assets.

The following table summarises RSB's loan portfolio as at the dates indicated:

Loans originated by RSB

	As of 31 December		
	2005	**2004**	**2003**
			(Restated)
	(in thousands of Roubles)		
Loans to individuals			
Consumer loans and car loans	53,422,000	23,455,890	9,827,079
Credit card loans	50,303,329	11,522,795	3,627,487
Other	148,647	104,085	22,066
Loans to legal entities			
Direct commercial loans	1,650,440	1,188,198	229,992
Loans purchased by RSB			
Factoring receivables	16,904	19,629	16,924
Gross loans and advances to customers	105,541,320	36,290,597	13,723,548
Less: Provision for loan impairment	(6,863,225)	(1,926,224)	(710,080)
Net loans and advances to customers	**98,678,095**	**34,364,373**	**13,013,468**

The following table summarises RSB's due from other banks as at the dates indicated:

Due from Other Banks	**As of 31 December**		
	2005	**2004**	**2003** *(Restated)*
	(in thousands of Roubles)		
Current term placements with other banks	2,936,582	1,888,251	110,472
Deposit in relation to securitisation transaction	735,930	—	—
Collateral deposits	113,813	120,814	26,895
Total due from other banks	**3,786,325**	**2,009,065**	**137,367**

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 of 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 at 31 December 2005, 2004 and 2003.

	As of 31 December					
	2005	**%**	**2004**	**%**	**2003**	**%**
						(Restated)
	(in thousands of Roubles except percentages)					
Demand and less 1 month	23,468,037	23.8%	8,932,188	26.0%	1,596,049	12.3%
From 1 to 6 months	50,552,983	51.2%	18,761,642	54.6%	6,654,342	51.1%
From 6 to 12 months	22,750,585	23.1%	6,081,481	17.7%	3,033,451	23.3%
From 1 year to 5 years	1,906,490	1.9%	589,062	1.7%	1,729,626	13.3%
Total(1)	98,678,095	100.0%	34,364,373	100.0%	13,013,468	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, particularly the category of 1-5 years, as RSB's statistical data have shown that credit card balances tend to be repaid over these longer periods. When estimating the maturity of credit card loans, RSB relies on the outstanding balance as at a reporting date and assumes that repayments will be comparable to the actual repayment schedule in the past.

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	
	2005	2004	2003	2005	2004
			(Restated)		*(Restated)*
	(in thousands of Roubles)			*(percentages)*	
Current loans and advances	101,884,012	34,960,828	13,375,844	191.4%	161.4%
Overdue loans and advances	3,657,308	1,329,769	347,704	175.0%	282.4%
Gross loans and advances	105,541,320	36,290,597	13,723,548	190.8%	164.4%
Less: provision for loan impairment	(6,863,225)	(1,926,224)	(710,080)	256.3%	171.3%
Total	98,678,095	34,364,373	13,013,468	187.2%	164.1%
Provision for loan impairment as a percentage of total loans and advances	6.5%	5.3%	5.2%		
Provision for loan impairment as a percentage of overdue loans and advances	187.7%	144.9%	204.2%		
Overdue loans as a percentage of total loans and advances	3.5%	3.7%	2.5%		

As at 31 December 2005, the provision for loan impairment as a percentage of total loans and advances increased to 6.5% from 5.3% and 5.2% as at 31 December 2004 and 2003, respectively. The increase in provisions as a percentage of total loans and advances to customers is attributable in part to the further expansion of RSB's consumer loan portfolio outside of Moscow in smaller population centres in 2005, where RSB's management found the loss rates to be higher on average than in Moscow and other large cities during such periods and in part due to loans for products such as mobile phones, which carry a greater risk and which are forming an increasing part of the loan portfolio. Higher loss rates in Moscow are also caused by RSB's participation in riskier products such as mobile phone loans (which are forming an increasing part of its portfolio) alongside other riskier products such as loans with 0% downpayment. 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 at 31 December 2005, 2004 and 2003.

	As of 31 December		
	2005	**2004**	**2003**
			(Restated)
	(in thousands of Roubles)		
Risk-weighted assets	107,201,542	37,552,903	14,627,252
Tier I capital	12,087,809	7,612,292	3,184,625
Tier II capital	5,744,156	—	—
Total capital	**17,831,965**	**7,612,292**	**3,184,625**
Capital Adequacy Ratio			
Tier I capital	11.3%	20.3%	21.8%
Total capital ratio	**16.6%**	**20.3%**	**21.8%**

Despite significant growth in risk-weighted assets, which increased by 185.5%, or by RUB 69,648.6 million, from RUB 37,552.9 million as at 31 December 2004 to RUB 107,201.5 million as at 31 December 2005, RSB maintained CAR significantly above capital standards set by the Basle Committee on Banking Regulations and Supervisory Practices. This was achieved due to a 58.8%, or RUB 4,475.5 million, increase in RSB's shareholders's equity to RUB 12,087.8 million as at 31 December 2005 compared to RUB 7,612.3 million as at 31 December 2004 as a result of a significant contribution of income to retained earnings. RSB's retained earnings increased by RUB 4,475.5 million from RUB 5,052.6 million as at 31 December 2004 to RUB 9,528.1 million as at 31 December 2005 as a result of this significant contribution of income during the period.

In December 2005 RSB obtained a U.S.$200 million subordinated loan from Russian Standard Finance S.A. The loan was financed by the proceeds from the issue of loan participation notes. The loan is due December 2015 and bears a fixed interest rate of 8.875% until December 2010. The interest rate for the period starting from December 2010 will be set at U.S. Treasury Notes rate plus 1.5% per annum. The Bank has the right to repurchase these notes at nominal value at 16 December 2010. The claims of the lenders against RSB in respect of the principal and interest on the loan will be subordinated to the claims of other creditors in accordance with the legislation of the Russian Federation. This loan is eligible for inclusion into capital of RSB in accordance with the regulations of the Central Bank of Russian Federation and BIS guidelines.

The CBR requires banks to maintain a total capital adequacy ratio of 10% of risk-weighted assets, computed based on RAS. As at 31 December 2005, RSB's capital adequacy ratio calculated on this basis was 11.3%, 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 at 31 December 2005, RSB had RUB 18,908.0 million in outstanding credit-related commitments, net of provision, compared to RUB 12,604.1 million as at 31 December 2004 and RUB 4,222.1 million as at 31 December 2003, reflecting primarily increased demand for credit cards and related increases in undrawn credit card lines. As at 31 December 2005, RSB had available RUB 16,377.0 million in undrawn credit lines on credit cards as compared to RUB 11,252.0 million and as at 31 December 2004 and RUB 2,779.7 million as at 31 December 2003.

Contingencies and Commitments

The table below sets out RSB's contractual obligations by maturity as at 31 December 2005.

	Payments Due by Period				
	Total amounts committed	Less than 1 year	1-3 years	4-5 years	More than 5 years
	(in thousands of Roubles)				
Contractual Obligations					
Long-term debt	70,372,978	11,873,120	38,332,791	16,452,719	3,714,348
Operating leases	1,222,325	391,635	314,556	180, 423	335,711
Unconditional purchase obligations	327,902	327,902	—	—	—
Total contractual cash obligations	71,923,205	12,592,657	38,647,347	16,663,142	4,050,059

The table below sets out RSB's other commercial commitments by maturity as at 31 December 2005.

	Amount of Commitment Expiration Per Period				
	Total amounts committed	Less than 1 year	1-3 years	4-5 years	More than 5 years
	(in thousands of Roubles)				
Other Commercial Commitments					
Undrawn credit lines on credit cards	16,376,993	16,376,993	—	—	—
Undrawn credit lines on loans to customers	365,734	365,734	—	—	—
Guarantees	2,025,820	1,190,041	722,267	—	113,512
Import letters of credit	139,489	139,489	—	—	—
Total other commercial commitments	18,908,036	18,072,257	722,267	—	113,512

The table below sets out RSB's credit-related commitments as at 31 December 2005, 2004 and 2003:

	As of 31 December		
	2005	**2004**	**2003**
	(in thousands of Roubles)		
Undrawn credit lines on credit cards,	16,376,993	11,252,043	2,779,674
Guarantees issued,	2,025,820	848,897	458,775
Undrawn credit lines on loans to customers,	365,734	439,118	293,204
Import letters of credit,	139,489	59,945	73,496
Commitments to extend credit,	—	4,135	52,842
Export letters of credit,	—	—	564,116
Total credit-related commitments	**18,908,036**	**12,604,138**	**4,222,107**

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 2005
	(in thousands of Roubles)
Not later than 1 year	391,635
Later than 1 year and not later than 5 years	494,979
Later than 5 years	335,711
Total operating lease commitments	1,222,325

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. dollar-denominated assets, 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 fair values of derivative instruments held by RSB as at 31 December 2005, 2004 and 2003 are set out in the following table.

	2005		2004		2003	
	Net asset forwards	**Net liability forwards**	**Net asset forwards**	**Net liability forwards**	**Net asset forwards**	**Net liability forwards**
	(in thousands of Russian Roubles)					
Foreign exchange forwards: fair values, at the balance sheet date, of						
– USD receivable on settlement (+)	46,731,896	12,990,923	7,545,824	10,972,087	3,401,995	—
– USD payable on settlement (-)	—	—	(430,105)	(138,744)	—	(147,273)
– Euros payable on settlement (-)	—	(1,787,248)	—	—	—	—
– RUB receivable on settlement (+)	—	—	431,128	138,650	—	146,750
– RUB payable on settlement (-)	(46,282,797)	(11,288,884)	(7,522,010)	(11,142,605)	(3,400,991)	—
Foreign exchange swaps: fair values, at the balance sheet date, of						
– USD payable on settlement (-)	—	(3,001,432)	—	—	—	—
– Euros payable on settlement (-)	8,496,572	—	—	—	—	—
– RUB receivable on settlement (+)	—	3,000,000	—	—	—	—
– RUB payable on settlement (-)	(8,473,706)	—	—	—	—	—
Net fair value of foreign exchange forwards	**471,965**	**(86,641)**	**24,837**	**(170,612)**	**1,004**	**(523)**

Derivatives with positive fair values are included in other assets, while derivatives with negative fair values are included in other liabilities. The significant increase in RSB's usage of derivative instruments to hedge foreign exchange open position risk is in line with the growth of its U.S. dollar-denominated funding base, which RSB has expanded to allow further growth in its consumer finance portfolio.

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.

SELECTED FINANCIAL REVIEW

The following selected financial review covers the six months ended 30 June 2006 and 2005. 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 Prospectus.

Overview

RSB's business activities are primarily focused on consumer finance products and services comprising consumer loans, car loans and credit card loans. For the first six months of 2006, interest, fees and other amounts payable on consumer loans and car loans to individuals contributed 40.8% of RSB's interest income (for the same period in 2005 the contribution was 63.6%), while interest, fees and other amounts payable on credit card loans reached 58.1% of its interest income (for the same period in 2005 the contribution was 34.9%). 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. As of 30 June 2006, RSB operated through its network of 13 regional centres and 173 representative offices in 95 cities and towns throughout Russia. Now RSB's distribution network covers 93% of the Russian population. The number of the Group's employees as of 30 June 2006 was 25,219 compared to 16,943 as of 31 December 2005.

For the six months ended 30 June 2006, RSB had net interest income of RUB 21,390 million and net profit of RUB 6,555 million compared with net interest income of RUB 7,580 million and net profit of RUB 2,470 million for the six months ended 30 June 2005. Such increases were primarily due to substantial growth in RSB's credit card loan portfolio.

As of 30 June 2006, RSB had total assets of RUB 150,978 million and total loan portfolio (net of provisions) of RUB 129,136 million (which constituted 85.5% of RSB's total assets) representing an increase from RUB 112,736 million and RUB 98,678 million (which constituted 87.5% of RSB's total assets) respectively as of 31 December 2005.

Results of Operations for the six months ended 30 June 2006 and 2005

Summary

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

	Six months ended 30 June 2006	**Six months ended 30 June 2005**	**Change from prior year**
	(In thousands of Russian Roubles)		
Interest income	25,589,519	9,229,869	177%
Interest expense	(4,199,658)	(1,649,846)	155%
Net interest income	**21,389,861**	**7,580,023**	**182%**
Provision for loan impairment	(8,054,883)	(2,476,550)	225%
Net interest income after provision for loan impairment	**13,334,978**	**5,103,473**	**161%**
Fee and commission income	976,828	51,806	1,786%
Fee and commission expense	(103,145)	(21,018)	391%
Other operating results	(788,209)	(307,591)	156%
Operating income	**13,420,452**	**4,826,670**	**178%**
Administrative and other operating expenses	(4,808,730)	(1,565,108)	207%
Profit before tax	**8,611,722**	**3,261,562**	**164%**
Income tax expense	(2,056,928)	(791,828)	160%
Profit for the period	**6,554,794**	**2,469,734**	**165%**

Net Profit

The 165% growth in net profit for the first six months of 2006 compared to the same period in 2005 was caused by the increase in net interest income resulting from the continuing regional expansion of RSB's consumer loan activity in Russia and also from credit card products (which have effective annual interest rates generally higher (up to 69% p.a. effective interest) than those for points-of-sale loans (up to 54% p.a. effective interest) constituting) a larger proportion of total loan portfolio.

Net Interest Income

The following table sets out the principal components of RSB's net interest income:

	Six months ended 30 June 2006	Six months ended 30 June 2005
	(In thousands of Russian Roubles)	
Interest income		
Consumer and car loans	10,430,868	5,866,739
Credit card loans	14,862,489	3,220,444
Other loans	27,267	6,034
Due from other banks and overnight placements with other banks	164,653	70,468
Loans to legal entities	104,242	66,184
Total interest income	**25,589,519**	**9,229,869**
Interest expense		
U.S.$ denominated loan participation notes	1,783,667	871,956
Term placements of other banks	1,091,339	281,986
RUB denominated bonds	639,074	346,796
Euro denominated notes	296,160	—
Subordinated debt	240,042	—
Customer accounts	130,333	81,066
Promissory notes issued	19,043	68,042
Total interest expense	**4,199,658**	**1,649,846**
Net interest income	**21,389,861**	**7,580,023**

Fee and Commission Income

The increase in fee and commission income includes RUB 854 million (six months ended 30 June 2005: nil) of agency commission from the insurance company JSC Russian Standard Insurance, a subsidiary of the RSB's principal shareholder. These benefits were partially offset by increase in the provision for loan impairment (as further discussed below) net interest income, and actual losses arising from trading in foreign currencies.

RSB's cost to income ratio, calculated as total operating expenses divided by operating income gross of provisions, remained stable, being 22.4% for the first six months of 2006 compared to 21.4% for the same period in 2005.

Net Interest Margin

Net interest margin, calculated as net interest income divided by average interest earning assets, was 37% for the first six months of 2006 compared to 35% for the year ended 31 December 2005 and 37% for the first six months of 2005.

Selected Balance Sheet Information

Summary

The following table sets forth the principal components of RSB's balance sheet as of the dates indicated and comparative changes between the dates indicated:

	30 June 2006	31 December 2005	Change for six months
	(In thousands of Russian Roubles)		
Assets			
Cash and cash equivalents	12,434,897	5,325,823	133%
Mandatory cash balances with the Central Bank of the Russian Federation	889,206	523,845	70%
Due from other banks	1,897,572	3,786,325	-50%
Loans and advances to customers	129,135,974	98,678,095	31%
Deferred income tax asset	1,427,366	557,044	156%
Other assets	2,546,802	1,835,265	39%
Premises and equipment	2,494,722	1,895,975	32%
Intangible assets	151,452	133,493	13%
Total assets	**150,977,991**	**112,735,865**	**34%**
Liabilities			
Due to other banks	34,993,116	22,905,047	53%
Customer accounts	9,256,816	10,523,005	-12%
Debt securities in issue	81,916,896	59,970,790	37%
Subordinated debt	5,403,059	5,744,156	-6%
Other liabilities	2,159,562	1,505,058	43%
Total liabilities	**133,729,449**	**100,648,056**	**33%**
Equity			
Share capital	1,738,516	1,738,516	0%
Share premium	672,932	672,932	0%
Additional paid-in capital	148,286	148,286	0%
Retained earnings	14,688,808	9,528,075	54%
Total equity	**17,248,542**	**12,087,809**	**43%**
Total liabilities and equity	**150,977,991**	**112,735,865**	**34%**

Loans and Advances to Customers

The following table sets forth the breakdown of RSB's loan portfolio as of the dates indicated:

	30 June 2006	31 December 2005
	(In thousands of Russian Roubles)	
Loans to individuals		
Consumer loans	51,260,446	53,422,000
Credit card loans	86,178,164	50,303,329
Other	156,788	148,647
Loans to legal entities	1,961,512	1,667,344
Gross loans and advances to customers	**139,556,910**	**105,541,320**
Less: Provision for loan impairment	(10,420,936)	(6,863,225)
Total loans and advances to customers	**129,135,974**	**98,678,095**

Provision for the Loan Impairment

RSB's effective provisioning rate, calculated as total provisions divided by the total loan portfolio, increased by one percent to 7.5% as of 30 June 2006 compared to 6.5% as of 31 December 2005. This increase was due to a combination of a slight increase in risk estimates in respect of lending through credit cards (gross of provision) and high credit card sales resulting in an increase of the share of credit card loans in RSB's total loan portfolio, comprising 62% of the total loan portfolio as of 30 June 2006 compared to 48% of RSB's total loan portfolio as of 31 December 2005 and 31% of RSB's total loan portfolio as of 30 June 2005.

Movements in the provision for loan impairment were as follows:

	Six months ended 30 June 2006	Six months ended 30 June 2005
	(In thousands of Russian Roubles)	
Provision for loan impairment as at start of the period	**6,863,225**	**1,926,224**
Provision for loan impairment during the period	8,054,883	2,476,550
Loans and advances to customers written off during the period as uncollectible	(4,497,172)	(974,379)
Provision for loan impairment	**10,420,936**	**3,428,395**

Non-performing Loans

As of 30 June 2006, the total amount of non-performing loans, i.e. loans not serviced according to their original contractual terms for at least 90 days, was RUB 5,754,460 thousand compared to RUB 3,657,308 thousand as of 31 December 2005. The ratio of non-performing loans to the total loan portfolio (gross of provisions) was 4.1% as of 30 June 2006 compared to 3.5% as of 31 December 2005 and 4.7% as of 30 June 2005. The cover ratio, calculated as total provisions divided by the total amount of non-performing loans, was 181% as of 30 June 2006 compared to 188% as of 31 December 2005 and 159% as of 30 June 2005.

Loans written off during the first six months of 2006 increased by 362% compared to the same period in 2005. In the same period there was a growth in sales and outstanding balances (RUB 139,557 thousand as of 30 June 2006 compared to RUB 46,052 thousand as of 30 June 2005 representing a 203% increase) and the implementation in 2006 by RSB of a new policy for the writing-off of loans (based on the benefits of longer statistics and recent analyses) whereby loans are now written off if not fully discharged after 180 days from the final statement rather than after 360 days, which was the previous policy.

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 30 June 2006 and 31 December 2005.

	30 June 2006	31 December 2005
	(In thousands of Russian Roubles)	
Risk-weighted Assets	**139,903,274**	**107,201,542**
Tier I capital	17,248,542	12,087,809
Tier II capital	5,403,059	5,744,156
Total capital	**22,651,601**	**17,831,965**
Capital Adequacy Ratio		
Tier I capital ratio	12.3%	11.3%
Total capital ratio	**16.2%**	**16.6%**

Total Capital

As of 30 June 2006, RSB's Tier I capital amounted to RUB 17,249 million representing an increase of RUB 5,161 million (42.7%) on the corresponding figure as of 31 December 2005. Such increase was driven by net profit of RUB 6,555 million for the six months ended 30 June 2006 partially offset by dividends of RUB 1,394 million paid in the first quarter of 2006.

Funding

For a discussion on RSB's funding raised in the first six months of 2006, see Management's Discussions and Analysis of Funding Conditions and Results of Operation

Recent Developments

In July 2006, RSB organised through several international banks a syndicated loan of U.S.$ 202.5 million. The loan was received by RSB in August 2006. the loan bears a floating rate of three months LIBOR plus 1.0% payable quarterly and is due one year after the extension date.

In August 2006, RSB authorised two RUB denominated bond issues, each with the nominal value of RUB 5,000 million and each will be for a term of five years. The bonds are planned to be issued in September and in December 2006, respectively. The interest rate for the bonds will be set at the relevant issue date.

BUSINESS

OVERVIEW

RSB is a consumer finance bank organised as a closed joint stock company under the laws of the Russian Federation with the banking licence No. 2289 and 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 is registered with the State Unified Registry of Legal Persons with the Main State Registration Number 1027739210630.

RSB's business activities are primarily focused on consumer finance products and services, such as credit card loans, consumer loans and car loans. RSB is also developing new products and services, such as cash loan products targeted at individuals and small enterprises. 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 half-year ended 30 June 2006, RSB generated operating income of RUB 13.4 billion and had a net profit of RUB 6.6 billion. For the half-year ended 30 June 2005, RSB generated operating income of RUB 4.8 billion and had a net profit of RUB 2.5 billion. Of RSB's operating income for the half-year ended 30 June 2006, net interest income after provision for loan impairment amounted to RUB 13.3 billion. For the half-year ended 30 June 2005 it was RUB 5.1 billion.

As of 30 June 2006, RSB had total assets of RUB 151 billion and shareholders' equity of RUB 17.2 billion.

As of 30 June 2006, RSC was RSB's principal shareholder and held 90.75% of its share capital. Other shareholders of RSB were IFC and Closed Joint Stock Company Roust Inc. ("**Roust**"), which hold 6.42% and 2.83% of RSB's share capital, respectively. In July 2006, RSC purchased IFC's stake in RSB's share capital, increasing RSC's shareholding in RSB to 97.17%.

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 December 2004, RSB entered into an agreement with American Express, which became effective in early 2005, providing RSB with the right to issue American Express Centurion Line consumer cards in Russia on an exclusive basis, and to issue American Express network cards in Russia on a non-exclusive basis. RSB also entered into related trademark and license agreements with American Express. RSB started issuing both RUB- and U.S. dollar-denominated American Express consumer cards in the fourth quarter of 2005. 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".

In addition, RSB acts as an agent in relation to the sale of insurance policies of the insurance company ZAO Russian Standard Insurance ("**RSI**"), a subsidiary of RSC.

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 30 June 2006, RSB had 34 offices in Moscow and other regions in the Russian Federation, 13 regional centres, 173 representative offices in other major Russian cities representing 93% of Russia's population and over 43,000 points-of-sale in retail and other outlets. As of 30 June 2006, RSB also had a network of 115 automated teller machines ("**ATMs**") and 500 automated cash deposit machines ("**cash-in machines**") located in third-party retail chains and at RSB offices in Moscow and other regions.

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 6.42% of RSB's total share capital. In July 2006, IFC sold its 6.42% stock of RSB to the principal shareholder, RSC which resulted in the increase of RSC's shareholding up to 97.17%.

STRATEGY

RSB's strategic objective is to broaden its distribution network by providing 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 credit card loan, consumer loan, mobile phone loans, car loan and cash loan 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 offers 0% down payment options on certain products and has been extending such offers to a broader array of products in 2006.

In 2005, RSB began to offer newly-developed car loan products (including larger loans for more expensive cars and pre-approved loans for existing customers with established credit histories), personal cash loans, and credit insurance, through an arrangement with Russian Standard Insurance, to its consumer and car loan borrowers and credit card holders. In November 2005, RSB launched a range of American Express-branded products as part of an exclusive arrangement with American Express. RSB is also actively considering launching home mortgage products.

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 as well as with car dealerships for the distribution of car loans.

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

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 of Moscow where information on customers is more difficult to obtain and is 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.

Strengthen Regional Distribution Network

As part of its strategy to expand its customer base, RSB intends to strengthen its regional office network by developing the range of services it offers in 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. RSB has also started considering expansion on the new markets outside of Russia. In particular, RSB has entered into a preliminary agreement with the shareholder of a small Ukrainian bank on the acquisition of such Ukranian bank. RSB has already obtained a CBR approval for the acquisition as well as the consent of the Ukranian anti-monopoly authorities with respect to this acquisition and has applied for the respective approval of the National Bank of Ukraine. RSB anticipates completing the acquisition of the Ukranian bank by the end of 2006 and commencing consumers lending operations in Ukraine in 2007.

Further Diversify Funding Sources

RSB plans to continue to rely on diverse funding sources, such as syndicated loans, Eurobonds, and structured finance products, including asset-backed securities and the securitisation of RSB's consumer loans, and plans to add new funding sources, such as the securitisation of RSB's credit card receivables. RSB also intends to leverage its American Express card business to increase deposits. RSB expects that these diverse funding sources, the increase of existing credit lines from international banks as well as the increase of deposits raised from individuals will allow it to achieve a more diversified and stable funding base.

MARKET POSITION, COMPETITION AND COMPETITIVE STRENGTHS

According to the CBR, as of 1 July 2006, 1,221 banks and non-banking credit organisations 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.

According to the Russian business journal Profil, as of 1 April 2006 RSB was the second-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, Rosbank, Investsberbank and Finansbank;
- in the credit card market, Home Credit and Finance Bank, Alfa-bank, Rosbank and Investsberbank;
- in the car loans financing market, Sberbank, Rosbank, International Moscow Bank, UralSib Financial Corporation, Raiffeisenbank Austria, Soyuz Bank, Moscow Credit Bank and MDM-Bank; and
- in the cash loans market, Sberbank and the Bank of Moscow.

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 expanded to smaller population centres with relatively untapped demand. RSB expects this expansion 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 200 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. RSB's management believes that PASS allows RSB to process credit applications faster than many of RSB's competitors.
- *Experience in the Consumer Finance Sector*. Since 2000, RSB has extended consumer loans to over 13.5 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. As of 30 June 2006, 36.7% of RSB's loan portfolio was represented by consumer, personal and car loans and 61.8% by credit card 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 18 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 credit card loan, consumer loan, car loan and cash loan portfolios 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.

RSB has experienced strong growth in its car loan business, due to the growth of its loan portfolio and the number of points of sale. As of 30 June 2006, consumer, personal and car loans represented 36.7% of RSB's aggregate loan portfolio.

Since the inception of its consumer finance activities in 2000, RSB has extended over 17.4 million consumer loans. In 2006, RSB granted more than 3.8 million consumer loans worth in aggregate approximately RUB 40.6 billion (approximately U.S.$1.5 billion).

Loans for purchasing household goods including mobile phones have terms of 3 to 36 months and are limited to RUB 150,000 (approximately U.S.$5,500). RSB's consumer loans typically have a fixed interest rate, typically require a down payment of up to 25% 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 for most types of loans 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 June 2006, the average commission retailers paid to RSB was 1% of the loan amount (calculated on the basis of all loans and net of commissions paid to retailers by RSB). During the same months, 63.5% of loans extended generated no commission to RSB. 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 ran a number of promotions, including:

- "10/10/10" and "0/0/10" promotions which contemplate 10% and 0% down payments, respectively, and repayment of the loan over 10 months in 10 equal instalments in both cases;
- loans to finance the purchase of mobile phones (including 0% down payment loans); and

- a loan which does not require any down payment and is repayable in 6, 10 or 12 months with interest free credit for the borrower; for this loan product, retailers provide discounts on the purchase price of the goods, which covers interest payments to RSB on the loan.

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.

As of 30 June 2006, the aggregate outstanding amount of RSB's consumer loans (excluding accrued interest and other deferrals) amounted to RUB 51.3 billion (approximately U.S.$1.9 billion). The following table sets forth a breakdown of RSB's consumer loan portfolio by range in size of loan as of 30 June 2006:

	Number of loans	**%**
Range in size of loans (in thousands of Roubles)		
less 3	1,909,969	39.5
3-5	1,457,843	30.1
5-10	178,286	3.7
10-15	678,393	14.0
15-20	272,121	5.6
20-25	142,434	2.9
25-30	85,758	1.8
30-40	69,680	1.4
40-50	27,368	0.6
50-100	14,967	0.4
100-300	1,056	0.1
over 300	164	0.0
Total	4,838,039	100.0

As of 30 June 2006, the average size of a loan for purchasing household goods was approximately RUB 7,000 (approximately U.S.$260) and approximately 90.5% of RSB's consumer loans were less then RUB 15,000 (approximately U.S.$550).

Car Loans

RSB offers its customers a range of car loans to finance purchases of new and used cars costing up to the Rouble equivalent of U.S.$20,000. As of 30 June 2006, the average outstanding car loan was RUB 98,600 (approximately U.S.$3,640). RSB's car loans typically have terms of 12, 24, 36 or 48 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.

RSB has experienced strong growth in its car loan business, due to the growth of its loan portfolio and the number of points-of-sale. As of 30 June 2006, car loans (net of provisions) represented approximately 5.8% of RSB's aggregate consumer finance portfolio.

Since the inception of its car loan lending activities in 2001, RSB has extended over 108,000 car loans. In 2005, RSB extended more than 21,000 car loans worth in aggregate approximately RUB 2.4 billion (approximately U.S.$89 million). For the first six months of 2006, RSB extended more than 58,500 car loans. As of 30 June 2006, RSB's car loan portfolio amounted to RUB 8.2 million (approximately U.S.$298.6 million).

RSB currently has eight car loan products with varying down payments, interest rates, terms and other provisions. Compensation to RSB is paid through arrangements with one or more of customers, insurance companies and car dealers depending on the product. In 2005, RSB began to offer pre-approved car loans to certain existing customers with established credit histories.

Average interest rates and effective interest rates on car loans are included in the calculation of average interest rates and effective rates on consumer loans presented elsewhere in this Prospectus.

The following table sets forth a breakdown of RSB's car loan portfolio by range in size of loan as of 30 June 2006:

	Number of loans	%
Range in size of loans (in thousands of Roubles)		
less 3	116	0.1
3-5	195	0.2
5-10	599	0.7
10-15	807	1.0
15-20	1,206	1.5
20-25	1,439	1.8
25-30	1,654	2.0
30-40	3,436	4.2
40-50	6,462	7.9
50-100	37,370	45.6
100-300	27,654	33.8
over 300	976	1.2
Total	**81,914**	**100.0**

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 began issuing these cards in September 2005.

From 2005, in addition to its MasterCard™ Standard credit cards, RSB has offered MasterCard™ Electronic credit cards. As of the date of this Prospectus, all new credit card issuances by RSB are either MasterCard™ Electronic, MasterCard™ Standard or VISA™ 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 30 June 2006, approximately 76% 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.$1,800). These were offered to those of RSB's customers who had successfully repaid an RSB consumer loan but are no longer offered. Customers activated these cards by calling RSB's call centre. 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 which have limits from RUB 30,000 to RUB 50,000.

In addition to its own brand cards still in circulation, RSB also has 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 has also issued approximately 1,000 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 4% 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 offices of RSB and its partner banks and through their ATMs.

In December 2004, RSB entered into an agreement with American Express, which became effective in early 2005, providing RSB with the right to issue American Express Centurion Line consumer cards in Russia on an exclusive basis, and to issue American Express network cards in Russia on a non-exclusive basis. RSB also entered into related trademark and license agreements with American Express. RSB started issuing both RUB- and U.S. dollar-denominated American Express consumer cards in the fourth quarter of 2005. These RSB-issued cards display the classic look of traditional American Express cards issued around the world and are accepted on the American Express global merchant network. RSB will be responsible for issuing the cards, managing customer relationships and providing customer service, billing and credit management. RSB expects to generate revenues through the levying of card fees, a share in merchant fees, interest charges, and late fees. RSB incurred initial expenditures of approximately U.S.$10 million (approximately RUB 154.3 million) to establish the programme with subsequent expenditure dependent on card issuance volume and other factors. RSB and American Express have established performance targets with respect to the development of the card issuance business and the merchant network. In the event that such targets are not met by RSB, RSB's arrangements with American Express may be revised or, potentially, terminated.

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. In the first six months of 2006, approximately 97% of the loans incurred by credit card users were cash advances.

As of 30 June 2006, RSB's outstanding credit card loans amounted to RUB 86.2 billion (approximately U.S.$3.2 billion), representing 67.2% of RSB's aggregate consumer finance portfolio.

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 2006 is set at U.S.$10 million (approximately RUB 270.1 million) compared to an actual spend of RUB 226 million or approximately U.S.$8.1 million in 2005, an increase which reflects the increasingly competitive environment in which RSB operates.

Cash Loans

In early 2006, RSB began offering unsecured cash loans of up to RUB 300,000 (approximately U.S.$11,078 and three- to five-year terms to both existing and new customers, (typically middle-income borrowers seeking to finance home improvement, children's education and travel and vacation, as well as small business owners seeking to finance their primary business needs, such as equipment and car purchases). Before extending a cash loan, an RSB employee conducts a personal interview and checks the applicant's documentation, then a credit officer verifies the applicant's contact information and credit history, and sets the credit limit. Cash loans currently represent a negligible portion of RSB's loan portfolio, but RSB expects cash loans to increase as a proportion of its overall loan portfolio going forward. As of 30 June 2006, RSB's cash loan portfolio amounted to approximately RUB 154 million (approximately U.S.$5.7 million) representing 0.1% of the total loan portfolio.

Insurance

In March 2004, RSI started issuing individual credit insurance policies providing death, disability and similar coverage to individual consumer loan applicants. The insurance policy term matches the underlying consumer loan term, and the policies have a volume-weighted average maturity of 10 months. For policies issued on or before 27 April 2005, the value of any insurance claim to be paid out under the insurance policy is equal to the amount of the consumer loan issued by the Group.

For policies issued on or after 28 April 2005, the value of the insurance claim to be paid out is equal to the outstanding principal balance of the loan. The Group is a beneficiary of the insurance policies written by RSI, acts as a payment agent for individuals who purchase the insurance policy and transfers the cash received as an insurance premium from the individuals to RSI. The Group's decision to provide a loan to a borrower, and the terms that are offered, are independent of the borrower's decision to take out an insurance policy.

During 2005, the Group and RSI formally agreed for RSI to compensate the Group for the provision of these services through up-front unconditional commissions and back-end extra commissions. The back-end extra commission payment is based upon an agreed formula incorporating the value of underwritten premium, eventual claims, up-front commission and RSI's up-front charge.

Distribution of Consumer Finance Products

Consumer Loans

As of 30 June 2006, RSB's network consisted of 34 offices (14 of which are located in Moscow), 115 ATMs, 500 cash-in machines, 13 regional centres, 173 representative offices and over 43,000 points-of-sale. RSB intends to expand its network of ATM and cash-in machines to approximately 2,000 machines by the end of 2007.

Under RSB's distribution network policy, the territory of the Russian Federation is divided into 13 regions, with regional centres opened in a city with a population of over one million persons. 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 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 may 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. RSB expects that commissions paid to it by retailers will continue to decline, and in some cases RSB is required to pay commissions to retailers. While RSB has some exclusivity arrangements with smaller regional retailers outside of Moscow covering loans for particular products, these arrangements are generally not exclusive and can be terminated at will by retailers. For information on risks relating to RSB's reliance on relationships with retailers, see "Risk Factors – Risks Related to RSB's Business and the Banking Sector – RSB relies heavily on its relationship with large consumer retail chains, but there is no guarantee that these relationships will continue in their current form or at all."

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, Technosila and M-Video, Expert (all major Russian consumer electronics retail chains), and Shatura (major furniture and household appliances retail chains in Russia), Mosmart and the Marktkauf DIY chain. RSB has also partnered with Euroset, MTS, Sviaznoy and other 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, Eleks-Polus, Avto-Key, Avto-Grad, Peter-Lada and Lada Favorit car dealerships that specialise in the sales of Russian-manufactured and foreign 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 identify better 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 one and eight persons). The responsibilities of the points-of-sale staff include both selling and actively promoting RSB's brand and consumer loan products. As of 30 June 2006, out of over 43,000 points-of-sale, approximately 11,400 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

RSB generally distributes its car loan products through car dealerships with which it has developed relationships. The number of such outlets has increased from approximately 300 as of 31 December 2005 to approximately 1,800 as of 30 June 2006. RSB has also experienced success with its pre-approved car loan promotions, which it offers directly to existing customers with established credit histories. As of 30 June 2006, approximately 12% of car loan customers are 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 30 June 2006, approximately 33.5% 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 (approximately U.S.$1,108) to RUB 50,000 (approximately U.S.$1,846), and a minimum monthly payment from 4% of the credit limit to 10% of the outstanding balance.

Cash Loans

RSB is currently targeting its cash loans at customers in Moscow and St. Petersburg, but plans to expand this distribution to cities with populations of one million or greater through its regional representative offices. RSB plans to expand the number of its representative offices, and adapt certain existing front offices to handle cash loan applications. Due to the credit evaluation process, RSB does not expect to offer its cash loans via points-of-sale located in retail outlets.

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 200 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 50,000 (approximately U.S.$1,846);
- part-automatically (where the requested amount is in the range of RUB 50,000 (approximately U.S.$1,846) to RUB 150,000 (approximately U.S.$5,539)), 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 150,000 (approximately U.S.$5,539)).

Applications for long-term loans with maturities exceeding 12 months are 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 35,000 applications daily.

In early 2006, RSB expanded its lending policy to accommodate its new personal cash loan product (of up to RUB 300,000 (approximately U.S.$11,079) for three- to five-year terms), which RSB is targeting at middle-income borrowers seeking to finance home improvement, children's education and travel and vacation, as well as small business owners seeking to finance their primary business needs, such as equipment and car purchases. In contrast to its point-of-sale loans and car loans that it extends through retailers, RSB only offers its cash loans through its own specially trained employees in its network of representative offices.

RSB's two-stage cash loan application process applies stricter pre-scoring standards than for its consumer loans (such as minimum age) and longer verification times (at least one business day) to cash loan applications. First, an RSB employee conducts a personal interview and checks the applicant's documentation (e.g., employment history and proof of income, or in the case of business owners and entrepreneurs, relevant business information). Then, a Moscow-based RSB credit officer verifies the applicant's contact information and credit history, and sets the credit limit.

RSB evaluates its consumer finance portfolio on a regular basis by monitoring both the overall performance of each loan portfolio, the performance of each loan portfolio 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 offices (including cash-in machines). As of 30 June 2006, RSB operated 34 offices and 500 cash-in machines, located in Moscow and the regions.
- *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 Promsvyazbank, Hantymansijski Bank, Tatinvestbank, Tatagroprombank, Tatfondbank, Tatecobank and SKL-Bank) allowing loan payments through these Russian banks' branch networks. Payments made through these banks are also subject to a commission fee of 1% that is payable by the borrower to the partner 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.$11).
- *Three Missed Payments*. Following a third missed payment, a 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.
- *Four Missed Payments*. Following a fourth 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. An additional RUB 2,000 (approximately U.S.$74) fee is also charged for late payment.
- *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, and borrowers are charged a daily penalty of 0.2% of the outstanding balance. 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 six months.
- *Reassignment*. Pursuant to the terms of the assignment agreement between RSB and DCA, loans that remain overdue for more than six months from the date of assignment are reassigned to RSB for subsequent write-off.

RSB estimates that for the half-year ended 30 June 2006, overdue amounts on approximately 85% of the number of loans that missed at least the first payment were collected during the first stage of loan collection, overdue amounts on approximately 7.5% of the number of loans that missed at least the first payment were collected during the second stage and overdue amounts on approximately 2.6% of the number of loans that missed at least the first payment were collected during the third stage.

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 as of 30 June 2006 was serviced by approximately 1,000 operators working in shifts (with approximately 345 persons in the day shift and 156 during the night 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 50,000 telephone calls per day.

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, although RSB may consider expanding this part of its business by leveraging its American Express card business to attract funds from high net worth individuals holding such credit cards.

SUBSIDIARIES

In October 2003, RSB gained control over DCA, which was included in RSB's Consolidated Financial Statements for the first time beginning 1 October 2003. RSB's Consolidated Financial Statements as at 30 June 2006 include Russian Standard Finance Ltd, DCA, CBRS, MCRS, RCL and RCF. DCA and RSF are affiliates of, and controlled by, RSB but owned by one of RSB's principal shareholders, RSC. RCL, a company incorporated in Luxembourg on 2 November 2005, is owned by the foundations established under the laws of The Netherlands. RCF, a special purpose vehicle incorporated in Luxembourg on 11 January 2006. These companies were established for the purpose of structuring securitisation transactions. RCL and RCF are included in the consolidated financial statements of the Group from the date of incorporation, since they are in substance controlled by RSB. 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.

EMPLOYEES

RSB and its subsidiaries increased their workforce from 9,287 employees as at 30 June 2005 to 25,219 as of 30 June 2006. RSB's management expects to increase the workforce significantly by the end of 2006.

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 offices, 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), 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 disks. RSB's information technology systems also provide for the backup 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.

RSB servicer quality (SQ) rating

Moody's Investors Service has assigned a servicer quality (SQ) rating of SQ3+ (Primary ABS) to RSB's (Ba2/NP/D) servicing of secured and unsecured consumer loans in Russia. The rating reflects RSB's financial condition, the experience of its staff and management in servicing loans to its specific customer base, as well as the quality of its servicing infrastructure, in particular the operational processes and the information technology platform. RSB expects that Moody's will review its rating on a periodic basis.

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 governmental, 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 Prospectus a significant effect on the consolidated financial position or profitability of RSB or the Group.

In July 2004 BNP Paribas (through its subsidiary Cetelem SA) (BNP Paribas and Cetelem SA are together referred to herein as "**BNP Paribas**") entered into an agreement with the principal shareholders of RSB (Roustam Tariko and entities directly or indirectly controlled by him) to acquire an equity ownership interest in RSB (the "**Transaction**"). A dispute arose out of and in relation to the Transaction between BNP Paribas and such shareholders of RSB. In May 2005, BNP Paribas and such shareholders of RSB signed an agreement in principle pursuant to which BNP Paribas and such shareholders of RSB agreed to settle the dispute among them. Following this agreement, a settlement agreement was executed on 7 September 2005 among BNP Paribas, RSB and such shareholders of RSB to settle the dispute. The settlement involves, among other provisions applicable to RSB's principal shareholders, (i) withdrawal of all pending claims relating to the dispute, (ii) an undertaking by the principal shareholders of RSB for a specified period of time, compliance with which (or breach of which) is in the control of such principal shareholders and (iii) subject to specified exceptions, an undertaking by RSB for such specified period of time not to sell, lease, transfer or otherwise dispose of more than 10% of its assets (or any of its assets, if such transaction could have a material adverse effect on RSB), other than in the ordinary course of business. In the event of a breach of the undertaking by the principal shareholders of RSB referred to in (ii) above, the settlement agreement provides that RSB and the principal shareholders of RSB will be jointly and severally liable to pay liquidated damages to BNP Paribas, subject, in the case of RSB, to a maximum of U.S.$25 million. In the event of a breach of RSB's undertaking regarding the disposition of assets referred to in (iii) above, the settlement agreement provides that RSB and the principal shareholders of RSB will be jointly and severally liable to pay liquidated damages to BNP Paribas in an amount that would be material to RSB. RSB believes, based on its current and proposed business and operations, that a breach of RSB's undertaking regarding the disposition of assets referred to in (iii) above is unlikely.

Any breach or alleged breach by RSB or its principal shareholders (over whom RSB has no control) of their respective undertakings in the settlement agreement could result in a material adverse effect on RSB's business, results of operations, financial condition and prospects. As of the date of this Prospectus, RSB has made no provision for any payment that may be required of it under the settlement agreement, although RSB has recorded an off balance sheet guarantee in respect of its potential U.S.$25 million liability in the event of a breach by the principal shareholders of RSB of their undertaking in the settlement agreement referred to in (ii) above.

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 writeoff 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 30 June 2006, RSB's provision for loan impairment was 7.5% with respect to its consumer finance portfolio and 2.0% 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:

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

Under CBR regulations, as of 30 June 2006, RSB's provisioning allowance was 12.9% with respect to its consumer finance loan portfolio and 7.8% 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 calculating the value-at-risk numbers, a 20-day time horizon and a 97.5% confidence level are 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 are 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 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, ING Bank (Eurasia) ZAO, ABN AMRO Bank A.O., "JPMorgan Bank International" OOO, "Commerzbank" (Eurasia) ZAO, and OOO HSBC Bank.

The table below presents, on a consolidated basis, RSB's exposure to foreign currency exchange rate risk as of 30 June 2006. 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 30 June 2006, RSB had the following positions in currencies:

	As of 30 June 2006			
	RUB	**U.S.$**	**Other currencies**	**Total**
	(in thousands of Roubles)			
Assets				
Cash and cash equivalents	4,944,368	7,043,047	447,482	12,434,897
Mandatory cash balances with the CBRF	889,206	—	—	889,206
Due from other banks	—	1,496,706	400,866	1,897,572
Loans and advances to customers	127,100,575	1,426,776	608,623	129,135,974
Deferred income tax asset	1,427,366	—	—	1,427,366
Other assets	2,239,212	297,515	10,075	2,546,802
Premises and equipment	2,494,722	—	—	2,494,722
Intangible assets	151,452	—	—	151,452
Total assets	139,246,901	10,264,044	1,467,046	150,977,991
Liabilities				
Due to other banks	14,648,182	19,523,251	821,683	34,993,116
Customer accounts	8,884,500	318,377	53,939	9,256,816
Debt securities in issue	15,530,627	53,570,313	12,815,956	81,916,896
Subordinated debt	—	5,403,059	—	5,403,059
Other liabilities	2,152,018	7,443	101	2,159,562
Total liabilities	41,215,327	78,822,443	13,691,679	133,729,449
Net balance sheet position	98,031,574	(68,558,399)	(12,224,633)	17,248,542
Foreign exchange contracts	(80,797,866)	68,972,136	11,239,008	(586,722)
Net position	17,233,708	413,737	(985,625)	

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 half-year ended 30 June 2006, RSB's net interest rate margin was 37%.

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 interest rates by major currencies for major monetary financial instruments not carried at fair value through profit or loss. The analysis has been prepared based on period-end effective rates used for the amortisation of the respective assets/liabilities.

	30 June 2006			31 December 2005		
	RUB	**USD**	**EURO**	**RUB**	**USD**	**EURO**
Assets						
Cash balances with the CBRF	0.0	—	—	0.0	—	—
Mandatory cash balances with the CBRF	0.0	—	—	0.0	—	—
Correspondent accounts and overnight placements with other Banks	1.1	5.1	3.3	0.6	3.2	2.1
Due from other Banks	—	4.9	6.3	—	5.0	5.8
Loans and advances to customers						
– customer loans	53.7	—	—	55.1	—	—
– credit card loans	69.1	64.7	—	68.6	63.8	—
– direct commercial loans	15.3	9.1	8.3	14.1	9.6	8.8
Liabilities						
Due to other Banks	8.9	7.6	4.3	9.7	7.7	3.3
Customer accounts						
– term deposits of legal entities	8.7	6.0	—	9.3	6.0	5.0
– term deposits of individuals	10.8	6.6	6.1	11.2	6.2	5.8
Debt securities in issue						
– RUB denominated Bonds	9.0	—	—	10.0	—	—
– USD denominated loan participation notes	—	8.3	—	—	8.3	—
– EUR denominated notes	—	—	5.4	—	—	5.4
– Promissory notes	8.5	—	8.0	9.3	—	8.0
Subordinated Debt	—	9.2	—	—	9.2	—

For the half-year ended 30 June 2006, RSB's interest income was RUB 25.6 billion and its interest expense was RUB 4.2 billion, resulting in net interest income of RUB 21.4 billion.

The table below summarises RSB's exposure to interest rate risks as at 30 June 2006. 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-monetary**	**Total**
	(in thousands of Russian Roubles)						
Assets							
Cash and cash equivalents	12,434,897	—	—	—	—	—	12,434,897
Mandatory cash balances with the CBRF	889,206	—	—	—	—	—	889,206
Due from other banks	1,895,338	—	—	2,234	—	—	1,897,572
Loans and advances to customers.	26,414,974	30,205,824	32,130,255	35,004,909	5,380,012	—	129,135,974
Deferred income tax asset	—	—	—	—	—	1,427,366	1,427,366
Other assets	1,387,134	785,264	55,064	93,193	58,671	167,476	2,546,802
Premises and equipment	—	—	—	—	—	2,494,722	2,494,722
Intangible assets	—	—	—	—	—	151,452	151,452
Total assets	43,021,549	30,991,088	32,185,319	35,100,336	5,438,683	4,241,016	150,977,991
Liabilities							
Due to other banks	3,071,601	5,268,731	12,035,106	13,548,402	1,069,276	—	34,993,116
Customer accounts	7,008,084	339,140	483,141	1,424,728	1,723	—	9,256,816
Debt securities in issue	12,755,743	2,997,911	1,632,548	20,032,514	44,498,180	—	81,916,896
Subordinated debt	—	—	230,769	220,902	4,951,388	—	5,403,059
Other liabilities	2,048,973	110,589	—	—	—	—	2,159,562
Total liabilities	24,884,401	8,716,371	14,381,564	35,226,546	50,520,567	—	133,729,449
Net sensitivity gap	18,137,148	22,274,717	17,803,755	(126,210)	(45,081,884)	4,241,016	17,248,542
Cumulative sensitivity gap	18,137,148	40,411,865	58,215,620	58,089,410	13,007,526	17,248,542	—

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 three-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. 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*) asset-backed securities, loan participation notes 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 30 June 2006 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.

RSB's liquidity as at 30 June 2006 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	Non-monetary	Total
	(in thousands of Russian Roubles)						
Assets							
Cash and cash equivalents	12,434,897	—	—	—	—	—	12,434,897
Mandatory cash balances with the CBRF	889,206	—	—	—	—	—	889,206
Due from other banks	1,496,706	—	—	2,234	398,632	—	1,897,572
Loans and advances to customers	26,414,974	30,205,824	32,130,255	35,004,909	5,380,012	—	129,135,974
Deferred income tax asset	—	—	—	—	—	1,427,366	1,427,366
Other assets	1,387,134	785,264	55,064	93,193	58,671	167,476	2,546,802
Premises and equipment	—	—	—	—	—	2,494,722	2,494,722
Intangible assets	—	—	—	—	—	151,452	151,452
Total assets	42,622,917	30,991,088	32,185,319	35,100,336	5,837,315	4,241,016	150,977,991
Liabilities							
Due to other banks	2,806,215	4,383,486	9,646,215	14,317,320	3,839,880	—	34,993,116
Customer accounts	7,008,084	339,140	483,141	1,424,728	1,723	—	9,256,816
Debt securities in issue	57,127	3,108,313	1,793,557	20,348,207	56,609,692	—	81,916,896
Subordinated debt	—	—	230,769	220,902	4,951,388	—	5,403,059
Other liabilities	2,048,973	110,589	—	—	—	—	2,159,562
Total liabilities	11,920,399	7,941,528	12,153,682	36,311,157	65,402,683	—	133,729,449
Net sensitivity gap	30,702,518	23,049,560	20,031,637	(1,210,821)	(59,565,368)	4,241,016	17,248,542
Cumulative sensitivity gap	30,702,518	53,752,078	73,783,715	72,572,894	13,007,526	17,248,542	—

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 nine 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 28 March 2006. 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
Irving Kuczynski	Member	June 2004
Rafael Carrascosa Caballero	Member	March 2005
Jean-Luc Steinhauslin	Member	March 2006
Eberhard von Loehneysen	Member	March 2006
Kamal A. Boushi	Member	March 2006

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

Roustam V. Tariko (age 44) 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 40) 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 Mezhcombank.

Dmitry V. Rudenko (age 36) 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.

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.

Rafael Carrascosa Caballero (age 39) 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.

Jean-Luc Steinhauslin (age 50) has been a member of RSB's Board of Directors since 28 March 2006. Mr. Steinhauslin was Head of Central Europe for Banque Cetelem S.A. from 2000 to 2005.

Eberhard von Loehneysen (age 56) has been a member of RSB's Board of Directors since 28 March 2006. From 1999 to 2005, Mr. Loehneysen was Head of McKinsey & Company's Eastern Europe office.

Kamal A. Boushi (age 45) has been a member of RSB's Board of Directors since 28 March 2006. Mr. Boushi was Senior Vice President and Managing Director of Mastercard Europe from 2001 to 2006.

The business address of Roustam V. Tariko, Igor B. Kosarev, Eberhard von Loehneysen and Kamal A. B oushi 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, Rafael Carrascosa Caballero and Jean-Luc Steinhauslin is 6/1/2, Kadashevskaya emb., Building. 1, 119017 Moscow, Russia.

There are no potential conflicts of interest between any duties to the issuing entity of the members of the Board of Directors and their private interests and/or other duties.

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 Board Since
Dmitry O. Levin	Chairman	March 2000
Dmitry V. Rudenko	Member, First Deputy Chairman	March 2000
Denis A. Gubanov	Member	June 2002
Vladimir N. Pyshny	Member, Deputy Chairman	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.

Denis A. Gubanov (age 35) 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 36) 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 44) 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 44) 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 Mezhcombank.

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

There are no potential conflicts of interest between any duties to the issuing entity of the members of the Management Board and their private interests and/or other duties.

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 five 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 2005, the total remuneration of the 14 members of the Board of Directors and Management Board, including discretionary compensation, amounted to RUB 365.6 million (approximately U.S.$12.8 million).

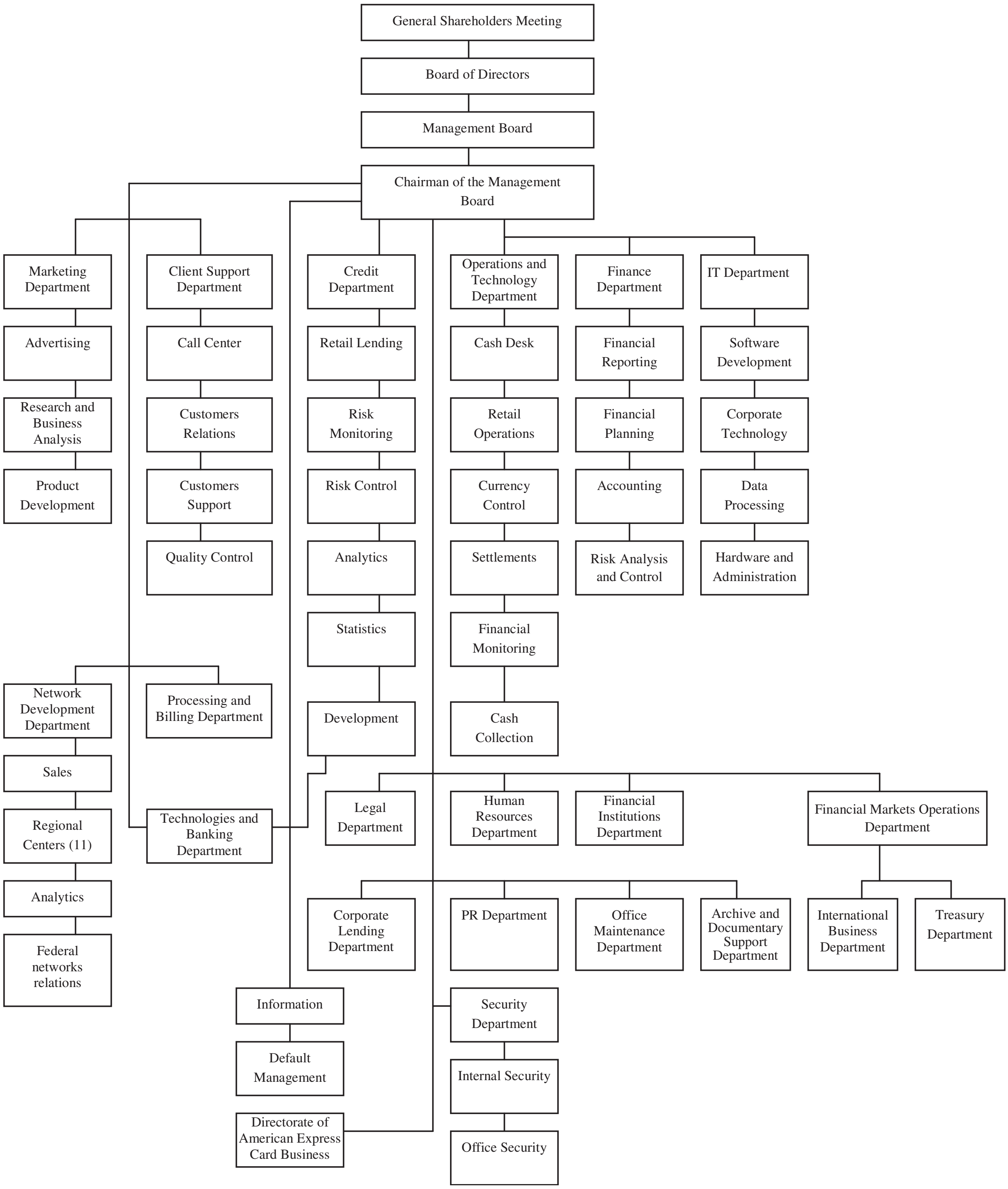
For the six months ended 30 June 2006, the total remuneration of the members of the Board of Directors and the Management Board (comprising salaries, discretionary bonuses and other short-term benefits) amounted to RUB 109,789 (approximately U.S.$4,059 thousand) thousand compared to RUB 86,405 (approximately U.S.$3,090 thousand) for the six months ended 30 June 2005.

New Head of the Finance Department

Mikhail Y. Berezov resigned from the position of Deputy Chairman and Member of the Management Board and head of the Finance Department on 23 September 2005. On 1 December 2005, Nikolay Itskov was appointed as head of the Finance Department. Before rejoining RSB, Nikolay Itskov was the finance director of Investment Group Renaissance Capital and, before that, the chief accountant of RSB from 1999 until the beginning of 2003. No corresponding appointment has yet been made to the Management Board.

Internal Business Structure of RSB

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



SHAREHOLDING

As of 30 June 2006, RSB's authorised and issued share capital 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 30 June 2006

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	35,943	2.82
Others	66	0.01
Total	1,272,883	100

(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 RSC's share capital 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 provided by its member countries and voting is in proportion to the number of the shares held. In August 2006, the Principal Shareholder of the Group purchased 6.42% of RSB's shares from International Finance Corporation.

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) ultimate controlling shareholder and companies controlled by Mr Roustam Tariko, and (b) directors and management of RSB. These transactions include extending loans and trade finance, accepting deposits, provision of agency services, settlements and foreign exchange transactions. During 2005 and six months ended 30 June 2006, 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 30 June 2006 and 31 December 2005.

	30 June 2006	**31 December 2005**
	(in thousands of Roubles)	
Loans and advances to customers		
Loans and advances (contractual interest rate: 9-11% on the loans denominated in U.S.$, 14% on the loans denominated in RUB, 8% on the loans denominated in EUR)	227,096	235,931
Other assets	131,323	115,163
Customer accounts		
Term deposits (contractual interest rates: 5-13% on deposits denominated in RUB, 7-8% on deposits denominated in U.S.$)	976,852	612,580
Current accounts	748,499	95,937
Debt securities in issue		
Bonds guaranteed by Roust Trading Limited and its related companies	15,451,095	11,090,784
Promissory notes	—	—
Credit-related commitments		
Guarantees and letters of credit issued by RSB	926,379	1,558,951
Guarantees received by RSB	282,447	270,937

The following table sets forth the outstanding balances with RSB's management[1] as at 30 June 2006 and 31 December 2005:

	30 June 2006	**31 December 2005**
	(in thousands of Roubles)	
Loans and advances to customers		
Loans and advances (contractual interest rate: 9-11% on the loans denominated in U.S.$, 14% on the loans denominated in RUB, 8% on the loans denominated in EUR)	22,864	11,864
Customer accounts		
Term deposits (contractual interest rates: 5-13% on deposits denominated in RUB, 7-8% on deposits denominated in U.S.$)	209,785	204,078
Current accounts	24,005	47,285
Guarantees issued by the Group	—	—
Guarantees received by the Group	34,058	—

1 includes members of the Board of Directors and of the Management Board.

The following table sets forth the income statement items associated with Roust Trading Limited and its related companies for the years ended 30 June 2006 and 2005.

	30 June 2006	30 June 2005
	(in thousands of Roubles)	
Loans and advances to customers		
Interest income during the period	20,156	33,739
Customer accounts		
Interest expense during the period	26,000	8,383
Debt securities in issue		
Interest expense during the period	—	3,299
Credit-related commitments		
Fee and commission income	8,533	7,315
Other transactions		
Other income/(expenses), net	—	114

The following table sets forth the income statement items associated with RSB's management[1] for the half-year ended 30 June 2006 and 2005:

	30 June 2006	30 June 2005
	(in thousands of Roubles)	
Loans and advances to customers		
Interest income during the period	797	720
Customer accounts		
Interest expense on term deposits during the period	17,591	16,039
Other transactions		
Other income/(expenses), net	—	(97)

ZAO Russian Standard Insurance ("**RSI**") issues individual creditor insurance policies providing death, disability and similar coverage to individual consumer loan applicants. The insurance policy term matches the underlying consumer loan term, and the policies have a volume-weighted average maturity of 10 months. For policies issued on or before 27 April 2005, the value of any insurance claim to be paid out under the insurance policy is equal to the amount of the consumer loan issued by the Group. For policies issued on or after 28 April 2005, the value of the insurance claim to be paid out is equal to the outstanding balance on the principal that the Group advanced. The Group is a beneficiary of the insurance policies written by RSI, acts as a payment agent for individuals who purchase the insurance policy and transfers the cash received as an insurance premium from the individuals to RSI. The Group's decision to provide a loan to a borrower, and the terms that are offered, are independent of the borrower's decision to take out an insurance policy.

During 2005, the Group and RSI formally agreed for RSI to compensate the Group for the provision of these services through up-front unconditional commission and back-end extra commission. The back-end extra commission is based upon an agreed formula incorporating the value of underwritten premium, eventual claims, up-front commission and RSI's up-front charge.

The up-front unconditional commission amounted to RUB 768,427 thousand and back-end extra commission amounted to RUB 85,905 thousand. The amount payable as agreed between the Group and RSI is limited to the maximum commission rates that may be paid in accordance with the tariff structures approved by RSI's regulator. During the six months period ended 30 June 2006 the Group recorded as commission income RUB 854,332 thousand out of which RUB 743,041 thousand was received and RUB 111,291 thousand was receivable as at 30 June 2006 (31 December 2005: RUB 97,596 thousand) and was recorded within other assets, being the amount contractually payable by RSI to the Group subject to the regulatory restrictions. As at 30 June 2006, an additional amount of RUB 261,374 thousand (31 December 2005: RUB 261,374 thousand) is payable subject to RSI's compliance with the regulatory restrictions and a contingent asset for the Group and has, therefore,

1 includes members of the Board of Directors and of the Management Board.

not been recorded in these interim consolidated financial statements in accordance with requirements of IAS 37 (revised 2003) "Provisions, Contingent Liabilities and Contingent Assets". This amount is expected to be received in full by the Group, subject to the levels of new business continuing and the current growth rate, the revision of product tariffs with RSI's regulator as required and upon capital availability of RSI in accordance with its solvency requirements.

To comply with legal and regulatory requirements applicable to RSB, in September 2005, RSC participated in the formation of CBRS, in which it has a 50% ownership interest. The credit bureau will be responsible for the processing, storage and disclosure of information on credit histories of RSB's customers, and RSB is obligated to provide to CBRS all such information that arises on or after the formation of CBRS. RSB does not expect to generate any significant revenue in connection with the operations of CBRS.

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 Luxembourg. Its Articles of Incorporation have been published in the *Mémorial Journal Officiel du Grand-Duché de Luxembourg, Recueil des Sociétés et Associations* on 28 August 2005. The Issuer is registered with the Register of Commerce and Companies in Luxembourg under number B-107.255. The Issuer was established as a special purpose vehicle for the purpose of granting loans or other forms of financing directly or indirectly (including, but not limited to, by subscription on bonds, debentures, other debt instruments, advances, granting of pledges or issuing of other guarantees of any kind and the issuing of Notes) to RSB.

The Issuer's registered office is located at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg.

Share Capital

As at the date of this Prospectus, the Issuer's authorised and issued 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 and issued. 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 the obligations of 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 Auditors

Fiduciaire Patrick Sganzerla S.à.r.l, having its registered office at 17, Rue des Jardiniers, L-1835 Luxembourg, has been appointed to act as statutory auditors to the Issuer.

Loan Participation Notes

In April 2005, the Issuer issued U.S.$300 million 8.125% loan participation notes due 2008 (as Series 1 under the Programme), the proceeds from which were used to fund a loan to RSB. In October 2005, the Issuer issued U.S.$500 million 7.5% loan participation notes due 2010 (as Series 2 under the Programme), the proceeds from which were used to fund a loan to RSB. In December 2005, the Issuer issued loan participation notes due December 2015 with a total nominal amount of U.S.$200 million, placed at nominal value and bearing a fixed interest rate of 8.875% until December 2010. The interest rate for the period starting from December 2010 will be set at a U.S. Treasury Notes rate in December 2010 plus 1.5% per annum. In February 2006, the Issuer issued U.S.$200 million 6.72% loan participation notes due 2007 (as Series 3 under the Programme) the proceeds from which were used to fund a loan to RSB, and in April 2006, the Issuer issued U.S.$350 million 8.625% loan participation notes due 2011 (as Series 4 under the Programme), the proceeds from which were used to fund a loan to RSB.

Financial Statements

The first annual financial statements in respect of the period ended 31 December 2005 were approved by the general shareholders' meeting of the Issuer on 1 September 2006. However, these financial statements have not yet been published, and the intention is to publish them shortly. 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 LOAN AGREEMENT

The following is the text of the Loan Agreement:

This Loan Agreement is made on 13 September 2006 between:

(1) **CLOSED JOINT STOCK COMPANY RUSSIAN STANDARD BANK** (the "**Borrower**"); and

(2) **RUSSIAN STANDARD FINANCE S.A.** (the "**Lender**").

Whereas:

(A) The Lender has at the request of the Borrower agreed to make available to the Borrower a loan facility in the amount of €400,000,000 on the terms and subject to the conditions of this Agreement.

(B) It is intended that the Lender will issue loan participation notes for the sole purpose of financing the loan facility.

Now it is hereby agreed as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

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

"**Account**" means the account in the name of the Lender with the Principal Paying Agent, account number IBAN GB38 DEUT 4050 8126 3648 06 (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);

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

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

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

"**Agency Agreement**" means the agency agreement relating to the Notes dated on or around the date hereof between the Lender, the Trustee, the Principal Paying Agent and the other agents named therein, from time to time modified;

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

"**Assigned Rights**" has the meaning assigned to such term in the Trust Deed;

"**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 Agreement, such other internationally recognised firm of accountants as may be approved in writing by the Lender for this purpose;

"**Authorised Signatory**" means, in relation to the Borrower, any person who is duly authorised and in respect of whom the Lender has received a certificate signed by a director or another Authorised Signatory of the Borrower setting out the name and signature of such person and confirming such person's authority to act;

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

"**Business Day**" means a day on which (a) the London Interbank Market is open for dealings between banks generally, and (b) if on that day a payment is to be made hereunder, the TARGET System is operating and commercial banks generally are open for business in Luxembourg, Moscow and in the city where the Specified Office (as defined in the Agency Agreement) of the Principal Paying Agent is located;

"**Capital**" means the Borrower's Capital as such term is defined in the BIS Guidelines;

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

"**Central Ban**k" means the Central Bank of the Russian Federation;

"**Closing Date**" means 15 September 2006 (or such later date not later than 29 September 2006 as may be agreed between the Lender and the Borrower);

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

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

"**Definitive Certificate**" means the definitive certificates in fully registered form representing the Notes to be issued in limited circumstances pursuant to the Trust Deed;

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

"**Event of Default**" has the meaning assigned to such term in Clause 11.1;

"**Exposure**" means:

(a) the aggregate principal or nominal amount (net of specific provisions for losses) owed to the Borrower, whether direct or contingent, by a 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 the Borrower's commercial and consumer lending business; less

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

"**Facility**" means the €400,000,000 term loan facility granted by the Lender to the Borrower as specified in Clause 2;

"**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 Certificate**" means the single, permanent global note certificate in fully registered form without interest coupons representing the Notes to be issued pursuant to Clause 3.1 of the Trust Deed;

"**Group**" means the Borrower 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 purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided, however, that the term "Guarantee" will not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning;

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

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

"**Indebtedness**" means 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 appointed by the Borrower pursuant to Clause 10.4 and approved by the Trustee (such approval not to be unreasonably withheld), provided, however, that such Independent Appraiser is not an Affiliate of the Group;

"**Interest Payment Date**" means 16 September of each year;

"**Interest Period**" has the meaning assigned to such term in Clause 4.2;

"**Lender Agreements**" means the Subscription Agreement, this Agreement, the Agency Agreement and the 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 the Borrower's cash, demand and overnight deposits and other deposits with a maturity of not more than thirty (30) calendar days, and marketable securities with a final maturity of less than one year issued or guaranteed by the Russian Federation, or an agency or subdivision thereof and claims against the Central Bank with a final maturity of less than one year;

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

"**Material Adverse Effect**" means a material adverse effect on (a) the business, operations, property, condition (financial or otherwise) or immediate prospects of the Borrower or any of its Material Subsidiaries; (b) the Borrower'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 the Borrower which, in accordance with IFRS, as consistently applied, would be included in the Group's IFRS consolidated financial statements; or (ii) at any given time, a Subsidiary of the Borrower 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 the Borrower is or is not a Material Subsidiary, accompanied by a report by the Auditors addressed to the Directors of the Borrower as to proper extraction of the figures used in the Officers' Certificate in determining the Material Subsidiaries of the Borrower 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 for the time being registered in the register of the Noteholders (or, in the case of a joint holding, the first named holder thereof);

"**Notes**" means the €400,000,000 6.825 per cent. loan participation notes due 2009 proposed to be issued by the Lender pursuant to the Trust Deed for the purpose of financing the Loan;

"**Officers' Certificate**" means a certificate signed on behalf of the Borrower by two authorised signatories of the Borrower at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Borrower, in a form substantially similar to that set out in Schedule 1 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 the Borrower 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 the Borrower 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 the Borrower in favour of the Borrower;

(j) Liens upon, or with respect to, any present or future assets or revenues or any part thereof which are 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.

"**Rate of Interest**" has the meaning assigned to such term in Clause 4.1;

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

"**Repayment Date**" means 16 September 2009;

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

"**Reserved Rights**" has the meaning assigned to such term in the Trust Deed;

"**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;

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

"**RSB Agreements**" means this Agreement, the Agency Agreement and the Subscription Agreement;

"**Same-Day Funds**" means same day, freely transferable, clearly identifiable cleared euro funds 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 London of the type contemplated hereby;

"**Securities Act**" means the United States Securities Act of 1933;

"**Single Party**" means with respect to any counterparty such counterparty and all Related Parties of such counterparty;

"**Standard & Poor's**" means Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies, Inc.;

"**Subscription Agreement**" means the subscription agreement relating to the Notes dated the date hereof between the Lender, the Borrower, Barclays Bank PLC, Credit Suisse Securities (Europe) Limited and the managers named therein;

"**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;

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System and any successor thereof;

"**Trust Deed**" means the trust deed relating to the Notes to be dated the Closing Date between the Lender and the Trustee as amended from time to time;

"**Trustee**" means Deutsche Trustee Company Limited, as trustee under the Trust Deed and any successor thereto as provided thereunder;

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

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

1.2 **Other Definitions**

Unless the context otherwise requires, terms used in this Agreement which (i) are not defined in this Agreement but which are defined in, or (ii) are defined by cross reference to definitions in or other provisions of, the Trust Deed, the Notes (including the Conditions), the Agency Agreement or the Subscription Agreement shall have the meanings assigned to such terms therein.

1.3 **Interpretation**

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

1.3.1 all references to "Clause" or "sub-Clause" are references to a Clause or sub-Clause of this Agreement;

1.3.2 the terms "hereof", "herein" and "hereunder" and other words of similar import shall mean this Agreement as a whole and not any particular part hereof;

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

1.3.4 all references to "taxes" include all present or future taxes, levies, imposts and duties of any nature and the terms "tax" and "taxation" shall be construed accordingly; and

1.3.5 the table of contents and the headings are for convenience only and shall not affect the construction hereof.

2. FACILITY

2.1 Facility

On the terms and subject to the conditions set forth herein, the Lender hereby agrees to lend the Borrower and the Borrower hereby agrees to borrow from the Lender an amount of €400,000,000.

2.2 Purpose

The net proceeds of the Advance will be used for lending activities and for general banking purposes, and, accordingly, the Borrower shall apply all amounts raised by it hereunder to fund its lending activities and for general banking purposes, but the Lender shall not be concerned with the application thereof.

2.3 Facility Fee

The Borrower shall pay fees and expenses in the amount of €1,820,234.51 to the Lender in connection with the arrangement of the Facility (the "**Facility Fee**").

3. DRAWDOWN

3.1 Drawdown

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

3.2 Facility Fee

In consideration of the Lender making the Advance to the Borrower, the Borrower hereby agrees that it shall pay to the Lender, in Same-Day Funds, the Facility Fee by 4.30 p.m. (London time) on the Business Day prior to the Closing Date. In the event that the Lender has not received from the Borrower on the Business Day prior to the Closing Date, or, in any event by 4.30 p.m. (London time) on the Closing Date an amount in respect of the Facility Fee, the Borrower agrees that an amount equal to the Facility Fee shall be deducted from the amount of the Advance. In the event that following payment of the Facility Fee by the Borrower to the Lender, closing of the issue of Notes does not take place in accordance with Clause 10 of the Subscription Agreement, the Lender shall return the Facility Fee to the Borrower less certain amounts (if any) to be deducted pursuant to arrangements entered into by the Borrower in respect of the Loan in relation to expenses due in such circumstances, within 3 Business Days of the determination of such amounts by the Lender (and the Lender shall determine such amounts as soon as reasonably practicable).

3.3 Disbursement

Subject to the conditions set forth herein, on the Closing Date the Lender shall transfer the amount of the Advance (less any amount to be deducted (if any) pursuant to Clause 3.2 above) to the Borrower's account no. 55.044.135 with Raiffeisen Zentralbank Oesterreich AG, Vienna, Austria, SWIFT Code RZBAATWW in Same-Day Funds.

3.4 Ongoing Fees and Expenses

In consideration of the Lender (i) making available the Loan to the Borrower and (ii) supporting such a continuing facility, the Borrower shall pay on demand to the Lender each year all ongoing fees, costs and expenses as set forth to the Borrower in an invoice from the Lender.

4. INTEREST

4.1 Rate of Interest

The Borrower will pay interest in euro to the Lender on the outstanding principal amount of the Loan from time to time at the rate of 6.825 per cent. per annum (the "**Rate of Interest**").

4.2 **Payment**

Interest at the Rate of Interest shall accrue from day to day, starting from (and including) the Closing Date and shall be paid in arrear not later than 10.00 a.m. (London time) one Business Day prior to each Interest Payment Date. Interest on the Loan will cease to accrue from the due date for repayment thereof unless payment of principal due on such date is withheld or refused, in which event interest will continue to accrue (before or after any judgment) at the Rate of Interest to, but excluding, the date on which payment in full of the principal thereof is made. The amount of interest payable in respect of the Loan for any Interest Period shall be calculated by applying the Rate of Interest to the Loan, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). Where interest is to be calculated in respect of a period which is shorter than an Interest Period, the day-count fraction used will be the number of days in the relevant period, from and including the date from which interest begins to accrue to, but excluding, the date on which it falls due, divided by the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last).

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

5. REPAYMENT AND PREPAYMENT

5.1 **Repayment**

Except as otherwise provided herein, the Borrower shall repay the Loan not later than 10.00 a.m. (London time) one Business Day prior to the Repayment Date.

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

If, as a result of the application of or any amendments or clarification to, or change (including a change in interpretation or application) in, or determination under, the double tax treaty between the Russian Federation and the Grand Duchy of Luxembourg or the laws or regulations of the Russian Federation or the Grand Duchy of Luxembourg or of any political sub-division thereof or any authority therein having power to tax (the "**Taxing Jurisdiction**") or the enforcement of the security provided for in the Trust Deed, the Borrower would thereby be required (i) to make or increase any payment due hereunder as provided in Clause 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 Clause 3), or if (for whatever reason) the Borrower would have to or has been required (ii) to pay additional amounts pursuant to Clause 8, and in any such case such obligation cannot be avoided by the Borrower taking reasonable measures available to it, then the Borrower may (without premium or penalty), upon not less than 30 days' notice to the Lender (which notice shall be irrevocable), prepay the Loan in whole (but not in part) at any time.

Prior to giving any such notice in the event of an increase in payment pursuant to Clause 6.2, the Borrower shall deliver to the Lender an Officers' Certificate confirming that the Borrower 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, the Lender reasonably determines that it is or would be unlawful or contrary to any applicable law or regulation or regulatory requirement or directive of any Agency of any state or otherwise for the Lender to allow all or part of the Loan or the Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with this Agreement and/or to charge or receive or to be paid interest at the rate then applicable to the Loan (an "Event of Illegality"), then upon notice by the Lender to the Borrower in writing, the Borrower 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 the Borrower. If such a basis has not been determined within the 30 days, then upon written notice by the Lender to the Borrower and the Trustee, the Borrower shall prepay the Loan in whole (but not in part) on the next Interest Payment Date or on such earlier date as the Lender shall (acting reasonably) certify to be necessary to comply with such requirements.

5.4 **Reduction of Loan upon Cancellation of Notes**

The Borrower may from time to time deliver to the Lender Definitive Certificates, having an aggregate principal value of at least €1,000,000, together with a request for the Lender to present such Definitive Certificates to the Registrar for cancellation, and may also from time to time procure the delivery to the Registrar of the Global Certificate with instructions to cancel a specified aggregate principal amount of Notes (being at least €1,000,000) represented thereby (which instructions shall be accompanied by evidence satisfactory to the Registrar that the Borrower is entitled to give such instructions), whereupon the Lender shall, pursuant to Clause 9.1 of the Agency Agreement, request the Registrar to cancel such Notes (or specified aggregate principal amount of Notes represented by the Global Certificate). 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 shall be extinguished for all purposes as of the date of such cancellation.

5.5 **Payment of Other Amounts**

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

5.6 **Provisions Exclusive**

The Borrower shall not prepay or repay all or any part of the amount of the Loan except at the times and in the manner expressly provided for in this Agreement. The Borrower shall not be permitted to reborrow any amounts prepaid or repaid.

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 the Borrower under this Agreement shall be made unconditionally by credit transfer to the Lender not later than 10.00 a.m. (London time) one Business Day prior to each Interest Payment Date or the Repayment Date or the date of any payment (as the case may be) in Same-Day Funds to the Account, or as the Trustee may otherwise direct following the occurrence of a Default or a Relevant Event.

The Borrower shall, before 10.00 a.m. (Local 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 the Borrower that it will not deposit any other moneys into the Account and that no withdrawals shall be made from the Account other than as provided for and in accordance with the Trust Deed and the Agency Agreement.

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

All payments to be made by the Borrower under this Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any taxes. If the Borrower shall be required by applicable law to make any deduction or withholding from any payment under this Agreement for or on account of any such taxes, it shall, on the due date for such payment, increase the payment of principal or interest or any other payment due hereunder to such amount as may be necessary to ensure that the Lender receives a net amount in euro equal to the full amount which it would have received had payment not been made subject to such taxes, and 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 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 Agreement)) the Borrower shall reimburse the Lender in euro for such payment on demand.

6.3 **Withholding on Notes**

Without prejudice to the provisions of Clause 6.2, if the Lender notifies the Borrower 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 the Grand Duchy 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 the Notes, the Borrower agrees to pay into the Account in Same-Day Funds, no later than one Business Day prior to the date on which payment is due to the Noteholders, 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 immediately upon receipt from any Paying Agent of any reimbursement of the sums paid pursuant to this provision, to the extent that any Noteholders, as the case may be, are not entitled to such additional amounts pursuant to the terms and conditions of the Notes, pay such additional amounts to the Borrower (it being understood that neither the Lender, the Principal Paying Agent or any Paying Agent shall have any obligations to determine whether any Noteholder is entitled to any such additional amount).

Any notification by the Lender to the Borrower 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 the Borrower has made a payment pursuant to this Clause 6, it shall pay to the Borrower 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 the Borrower 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 the Borrower, 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 the Borrower 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 the Borrower 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; (a) such taxes are deducted or withheld by the Borrower and pursuant to Clause 6.2 an increased amount is paid by the Borrower to the Lender in respect of such deduction or withholding, and (b) following the deduction or withholding of taxes as referred to above, the Lender (upon instruction by the Borrower) 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 the Borrower 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 cost to a bank account of the Borrower specified for that purpose by the Borrower.

6.5 **Representations of the Lender**

The Lender represents that, at the date hereof, (a) it is a resident of the Grand Duchy of Luxembourg, is subject to taxation in the Grand Duchy of Luxembourg on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in the Grand Duchy of Luxembourg merely on income from sources in the Grand Duchy of Luxembourg or connected with property located in the Grand Duchy of Luxembourg and it will be able to receive certification to this effect from the Luxembourg taxing authorities, (b) it does not have a permanent establishment in the Russian Federation and (c) it does not have any current intentions to effect, during the term of the Loan, any corporate action or reorganisation or change of taxing jurisdiction that would result in the Lender ceasing to be a resident of the Grand Duchy of Luxembourg and subject to taxation in the Grand Duchy of Luxembourg.

6.6 **Notification and Substitution**

6.6.1 The Lender agrees upon becoming aware of such, promptly to notify the Borrower if it ceases to be resident in the Grand Duchy of Luxembourg or opens a permanent establishment in Russia or if any of the representations set forth in Clause 6.5 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 the Borrower 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 5.2) (including, without limitation, a change in a double taxation treaty or in such law or treaty's application or interpretation), the Borrower may require the Lender to seek the substitution of the Lender as Issuer of the Notes and as lender under this Loan Agreement pursuant to and in accordance with the provisions of Clause 12.4 of the Trust Deed. The Borrower shall bear all costs and expenses relating to or arising out of such substitution.

6.7 **Evidence of Debt**

The entries made in the accounts of the Lender shall, in the absence of manifest error, constitute conclusive evidence of the existence and amounts of the Borrower's obligations to pay amounts thereto, as recorded therein.

6.8 **Mitigation**

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of the Borrower to make any deduction, withholding or payment as described in Clauses 6.2 or 6.3, then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or the Borrower's obligations under any of the above mentioned provisions, the Lender shall, upon becoming aware of the same, notify the Borrower thereof and, in consultation with the Borrower 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.

6.9 **Tax Treaty Relief**

The Lender shall, provided that in each case a corresponding request from the Borrower 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 the Borrower'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 the Borrower 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 the Grand Duchy of Luxembourg confirming that the Lender is tax resident in the Grand Duchy of Luxembourg and such other information or forms as may need to be duly completed and delivered by the Lender to enable the Borrower 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 the Borrower and at the Borrower'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 the Borrower any additional duly completed application forms as need to be duly completed and delivered by the Lender to enable the Borrower 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 6.9 shall be duly signed by the Lender, if applicable, and stamped or otherwise approved by the competent taxing authority in the Grand Duchy of 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 6.9 has not been obtained and further to an application of the Borrower to the relevant Russian taxing authorities the latter requests the Lender's rouble bank account details, the Lender shall at the request of the Borrower (a) use its commercially reasonable efforts, at the Borrower's cost to procure that such rouble bank account of the Lender is duly opened and maintained, and (b) thereafter furnish the Borrower with the details of such rouble bank account.

7. CONDITIONS PRECEDENT

7.1 Documents to be Delivered

The obligation of the Lender to make the Advance shall be subject to the receipt by the Lender on or prior to the Closing Date of written evidence that the persons mentioned in Clause 17.7 have agreed to receive process in the manner specified herein.

7.2 Further Conditions

The obligation of the Lender to make the Advance shall be subject to the further conditions precedent that as at the Closing Date (a) the representations and warranties made and given by the Borrower in Clause 9 shall be true and accurate as if made and given on the Closing Date with respect to the facts and circumstances then existing, (b) no event shall have occurred and be continuing that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, an Event of Default, (c) the Borrower shall not be in breach of any of the terms, conditions and provisions of this Agreement and (d) the Subscription Agreement, the Agency Agreement and the Trust Deed shall have been executed and delivered, (e) the Lender shall have received the full amount of the proceeds of the issue of the Notes pursuant to the Subscription Agreement and (f) the Lender shall have received in full the amount referred to in Clauses 2.3 and 3.2 above, if due and payable.

8. CHANGE IN LAW OR INCREASE IN COST

8.1 Compensation

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

8.1.1 subjects or will subject the Lender to any taxes with respect to payments of principal of or interest on the Loan or any other amount payable under this Agreement (other than any taxes payable by the Lender on its overall net income, any taxes referred to in Clause 6.2, or any taxes referred to in Clause 6.3); or

8.1.2 increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on the Loan or any other amount payable under this Agreement (other than any such increase or change which arises by reason of any increase in the rate of tax payable by the Lender on its overall net income or as a result of any taxes referred to in Clause 6.2 or any taxes referred to in Clause 6.3); or

8.1.3 imposes or will impose on the Lender any other condition affecting this Agreement, the Facility or the Loan,

and if as a result of any of the foregoing:

(i) the cost to the Lender of making, funding or maintaining the Loan or the Facility is increased; or

(ii) the amount of principal, interest or additional amounts payable to or received by the Lender hereunder is reduced; or

(iii) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from the Borrower hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of the Loan,

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

(a) the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to the Borrower together with a certificate 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 certificates; and

(b) upon demand by the Lender to the Borrower, the Borrower, in the case of sub-Clauses (i) and (iii) above, shall on demand by the Lender, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of sub-Clause (ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or forgone interest or other return; provided however, that the amount of such increased cost, reduced amount or payment made or forgone shall be deemed not to exceed an amount equal to the proportion which is directly attributable to this Agreement, and provided, further, that the Lender will not be entitled to such additional amount where such reduction, payment or forgone 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 and 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 the Borrower and shall use reasonable efforts (based on the Lender's reasonable interpretation of any relevant tax, law, regulation, requirement, official directive, request, policy or guideline) to reduce, in whole or in part, the Borrower's obligations to pay any additional amount pursuant to such Clause except that nothing in this Clause 8.2 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 the Borrower agrees to reimburse the Lender such costs or expenses.

9. REPRESENTATIONS AND WARRANTIES

9.1 The Borrower's Representations and Warranties

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

9.1.1 it and each of its 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 the Borrower only, to enter into and to perform its obligations under this Agreement and to borrow the Advance; that it has taken all necessary corporate, legal and other action required to authorise the borrowing of the Advance on the terms and subject to the conditions of this Agreement and to authorise the execution and delivery of this Agreement and all other documents to be executed and/or delivered by it in connection with this Agreement, and the performance of this Agreement in accordance with its terms;

9.1.2 this Agreement has been duly executed and delivered by and constitutes a legal, valid and binding obligation of the Borrower enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, (i) to general principles of equity (ii) to the fact that the gross-up provisions contained in Clause 6.2 or 6.3 may not be enforceable under Russian law and (iii) with respect to the enforceability of a judgment, to the laws of the relevant jurisdiction where such judgment must be enforced and whether there is a treaty in force relating to the mutual recognition of foreign judgments;

9.1.3 the execution, delivery and performance of this Agreement by the Borrower will not conflict with or result in any breach or violation of (i) any law or regulation or any order of any governmental, judicial, arbitral or public body or authority in the Russian Federation, (ii) the constitutive documents, rules and regulations of the Borrower or any of its Material Subsidiaries or the terms of the general banking licence granted to the Borrower by the Central Bank or (iii) any agreement or other undertaking or instrument to which the Borrower or any of its Material Subsidiaries is a party or which is binding upon the Borrower 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 the Borrower in connection with the execution, delivery, performance, legality, validity, enforceability, and admissibility in evidence of this Agreement have been obtained or effected and are and shall remain in full force and effect;

9.1.5 no event 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 the Borrower or any Material Subsidiary, and no such event will occur upon the making of the Advance;

9.1.6 there are no judicial, arbitral or administrative actions, proceedings or claims (including, but without limitation, with respect to taxes) which have been commenced or are pending or, to the knowledge of the Borrower, threatened, against the Borrower or any of its 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, the Borrower and each of its Material Subsidiaries has good title to its property free and clear of all Liens and the Borrower's obligations under the Loan rank at least *pari passu* with all its other unsecured and unsubordinated Indebtedness;

9.1.8 the audited IFRS consolidated financial statements of the Group as at and for the year ended 31 December 2005 and as at and for the six months ended 30 June 2006:

(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 or six month period, as the case may be;

9.1.9 there has been no material adverse change since 30 June 2006 in the condition (financial or otherwise), results of business, operations or immediate prospects of the Borrower or any of its Material Subsidiaries or on the Borrower's ability to perform its obligations under this Agreement;

9.1.10 the execution, delivery and enforceability of this Agreement is not subject to any tax, duty, fee or other charge, including, 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 the Borrower 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 this Agreement;

9.1.12 the Borrower 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 the Borrower 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 this Agreement, the choice of English law as the governing law of this Agreement and any arbitration award obtained in England in relation thereto will be recognised and enforced in the Russian Federation after compliance with the applicable procedures and rules and all other legal requirements in Russia;

9.1.15 subject to the performance by the relevant parties of the relevant established procedures in connection with the obtaining of an applicable withholding tax exemption for payments hereunder, no withholding in respect of any taxes is required to be made from any payment by the Borrower under this Agreement;

9.1.16 all material licences, consents, examinations, clearances, filings, registrations and authorisations which are or may be necessary to enable the Borrower or any of its Material Subsidiaries to own its assets and carry on its business are in full force and effect and the Borrower and its Material Subsidiaries are conducting such business in accordance with such licences, consents, examinations, clearances, filings registrations and authorisations;

9.1.17 with respect to the offer and sale of the Notes pursuant to the Subscription Agreement, neither it nor any of its Affiliates nor any person acting on its or their behalf (i) has engaged or will engage in any directed selling efforts (as defined in Regulations S under the U.S. Securities Act of 1933 ("**Regulation S**")) and (ii) the Borrower, its Affiliates and any persons acting on its or their behalf have complied and will comply with the offering restrictions requirement of Regulation S;

9.1.18 it is subject, without reservation, to civil and commercial law with respect to its obligations under this Agreement, and its execution of this Agreement constitutes, and its exercise of its rights and performance of its obligations hereunder will constitute, private and commercial acts done and performed for private and commercial purposes; and

9.1.19 the Borrower and each Material Subsidiary has no material overdue tax liabilities other than those which have been disclosed in the Prospectus.

9.2 **Lender's Representations and Warranties**

The Lender represents and warrants to the Borrower 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 the Grand Duchy of 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 the Grand Duchy 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 hereunder:

10.1 **Negative Pledge**

The Borrower 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, the Borrower's obligations under the Loan are, to the satisfaction of the Trustee, secured at least equally and rateably with such other Indebtedness.

10.2 **Mergers**

(i) The Borrower shall not enter into any reorganisation (by way of a merger, accession, division, separation or transformation, or other bases or procedures for reorganisation contemplated or as may be contemplated from time to time by Russian legislation, as these terms are construed by applicable Russian legislation), and (ii) the Borrower shall ensure that, without the prior written consent of the Lender, 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 the Borrower by Standard & Poor's or the issuer rating of the Borrower given to the Borrower by Moody's or, in the circumstances under (i) above where the Borrower is not the surviving entity following such reorganisation or other type of corporate reconstruction, the ratings granted to such surviving entity immediately following such reorganisation by Moody's and Standard & Poor's are no less than the ratings granted to the Borrower by each of Moody's and Standard & Poor's immediately prior to such reorganisation or other type of corporate reconstruction.

10.3 **Disposals**

The Borrower 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 the Borrower 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 the Borrower whereby all payment obligations are to be discharged solely from such assets or revenues, provided that the aggregate value of assets or revenues which are the subject of all such securitisations of receivables, asset-backed financing or similar financing structures, when added to the aggregate value of assets or revenues subject to any Lien described under (d) in the definition of "Permitted Liens" and permitted under the terms of this Agreement, does not at any time exceed 30 per cent. of loans and advances to customers, as determined at any such time by reference to the most recent quarterly balance sheet of the Borrower prepared in accordance with 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**

The Borrower shall not and shall ensure that none of its Subsidiaries shall, directly or indirectly, conduct any business, enter into or permit to exist any transaction or series of related transactions (including, without limitation, the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an "Affiliate Transaction") including, without limitation, intercompany loans unless (a) the terms of such Affiliate Transaction are no less favourable to the Borrower or such Subsidiary, as the case may be, than those that could be obtained in a comparable arm's length transaction with a person that is not an Affiliate of the Borrower or such Subsidiary; or (b) such Affiliate Transaction is made pursuant to a contract existing on the date of this 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, the Borrower 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 the Borrower 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 the Borrower or a Subsidiary, as the case may be, arising as a result of their employment contract, or (b) any Affiliate Transaction between the Borrower and any of its Subsidiaries or between any Subsidiaries of the Borrower.

10.5 **Maintenance of Authorisations**

The Borrower shall, and shall procure that each of its Material Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things reasonably necessary, in the opinion of the Borrower or the relevant Material Subsidiary, to ensure the continuance of its corporate existence, its business and intellectual property relating to its business and the Borrower shall take all necessary action to obtain, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Russian Federation for the execution, delivery or performance of this Agreement or for the validity or enforceability thereof, provided that, in any case if the Borrower 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**

The Borrower 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 the Borrower 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 the Borrower 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**

The Borrower 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, the Borrower 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 the Borrower or any of its Material Subsidiaries; provided, however, that none of the Borrower 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**

The Borrower 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 the Borrower 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 this Agreement, the Borrower 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**

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

10.10.1 The Borrower shall as soon as the same become available, but in any event within 90 days after the end of each half of each of its financial years, deliver to the Lender the Group's IFRS consolidated financial statements for such period.

10.10.2 The Borrower shall, so long as the Advance or any other sum owing under this Agreement remains outstanding, deliver to the Lender, without undue delay, such additional information regarding the financial position or the business of the Borrower and its Subsidiaries as the Lender may reasonably request including providing certification to the Trustee pursuant to the Trust Deed and the report of the Auditors as to the definition of "Material Subsidiary".

10.10.3 The Borrower shall ensure that each set of the Group's IFRS consolidated financial statements 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 sub-Clause 10.10.1, accompanied by a report thereon of the Auditors referred to in sub-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 sub-Clause 10.10.2, certified by an Authorised Signatory of the Borrower as giving a true and fair view of the Group's consolidated financial condition as at the end of the period to which those IFRS consolidated financial statements of the Group relate and of the results of the Group's operations during such period.

10.10.4 The Borrower 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 the Borrower or the Group as the Lender or the Trustee may reasonably require or such Officers' Certificate as either the Lender or the Trustee may request.

10.11 **Financial covenants**

The Borrower shall (except as otherwise specifically provided or agreed by the Lender) at all times (save in respect of sub-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 the Borrower by Standard & Poor's is below BB or the issuer rating of the Borrower given to the Borrower by Moody's is below Ba2, or (b) neither Moody's nor Standard & Poor's is rating the Borrower, of not less than 12 per cent.; or

(ii) at any time that either the senior unsecured issuer rating given to the Borrower by Standard & Poor's is at BB or above, or the issuer rating of the Borrower given to the Borrower 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**

The Borrower 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 Agreement.

10.13 **Ranking of Claims**

The Borrower shall ensure that at all times the claims of the Lender against it under this Agreement rank at least *pari passu* with the claims of all its other unsecured creditors save those whose claims are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application.

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 The Borrower fails to pay any amount payable hereunder as and when such amount becomes payable in the currency and in the manner specified herein provided such failure to pay continues for more than five Business Days.

11.1.2 The Borrower fails to perform or observe any covenant or agreement contained herein to be performed or observed by it, provided such failure continues for more than 30 Business Days.

11.1.3 Any representation or warranty of the Borrower or any statement deemed to be made by the Borrower in connection with this Agreement or any other document, certificate or notice delivered by the Borrower 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 the Borrower 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 the Borrower 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 the Borrower, 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 the Borrower, or any of its Material Subsidiaries as the case may be; (ii) the presentation or filing of a petition in respect of any of the Borrower 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 the Borrower 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 the Borrower or any of its Material Subsidiaries, (iv) the entry by the Borrower or any of its Material Subsidiaries into, or the agreeing by the Borrower or any of its Material Subsidiaries to enter into, amicable settlement (mirovoe 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 the Borrower 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 the Borrower or any of its Material Subsidiaries; and/or (vii) revocation of the general banking licence or the licence for taking deposits from individuals of the Borrower or, if applicable, of any of its Material Subsidiaries.

11.1.6 The Borrower 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 the Borrower or its Material Subsidiaries is less than its liabilities; and/or a moratorium is declared in respect of any Indebtedness of any of the Borrower 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 the Borrower or any of its Material Subsidiaries.

11.1.8 Any governmental authorisation necessary for the performance of any obligation of the Borrower under this Agreement fails to be in full force and effect.

11.1.9 Any government, Agency or court takes any action that, in the opinion of the Lender, has a Material Adverse Effect on the Borrower 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) the Borrower's banking licence or its licence for taking deposits from individuals is revoked.

11.1.10 The shareholders of the Borrower shall have approved any plan of liquidation or dissolution of the Borrower.

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 the Borrower 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 the Borrower to perform or comply with any or all of its obligations under this Agreement or any of such obligations (subject as provided in sub-Clause 9.1.2) are not, or cease to be, legal, valid, binding and enforceable.

11.1.13 The Borrower or any of its Material Subsidiaries ceases to carry on the principal business it carried on at the date hereof.

11.1.14 The Borrower repudiates this Agreement, the Subscription Agreement or the Agency Agreement or evidences an intention to repudiate this Agreement, the Subscription Agreement or the Agency Agreement.

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

11.1.16 Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing sub-Clauses.

11.2 **Notice of Default**

The Borrower shall deliver to the Lender 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 1, stating whether any Default has occurred, its status and what action the Borrower 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 the Borrower, (a) declare the obligations of the Lender hereunder to be terminated, whereupon such obligations shall terminate, and (b) declare all amounts payable hereunder by the Borrower that would otherwise be due after the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Borrower; provided, however, that if any event of any kind referred to in sub-Clause 11.1.5, 11.1.6, 11.1.7 or 11.1.10 occurs, the obligations of the Lender hereunder shall immediately terminate, and all amounts payable hereunder by the Borrower that would otherwise be due after the occurrence of such event shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Borrower.

11.4 **Rights Not Exclusive**

The rights provided for herein are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

12. INDEMNITY

12.1 Indemnification

The Borrower undertakes to the Lender, that if the Lender or any of its Affiliates, each director, officer, employee or agent of the Lender and each person controlling the Lender within the meaning of the United States securities laws (each an "indemnified party") incurs any loss, liability, cost, claim, charge, expense (including without limitation taxes, legal fees, costs and expenses), demand or damage (a "Loss") as a result of or in connection with the Loan, this Agreement (or enforcement thereof), and/or the issue, constitution, sale, listing and/or enforcement of the Notes and/or the Notes being outstanding, the Borrower shall pay to the Lender on demand an amount equal to such Loss and all costs, charges and expenses which it or any indemnified party may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, charges and expenses are incurred unless such Loss was 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 Subscription Agreement. The Lender shall not have any duty or obligation whether as fiduciary or trustee for any indemnified party or otherwise, to recover any such payment or to account to any other person for any amounts paid to it under this Clause.

12.2 Independent Obligation

Clause 12.1 constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with this Agreement or any other obligations of the Borrower in connection with the issue of the Notes by the Lender and shall not affect, or be construed to affect, any other provision of this Agreement or any such other obligations.

12.3 Evidence of Loss

A certificate of the Lender setting forth the amount of losses, expenses and liabilities described in Clause 12.1 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 the Borrower under this Agreement and the 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 Lender 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 Lender 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"), the Borrower hereby agrees to indemnify and hold harmless the Lender against any deficiency in the first currency. Any obligation of the Borrower 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 Agreement and the Subscription Agreement, shall continue in full force and effect.

13. SURVIVAL

The obligations of the Borrower pursuant to Clauses 6.2, 6.3, 12 and 14.1 shall survive the execution and delivery of this Agreement, the drawdown of the Facility and the repayment of the Loan, in each case by the Borrower.

14. GENERAL

14.1 Stamp Duties

14.1.1 The Borrower shall pay all stamp, registration and documentary taxes or similar charges (if any) imposed on the Borrower by any person in the United Kingdom, the Russian Federation or the Grand Duchy of Luxembourg which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and shall indemnify the

Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to pay such taxes or similar charges.

14.1.2 The Borrower agrees that if the Lender incurs a liability to pay any stamp, registration and documentary taxes or similar charges (if any) imposed by any person in the United Kingdom, the Russian Federation or the Grand Duchy of Luxembourg which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and any documents related hereto, the Borrower 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 the Borrower to procure the payment of such taxes or similar charges.

14.2 **Waivers**

No failure to exercise and no delay in exercising, on the part of the Lender or the Borrower, any right, power or privilege hereunder and no course of dealing between the Borrower and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by applicable law.

14.3 **Prescription**

In the event that any Notes become void pursuant to Condition 11 of the Notes, the Lender shall forthwith repay to the Borrower the principal amount of such Note subject to the Lender having previously received from the Borrower a corresponding amount in respect of principal pursuant to this Agreement.

15. NOTICES

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

15.1 **if to the Borrower:**

Closed Joint Stock Company Russian Standard Bank

6/1/2 Kadashevskaya nab., Bldg. 1
Moscow 119017
Russia

Fax: + 7 (495) 797 8440

Attention: Mr. Levan Zolotarev, Senior Vice President

15.2 **if to the Lender:**

Russian Standard Finance S.A.
2, Boulevard Konrad Adenauer
L-1115 Luxembourg
Grand Duchy of Luxembourg

Fax: +352 421 22 718

Attention: The Directors

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

16. ASSIGNMENT

16.1 General

This Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under this Agreement. Any reference in this Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender or the forming of an opinion or the making of any determination, following notification to the Borrower of the assignment and/or enforcement of the security, each as referred to in Clause 16.3 below, shall be references to the exercise of such rights or discretions or the forming of an opinion or the making of any determination 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 the Borrower or any agreements of the Lender or the Borrower, pursuant to Clauses 6.4, 6.8 or 8.

16.2 By the Borrower

The Borrower shall not be entitled to assign or transfer all or any part of its rights or obligations hereunder to any other person.

16.3 By the Lender

Subject to the provisions of Clause 12.4 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 this 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 this Agreement and (ii) the absolute assignment by the Lender to the Trustee of certain rights, interests and benefits under this Agreement, in each case, pursuant to Clause 4 of the Trust Deed. Nothing herein shall prevent the Trustee from assigning or transferring any rights held by it in relation to or under this Agreement, provided that any such assignment or transfer is in accordance with Clause 20 of the Trust Deed.

17. LAW AND JURISDICTION

17.1 Choice of Law

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

17.2 Jurisdiction

Each of the Borrower 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 this Agreement (respectively, "Proceedings" and "Disputes") and, for such purposes, irrevocably submits to the jurisdiction of such courts.

17.3 Appropriate Forum

Each of the parties to this Agreement irrevocably waives any objection which it may now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agrees not to claim that any such court is not a convenient or appropriate forum and further irrevocably agrees that a final and conclusive judgment in any Proceedings 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.

17.4 Non-exclusivity

Nothing contained in this 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 this Agreement in any 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 this Agreement to the extent permitted by any applicable law.

17.5 **Waiver of immunity**

To the extent that the Borrower may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Borrower or its assets or revenues, the Borrower agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

17.6 **Consent to enforcement etc.**

Each of the Lender and the Borrower consents generally in respect of any Proceedings or Disputes to the giving of any relief or the issue of any process in connection with such Proceedings or Disputes including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such Proceedings or Disputes.

17.7 **The Borrower's process agent**

The Borrower agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to Law Debenture Corporate Services Limited, 5th Floor, 100 Wood Street, London EC2V 7EX or, if different, its registered office for the time being or at any address of the Borrower in Great Britain at which process may be served on it in accordance with Part XXIII of the Companies Act 1985 (as modified or re-enacted from time to time). If such person is not or ceases to be effectively appointed to accept service of process on the Borrower's behalf, the Borrower shall, on the written demand of the Lender, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Lender shall be entitled to appoint such a person by written notice to the Borrower. Nothing in this Clause shall affect the right of the Lender to serve process in any other manner permitted by law.

17.8 **Lender's process agent**

The Lender agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to Law Debenture Corporate Services Limited, 5th Floor, 100 Wood Street, London EC2V 7EX or, if different, its registered office for the time being or at any address of the Lender in Great Britain at which process may be served on it in accordance with Part XXIII of the Companies Act 1985 (as modified or re-enacted from time to time). If such person is not or ceases to be effectively appointed to accept service of process on the Lender's behalf, the Lender shall, on the written demand of the Borrower appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Borrower shall be entitled to appoint such a person by written notice to the Lender. Nothing in this Clause shall affect the right of the Borrower to serve process in any other manner permitted by law.

18. ARBITRATION

18.1 **Procedure**

The Borrower 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 this Agreement may be settled by arbitration in accordance with the Rules of the LCIA (formerly the London Court of International Arbitration) (the "**LCIA**"), which rules are deemed to be incorporated, by reference, into this Clause. The place of arbitration shall be London, England and the language of the arbitration shall be English. The number of arbitrators shall be three, each of whom shall be disinterested in the Proceedings or Dispute, 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 any Proceedings or Dispute 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 Dispute. 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 LCIA shall appoint the three arbitrators or the Chairman, as the case may be. The parties and the Arbitration Court may appoint arbitrators from among the nationals of any country, whether or not a party is a national of that country. The arbitrators shall have no authority to award punitive or other punitive type damages and may not, in any event, make any ruling, finding or award that does not conform to the terms and conditions of this Agreement.

18.2 **Fees**

Fees of the arbitration (excluding each party's preparation, travel, attorneys' fees and similar costs) shall be borne in accordance with the decision of the arbitrators. The decision of the arbitrators shall be final, binding and enforceable upon the parties and judgment upon any award rendered by the arbitrators may be entered in any court having jurisdiction thereover. 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.

19. SEVERABILITY

In case any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

20. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement.

21. LANGUAGE

The language which governs the interpretation of this Agreement is the English language.

22. AMENDMENTS

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

23. COUNTERPARTS

This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties hereto.

In witness whereof, the parties hereto have caused this Agreement to be executed on the date first written above.

For and on behalf of CLOSED JOINT STOCK COMPANY RUSSIAN STANDARD BANK:

By:

Name:

Title: Chief Executive Officer

By:

Name:

Title: Chief Accountant

For and on behalf of RUSSIAN STANDARD FINANCE S.A.:

By:

Name:

Title:

SCHEDULE 1

Form of Officers' Certificate

To: RUSSIAN STANDARD FINANCE S.A.

Deutsche Trustee Company Limited

From: Closed Joint Stock Company Russian Standard Bank

Dated:

Dear Sirs

Closed Joint Stock Company Russian Standard Bank – €400,000,000 Loan Agreement dated 13 September 2006 (the "Loan Agreement")

1. We refer to the Loan Agreement. This is an Officers' Certificate for the purposes of Clause 11.2 of the Loan Agreement.
2. We confirm that no Default has occurred.

For and on behalf of Closed Joint Stock Company Russian Standard Bank

Signed:

[Authorised signatory, being one of principal executive officer/ principal accounting officer/ principal financial officer] of Closed Joint Stock Company Russian Standard Bank

[Authorised Signatory] of Closed Joint Stock Company Russian Standard Bank

TERMS AND CONDITIONS OF THE NOTES

The €400,000,000 6.825 per cent. Loan Participation Notes due 2009 (the "**Notes**" which expression includes any further Notes issued pursuant to Condition 15 and forming a single series therewith) of Russian Standard Finance S.A. (the "**Lender**", which expression shall include any entity substituted for the Lender pursuant to Condition 10(c)) are constituted by, are subject to, and have the benefit of, a trust deed (the "**Trust Deed**", which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) dated 15 September 2006 and made between the Lender and Deutsche Trustee Company Limited (the "**Trustee**", which expression shall include any trustees or trustee for the time being under the Trust Deed) as trustee for the Noteholders (as defined below).

The Lender has authorised the creation, issue and sale of the Notes for the sole purpose of financing a €400,000,000 3-year and one day loan (the "**Loan**") to Closed Joint Stock Company Russian Standard Bank (the "**Borrower**"). The terms of the Loan are recorded in a loan agreement (the "**Loan Agreement**") dated 13 September 2006 between the Lender and the Borrower.

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 Lender 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 Lender pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights (as defined below). Noteholders must therefore rely on the covenant to pay under the Loan Agreement and the credit and financial standing of the Borrower. Noteholders shall have no recourse (direct or indirect) to any other asset of the Lender.

The Lender 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 as security for its payment obligations in respect of the Notes and under the Trust Deed (the "**Charge**") and has assigned absolutely certain other rights under the Loan Agreement to the Trustee (the "**Assigned Rights**" and, together with the Charge, the "**Security Interests**") in each case excluding the Reserved Rights. "**Reserved Rights**" are the rights excluded from the Charge and the Assigned Rights, being all and any rights, interests and benefits in respect of the obligations of the Borrower under Clauses 2.3, 3.2, 5.3 (other than the right to receive any amount payable under such Clause), 6.2 (to the extent that the Borrower shall reimburse the Lender on demand for any amount paid by the Lender in respect of taxes, penalties or interest), 6.3 (to the extent that the Lender has received amounts to which the Noteholders are not entitled), 6.4, 6.6, 6.8, 8, 10.8, 10.10.5, 12, 13 and 14.1 of the Loan 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).

Payments in respect of the Notes will be made (subject to the receipt of the relevant funds from the Borrower) pursuant to an agency agreement (the "**Agency Agreement**") dated 15 September 2006 and made between the Borrower, the Lender, Deutsche Bank Luxembourg S.A., as the registrar (the "**Registrar**", which expressions shall include any successors), Deutsche Bank AG, London Branch, as the principal paying agent (the "**Principal Paying Agent**", which expressions shall include any successors), and the transfer agents and paying agents named therein (the "**Transfer Agents**" and "**Paying Agents**" respectively, which expressions shall include any successors) and the Trustee.

Copies of the Trust Deed, the Loan Agreement and the Agency Agreement are available for inspection by Noteholders during normal business hours at the principal office of the Trustee being, at the date hereof, Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom, at the Specified Office (as defined in the Agency Agreement) of the Principal Paying Agent and at the Specified Office of the Paying Agent in Luxembourg, the initial specified offices of which are set out below.

Certain provisions of these terms and conditions (the "**Conditions**") are summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions thereof.

1. STATUS

The sole purpose of the issue of the Notes is to provide the funds for the Lender to finance the Loan. The Notes constitute the obligation of the Lender 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 Lender pursuant to the Loan Agreement, less any amount in respect of the Reserved Rights.

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by or for the account of the Lender by way of principal, interest or additional amounts (if any) pursuant to the Loan Agreement, less any amount 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 Lender shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. As provided therein, the Lender shall be under no obligation to exercise in favour of the Noteholders any rights of set-off or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Lender and the Borrower.

Noteholders have notice of, and have accepted, these Conditions and the contents of the Trust Deed, the Agency Agreement and the Loan Agreement. It is hereby expressly provided that, and Noteholders are deemed to have accepted that:

(a) neither the Lender nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, save as otherwise expressly provided in the Trust Deed or in paragraph (f) below, liability or obligation in respect of the performance and observance by the Borrower of its obligations under the Loan Agreement or the recoverability of any sum of principal, interest or any additional amounts, if any, due or to become due from the Borrower under the Loan Agreement;

(b) neither the Lender nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial or otherwise), creditworthiness, affairs, status, nature or prospects of the Borrower;

(c) neither the Lender nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of the Borrower under or in respect of the Loan Agreement;

(d) neither the Lender 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, the Paying Agent, the Calculation Agent, the Registrar or the Transfer Agent of their respective obligations under the Agency Agreement;

(e) the financial servicing and performance of the terms of the Notes depends upon performance by the Borrower of its obligations under the Loan Agreement and its covenant to make payments under the Loan Agreement and its credit and financial standing. The Borrower has represented and warranted to the Lender in the Loan Agreement that, subject to certain qualifications, the Loan Agreement constitutes a legal, valid and binding obligation of the Borrower;

(f) the Lender and the Trustee shall be entitled to rely on certificates of the Borrower (and, where applicable, certification by third parties) as a means of monitoring whether the Borrower is complying with its obligations under the Loan Agreement and identifying Material Subsidiaries and shall not otherwise be responsible for investigating any aspect of the Borrower's performance in relation thereto and, subject as further provided in the Trust Deed, neither the Lender as lender under the Loan Agreement nor the Trustee will be liable for any failure to make the usual or any investigations which might be made by a lender or a security holder (as applicable) in relation to the property which is the subject of the Trust Deed and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Lender to the property which is subject to the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security; the Trustee has no responsibility for the value of such security; and

(g) the Lender shall at no time be required to expend or risk its own funds or otherwise incur any financial liability in the performance of its obligations or duties or the exercise of any right, power, authority or discretion pursuant to these Conditions until it has received from the Borrower the funds that are necessary to cover the costs and expenses in connection with such performance or exercise, or has been (in its sole discretion) sufficiently assured that it will receive such funds.

Under the Trust Deed, the obligations of the Lender in respect of the Notes rank *pari passu* and rateably without any preference among themselves.

In the event that the payments under the Loan Agreement are made by the Borrower 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 Lender in respect of the Notes.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Lender's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Loan Agreement or direct recourse to the Borrower except through action by the Trustee pursuant to the Charge granted and the assignment of the Assigned Rights assigned to the Trustee in the Trust Deed. Neither the Lender nor 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 AND DENOMINATION

The Notes are issued in registered form in the denomination of €50,000. Notes may be held in holdings in the aggregate principal amount of €50,000 and integral multiples of €1,000 in excess thereof (each an "**Authorised Holding**").

3. REGISTER, TITLE AND TRANSFERS

(A) Register

The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions the "**Holder**" or "**Noteholder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each a "**Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Certificate will be serially numbered with an identifying number which will be recorded in the Register. The Lender will also maintain a register (the "**Lender's Register**") at its registered office. Under the terms of the Agency Agreement, the Registrar will provide to the Lender such information about the changes in the Register as shall enable the Lender to maintain the Lender's Register up-to-date. In case of inconsistency between the Register and the Lender's Register, the Lender's Register shall prevail.

(B) Title

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

(C) Transfers

Subject to paragraphs (F) and (G) below, a Note may be transferred upon surrender of the relevant Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or the Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Holdings. Where not all the Notes represented by the surrendered Certificate are the subject of the transfer, a new Certificate in respect of the balance of the Notes will be issued to the transferor.

(D) Registration and Delivery of Certificates

Within five business days of the surrender of a Certificate in accordance with paragraph (C) above, the Registrar will register the transfer in question and deliver a new Certificate of a like principal amount to the Notes transferred to each relevant holder for collection at its Specified Office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, "**Business Day**" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar or the relevant Transfer Agent has its Specified Office.

(E) No Charge

The transfer of a Note will be effected without charge by or on behalf of the Lender, the Registrar or the relevant Transfer Agent but against such indemnity as the Registrar or (as the case may be) the Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(F) Closed Period

The Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

(G) Regulations Concerning Transfers and Registration

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Lender with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

4. RESTRICTIVE COVENANT

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Lender 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 Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Lender to the Noteholders in accordance with Condition 14.

Save as provided above, so long as any Note remains outstanding, the Lender, without the prior written consent of the Trustee, shall not, *inter alia*, incur any indebtedness for borrowed moneys (other than issuing, or creating or incurring further obligations relating to, the Notes, any notes already issued or to be issued in the future (the "**Programme Notes**") under the Borrower's U.S.$1,500,000,000 programme (as increased from time to time) for the issuance of loan participation notes issued by, but with limited recourse to, the Lender for the purpose of financing loans to the Borrower (the "**Programme**") or the 2005 Notes (as defined in the Trust Deed), engage in any business (other than entering into any agreements related to the Notes, the Programme Notes or the 2005 Notes and performing any acts incidental to or necessary in connection with the Notes, the Programme Notes, the 2005 Notes or such related agreements (including the holding of any security in connection therewith), making the Loan to the Borrower pursuant to the Loan Agreement or any loan under the Programme and performing any act incidental to or necessary in connection with such Loan, such loans under the Programme or with the loan related to the 2005 Notes), 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 the extent the same is within the control of the Lender) to any person (otherwise than as contemplated in these Conditions and the Trust Deed), issue any further shares (to the extent the same is within the control of the Lender) or make any distribution to its shareholders, give any guarantee or assume any other liability or, except where required under the laws of Luxembourg, petition for any winding-up or bankruptcy.

5. INTEREST

On each Interest Payment Date, or as soon thereafter as the same is received, the Lender shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Lender pursuant to the Loan Agreement, which interest under the Loan is equal to 6.825 per cent. per annum (as set out in Clause 4 of the Loan Agreement). Each period from (and including) 15 September 2006 (the "**Issue Date**") or any Interest Payment Date to (but excluding) the next (or first) Interest Payment Date is herein called an "**Interest Period**".

Where interest is to be calculated in respect of a period which is shorter than an Interest Period, the day-count fraction used will be the number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last).

In this Condition 5, "**Interest Payment Date**" means 16 September of each year.

6. REDEMPTION

(A) Scheduled Redemption

Unless previously prepaid or repaid, the Borrower will be required to repay the Loan on one Business Day prior to 16 September 2009 and, subject to such repayment, as set forth in the Loan Agreement, all Notes then outstanding will on 16 September 2009, or as soon thereafter as such repayment of the Loan is actually received, be redeemed or repaid by the Lender at 100 per cent. of the principal amount thereof.

(B) Early Redemption

If the Loan should become repayable (and be repaid) pursuant to the terms and conditions of the Loan Agreement in advance of one Business Day prior to 16 September 2009, as set forth in the Loan Agreement, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at par together with accrued interest and (subject to the Loan being repaid together with accrued interest) shall be redeemed or repaid and the Lender will endeavour to give not less than 8 days' notice thereof to the Trustee and the Noteholders in accordance with Condition 14.

Under the Loan Agreement:

(i) the Borrower may prepay the Loan in whole (but not in part) in the circumstances set out in Clause 5.2 of the Loan Agreement; and

(ii) the Lender may require the Borrower to prepay the Loan in whole (but not in part) in the circumstances set out in Clause 5.3 of the Loan Agreement.

To the extent that the Lender receives amounts of principal, interest or additional amounts (other than amounts in respect of the Reserved Rights) from the Borrower following prepayment of the Loan, the Lender shall pay an amount equal to such amounts on the business day (as defined in Condition 7) following receipt of such amounts, subject as provided in Condition 7.

(C) Cancellation

The Loan provides that the Borrower may, among other things, from time to time deliver to the Lender Notes, having an aggregate principal value of at least €1,000,000 together with a request for the Lender to present such Notes to the Registrar for cancellation, whereupon the Lender shall, pursuant to the Agency Agreement, request the Registrar to cancel such 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 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 Lender in respect of such Notes.

7. PAYMENTS

(A) Principal

Payments of principal shall be made by euro cheque drawn on, or, upon application by a holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a euro account maintained by the payee with, a bank 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 (the "**TARGET System**"), upon surrender (or, in the case of part payment only, endorsement) of the relevant Certificates at the Specified Office of any Paying Agent.

(B) Interest

Payments of interest shall be made by euro cheque drawn on, or upon application by a holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a euro account maintained by the payee with, a bank in a city in which banks have access to the TARGET System, and (in the case of interest payable on redemption) upon surrender (or, in the case either of an interest payment prior to redemption or of part payment only, endorsement) of the relevant Certificates at the specified office of any Paying Agent.

(C) Payments Subject To Fiscal Laws

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8, no commissions or expenses shall be charged to the Noteholders in respect of such payments.

(D) Payments On Business Days

If the due date for payments of interest or principal is not a business day, the holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition, "**business day**" means a day on which (a) the London Interbank Market is open for dealings between banks generally, and (b) if on that day a payment is to be made hereunder, the TARGET System is operating and commercial banks generally are open for business in Luxembourg, Moscow and in the city where the Specified Office of the Principal Paying Agent is located.

(E) Record Date

Each payment in respect of a Note will be made to the person shown as the holder in the Register at the opening of business (in the place of the Registrar's Specified Office) on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the holder in the Register at the opening of business on the relevant Record Date.

(F) Accrued Interest

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the date of issuance of the Notes, shall be payable only as and when actually received by or for the account of the Lender pursuant to the Loan Agreement.

(G) Payments by Borrower

Save as directed by the Trustee at any time after the security created in the Trust Deed becomes enforceable, the Lender will require the Borrower to make all payments of principal, interest and additional amounts, if any, to be made pursuant to the Loan Agreement to the Principal Paying Agent to an account in the name of the Lender. Pursuant to the Charge, the Lender will charge by way of first fixed charge all its rights, title and interest in and to all sums of money then or in the future deposited in such account in favour of the Trustee for the benefit of the Noteholders.

(H) Currency Other Than Euro

In respect of the Lender's obligations under Conditions 5, 6 and 8, and subject to the following sentence, if the Lender receives any amount under the Loan Agreement in a currency other than euro, the Lender's obligation under the relevant Condition shall be fully satisfied by paying such sum (after deducting any costs of exchange) as the Lender receives upon conversion of such sum into euro in accordance with customary banking practice in the spot market on the business day immediately following the day on which such sum is received by the Lender. If the Lender receives any payment from the Borrower pursuant to Clause 12.4 of the Loan Agreement with respect to amounts due under the Notes, the Lender shall pay such sum to the Noteholders in accordance with this Condition 7.

8. TAXATION

All payments in respect of the Notes by or on behalf of the Lender shall be made free and clear of, and without deduction or withholding for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Grand Duchy 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 Lender shall, subject as provided below, make such additional payments as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required. However, the Lender shall only make such additional payments to the extent and at such time as it shall receive equivalent sums from the Borrower under the Loan Agreement. To the extent that the Lender does not receive any such equivalent sum, the Lender shall account to the relevant Noteholder for an additional amount equivalent to a *pro rata* proportion of such additional amount (if any) as is actually received by, or for the account of, the Lender pursuant to the provisions of the Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Lender provided that no such additional amount will be payable:

(a) to a Noteholder who (i) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (ii) is liable for such taxes or duties by reason of his having some connection with the Grand Duchy of Luxembourg other than the mere holding of such in respect of a Certificate 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 Certificate had been presented for payment on such thirtieth day;

(b) 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

(c) in respect of a Note held by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another Paying Agent in a Member State of the European Union.

As used herein, "**Relevant Date**" means (i) the date on which the equivalent payment under the Loan Agreement first becomes due but (ii) if the full amount payable by the Borrower has not been received by, or for the account of, the Lender pursuant to the Loan Agreement on or prior to such date, means the date on which such full amount shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Lender 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 period and such failure or neglect is continuing.

The Trust Deed also provides that, in the case of an Event of Default (as defined in the Loan Agreement), or of a Relevant Event (as defined in the Trust Deed), the Trustee may, at its discretion, and shall, if requested to do so by Noteholders whose Notes constitute at least 25 per cent. in aggregate principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified to its satisfaction, declare all amounts payable under the Loan Agreement by the Borrower to be immediately 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 and thereupon shall cease to be outstanding.

10. MEETINGS OF NOTEHOLDERS; MODIFICATION; WAIVER; SUBSTITUTION OF THE LENDER

(A) Meetings on 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 or the Trust Deed. Noteholders will vote *pro rata* according to the principal amount of their Notes. The Trust Deed provides that special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, *inter alia*, the amount payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Loan Agreement. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

(B) Modification and Waiver

The Trustee may agree, without the consent of the Noteholders (save as provided in the Trust Deed), to any modification of the Notes and the Trust Deed, the Agency Agreement 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. Save as provided in the Trust Deed, the Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Lender of the Conditions, or the Trust Deed or by the Borrower of the terms of the Loan Agreement, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement shall not be treated as such, if in the sole opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders; provided always that (subject to certain exceptions) the Trustee may not exercise such power of waiver in contravention of a request given by the holders of one quarter in aggregate principal amount of the Notes then outstanding or of any express direction by an Extraordinary Resolution of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 14.

(C) Substitution

The Trust Deed contains provisions to the effect that the Lender may, having obtained the consent of the Borrower and the Trustee (which latter consent may be given without the consent of the Noteholders) and subject to having complied with certain requirements as set out therein including the substitute obligor's rights under the Loan Agreement being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes, substitute any entity in place of the Lender as creditor under the Loan Agreement, as issuer and principal obligor in respect of the Notes and as obligor under the Trust Deed. Not later than 14 days after compliance with the aforementioned requirements, notice thereof shall be given by the Lender to the Noteholders in accordance with Condition 14 or the Lender shall use its best endeavours to ensure that the substitute obligor does so.

(D) Exercise of Powers

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Lender, the Borrower or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

11. PRESCRIPTION

Notes will become void unless presented for payment within ten years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect thereof.

12. TRUSTEE AND AGENTS

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking proceedings to enforce payment unless indemnified to its satisfaction, and to be paid its costs and expenses in priority to the claims of Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Lender and the Borrower and any entity relating to the Lender and the Borrower without accounting for any profit.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Loan Agreement or the security created in respect thereof or for the performance by the Lender of its obligations under or in respect of the Notes and the Trust Deed or by the Borrower in respect of the Loan Agreement.

The Trust Deed contains provisions for the appointment of new trustees by the Lender (subject to approval by an Extraordinary Resolution of Noteholders) and for the removal of a Trustee by a meeting of Noteholders passing an Extraordinary Resolution, provided that (a) in the case of the removal of a Trustee, at all times there remains a trustee (being a trust corporation (as defined in the Trust Deed)) in office after such removal, (b) the same person shall at all times be (i) the Trustee under the Trust Deed, (ii) the trustee in respect of the 2005 Notes (the "**2005 Notes Trustee**", which includes any successor) and (iii) the trustee in respect of the Programme Notes (the "**Programme Trustee**", which includes any successor) unless the Programme Trustee and the 2005 Notes Trustee agree otherwise and (c) no person may be appointed to be Trustee unless he has agreed with the Programme Trustee and the 2005 Notes Trustee (or each of them if more than one) for the benefit respectively of (i) the holders of notes issued under the Programme prior to the Closing Date (the "**Existing Programme Notes**") and (ii) the holders of the 2005 Notes that it will not take any action or bring any proceedings to challenge the validity, enforceability or effectiveness of (i) the Existing Programme Notes or the 2005 Notes or the respective trust deeds constituting them insofar as the same relate to the security created respectively for the Existing Programme Notes and the 2005 Notes and releases all or any rights it may have to do so, and (ii) the provisions of the Notes and the Trust Deed which limit the rights of the Trustee and the Noteholders to the right to receive payment of any amount only insofar as the same are received from the Borrower pursuant to the Loan Agreement. The Trustee has agreed in the Trust Deed, for the benefit of the holders of the Existing Programme

Notes and the 2005 Notes, similar restrictions. Any appointment or removal of a Trustee shall be notified to the Noteholders in accordance with Condition 14. The Trustee may also resign such appointment giving not less that three months' notice to the Noteholders provided that such retirement shall not become effective unless there remains a Trustee in office after such retirement.

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

The initial Agents and their initial Specified Offices are listed below. The Lender reserves the right (with the prior written approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent or registrar and additional or successor paying agents and transfer agents; provided, however, that the Lender shall at all times maintain (a) a principal paying agent, a registrar and a calculation agent, (b) a paying agent and transfer agent having Specified Offices in at least two major European cities approved by the Trustee (including London, so long as the Notes are admitted to listing on the Official List of the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 and admitted to trading on the Gilt-Edged and Fixed Interest Market of the London Stock Exchange plc), and (c), a paying agent in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced to conform to, such Directive.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

13. REPLACEMENT OF CERTIFICATES

If a Certificate shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and requirements of the Stock Exchange (as defined in the Trust Deed), be replaced at the Specified Office of the Registrar and the Transfer Agent having its Specified Office in London on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Lender or the Trustee. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

14. NOTICES

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. Notices will be valid if published in a leading newspaper having general circulation in London (which is expected to be the Financial Times) or if such publication shall not be practicable, in an English language newspaper of general circulation in Europe or as otherwise required by any exchange or, as the case may be, any competent authority on which or by whom the Notes are listed.

In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above, then such notification to such holders as shall be given with the approval of the Trustee in accordance with the rules of the Stock Exchange shall constitute sufficient notice to such holders for every purpose hereunder.

15. FURTHER ISSUES

The Lender may from time to time, with the consent of the Borrower but without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the issue price, issued date and/ or the first payment of interest) so as to be consolidated and form a single series with the Notes. In relation to any further issue which is to be consolidated and form a single series with the Notes (i) the Lender will enter into a loan agreement with the Borrower on the same terms as the Loan Agreement (or on the same terms except for the first payment of interest) subject to any modifications which, in the sole opinion of the Trustee, only relate to the Reserved Rights or would not materially prejudice the interests of the Noteholders and (ii) the Security Interests granted in respect of the Notes will be amended or supplemented so as to secure amounts due in respect of such further Notes also and/or new security will be granted over any further loan agreement or the Loan Agreement as so amended or supplemented to secure amounts due on the Notes and such further Notes. Such further Notes shall be issued under a deed supplemental to the Trust Deed. 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.

16. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

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

17. GOVERNING LAW

The Notes and the Trust Deed are governed by and shall be construed in accordance with, English law. The Lender has submitted in the Trust Deed to the jurisdiction of the courts of England and has appointed an agent for the service of process in England.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The following is a summary of the provisions to be contained in the Trust Deed to constitute the Notes and in the Global Certificate which will apply to, and in some cases modify, the Terms and Conditions of the Notes while the Notes are represented by the Global Certificate.

The Notes will be represented by a Global Certificate which will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg.

Subject to receipt of funds from RSB, the Global Certificate will become exchangeable in whole but not in part (free of charge to the holder), for Definitive Notes if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reasons of legal holidays) or announces an intention permanently to cease business or (b) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 (Taxation) of the Terms and Conditions of the Notes which would not be suffered were the Notes in the form of Definitive Notes.

Whenever the Global Certificate is to be exchanged for Definitive Certificates, such Definitive Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Certificate following delivery, by or on behalf of the registered holder of Notes represented by the Global Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as required to complete and deliver such Definitive Certificates (including, but without limitation to, the names and addresses of the persons in whose names the Definitive Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Certificate at the Specified Office (as defined in the Agency Agreement) of the Registrar or the Transfer Agent. Such exchange will be effected in accordance with the provisions of the Agency Agreement, the Trust Deed and the Global Certificate.

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

Notices

Notwithstanding Condition 14 (Notices), so long as the Global Certificate is held by or on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system (an ''Alternative Clearing System''), notices to holders of the Notes represented by the Global Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System.

Meetings

The holder of the Global Certificate will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of holders of the Notes and, in any such meeting as having one vote in respect of each €1,000 in principal amount of Notes for which the Global Certificate is exchangeable.

TAXATION

The following is a general description of certain Russian and Luxembourg tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this 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 the Notes.

Russian Federation

The following is a general summary of certain Russian tax considerations relevant to the purchase, ownership and disposition of the Notes by non-resident holders, including information regarding the taxation of payments on the Loan. This summary is based on the laws of Russia, in effect on the date of this Prospectus, which are subject to change (possibly with retroactive effect). The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal authorities of Russia. Similarly, the summary does not seek to address the availability of double tax treaty relief in respect of the Notes, and 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 in light of their particular circumstances. No representation is made to any Noteholder with respect to the Russian tax consequences.

Taxation of the Notes

General

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 any individual who is not present in Russia for an aggregate period of more than 182 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 the Loan Agreement may affect the holders of the Notes. See "Taxation of Interest on the Loan" below.

Non-Resident Holders

A Non-Resident Holder of the Notes will not be subject to any Russian taxes in respect of the purchase or ownership of the Notes or receipt from the Issuer of amounts payable in respect of principal, premium or interest on the Notes.

A Non-Resident Holder generally should also 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 redemption, sale or other disposition are not received from a source within Russia.

In the event that proceeds from a disposition of Notes are received from a source within Russia, a Non-Resident Holder which is a legal person or organisation generally should not be subject to any Russian taxation in respect of the proceeds, provided that no portion thereof is attributable to accrued interest. There is some residual uncertainty regarding the treatment of the portion of such proceeds, if any, that is attributable to accrued interest, and such portion may be taxed at a rate of 20% even if the disposal results in a capital loss.

Non-Resident Holders that are legal entities or organisations should consult their own tax advisers with respect to the tax consequences of the receipt of proceeds from a source within Russia in respect of a disposal of the Notes.

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.

In the event that proceeds from a disposition of the Notes are received from a source within Russia, a Non-Resident Holder that is an individual may be subject to Russian tax in respect of such proceeds at a rate of 30% of the gain (gross proceeds less any available cost deduction, including the original purchase price), because such payments are likely to be treated as Russian source income for Russian personal income tax purposes.

In certain circumstances, if the disposal proceeds are payable by a Russian legal entity, individual entrepreneur or a Russian permanent establishment of a foreign organisation, the payer may be required to withhold this tax. If the payer is an individual but not an individual entrepreneur, it is not required to withhold income tax. In this case the tax should be paid by the Non-Resident Holder directly.

Personal income tax on disposal of the Notes may be reduced or eliminated in accordance with the provisions of an applicable double taxation treaty. Non-Resident Holders who are individuals should consult their own tax advisers with respect to the tax consequences of the receipt of proceeds from a source within Russia in respect of a disposition of the Notes.

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.

Where proceeds from the disposition of the Notes are received from a Russian source, in order for the Non-Resident Holder, whether a legal entity or organisation or an individual, to enjoy the benefits of an applicable double tax treaty, documentary evidence is required to confirm the applicability of the double tax treaty for which benefits are claimed. Currently, a holder would need to provide a certificate of tax residence issued by the competent tax authority of the relevant treaty country. In addition, an individual must provide appropriate documentary proof of tax payments outside of Russia on income with respect to which treaty benefits are claimed. Because of uncertainties regarding the form and procedures for providing such documentary proof, individuals in practice may not be able to obtain treaty benefits on receipt of proceeds from a source within Russia.

Resident Holders

A holder of a Note who is an individual resident in Russia for tax purposes or a legal person or organisation which is not a Non-Resident Holder in Russia is subject to all applicable Russian taxes in respect of gains from disposal of the Note, and interest received on the Notes. Resident holders should consult their own tax advisers with respect to their tax position regarding the Notes.

Taxation of Interest on the Loan

In general, payments of interest on borrowed funds by a Russian entity to a non-resident legal person are subject to Russian withholding 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 at the date hereof, interest payments on the Loan made to the Issuer should not be subject to tax under the terms of the double taxation treaty between Russia and the Grand Duchy of Luxembourg. However, there can be no assurance that the treaty will remain in place during the term of the Notes and/or 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.

A claim for treaty relief does not require preliminary approval and review of relevant contracts by the tax authorities. As a result, the Russian tax authorities may review the Issuer's eligibility for treaty relief in detail during tax audit. If, as a result of any such review, this Issuer is found not to be eligible for treaty relief, payments of interest on the Loan may become subject to Russian withholding tax.

If the payments under the 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 tax gross-up provisions in contracts may not be enforceable under Russian law. If RSB is obliged to increase payments, it may prepay the Loan in full. In such case, all outstanding Notes would be redeemable at par with accrued interest.

Russian VAT is not applied to the rendering of financial services involving the provision of a loan in monetary form. Therefore, no VAT is payable in Russia on any payment of interest or principal in respect of the Loan.

Luxembourg

The following is a general description of certain Luxembourg tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in Luxembourg or elsewhere. Prospective purchasers of the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of Luxembourg. This summary is based upon the law as in effect on the date of this Prospectus. The information contained within this section are limited to taxation issues, and prospective investors should not apply any information set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

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, subject however to the application of the Luxembourg law of 21 June 2005 implementing the European Union Savings Directive (see "EU Savings Directive" below, which may be applicable in the event of the Issuer appointing a paying agent in Luxembourg within the meaning of the above-mentioned directive).

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, a permanent representative or a fixed base of business 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, a permanent representative or a fixed base of business 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 or the Loan 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 or the Loan in accordance therewith, except that in case of court proceedings in a Luxembourg court (including but not limited to a Luxembourg Insolvency Proceeding), registration of the Notes or the Loan may be ordered by the court, in which case the Notes or the Loan will be respectively subject to a fixed duty of EUR 12 or an ad *valorem duty*. Registration would in principle further be ordered, and the same registration duties could be due, when the Notes or the Loan are produced, either directly or by way of reference, before an official authority ("*autorité constituée*") in Luxembourg.

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 Note.

EU Savings Directive

On 3 June 2003, the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income. The directive is applied by Member States as from 1 July 2005 and has been implemented in Luxembourg by the Law of 21 June 2005. Under the directive, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State. For a transitional period, however, Austria, Belgium and Luxembourg are permitted to apply an optional information reporting system whereby if a beneficial owner does not comply with one of two procedures for information reporting, the Member State will levy a withholding tax on payments to such beneficial owner, 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)".

Also with effect from 1 July 2005, a number of non-EU countries (Switzerland, Andorra, Liechtenstein, Monaco and San Marino), and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a paying agent within its jurisdiction to, or collected by such a paying agent for, an individual or a residual entity in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories (Jersey, Guernsey, Isle of Man, Montserrat, British Virgin Islands, Netherlands Antilles and Aruba) in relation to payments made by a paying agent in a Member State to, or collected by such a paying agent for, an individual or a residual entity resident in one of those territories.

SUBSCRIPTION AND SALE

Summary of Subscription Agreement

Barclays Bank PLC, Credit Suisse Securities (Europe) Limited (together, the "**Joint Lead Managers**"), Alpha Bank A.E., Banco Finantia, S.A. and Raiffeisen Zentralbank Österreich AG (together with the Joint Lead Managers, the "**Managers**") have, pursuant to the terms and conditions set forth in a subscription agreement dated 13 September 2006 (the "**Subscription Agreement**"), agreed with the Issuer, subject to the satisfaction of certain conditions set forth therein, to subscribe and pay for the Notes at the issue price of 100 per cent. of the principal amount of the Notes. RSB has agreed to pay certain commissions, fees, costs and expenses in connection with the Loan and the offering of the Notes (including a management and underwriting commission of 0.37 per cent. of the aggregate principal amount of the Notes) and to reimburse the Joint Lead Managers, the Issuer and the Trustee for certain of their expenses in connection with the offering of the Notes. The Managers are entitled to be released and discharged from their obligations under the Subscription Agreement in certain circumstances prior to payment being made to the Issuer.

Selling Restrictions

United States

The Notes and the Loan have not been and will not be registered under the Securities Act or the securities laws of any State or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

Each Manager has agreed that it will not offer or sell the Notes (i) as part of their distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (the "**Distribution Compliance Period**"), within the United States or to, or for the account or benefit of, U.S. persons, and they will have sent to each other dealer to which it sells Notes during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

Terms used on this paragraph have the meanings given to them by Regulation S. The Notes are being offered and sold only outside of the United States to non-U.S. persons in reliance upon Regulation S.

United Kingdom

Each Manager has represented, warranted and agreed that:

(i) *Financial promotion*: it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21 (1) of the FSMA does not apply to the Issuer; and

(ii) *General compliance*: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Russian Federation

Each Manager has agreed that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian Law; it being understood and agreed that the Managers may distribute the Prospectus to persons in the Russian Federation in a manner that does not constitute advertisement (as defined in Russian law) of Notes and may sell Notes to Russian persons in a manner that does not constitute "placement" or "public circulation" of the Notes in the Russian Federation (as defined in Russian law).

Hong Kong

Each Manager has represented to and agreed that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to any Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Singapore

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the Prospectus or any Prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Notes may not be circulated or distributed, nor may Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act (the "**SFA**"), (ii) to a relevant person, or any person pursuant to Section 275 (1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 by a relevant person which is:

(a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the Notes under Section 275 except:

(i) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA;

(ii) where no consideration is given for the transfer; or 158

(iii) by operation of law.

Republic of Italy

The offering of the Notes has not been registered with the Commissione Nazionale per la Societa e la Borsa ("**CONSOB**") (the Italian securities and exchange commission) pursuant to the Italian securities legislation and, accordingly the Notes cannot be offered, sold or distributed nor any copies of the Prospectus or any other document relating to the Notes can be distributed in the Republic of Italy ("**Italy**") in a solicitation to the public at large (*sollecitazione all'investimento*) within the meaning of Article 1, paragraph 1, letter (t) of Legislative Decree no. 58 of 24 February 1998, unless an exemption applies. Accordingly, the Notes in Italy:

(i) shall only be offered or sold to professional investors (operatori qualificati), as defined in Article 31, second paragraph of CONSOB Regulation No 11522 of 1 July 1998 (the "**Regulation No 11522**"), as amended, and effected in compliance with the terms and procedures provided therein; or

(ii) shall only be offered or sold in circumstances which are exempted from the rules of solicitation of investments pursuant to Article 100 of Legislative Decree No 58 of 24 February 1998 (the "Financial Services Act") and Article 33, first paragraph, of CONSOB Regulation No 11971 of 14 May 1999,

(iii) but, in any case, cannot be offered, sold and/or delivered, either in the primary or in the secondary market, to individuals in Italy, and in any event, the offer or sale of the Notes in Italy shall be effected in accordance with all relevant Italian securities, tax and exchange control and other applicable laws and regulations.

Moreover and subject to the foregoing, the Notes may not be offered, sold or delivered and neither the Prospectus nor any other material relating to the Notes may be distributed or made available in Italy unless such offer, sale or delivery of Notes or distribution or availability of copies of the Prospectus or any other material relating to the Notes in Italy is:

(i) made by investment firms, banks or financial intermediaries permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No 385 of 1 September, 1993 (the "Italian Banking Act"), the Regulation No 11522 and any other applicable laws and regulations; and

(ii) in compliance with Article 129 of the Italian Banking Act and the implementing instructions of the Bank of Italy, pursuant to which the issue, trading or placement of securities (e.g., Notes) in Italy is subject to prior and subsequent notification to the Bank of Italy, unless an exemption, depending *inter alia* on the amount of the issue and the characteristics of the securities, applies; and

(iii) in compliance with any other applicable requirement or limitation which may be imposed from time to time by CONSOB or the Bank of Italy.

Insofar as the requirements above are based on laws which are superseded at any time pursuant to the implementation of the Prospectus Directive, such requirements shall be replaced by the applicable requirements under the Prospectus Directive.

The Federal Republic of Germany

Each Manager has represented and agreed that it has only offered and sold and that it will only offer and sell the Notes in the Federal Republic of Germany in accordance with the German Securities Prospectus Act (*Wertpapierprospektgesetz*) as of 22 June 2005 implementing directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 and the German Securities Sales Prospectus Act (*Wertpapier – Verkaufsprospektgezetz*) and any other applicable laws and regulations in the Federal Republic of Germany governing the issue, sale and offering of securities.

Luxembourg

The Notes may not be offered or sold within the territory of the Grand-Duchy of Luxembourg unless:

(i) a prospectus has been duly approved by the *Commission de Surveillance du Secteur Financier* (the "**CSSF**") if Luxembourg is the home member state (as defined in the Law of 10 July 2005 on prospectuses for securities and implementing Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading (the "**Law**")); or

(ii) if Luxembourg is not the home member state, the CSSF has been notified by the competent authority in the home member state that the prospectus has been duly approved; or

(iii) the offer benefits from an exemption to or constitutes a transaction not subject to, the requirement to publish a prospectus;

General

Each Manager has agreed that it has (to the best of its knowledge and belief) complied and will comply with all applicable laws and regulations in each jurisdiction in which it offers, sells or delivers Notes or distributes this Prospectus (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Notes, the Issuer or RSB.

With the exception of the application for the approval by the UK Listing Authority of this Prospectus as a prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom and the publication of the Prospectus in accordance therewith, no action has been taken or will be taken in any jurisdiction by the Issuer, RSB or any of the Managers that would, or is intended to, permit a public offer of the Notes or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Accordingly, each has undertaken to the Issuer and RSB that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will (to the best of its knowledge and belief) result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

The Managers and their 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 Managers 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 Managers and their respective affiliates may provide such services in the future.

GENERAL INFORMATION

1. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg with a Common Code 026795338 and the International Securities Identification Number (ISIN) XS0267953387.

2. It is expected that listing of the Notes on the Official List and the admission to trading on the Regulated Market of the Notes will take effect on or around 15 September 2006, subject in each case to the issue of the Notes. Prior to official listing, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day in London after the day of the transaction.

3. RSB and the Issuer have obtained or will obtain all necessary consents, approvals and authorisations in Russia and Luxembourg in connection with the Loan, and the issue and performance of the Notes. The issue of the Notes, the Loan Agreement and other documents to be entered into by the Issuer in relation to the issue of the Notes have been authorised by the Board of Directors of the Issuer on 12 September 2006.

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 Notes.

5. Since 30 June 2006, there has been no significant change in the financial or trading position of RSB or the Group and, since 31 December 2005, there has been no material adverse change in the prospects of RSB or the Group.

6. There are no, and have not been, any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which RSB is aware) which may have or have had during the 12 months prior to the date of this Prospectus a significant effect on the consolidated financial position or profitability of RSB or the Group.

7. Since 31 December 2005, there has been no material adverse change in the financial position or prospects of the Issuer.

8. There are no, and have not been, any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have or have had since incorporation, a significant effect on the financial position or profitability 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 2005 and 31 December 2004 and for the six months ended 30 June 2006.

10. Neither RSB nor the Issuer has entered into contracts outside the ordinary course of business and which could result in any member of the Group or the Issuer becoming subject to an obligation or entitlement that would be material to the Issuer's ability to meet its obligations to Noteholders in respect of the Notes.

11. For the life of this document, copies (and certified English translations where documents at issue are not in English) of the following documents may be inspected at the offices of the Principal Paying Agent in London during usual business hours on any weekday (Saturdays and public holidays excepted):

    (a) a copy of this Prospectus along with any supplement to this Prospectus;

    (b) the Articles of Incorporation of the Issuer;

    (c) the charter of RSB;

    (d) the audited Consolidated Financial Statements of the Group as at and for the years ended 31 December 2005, 2004 and 2003 and as at and for the six months ended 30 June 2006;

    (e) the report of PwC in respect of the audited Consolidated Financial Statements of the Group as at and for the financial years ended 31 December 2005 and 2004 and as at and for the six months ended 30 June 2006;

    (f) the Subscription Agreement and the Loan Agreement; and

    (g) the Trust Deed and the Agency Agreement.

12. Deutsche Bank Luxembourg S.A. will act as Registrar in relation to the Notes. A register of the Notes will be kept at the Issuer's registered office. In case of inconsistency between the register of the Notes kept by the Registrar and the one kept by the Issuer at its registered office, the register kept by the Issuer at its registered office shall prevail.
13. The loan to value ratio is 100 per cent. The yield on the Notes is expected to be 6.825 per cent.

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 ARCO's administration and by 31 December 2002 11 of them had completed the financial restructuring process. Other defaulting banks were liquidated. Following the stabilisation of the banking sector in recent years, ARCO's role has decreased substantially. On 18 October 2003, the last credit organisation was withdrawn from ARCO's administration.

As of 1 July 2006, the number of credit organisations operating in the Russian Federation amounted to approximately 1,221. However, poor corporate governance, risk management, transparency and weak management remain widespread among many Russian banks.

According to the CBR, as of 1 January 2006 the total assets of the Russian banking sector were valued at approximately RUB 9,750.3 billion, with own assets valued at approximately RUB 1,241.8 billion. The total charter capital of Russian credit organisations was just RUB 471.3 billion as of 1 July 2006.

In 2002, 2003, 2004 and 2005 the Russian banking sector continued to restore its creditability in the eyes of creditors and retail depositors facilitating the increase of the banks' resource base. The main source of growth of the banks' financial resources is the increasing number of retail deposits. In May 2006 the amount of credit balances on Rouble and foreign currency accounts of individuals increased to approximately RUB 2,971,180 million as compared to RUB 2,200,639 million in May 2005. 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 1,220,705 million in May 2005 to RUB 1,738,494 million in May 2006. The remaining sources of growth of the banking sector's resource base are increasing volumes of issue of debt securities (primarily promissory notes) and interbank credit operations amounting to RUB 937.1 billion and RUB 1,282.3 billion as of 1 July 2006, respectively, as compared to RUB 1,316.5 billion and RUB 866.0 billion in July 2005, respectively.

As of July 2006 of the Russian banking sector's total assets, 65.7 per cent. are represented by account receivables under credit operations, 16.7 per cent. are represented by investments into securities, 6.4 per cent. and 2.3 per cent. are represented by credit balances on accounts with the CBR and correspondent banks, respectively, 8.9 per cent. are represented by other assets. Although the volume and amount of credit operations is increasing, Russian banks are focused mainly on short-term financing due to the insufficient creditworthiness and transparency of Russian entities. That in turn broadens the practice of tied loans and financing of affiliated parties.

In April-July 2004 the Russian banking sector experienced its first serious turmoil since the financial crisis of August 1998. As a result of the recent circulation of various market rumours and, in some cases, certain regulatory and liquidity problems, several Russian privately-owned banks have collapsed or ceased or significantly limited their operations. A number of Russian privately-owned banks were experiencing liquidity problems and were unable to attract funds on the interbank market or from their clients or shareholders. Simultaneously, they faced large withdrawals of deposits by both retail and corporate clients. According to the CBR, from 15 June until 1 August 2004 private depositors withdrew approximately RUB 30 billion from Russian banks, except for Sberbank.

The CBR took steps to combat the crisis. The rate of mandatory reserves that banks were required to deposit with the CBR was temporarily reduced from 7 per cent. to 3.5 per cent. To implement these measures, the CBR permitted banks to immediately reduce their mandatory reserves. Accordingly, banks' borrowing costs have been reduced. In addition, legislation has been passed to combat the crisis and to minimise potential losses of private depositors. In accordance with the recent amendments to the CBR Law (as defined below) 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 July 2006, approximately 74.9 per cent. of the banking sector's total assets were held by 50 of the largest Russian banks. Sberbank remains the largest bank in Russia in terms of assets, volume of banking operations, client base and branch offices.

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

Although it is not possible for foreign banks to directly conduct business on the Russian financial market, many major foreign banks have subsidiary banks in the Russian Federation. The aggregate level of participation of foreign capital within the Russian banking system is determined by federal law as proposed by the Government in conjunction with the CBR. At the moment, however, such law has not been yet adopted. As of 1 July 2006, 58 banks controlled by foreign groups through the holding of more than 50 per cent. of their shares were operating in the Russian Federation, of which three banks are ranked top 30 by the value of their assets. Foreign-controlled banks focus primarily on cash and settlement services to non-residents and interbank operations. Although foreign-controlled banks, such as Raiffeisenbank Austria, Citibank, Société Générale and Delta Bank, are starting to offer retail banking services and increase loan portfolios in the real sectors of the economy, their role in the Russian banking sector remains insignificant.

Retail banking

Sberbank remains the leader in retail banking operations with approximately a 65 per cent. share of total retail deposits. The collapse of large privately-owned banks with large distribution networks, such as SBS Agro, Incombank and Rossyisky Kredit in 1998, considerably undermined the credibility of consumer banking among retail depositors. State-owned Sberbank remains a dominant player in the sector benefiting 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 is 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 June 2006, the CBR assets amounted to RUB 7,083,420 million (approximately U.S.$263,325 million at then current exchange rate) and its gold and currency reserves (held together with the Ministry of Finance) as of 25 August 2006 amounted to U.S.$265,699 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 the 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 a 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 Currency Law, the CBR is authorised to issue and implement binding regulations with respect to banking and currency operations.

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

Issue of Money and Regulation of its Circulation

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

Financing/Monetary Policy

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

Registration and Licensing

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

Supervision and Control

The CBR oversees banks' compliance with ratio and reserve requirements, imposes sanctions for violations thereof, establishes reporting requirements and accounting rules and procedures for banks, oversees banks' operations and transactions, appoints temporary administrations to banks, regulates the acquisition and/or trust management of shareholding in banks exceeding 5 per cent. and assesses 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 current currency legislation the CBR has 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 special accounts 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 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 for 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 by individuals 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 minimum amount of charter capital for banks. Pursuant to the Directive of the CBR No. 1346u dated 1 December 2003, the minimum amount of charter capital for both newly established as well as foreign controlled banks is EUR 5 million. From 1 January 2007 the minimum amount of charter capital for banks will be regulated on the level of a federal law.

Capital Adequacy

The CBR is authorised to introduce various capital and liquidity requirements applicable to banks and, as the case may be, to banking groups. Such requirements currently exist in the form of the relevant mandatory financial ratios described in the CBR Regulation No. 110-I "On Mandatory Ratios of Banks" dated 16 January 2004 (as amended) ("Regulation No. 110-I"). Under Regulation No. 110-I the value of the capital adequacy ratio, which is a relation of own capital to assets and certain off-balance sheet items, determined on a risk-weighted basis, shall amount to the rate of at least 10 per cent. for banks with amount of own capital no less than EUR 5 million and at least 11 per cent. for banks with amount of own capital less than EUR 5 million.

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

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

Compulsory Reserve Requirements

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

Banks are currently required to post compulsory reserves to be held on non-interest bearing accounts with the CBR in the amount equal to 3.5 per cent. in respect of funds in roubles and foreign currency attracted from legal entities and individuals and 2 per cent. in respect of short-term funds in roubles and foreign currency attracted from non-resident banks. However, as of 1 October 2006, the compulsory reserves requirement will be at the level of 3.5 per cent. for each of the above.

The compulsory reserves of banks to be deposited with the CBR are required to be calculated in accordance with the CBR Regulation No. 255-P of 29 March 2004 (as amended) (the "**Reserves Regulation**").

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 (as amended) ("**Regulation No. 254-P**") requires the banks to adopt procedures for calculation and posting of allowances for loan losses and continuously monitor the financial position of the banks' borrowers.

Regulation No. 254-P has introduced a number of new provisioning rules which purport to make the loan impairment provisioning compliant with the BIS requirements. In particular, it requires credit organisations to rank their loans into five categories instead of four, as prescribed by the earlier regulations and the range of loans that must be provided for has been extended to include rights assigned under contracts, mortgages acquired in the secondary markets, claims relating to purchase of financial assets with deferred payment, rights under repo contracts (if such repo contracts are concluded in respect of unlisted securities) and some other operations. Regulation No.254-P established that loans classified as Category I loans (standard loans) need not be provided for. Additionally, credit organisations will be required to classify their loan security into two groups on the basis of its quality. Regulation No. 254-P provides for a somewhat simplified procedure with respect to writing off bad debts, especially minor debts, as compared with the procedure that was previously in place.

Allowances for loan losses are calculated at the end of each calendar month in roubles, and then adjusted each month. Such allowances are only used to cover losses relating to the principal amount of the loans made by banks and/or amounts of promissory notes that exclude the relevant interest and discount. The 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. 283-P of 20 March 2006 requires banks to rank such assets and operations into five categories of quality 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 category of quality indicated above, respectively: (i) 0 per cent.; (ii) 1 per cent. to 20 per cent.; (iii) 21 per cent. to 50 per cent.; (iv) 51 per cent. to 100 per cent.; and (v) 100 per cent. Banks must report to the CBR on the amounts of created non-loan allowances on a monthly basis. 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 per cent.

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

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

Credit limits

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

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

Regulation of Currency Exposure

In its Instruction No. 124-I of 15 July 2005, the CBR established rules regarding exposure of banks to foreign currency and precious metals (collectively, "currency exposure"), as well as controls over such exposure. Currency exposure is calculated with respect to net amounts of balance sheet positions, spot market positions, forward positions, option positions and positions under guarantees. Open currency position is calculated as the sum of all these net amounts. Such exposure is calculated for each currency and each precious metal, and then recalculated into Roubles in accordance with the official exchange rates and the CBR's prices for precious metals.

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

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

Reporting Requirements

Banks must regularly submit balance sheets and other financial statements that reflect their financial position to the 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 group's consolidated accounts.

The CBR may at any time conduct full or selective audits of any bank's 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. Pursuant to the CBR Letter No. 19-T dated 10 February 2006, credit organisations must prepare financial statements in accordance with IFRS on the basis of financial statements prepared in accordance with RAR and submit them to the CBR prior to 1 July of the following year.

Banking Reform

Following the 1998 financial crisis, Russian banks undertook important steps towards developing more transparent business practices and more diversified portfolios of assets. In recent years, confidence in local banks has gradually improved, as evidenced by substantial growth in the volume of private deposits in Russian banks between 2001 and 2003.

On 5 April 2005, the Russian government and the CBR issued their joint Strategy for the Development of the banking sector of the Russian Federation until 2008 (the "Strategy"). The Strategy replaces the five-year Strategy for the Development of the banking sector in the Russian Federation issued in December 2001, and sets out an action plan for the facilitation of the development of the Russian banking sector in the medium term (2005-2008).

Among other things, the Strategy outlines the targets for the reform of the Russian banking sector, the forecast of the results of such reform and the analysis of the current condition of the Russian banking sector. The Strategy also lists measures which should be implemented for the achievement of these targets.

Pursuant to the Strategy, the main objective of the development of the Russian banking sector is to increase the stability of the banking system and the effectiveness of banking activities. Among the main goals set forth by the Strategy are:

- improving the protection of the interests of depositors and creditors of banks;
- increasing the effectiveness of deposit-taking and lending activities of banks;
- increasing the competitiveness of Russian credit organisations;
- ensuring the transparency of banking activities;
- preventing the use of credit organisations for unlawful purposes (such as money laundering); and
- strengthening investors', depositors' and creditors' trust in the Russian banking sector.

The Strategy lists the main measures which should be implemented by the Russian Government and the CBR, among which are:

- improving the legislative regulation of banking activities;
- facilitating banks' role as financial intermediaries;
- increasing the efficiency of banking regulation and supervision;
- strengthening market discipline in the banking sector and ensuring equal competitive conditions for all credit organisations;
- upgrading corporate governance rules in credit organisations; and
- developing a banking infrastructure.

As part of the improvement of legislative regulation of banking activities, the Strategy outlines, *inter alia*, the following steps:

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

Among other priority tasks, the Strategy envisages the following measures:

- increasing the minimum amount of bank charter capital to five million euros (starting 2007);
- increasing the minimum amount of a bank's net worth (capital) to 10 per cent. (mandatory economic ratio N1), irrespective of the type of a credit organisation and the value of its net worth (starting 2007);
- easing procedures for the participation of non-residents in the capital of Russian banks (albeit without lifting the restrictions on the opening by foreign banks of branches in Russia); and
- introducing a simplified procedure for the assignment of bank loans.

Pursuant to the Strategy, the recommendations of the International Monetary Fund and the World Bank, as set forth in the 2002-2003 Russian Financial Sector Assessment Program, will be taken into account in the course of the implementation of the Strategy. Upon the achievement of the targets set forth in the Strategy, the next priority for the period 2009-2015 will be the effective positioning of the Russian banking sector on the international financial market.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.

According to the Deposits Insurance Law, banks issued with a retail banking licence should be entered into the register of the Agency. Banks that hold a valid retail banking licence need to apply to the CBR 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 Deposits Insurance Law establishes a continuous (regressive) scale for deposit compensation in full within RUB 100,000 or in part (90% but in any case not exceeding RUB 190,000) for larger amounts per bank and banks are required to make quarterly payments into a deposit insurance fund. The insurance payment from the deposit insurance fund will be payable to depositors if a bank's licence has been revoked or if the CBR has imposed a moratorium on payments by the bank. The basis of the deposit insurance contribution is the quarterly average of daily balances of retail deposits. Standard contribution premiums cannot exceed 0.15 per cent. of the contribution basis. In certain circumstances, the premium can be increased up to 0.3 per cent. of the contribution basis, but not for more than two quarters per every 18 months. When the size of the insurance fund reaches 5 per cent. of total retail deposits of all Russian banks, all succeeding contribution premiums cannot exceed 0.05 per cent. of the contribution basis, and when the size of the insurance fund exceeds 10 per cent. of all Russian banks' retail deposits, no contributions need to be made, but they resume once the insurance fund falls below the 10 per cent. threshold.

In December 2004 the Federal Law No. 218-FZ "On Credit Histories" (the "Credit Histories Law") was passed. The Credit Histories Law provides for establishment of "credit history bureaus" that maintain a database of borrowers' credit histories. The Credit Histories Law requires all credit organisations, starting from 1 September 2005, to provide at least one credit bureau with the credit histories of all borrowers that have consented to the distribution of their credit histories. The borrower's credit history will consist of both public and confidential parts and must include, among other facts, information on the borrower's outstanding debt and interest on it, the terms of repayment and any legal proceedings involving the borrower in respect of loans and credits.

The Credit Histories Law defines the procedures for the submission of data to credit history bureaus, disclosure by bureaus of such data to authorised users, and the rights and obligations of borrowers and bureaus. It also sets out the procedures for the registration of credit history bureaus and the transfer of credit history data upon their liquidation.

Credit history bureaus may disclose credit history data only to:

- the borrower itself;
- banks or other legal entities which are users of such data (with the consent of the borrower);
- courts and, with the consent of a prosecutor general, certain enforcement agencies; and
- the Central Credit History Catalogue administered by the CBR to allow the centralised search of all credit history data.

In addition to the Credit Histories Law and as part of the development of consumer lending legislation, the law "On Mortgage-Backed Securities" and amendments to the Civil Code, Tax Code and the law "On Mortgage" were enacted in 2003-2004. By means of these laws, Russian legislators attempted to make mortgage lending attractive to banks and affordable to individuals by simplifying the applicable procedures and making them more transparent and less costly. Another purpose of this new legislation is to provide improved regulation of mortgage-backed securities in order to make them more attractive for investors.

Currency control

The principal currency control rules are contained in the Currency Law which generally came into force in June 2004. The Currency Law was generally aimed at the gradual liberalisation of Russian currency control regulations, but at the same time introduces some new forms of currency control (such as the placement of mandatory reserve requirements with the CBR and the use of special accounts).

Between June 2004 and May 2006, mandatory reserve and special accounts requirements were introduced by the CBR and the Government of the Russian Federation (together with the CBR, the "Regulators") with respect to certain currency operations between residents and non-residents. However, in May-June 2006 the Regulators adopted regulations abolishing all existing special account and mandatory reserve requirements from 1 July 2006. Further, the Russian Parliament has recently adopted certain amendments to the Currency Law, and in particular, abolishing from 1 July 2006 (rather than from 1 January 2007, as was originally scheduled) the above-mentioned authority of the Regulators to introduce mandatory reserve requirements. Accordingly, no special account or mandatory reserve requirements are currently in force, and, under recent amendments to the Currency Law, the mandatory reserve requirements can no longer be introduced by the Regulators.

Insolvency Regime

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

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

Under the Banking Law the CBR must revoke a banking licence of a bank, if (i) its capital adequacy ratio falls below 2 per cent., (ii) if the amount of bank's own capital is less than the bank's minimal charter capital requirement established by the CBR, (iii) the bank fails to adjust its charter capital to own capital according to requirements of the CBR within 45 days of the CBR's notification and (iv) the bank fails to satisfy the claims of its creditors or make mandatory payments (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 six months.

However, under the Bank Insolvency Law, a temporary administration may be appointed to the bank prior to the revocation of its banking licence if (i) the bank fails to satisfy claims of creditors or make mandatory payments (e.g., taxes and duties) within seven days from the date of their maturity due to the absence or lack of funds on its correspondent accounts, (ii) the amount of own capital of the bank falls more than 30 per cent. below the maximum amount of own capital of the bank during the last 12 months with simultaneous violation of one of the capital adequacy or related requirements, (iii) the bank violates the current liquidity ratio on more than 20 per cent. during the last month; (iv) the bank does not fulfil the requirement of the 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 banks financial standing, establishes whether there are grounds for revocation of the banking licence of the bank, participates in the development of measures for the financial recovery of the bank, oversees the bank's operations and issues approvals on the conduction of operations with assets valued at more than 1 per cent. of the total balance sheet value of the bank's assets.

Pursuant to the Bank Insolvency Law, 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 banks 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 for damages in respect of physical persons' life or health, as well as moral damages, (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.

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RUSSIAN STANDARD BANK GROUP

Interim Consolidated Financial Statements and Auditors' Report

30 June 2006

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AUDITORS' REPORT

To the Board of Directors of JSC Russian Standard Bank:

We have audited the accompanying interim consolidated balance sheet of JSC Russian Standard Bank and its subsidiaries (the "Group") as at 30 June 2006, and the related interim consolidated statements of income, cash flows and changes in equity for the six-month period ended 30 June 2006. These interim consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these interim consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the interim consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the interim consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall interim consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying interim consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2006 and the consolidated results of its operations and its cash flows for the six-month period ended 30 June 2006 in accordance with International Accounting Standard 34 "Interim Financial Reporting".

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
22 August 2006

In thousands of Russian Roubles	Note	30 June 2006	31 December 2005
Assets			
Cash and cash equivalents	7	12 434 897	5 325 823
Mandatory cash balances with the Central Bank of the Russian Federation		889 206	523 845
Due from other banks	8	1 897 572	3 786 325
Loans and advances to customers	9	129 135 974	98 678 095
Deferred income tax asset	23	1 427 366	557 044
Other assets	10	2 546 802	1 835 265
Premises and equipment	11	2 494 722	1 895 975
Intangible assets	11	151 452	133 493
Total assets		**150 977 991**	**112 735 865**
Liabilities			
Due to other banks	12	34 993 116	22 905 047
Customer accounts	13	9 256 816	10 523 005
Debt securities in issue	14	81 916 896	59 970 790
Subordinated debt	15	5 403 059	5 744 156
Other liabilities	16	2 159 562	1 505 058
Total liabilities		**133 729 449**	**100 648 056**
Equity			
Share capital	17	1 738 516	1 738 516
Share premium		672 932	672 932
Additional paid-in capital	17	148 286	148 286
Retained earnings	18	14 688 808	9 528 075
Total equity		**17 248 542**	**12 087 809**
Total liabilities and equity		**150 977 991**	**112 735 865**

Approved for issue and signed on behalf of the Board of Directors on 22 August 2006.

D.O. Levin
Chairman of the Executive Board

N.A. Itskov
Chief Financial Officer

In thousands of Russian Roubles	**Note**	**Six months ended 30 June 2006**	**Six months ended 30 June 2005**
Interest income	19	25 589 519	9 229 869
Interest expense	19	(4 199 658)	(1 649 846)
Net interest income		**21 389 861**	**7 580 023**
Provision for loan impairment	9	(8 054 883)	(2 476 550)
Net interest income after provision for loan impairment		**13 334 978**	**5 103 473**
Fee and commission income	20	976 828	51 806
Fee and commission expense		(103 145)	(21 018)
Net foreign exchange translation gains / (losses)		3 599 421	(636 327)
Net trading losses/ gains	21	(4 449 147)	326 471
Other operating results		61 517	2 265
Operating income		**13 420 452**	**4 826 670**
Administrative and other operating expenses	22	(4 808 730)	(1 565 108)
Profit before tax		**8 611 722**	**3 261 562**
Income tax expense	23	(2 056 928)	(791 828)
Profit for the period		**6 554 794**	**2 469 734**

In thousands of Russian Roubles	**Note**	**Six months ended 30 June 2006**	**Six months ended 30 June 2005**
Cash flows from operating activities			
Interest received		22 577 283	9 195 548
Interest paid		(3 599 984)	(1 541 713)
Net trading losses paid		(3 283 869)	(198 407)
Fees and commissions received		963 133	51 806
Fees and commissions paid		(103 145)	(21 018)
Other operating income received		18 658	1 510
Staff cost paid		(2 099 411)	(789 965)
Administrative and other operating expenses paid		(2 294 945)	(738 275)
Income tax paid		(2 405 608)	(1 260 416)
Cash flows from operating activities before changes in operating assets and liabilities		**9 772 112**	**4 699 070**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(365 361)	(83 392)
Net decrease/(increase) in due from other banks		1 796 953	(494 822)
Net increase in loans and advances to customers		(35 591 196)	(10 708 626)
Net increase in other assets		(939 592)	(323 454)
Net increase in due to other banks		12 929 093	1 910 194
Net (decrease)/increase in customer accounts		(1 247 020)	512 605
Net decrease in promissory notes issued		(299 874)	(1 739 931)
Net (decrease)/increase in other liabilities		(763 174)	19 649
Net cash used in operating activities		**(14 708 059)**	**(6 208 707)**
Cash flows from investing activities			
Acquisition of premises and equipment	11	(830 908)	(463 236)
Proceeds from disposal of premises and equipment	11	5 792	1 190
Acquisition of intangible assets	11	(48 255)	(37 544)
Net cash used in investing activities		**(873 371)**	**(499 590)**
Cash flows from financing activities			
Issue of debt securities, other than promissory notes	14	31 023 614	11 237 123
Repayment of debt securities, other than promissory notes	14	(6 775 514)	(827 157)
Dividends paid	24	(1 394 061)	(1 387 442)
Other		-	(113 608)
Net cash from financing activities		**22 854 039**	**8 908 916**
Effect of exchange rate changes on cash and cash equivalents		**(163 535)**	**111 373**
Net increase in cash and cash equivalents		**7 109 074**	**2 311 992**
Cash and cash equivalents as at the beginning of the period	7	5 325 823	2 850 289
Cash and cash equivalents as at the end of the period	**7**	**12 434 897**	**5 162 281**

In thousands of Russian Roubles	Share capital	Share premium	Additional paid-in capital	Retained earnings	Total equity
Balance as at 1 January 2005	**1 738 516**	**672 932**	**148 286**	**5 052 558**	**7 612 292**
Dividends paid (Note 24)	-	-	-	(1 387 442)	(1 387 442)
Profit for the period	-	-	-	2 469 734	2 469 734
Balance as at 30 June 2005	**1 738 516**	**672 932**	**148 286**	**6 134 850**	**8 694 584**
Balance as at 31 December 2005	**1 738 516**	**672 932**	**148 286**	**9 528 075**	**12 087 809**
Dividends paid (Note 24)	**-**	**-**	-	(1 394 061)	(1 394 061)
Profit for the period	**-**	**-**	-	6 554 794	6 554 794
Balance as at 30 June 2006	**1 738 516**	**672 932**	**148 286**	**14 688 808**	**17 248 542**

1 Introduction

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the six-month period ended 30 June 2006 for JSC Russian Standard Bank (the "Bank") and its subsidiaries - Russian Standard-Finance Ltd, Debt Collection Agency Ltd, Credit bureau Russian Standard Ltd, Management Company Russian Standard Ltd, Russian Consumer Loans No. 1 S.A. and Russian Consumer Finance Nr. 1 S.A. (together the "Group" or the "Russian Standard Bank Group").

The Bank was incorporated in 1992 as a closed joint stock company and is domiciled in the Russian Federation.

As at 30 June 2006 and 31 December 2005 the shareholders of the Bank were:

	30 June 2006	31 December 2005
JSC Company Russian Standard	90.75%	90.75%
International Finance Corporation ("IFC")	6.42%	6.42%
JSC Roust Inc.	2.82%	2.82%
Other	0.01%	0.01%
Total	**100.00%**	**100.00%**

JSC Company Russian Standard and JSC Roust Inc. are subsidiaries of Roust Trading Limited (the "Principal Shareholder"). The ultimate controlling shareholder of the Group is Mr. Roustam Tariko.

Refer to Note 31 for information on the subsequent changes in the Bank's shareholders structure.

Russian Standard-Finance Ltd, a company registered in the Russian Federation, is owned by the Principal Shareholder and in substance is controlled by the Bank. The only activity of this company was the issue of bonds on behalf of the Bank. The bonds were fully repaid in 2005.

Debt Collection Agency Ltd, a company registered in the Russian Federation, is owned by the Principal Shareholder and in substance is controlled by the Bank. The only activity of this company is the collection of bad debts of the Bank.

Credit bureau Russian Standard Ltd, a company registered in the Russian Federation, is owned by the shareholders and in substance is controlled by the Bank. The only activity of this company is the collection and storage of information about the loan portfolio sold by the Bank in the securitisation transaction (Note 14).

Management Company Russian Standard Ltd, a company established by the Bank in 2006 in the Russian Federation, is owned and controlled by the Bank.

Russian Consumer Loans No. 1 S.A. ("RCL"), a company incorporated in Luxembourg on 2 November 2005, is owned by the foundations established under the laws of The Netherlands. Russian Consumer Finance Nr. 1 S.A. ("RCF"), a company incorporated in Luxembourg on 11 January 2006, is owned by the foundations established under the laws of The Netherlands. RCL and RCF have been established for the purpose of structuring securitisation transactions (Note 14). RCL and RCF have been included in the consolidated financial statements of the Group from the date of incorporation, since they are in substance controlled by the Bank.

Principal activity. The Bank's principal business activity is retail and commercial banking operations within the Russian Federation. The Bank has a full banking licence issued by the Central Bank of the Russian Federation ("CBRF"). In addition the Bank acts as an agent in relation to sales of insurance policies of the insurance company JSC Russian Standard Insurance, a subsidiary of the Principal Shareholder, to the customers of the Bank (Note 20).

1 Introduction (Continued)

The Bank is an accepted member of the State deposit insurance scheme. The State deposit insurance scheme dictates that the State Deposit Insurance Agency will guarantee repayment of individual deposits up to RR 100 thousand (approximately US Dollars 3.7 thousand) per individual in the event of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments.

Registered address and place of business. The Bank's registered address is Spartakovskaya Str., 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 Group's employees as at 30 June 2006 was 25 219 (31 December 2005: 16 943).

Presentation currency. These financial statements are presented in thousands of Russian Roubles ("RR thousands").

Seasonality of the business. The lending operations of the Group are subject to seasonal fluctuations with peak demand in the fourth quarter of each year.

2 Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market, including the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, relatively high inflation and economic growth. The banking sector in the Russian Federation is sensitive to adverse fluctuations in confidence and economic conditions. The Russian economy occasionally experiences falls in confidence in the banking sector accompanied by reductions in liquidity. Management is unable to predict economic trends and developments in the banking sector and what effect, if any, a deterioration in the liquidity of or confidence in the Russian banking system could have on the financial position of the Group.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently. Furthermore, the need for further developments in the bankruptcy laws, the 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. 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.

3 Basis of Preparation and Significant Accounting Policies

Basis of preparation. These interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34").

The Group maintains its accounting records in accordance with Russian banking and accounting regulations. These interim consolidated financial statements have been prepared from those accounting records and adjusted as necessary in order to be in accordance with IAS 34.

The preparation of financial statements in conformity with International Financial Reporting Standard ("IFRS") requires the use of certain critical accounting estimates. It also requires Management to exercise judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the interim consolidated financial statements are disclosed in Note 4.

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 govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

3 Basis of Preparation and Significant Accounting Policies (Continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the acquirer's share of the fair value of the net assets of the acquiree at each exchange transaction is recorded as goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recorded immediately in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest. The difference, if any, between the fair values of the net assets at the dates of exchange and at the date of acquisition is recorded directly in equity.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

In other than active markets, the most recent arms length transactions are the basis of current fair values. Recent transaction prices are appropriately adjusted if they do not reflect current fair values, for example because the transaction was a distress sale. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale.

Amortised cost is the amount at which the financial instrument was recorded at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount, are not presented separately and are included in the carrying values of related balance sheet items.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

3 Basis of Preparation and Significant Accounting Policies (Continued)

Initial recognition of financial instruments. Derivatives are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial instrument. All other purchases and sales are recorded on the settlement date with the change in value between the commitment date and settlement date not recorded for assets carried at cost or amortised cost; recorded in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss; and recorded in equity for assets classified as available for sale.

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. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the CBRF. Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing 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.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Impairment losses are recorded through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

3 Basis of Preparation and Significant Accounting Policies (Continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recorded (such as an improvement in the debtor's credit rating), the previously recorded impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed, the Credit Committee of the Bank has formally recognised assets as uncollectible and the amount of the loss has been determined.

Credit related commitments. In the normal course of business, the Group enters into credit related commitments, including letters of credit and guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Premiums received for the financial guarantees are amortised on a straight line basis during the life of the guarantee. In determining the amount of provision for financial guarantees, Management uses best estimates of the expenditures required to settle the obligations arising at the reporting date. The estimates of outcome and financial effect are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of Management.

Financial guarantees are initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date.

Derecognition of financial assets. The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Premises and equipment. Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required. Cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss. An impairment loss recorded for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised in profit or loss.

Depreciation. Depreciation is calculated using the straight-line method to allocate the cost of premises and equipment to their residual values over their estimated useful lives, as follows:

Premises	50 years;
Office equipment	6 years;
Fixtures and fittings	6 - 7 years;
Computers	4 years.

3 Basis of Preparation and Significant Accounting Policies (Continued)

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Intangible assets. All of the Group's intangible assets have definite useful life and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, eg its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 1 to 10 years.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Debt securities in issue. Debt securities in issue are stated at amortised cost. 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 retirement of debt.

Subordinated debt. Recognition and measurement of this category is consistent with the above policy for debt securities in issue.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss as trading gains. The Group does not apply hedge accounting.

Income taxes. Income taxes have been provided for in the interim consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recorded in the consolidated income statement except if it is recognised directly in equity because it relates to transactions that are also recorded, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued 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.

Share Premium. Share premium represents the excess of consideration received over the nominal value of the shares issued.

Contributions from shareholders other than from share issues. Contributions from shareholders other than from share issues net of the any tax liability arising where there is no obligation of the Group to return the funds are recorded 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 and before the financial statements are authorised for issue 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 and expense recognition. Interest income and expense are recorded in the consolidated income statement for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, 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.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Foreign currency translation. The functional currency of each of the Group's entities is the currency of the primary economic environment in which the entity operates. The Bank and its subsidiaries' functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at period-end official exchange rates of the CBRF are recorded in profit or loss. Translation at period-end rates does not apply to non-monetary items.

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. Accounting for the effects of hyperinflation prior to 1 January 2003 is detailed further below.

As at 30 June 2006 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 27.0789 (31 December 2005: USD 1 = RR 28.7825) and the average exchange rate for the six-months period ended 30 June 2006 was USD 1 = RR 27.6799 (six-months period ended 30 June 2005: USD 1 = RR 27.9595).

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. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission 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"). 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. It states 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.

The characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current at as 31 December 2002 are the basis for the carrying amounts in these interim 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

Staff costs and related contributions. Group companies do not operate their own pension schemes. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the period in which the associated services are rendered by the employees of the Group and are included in operating expenses.

Segment 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 whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Group have been reported separately within these interim consolidated financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current period classification of operating expenses was changed.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates and judgements are continually evaluated and are based on management experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recorded in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial period include:

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce differences between loss estimates and actual loss experience.

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require Management to make estimates. Changes in assumptions about these factors could affect reported fair values. Changing the assumptions not supported by observable market data to a reasonably possible alternative would not result in significantly different profit, income, total assets or total liabilities.

Special Purpose Entities. Judgement is also required to determine whether the substance of the relationship between the Group and a special purpose entity indicates that the special purpose entity is controlled by the Group. Non-consolidation of special purpose entities would result in a decrease in the Groups' assets and liabilities by approximately RR 14 814 387 thousand and RR 12 899 881 thousand (31 December 2005: RR 8 841 000 thousand and RR 7 564 663 thousand).

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 27.

Deferred income tax asset recognition. The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future Management makes judgements and applies estimation based on last three years taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

Related party transactions. In the normal course of business the Group enters into transactions with its related parties. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

5 Adoption of New or Revised Standards and Interpretations

Adoption of new standards. Certain new IFRSs became effective for the Group from 1 January 2006. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies.

IAS 39 (Amendment) – Financial Guarantee Contracts (effective from 1 January 2006). Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognition of financial assets or result in continuing involvement accounting.

IFRIC 4 "Determining whether an Arrangement contains a Lease". IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

Effect of Adoption of New or Revised Standards. The effect of adoption of the above new or revised standards on the Group's financial position as at 30 June 2006 and 31 December 2005 and on the results of its operations for six-months period ended 30 June 2006 was not significant.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning after 1 January 2006 which the Group has not early adopted:

IFRS 7 "Financial Instruments: Disclosures" and a complementary Amendment to IAS 1 "Presentation of Financial Statements" - Capital Disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It replaces IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and some of the requirements in IAS 32 "Financial Instruments: Disclosure and Presentation". The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Group is currently assessing what impact IFRS 7 and the amendment to IAS 1 will have on disclosures in its consolidated financial statements.

Other new standards or interpretations. The Group has not early adopted the following other new standards or interpretations:

- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for annual periods beginning on or after 1 March 2006);
- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006);
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006);

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

7 Cash and Cash Equivalents

In thousands of Russian Roubles	**30 June 2006**	**31 December 2005**
Cash on hand	1 861 606	1 219 102
Cash balances with the CBRF (other than mandatory reserve deposits)	391 385	1 710 522
Correspondent accounts and overnight placements with other banks		
- Russian Federation	2 209 076	1 158 689
- Other countries	7 972 830	1 237 510
Total cash and cash equivalents	**12 434 897**	**5 325 823**

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 26.

8 Due from Other Banks

In thousands of Russian Roubles	**Note**	**30 June 2006**	**31 December 2005**
Term placements with other banks		947 921	2 936 582
Collateral deposits	27	551 019	113 813
Deposit in relation to securitisation transaction	14	398 632	735 930
Total due from other banks		**1 897 572**	**3 786 325**

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 26. Fair values are disclosed in Note 29.

9 Loans and Advances to Customers

In thousands of Russian Roubles	**30 June 2006**	**31 December 2005**
Loans to individuals		
Consumer loans	51 260 446	53 422 000
Credit card loans	86 178 164	50 303 329
Other	156 788	148 647
Loans to legal entities	1 961 512	1 667 344
Gross loans and advances to customers	**139 556 910**	**105 541 320**
Less: Provision for loan impairment	(10 420 936)	(6 863 225)
Total loans and advances to customers	**129 135 974**	**98 678 095**

9 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment were as follows:

In thousands of Russian Roubles	Six months ended 30 June 2006	Six months ended 30 June 2005
Provision for loan impairment as at 1 January	**6 863 225**	**1 926 224**
Provision for loan impairment during the period	8 054 883	2 476 550
Loans and advances to customers written off during the year as uncollectible	(4 497 172)	(974 379)
Provision for loan impairment as at 30 June	**10 420 936**	**3 428 395**

As at 30 June 2006 the total amount of non-performing loans, i.e. loans not serviced according to the original contractual terms for at least 90 days, was RR 5 754 460 thousand (31 December 2005: RR 3 657 308 thousand).

The approximate number of borrowers (in thousands) for main types of loans to individuals was as follows:

	30 June 2006	31 December 2005
Consumer loans	5 679	6 375
Credit card loans	2 540	1 648

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.

As at 30 June 2006 consumer loans in the amount of RR 1 408 103 thousand (31 December 2005: RR 1 496 690 thousand) were agreed to be pledged as collateral in relation to due to other banks (Note 12).

In addition, as at 30 June 2006 loans with the total principal amount of RR 13 248 723 thousand (31 December 2005: RR 8 456 966 thousand) were legally sold to the Bank's subsidiaries in the course of a securitisation transaction (Note 14).

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 26. Fair values are disclosed in Note 29. The information on related party balances is disclosed in Note 30.

10 Other Assets

In thousands of Russian Roubles	Note	30 June 2006	31 December 2005
Items in the course of settlement		868 335	374 714
Trade debtors and prepayments		678 743	681 645
Prepaid commissions to trade agents	27	329 093	-
Foreign exchange forward contracts	28	275 655	471 965
Inventories		168 237	158 991
Agency commissions receivable from RSI	20	111 291	97 596
Other		115 448	50 354
Total other assets		**2 546 802**	**1 835 265**

Geographical, currency and maturity analyses of other assets are disclosed in Note 26. The information on the related party balances is disclosed in Note 30.

11 Premises and Equipment and Intangible Assets

In thousands of Russian Roubles	Premises	Office and computer equipment	Intangible assets	Total
Net book amount as at 31 December 2005	**371 342**	**1 524 633**	**133 493**	**2 029 468**
Book amount at cost				
Opening balance	379 743	1 984 400	237 771	2 601 914
Additions	177 846	653 062	48 255	879 163
Disposals	(910)	(12 654)	-	(13 564)
Closing balance	**556 679**	**2 624 808**	**286 026**	**3 467 513**
Accumulated depreciation				
Opening balance	8 401	459 767	104 278	572 446
Depreciation and amortisation charge (Note 22)	4 518	221 851	30 296	256 665
Disposals	(2)	(7 770)	-	(7 772)
Closing balance	**12 917**	**673 848**	**134 574**	**821 339**
Net book amount as at 30 June 2006	**543 762**	**1 950 960**	**151 452**	**2 646 174**

In thousands of Russian Roubles	Premises	Office and computer equipment	Intangible assets	Total
Net book amount as at 31 December 2004	**276 992**	**576 995**	**81 791**	**935 778**
Book amount at cost				
Opening balance	279 125	793 437	139 508	1 212 070
Additions	15 300	447 936	37 544	500 780
Disposals	(144)	(2 053)	-	(2 197)
Closing balance	**294 281**	**1 239 320**	**177 052**	**1 710 653**
Accumulated depreciation				
Opening balance	2 133	216 442	57 717	276 292
Depreciation and amortisation charge (Note 22)	3 010	114 560	15 493	133 063
Disposals	(1)	(1 006)	-	(1 007)
Closing balance	**5 142**	**329 996**	**73 210**	**408 348**
Net book amount as at 30 June 2005	**289 139**	**909 324**	**103 842**	**1 302 305**

12 Due to Other Banks

In thousands of Russian Roubles	30 June 2006	31 December 2005
Term loans of other banks		
- RR 4 750 thousand 7.9% due January 2007	4 755 663	-
- RR 2 775 thousand 8.5% due February 2007	2 810 123	-
- USD 100 million 6.7% due October 2006	2 741 811	-
- USD 100 million 7.6% due May 2007	2 709 781	-
- USD 100 million 5.3% due December 2006	2 707 805	-
- USD 100 million 8.2% due June 2007	2 696 164	-
- USD 100 million 7.1% due May 2006	-	2 892 936
- USD 100 million 7.1% due May 2006	-	2 889 183
- USD 100 million 7.1% due May 2006	-	2 888 534
- Other	1 765 735	1 521 496
Loans from IFC	4 623 357	2 856 800
Loans from EBRD	3 847 704	2 938 047
USD syndicated loans	3 345 640	3 537 112
RR syndicated loans	2 989 333	3 380 939
Total due to other banks	**34 993 116**	**22 905 047**

Term loans of other banks. As at 30 June 2006 and as at 31 December 2005 term loans of other banks were mainly represented by loans obtained by the Group from international banks.

Loan facilities 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 Roubles or in US Dollars.

In January, April and August 2005, the Group obtained three further RR loans in the equivalent amount of USD 7 000 thousand, USD 12 000 thousand and USD 21 000 thousand, which bear fixed interest rates of 9.7%, 9.34% and 9.35% respectively, payable quarterly. These loans were repaid before 30 June 2006. In February and April 2006 the Group obtained three further RR loans in the equivalent amount of USD 12 000 thousand and USD 7 000 thousand, which bear fixed interest rates of 9.66% and 9.74% respectively, payable quarterly.

As at 30 June 2006 RR 1 408 103 thousand of the Group’s consumer loans were agreed to be pledged under the above facility as collateral in the event of the Group’s default (31 December 2005: RR 1 496 690 thousand). Refer to Note 9.

In December 2004, a USD 20 000 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 Roubles or in US Dollars. Under this facility, in February 2005, the Group obtained a RR loan in the equivalent of USD 20 000 thousand at a fixed interest rate of 9.25% payable quarterly, which was repaid on 2 February 2006.

In February 2006 the Group obtained a RR loan from IFC in the equivalent of USD 20 000 thousand due in February 2007 at a fixed rate of 8.92% payable quarterly.

In December 2005 the Group obtained a further loan facility from IFC of USD 100 000 thousand. Under this facility, in December 2005 the Group obtained a RR loan in the equivalent of USD 40 000 thousand. The loan is repayable in October 2008 and bears a fixed interest rate of 8.65% payable semi-annually. Also under this facility, in January 2006 the Group obtained a loan in the amount of USD 60 000 thousand. The loan is repayable in January 2008 and bears a floating interest rate of LIBOR plus 2% per annum payable semi-annually.

Loans from EBRD. In October 2003 the Group obtained a loan facility from EBRD of USD 20 000 thousand. Under this facility, the Group has drawn down four USD 5 000 thousand tranches. The tranches are repayable in semi-annual instalments by November 2007 and bear a floating interest rate of LIBOR plus 4.25%.

12 Due to Other Banks (Continued)

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% and is repayable in four equal semi-annual instalments, starting 22 November 2006. The second loan was at floating interest rate of LIBOR plus 2.6% and was repaid in July 2006.

In January 2006 the Group obtained a RR 900 000 thousand loan from EBRD. The loan bears a floating interest rate of MosPrime rate plus 3.0% per annum payable quarterly and is repayable in seven equal semi-annual instalments, starting February 2007.

In May 2006 the Group obtained USD 3 246 thousand, EUR 1 246 thousand and EUR 4 000 thousand loans from EBRD, which bear floating interest rates of LIBOR plus 2.25%, EURIBOR plus 2.25% and EURIBOR plus 2.25% respectively, payable semi-annually. The principal on all of these loans is due in May 2007.

USD syndicated loans. In August 2005 the Group obtained from several Russian and international banks a syndicated loan of USD 122 500 thousand. The loan bears a floating interest rate of three months LIBOR plus 1.8% payable quarterly and was repaid in August 2006.

RR syndicated loans. In April 2005 the Group obtained from several Russian banks a syndicated loan of RR 1 255 000 thousand. The loan bears a fixed interest rate of 9.5% payable daily. The loan is due in October 2006 and is repayable in equal daily instalments.

In November 2005 the Group obtained from several Russian and international banks a syndicated loan of RR 2 750 000 thousand which is due in November 2006. The loan bears a fixed interest rate of 8.5% payable monthly.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 26. Fair values are disclosed in Note 29. The information on related party balances is disclosed in Note 30.

13 Customer Accounts

In thousands of Russian Roubles	**30 June 2006**	**31 December 2005**
Legal entities		
- Current/settlement accounts	1 160 720	889 153
- Term deposits	1 158 064	1 092 742
Individuals		
- Current/demand accounts	5 431 509	7 036 813
- Term deposits	1 506 523	1 504 297
Total customer accounts	**9 256 816**	**10 523 005**

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 26. Fair values are disclosed in Note 29. The information on related party balances is disclosed in Note 30.

14 Debt Securities in Issue

In thousands of Russian Roubles	30 June 2006	31 December 2005
USD denominated		
USD 500 million 7.5% loan participation notes due October 2010	13 710 981	14 572 379
USD 350 million 8.625% loan participation notes due May 2011	9 559 708	-
USD 300 million 8.75% loan participation notes due April 2007	8 284 413	8 816 822
USD 300 million 7.8% loan participation notes due September 2007	8 255 524	8 767 020
USD 300 million 8.125% loan participation notes due April 2008	8 212 924	8 722 029
USD 200 million 6.72% loan participation notes due February 2008	5 546 763	-
RR denominated		
RR 6 000 million 8.1% bonds due February 2011	6 157 035	-
RR 5 000 million 7.6% bonds due September 2010	5 093 832	5 093 307
RR 3 000 million 8.25% bonds due March 2008	2 242 634	3 074 608
RR 2 000 million 8.4% bonds due August 2007	1 957 594	1 918 830
RR 1 000 million 14% bonds due June 2006	-	1 004 039
EUR denominated		
EUR 228.3 million 4.3% bonds "Class A1" due January 2012	7 772 010	-
EUR 190 million 4.8% bonds "Class A" due November 2008	2 539 685	6 523 607
EUR 39.3 million 6.1% bonds "Class A2" due January 2012	1 339 743	-
EUR 32.4 million 5.9% bonds "Class B" due January 2012	1 104 307	-
EUR 30 million 4.8% bonds "Class B" due November 2008	-	1 030 916
		-
Promissory notes issued	139 743	447 233
Total debt securities in issue	**81 916 896**	**59 970 790**

USD denominated loan participation notes. USD loan participation notes facilities were placed at nominal value in the period from April 2004 till May 2006.

RR denominated bonds. RR bonds were placed at nominal value in the period from August 2004 till February 2006. The bonds are guaranteed by the Principal Shareholder.

For RR bonds issued in February 2006 at nominal amount of RR 6 000 000 thousand the Group published an offer to repurchase these bonds at nominal value on 23 August 2007.

For RR bonds issued in September 2005 at nominal amount of RR 5 000 000 thousand the Group has also published an offer to repurchase these bonds at nominal value at 23 March 2007.

For bonds issued In March 2005 at nominal amount of RR 3 000 000 thousand the Group has published an offer to repurchase these bonds at nominal value at 10 March 2006. In March 2006 the Group executed an offer to repurchase the bonds and repurchased bonds at nominal value of RR 798 414 thousand. The interest rate for the period starting from March 2006 was set by the Board of Directors of the Bank at 8.25% per annum. In March and in May 2006 the Group sold back to the market bonds at nominal amount of RR 10 000 thousand and RR 5 000 thousand, respectively at 100.1% of nominal value.

EUR denominated notes. In November 2005 the Group completed the first securitisation transaction whereby it privately placed EUR 190 000 thousand Class A and EUR 30 000 thousand Class B notes through RCL. Class A notes bear a floating interest rate of EURIBOR plus 2.5% per annum payable monthly. Class B notes bear a floating interest rate of EURIBOR plus 3.5% per annum payable monthly. The claims of Class B noteholders against the Group in respect of the principal and interest on the notes are subordinated to the claims of Class A noteholders. Both Class A and Class B notes are due in November 2008 and secured by consumer loans originated by the Group.

14 Debt Securities in Issue (Continued)

In April 2006 the Group partly repaid the notes placed in the course of the first securitisation transaction. Repurchased notes include Class A notes with nominal amount of EUR 115 000 thousand and Class B notes with nominal amount of EUR 30 000 thousand. The maturity of the remaining part of Class A notes was changed to December 2009 and the interest rate was changed to EURIBOR plus 2.0% effective from 6 April 2006. The Group has also obtained the right to repurchase the remaining part of Class A notes at nominal value in April 2007. In April 2006 consumer loans with the total principal amount of RR 5 876 208 thousand were repurchased by the Bank from RCL

As at 30 June 2006 consumer loans (Note 9) with the total principal amount of RR 3 107 542 thousand (31 December 2005: RR 8 456 966 thousand) represent the outstanding amount of loans which were legally sold by the Bank to RCL in the first securitisation transaction.

In the course of the first securitisation transaction the Group placed a deposit with the transaction arranger to finance the acquisition by the transaction arranger of Class B notes. As at 31 December 2005 the deposit had a carrying value of RR 735 930 thousand (RR equivalent of EUR 21 528 thousands), bore interest of EURIBOR plus 3.5% per annum and was repayable subject to repayment by the Group of Class B notes with a total nominal value of EUR 21 500 thousand held by the transaction arranger. In April 2006 notes were purchased from the transaction arranger and the deposit was repaid. Refer to Note 8.

In April 2006 the Group completed the second securitisation transaction whereby it placed three classes of notes: EUR 228 300 thousand Class A1, EUR 39 300 thousand Class A2 and EUR 32 400 thousand Class B floating interest rate notes. The notes were placed via Russian Consumer Finance # 1 S.A. ("RCF"), a special purpose vehicle incorporated in Luxembourg. Class A1 notes bear a floating interest rate of EURIBOR plus 1.65% per annum payable monthly. Class A2 notes bear a floating interest rate of EURIBOR plus 3.5% per annum payable monthly. Class B notes bear a floating interest rate of EURIBOR plus 3.25% per annum payable monthly. Repayments of principal on Class A2 notes are deposited on an escrow account to provide protection against commingling losses. The claims of Class B noteholders against the Group in respect of the principal and interest on the notes are subordinated to the claims of Class A1 and Class A2 noteholders. The Group has also the right to repurchase these notes at nominal value in March 2009. All Class A1, Class A2 and Class B notes are due in January 2012 and secured by consumer loans originated by the Group.

As at 30 June 2006 consumer loans (Note 9) with the total principal amount of RR 10 141 181 thousand (31 December 2005: nil) represent the outstanding amount of loans which were legally sold by the Bank to RCF in the second securitisation transaction. In the course of the securitization transactions the amount of originated consumer loans legally sold by the Bank to RCF and RCL since 1 January 2006 was RR 21 652 420 thousand.

In the course of the second securitisation transaction the Group placed two deposits with the transaction arranger to finance the acquisition by the transaction arranger of Class A2 and Class B notes. As at 30 June 2006 the deposits had a carrying value of RR 316 868 thousand (RR equivalent of EUR 9 326 thousands), bore interest of EURIBOR plus 3.5% per annum and were repayable subject to repayment by the Group of Class A2 notes with a total nominal value of EUR 9 300 thousand held by the transaction arranger and carrying value of RR 81 764 thousand (RR equivalent of EUR 9 407 thousands), bore interest of EURIBOR plus 3.25% per annum and was repayable subject to repayment by the Group of Class A2 notes with a total nominal value of EUR 9 300 thousand held by the transaction arranger. Refer to Note 8.

Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 26. Fair values are disclosed in Note 29. The information on debt securities in issue guaranteed by related parties, held by related parties and related interest expenses is disclosed in Note 30.

15 Subordinated Debt

In December 2005 the Group issued loan participation notes due in December 2015 with a total nominal amount of USD 200 000 thousand, placed at nominal value. The notes bear a fixed interest rate of 8.875% until December 2010. The interest rate for the period starting from December 2010 will be set at the U.S. Treasury Notes rate plus 1.5% per annum. The Bank has the right to repurchase these notes at nominal value at 16 December 2010. The claims of the lenders against the Group in respect of the principal and interest on the notes will be subordinated to the claims of other creditors in accordance with the legislation of the Russian Federation.

16 Other Liabilities

In thousands of Russian Roubles	Note	30 June 2006	31 December 2005
Foreign exchange forward contracts	28	862 377	86 641
Taxes payable		771 845	241 401
Settlements on operations with plastic cards		276 651	950 385
Settlements on agency fee		141 158	-
Staff costs accrued		28 858	13 385
Trade creditors and prepayments		27 256	128 706
Other		51 417	84 540
Total other liabilities		**2 159 562**	**1 505 058**

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 26.

17 Share Capital and Additional Paid-in Capital

Authorised, issued and fully paid share capital of the Bank as at 30 June 2006, 31 December 2005, 30 June 2005 and 31 December 2004 comprised:

	Authorised		Issued and fully paid		
In thousands of Russian Roubles except for number of shares	Number of shares	Nominal amount	Number of shares	Nominal amount	Inflation adjusted 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**

All ordinary shares have a nominal value of RR 1 000 per share (31 December 2005: RR 1 000 per share) and rank equally. Each share carries one vote.

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 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 equity.

18 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 reported reserves under Russian Accounting Rules as at 30 June 2006 were RR 12 592 159 thousand (31 December 2005: RR 9 365 103 thousand).

19 Interest Income and Expense

In thousands of Russian Roubles	Six months ended 30 June 2006	Six months ended 30 June 2005
Interest income		
Loans to individuals	25 320 624	9 093 217
Due from other banks and overnight placements with other banks	164 653	70 468
Loans to legal entities	104 242	66 184
Total interest income	**25 589 519**	**9 229 869**
Interest expense		
USD denominated loan participation notes	1 783 667	871 956
Term placements of other banks	1 091 339	281 986
RR denominated bonds	639 074	346 796
Euro denominated notes	296 160	-
Subordinated debt	240 042	-
Customer accounts	130 333	81 066
Promissory notes issued	19 043	68 042
Total interest expense	**4 199 658**	**1 649 846**
Net interest income	**21 389 861**	**7 580 023**

20 Fee and Commission Income

Fee and commission income includes RR 854 332 thousand (six months ended 30 June 2005: nil) of agency commission from insurance company JSC Russian Standard Insurance (“RSI”), a subsidiary of the Principal Shareholder.

RSI issues individual creditor insurance policies for loan applicants of the Group. Insurance agreements are entered into when the Group issues consumer loans to individuals. Together, with the loan agreement, individuals are offered an insurance policy. The insurance cover protects the policyholder from events such as death or total and permanent disability. The term of an insurance policy equals the term of the underlying consumer loan and the policies have a volume-weighted average maturity of 17 months. The value of any insurance claim to be paid under the insurance policy is equal to the amount of the consumer loan issued by the Group, for policies issued before 27 April 2005, or the outstanding balance on the principal advanced by the Group for policies issued on or after 28 April 2005. The Group is the beneficiary of the insurance policies written by RSI. The Group acts as a payment agent for individuals who purchase the insurance policy and transfers the cash received as an insurance premium from the individuals to RSI. The Group’s decision to provide a loan to a borrower, and the terms that are offered, are independent of the borrowers decision to take out an insurance policy.

During 2005 the Group and RSI formally agreed for RSI to compensate the Group for the provision of these services through up-front unconditional commission and back-end extra commission. The back-end extra commission is based upon an agreed formula incorporating premiums written, estimate of ultimate claims to be incurred on these premiums, up-front commission and RSI’s up-front charge.

20 Fee and Commission Income (Continued)

The up-front unconditional commission amounted to RR 768 427 thousand and back-end extra commission amounted to RR 85 905 thousand. The amount payable as agreed between the Group and RSI is limited to the maximum commission rates that may be paid in accordance with the tariff structures approved by RSI's regulator. During the six months period ended 30 June 2006 the Group recorded as commission income RR 854 332 thousand out of which RR 743 041 thousand was received and RR 111 291 thousand was receivable as at 30 June 2006 (31 December 2005: RR 97 596 thousand) and was recorded within other assets (Note 10), being the amount contractually payable by RSI to the Group subject to the regulatory restrictions. As at 30 June 2006, an additional amount of RR 261 374 thousand (31 December 2005: RR 261 374 thousand) is payable subject to RSI's compliance with the regulatory restrictions and a contingent asset for the Group and has, therefore, not been recorded in these interim consolidated financial statements in accordance with requirements of IAS 37 (revised 2003) "Provisions, Contingent Liabilities and Contingent Assets". This amount is expected to be received in full by the Group, subject to the levels of new business continuing and the current growth rate, the revision of product tariffs with RSI's regulator as required and upon capital availability of RSI in accordance with its solvency requirements.

Other fee and commission income is represented mainly by commissions on settlement and cash transactions and by commissions in connection to the credit related commitments.

21 Net Trading Losses / Gains

In thousands of Russian Roubles	**Six months ended 30 June 2006**	**Six months ended 30 June 2005**
Net losses / gains arising from trading in foreign currencies	(4 260 494)	326 471
Losses less gains on repricing of due to other banks and debt securities in issue	(169 025)	-
Losses less gains arising from early redemption of debt securities	(19 628)	-
Total net trading (losses less gains) / gains less losses	**(4 449 147)**	**326 471**

22 Administrative and Other Operating Expenses

In thousands of Russian Roubles	**Note**	**Six months ended 30 June 2006**	**Six months ended 30 June 2005**
Staff costs		2 115 444	689 915
Taxes other than on income		388 957	97 041
Telecommunication		368 770	130 823
Rent expenses		297 984	137 479
Depreciation and amortisation charge	11	256 665	133 063
Advertising and marketing		261 964	39 508
Other costs of premises and equipment		257 071	62 371
Low value items and stationery		192 653	91 361
Mail		191 924	47 702
Professional services		83 468	19 330
Business trips		33 128	12 916
Security		20 007	8 482
Other		340 695	95 117
Total administrative and other operating expenses		**4 808 730**	**1 565 108**

Included in staff costs are statutory social security and pension contributions of RR 467 618 thousand (six months ended 30 June 2005: RR 157 624 thousand).

23 Income Taxes

Income tax expense comprises the following:

In thousands of Russian Roubles	Six months ended 30 June 2006	Six months ended 30 June 2005
Current tax charge	2 927 250	832 917
Deferred tax	(870 322)	(41 089)
Income tax expense for the year	**2 056 928**	**791 828**

The income tax rate applicable to the majority of the Group's income is 24% (2005: 24%). The income tax rate applicable to the majority of subsidiaries income ranges from 0% to 24% (2005: 0% to 24%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Russian Roubles	Six months ended 30 June 2006	Six months ended 30 June 2005
IFRS profit before tax	**8 611 722**	**3 261 562**
Theoretical tax charge at the applicable statutory rate (24%)	2 066 813	782 775
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible expenses	25 148	9 053
Income taxable at different rates	(35 033)	-
Income tax expense for the year	**2 056 928**	**791 828**

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 their tax bases. The tax effect of the movement on these temporary differences is recorded at the rate of 24% (2005: 24%).

In thousands of Russian Roubles	1 January 2005	Movement	30 June 2005	1 January 2006	Movement	30 June 2006
Tax effect of deductible and taxable temporary differences						
Accruals net	355 857	(50 505)	305 352	379 687	727 625	1 107 312
Loan impairment provision	(24 870)	106 958	82 088	402 792	85 401	488 193
Foreign exchange forward contracts	(45 314)	(3 102)	(48 416)	(114 580)	5 898	(108 682)
Other differences	(21 813)	(12 262)	(34 075)	(110 855)	51 398	(59 457)
Net deferred tax asset	**263 860**	**41 089**	**304 949**	**557 044**	**870 322**	**1 427 366**

In the context of the Group's current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

24 Dividends

On 28 March 2006 at the Annual General Meeting , the shareholders approved a dividend in the amount of RR 1 394 061 thousand (RR 1 095 per share) which was paid on 29 March 2006. On 23 March 2005 at the Annual General Meeting, the shareholders approved a dividend in the amount of RR 1 387 442 thousand (RR 1 090 per share) which was paid on 24 March 2005.

25 Analysis by Segment

The Group's primary format for reporting segment information is geographical segments and the secondary format is business segments. This format reflects the importance of the Group's retail banking segment in different geographical regions, which accounts for 87% of the Group's external revenues for the six-month period ended 30 June 2006 (the six-month period ended 30 June 2005: 95%). Another reason for adoption of geographical segments as the primary segment reporting format is the expansion of the Group's retail banking business outside of Moscow, with its regional retail business accounting for 60% of external revenues for six-month period ended 30 June 2006 (the six-month period ended 30 June 2005: 66%).

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 Group's cost of capital. 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. As at 30 June 2006, the Group's network consisted of 13 regional centres and 173 representative offices, with regional centres opened in cities with a population of over 1 million people. 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:

In thousands of Russian Roubles	**30 June 2006**	**31 December 2005**
Assets		
Moscow	42 439 122	32 558 499
Other regions	104 946 234	78 223 055
Unallocated assets	3 592 635	1 954 311
Total assets	**150 977 991**	**112 735 865**
Liabilities		
Moscow	128 132 376	93 653 083
Other regions	4 337 653	5 619 664
Unallocated liabilities	1 259 420	1 375 309
Total liabilities	**133 729 449**	**100 648 056**

Acquisition of regional assets, not funded by regional liabilities as detailed above is funded by the Moscow office of the Group.

25 Analysis by Segment (Continued)

Financial results for the main geographical segments of the Group for six months ended 30 June 2006 are set out below:

Six months ended 30 June 2006	Moscow	Other regions	Unallocated	Eliminations	Total
External revenues	3 943 583	18 235 134	-	-	22 178 717
Revenues from other segments	2 917 883	-	684 652	(3 602 535)	-
Total revenues	**6 861 466**	**18 235 134**	**684 652**	**(3 602 535)**	**22 178 717**
Interest expense	(4 199 658)	-	-	-	(4 199 658)
Fee and commission expense	(103 145)	-	-	-	(103 145)
Provisions	(1 576 901)	(6 477 982)	-	-	(8 054 883)
Foreign exchange translation gains less losses	3 599 421	-	-	-	3 599 421
Operating expenses	(2 846 928)	(1 961 802)	-	-	(4 808 730)
Charges from other segments	-	(3 602 535)	-	3 602 535	-
Segment results	**1 734 255**	**6 192 815**	**684 652**	**-**	**8 611 722**
Income tax expense					(2 056 928)
Profit for the year					**6 554 794**

Other segment items for six months ended 30 June 2006 are set out below:

Six months ended 30 June 2006	Moscow	Other regions	Total
Capital expenditure	376 014	503 149	879 163
Depreciation and amortisation charge	116 049	140 616	256 665

Financial results for the main geographical segments of the Group for six months ended 30 June 2005 are set out below:

Six months ended 30 June 2005	Moscow	Other regions	Unallocated	Eliminations	Total
External revenues	3 315 374	6 295 037	-	-	9 610 411
Revenues from other segments	921 661	-	399 547	(1 321 208)	-
Total revenues	**4 237 035**	**6 295 037**	**399 547**	**(1 321 208)**	**9 610 411**
Interest expense	(1 649 846)	-	-	-	(1 649 846)
Fee and commission expense	(21 018)	-	-	-	(21 018)
Provisions	(826 039)	(1 650 511)	-	-	(2 476 550)
Foreign exchange translation gains less losses	-	-	(636 327)	-	(636 327)
Operating expenses	(916 173)	(491 252)	(157 683)	-	(1 565 108)
Charges from other segments	-	(1 321 208)	-	1 321 208	-
Segment results	**823 959**	**2 832 066**	**(394 463)**	**-**	**3 261 562**
Income tax expense					(791 828)
Profit for the year					**2 469 734**

25 Analysis by Segment (Continued)

Other segment items for six months ended 30 June 2005 are set out below:

Six months ended 30 June 2005	Moscow	Other regions	Total
Capital expenditure	389 989	110 791	500 780
Depreciation and amortisation charge	105 015	28 048	133 063

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:

In thousands of Russian Roubles	30 June 2006	31 December 2005
Assets		
Retail banking	130 856 330	99 566 341
Financial markets	14 608 124	9 584 113
Corporate banking	1 920 903	1 631 100
Unallocated assets	3 592 634	1 954 311
Total assets	**150 977 991**	**112 735 865**

Business segment breakdown of external revenue is set out below:

In thousands of Russian Roubles	Six months ended 30 June 2006	Six months ended 30 June 2005
External revenue		
Retail banking	26 218 428	9 115 324
Financial markets	(4 284 494)	396 938
Corporate banking	244 783	98 149
Unallocated revenues	-	-
Total external revenue	**22 178 717**	**9 610 411**

External revenue comprises interest, fee and commission income, net trading losses and other operating results (excluding provision for losses on credit related commitments).

26 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 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 Executive 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 regular analysis of the ability of borrowers and potential borrowers to meet interest and capital 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, but a significant portion is personal lending where no such facilities can be obtained.

The Group’s maximum exposure to credit risk is primary 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 credit related commitments 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 Group applies a ‘value at risk’ methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Executive 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.

26 Financial Risk Management (Continued)

Geographical risk. The geographical concentration of the Group's assets and liabilities as at 30 June 2006 is set out below:

In thousands of Russian Roubles	Note	Russia	OECD	Non OECD	Total
Assets					
Cash and cash equivalents		4 462 067	7 972 830	-	12 434 897
Mandatory cash balances with the CBRF		889 206	-	-	889 206
Due from other banks		135 433	1 762 139	-	1 897 572
Loans and advances to customers		129 134 565	1 409		129 135 974
Deferred income tax asset		1 427 366	-	-	1 427 366
Other assets		2 401 036	124 835	20 931	2 546 802
Premises and equipment		2 494 722	-	-	2 494 722
Intangible assets		151 452	-	-	151 452
Total assets		**141 095 847**	**9 861 213**	**20 931**	**150 977 991**
Liabilities					
Due to other banks		3 352 108	31 629 403	11 605	34 993 116
Customer accounts		9 130 560	83 278	42 978	9 256 816
Debt securities in issue		15 451 710	66 404 974	60 212	81 916 896
Subordinated debt		-	5 403 059	-	5 403 059
Other liabilities		1 708 332	451 230	-	2 159 562
Total liabilities		**29 642 710**	**103 971 944**	**114 795**	**133 729 449**
Net balance sheet position		**111 453 137**	**(94 110 731)**	**(93 864)**	**17 248 542**
Credit related commitments	**27**	**24 196 379**	**-**	**54 845**	**24 251 224**

26 Financial Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities as at 31 December 2005 is set out below:

In thousands of Russian Roubles	Note	Russia	OECD	Non OECD	Total
Assets					
Cash and cash equivalents		4 088 313	1 237 510	-	5 325 823
Mandatory cash balances with the CBRF		523 845	-	-	523 845
Due from other banks		1 209 220	2 577 105	-	3 786 325
Loans and advances to customers		98 667 350	1 464	9 281	98 678 095
Deferred income tax asset		557 044	-	-	557 044
Other assets		1 709 143	125 226	896	1 835 265
Premises and equipment		1 895 975	-	-	1 895 975
Intangible assets		133 493	-	-	133 493
Total assets		**108 784 383**	**3 941 305**	**10 177**	**112 735 865**
Liabilities					
Due to other banks		3 621 868	18 995 117	288 062	22 905 047
Customer accounts		10 412 225	69 046	41 734	10 523 005
Debt securities in issue		11 401 832	48 508 551	60 407	59 970 790
Subordinated debt		-	5 744 156	-	5 744 156
Other liabilities		1 436 760	62 975	5 323	1 505 058
Total liabilities		**26 872 685**	**73 379 845**	**395 526**	**100 648 056**
Net balance sheet position		**81 911 698**	**(69 438 540)**	**(385 349)**	**12 087 809**
Credit related commitments	**27**	**18 307 353**	**91 156**	**509 527**	**18 908 036**

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from off-shore companies of these Russian counterparties are allocated to the caption "Russia". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

26 Financial Risk Management (Continued)

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. To limit the exposure the Group uses foreign exchange contracts to hedge risks arising from the balance sheet foreign currency mismatch. 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 30 June 2006:

In thousands of Russian Roubles	**Note**	**RR**	**USD**	**Other currencies**	**Total**
Assets					
Cash and cash equivalents		4 944 368	7 043 047	447 482	12 434 897
Mandatory cash balances with the CBRF		889 206	-	-	889 206
Due from other banks		-	1 496 706	400 866	1 897 572
Loans and advances to customers		127 100 575	1 426 776	608 623	129 135 974
Deferred income tax asset		1 427 366	-	-	1 427 366
Other assets		2 239 212	297 515	10 075	2 546 802
Premises and equipment		2 494 722	-	-	2 494 722
Intangible assets		151 452	-	-	151 452
Total assets		**139 246 901**	**10 264 044**	**1 467 046**	**150 977 991**
Liabilities					
Due to other banks		14 648 182	19 523 251	821 683	34 993 116
Customer accounts		8 884 500	318 377	53 939	9 256 816
Debt securities in issue		15 530 627	53 570 313	12 815 956	81 916 896
Subordinated debt		-	5 403 059	-	5 403 059
Other liabilities		2 152 018	7 443	101	2 159 562
Total liabilities		**41 215 327**	**78 822 443**	**13 691 679**	**133 729 449**
Net balance sheet position		**98 031 574**	**(68 558 399)**	**(12 224 633)**	**17 248 542**
Foreign exchange contracts	**28**	**(80 797 866)**	**68 972 136**	**11 239 008**	**(586 722)**
Net position		**17 233 708**	**413 737**	**(985 625)**	

26 Financial Risk Management (Continued)

As at 31 December 2005 the Group has the following positions in currencies:

In thousands of Russian Roubles	Note	RR	USD	Other currencies	Total
Assets					
Cash and cash equivalents		4 060 242	737 919	527 662	5 325 823
Mandatory cash balances with the CBRF		523 845	-	-	523 845
Due from other banks		-	3 046 662	739 663	3 786 325
Loans and advances to customers		97 088 403	1 480 363	109 329	98 678 095
Deferred income tax asset		557 044	-	-	557 044
Other assets		1 311 919	465 015	58 331	1 835 265
Premises and equipment		1 895 975	-	-	1 895 975
Intangible assets		133 493	-	-	133 493
Total assets		**105 570 921**	**5 729 959**	**1 434 985**	**112 735 865**
Liabilities					
Due to other banks		6 477 881	15 970 993	456 173	22 905 047
Customer accounts		10 083 274	330 406	109 325	10 523 005
Debt securities in issue		11 477 609	40 878 251	7 614 930	59 970 790
Subordinated debt		-	5 744 156	-	5 744 156
Other liabilities		1 450 050	21 096	33 912	1 505 058
Total liabilities		**29 488 814**	**62 944 902**	**8 214 340**	**100 648 056**
Net balance sheet position		**76 082 107**	**(57 214 943)**	**(6 779 355)**	**12 087 809**
Foreign exchange contracts	**28**	**(63 045 387)**	**56 721 386**	**6 709 325**	**385 324**
Net position		**13 036 720**	**(493 557)**	**(70 030)**	

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 level of certainty. The Asset/Liability Committee of the Group sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The table below shows assets and liabilities as at 30 June 2006 by their remaining contractual maturity, unless there is evidence that any of the assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement of the assets is used. Some of the assets and liabilities, 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.

Overdue liabilities, such as term deposits not withdrawn by the Bank's customers, are classified within the "demand and less than 1 month" column. Overdue assets are allocated based on their expected maturity. Mandatory cash balances with the CBRF are included within demand and less than one month as the requirement is to maintain as a reserve a specified percentage of certain liabilities which are also included within this category.

26 Financial Risk Management (Continued)

The liquidity position of the Group as at 30 June 2006 is set out below.

In thousands of Russian Roubles	**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	12 434 897	-	-	-	-	-	12 434 897
Mandatory cash balances with the CBRF	889 206	-	-	-	-	-	889 206
Due from other banks	1 496 706	-	-	2 234	398 632	-	1 897 572
Loans and advances to customers	26 414 974	30 205 824	32 130 255	35 004 909	5 380 012	-	129 135 974
Deferred income tax asset	-	-	-	-	-	1 427 366	1 427 366
Other assets	1 387 134	785 264	55 064	93 193	58 671	167 476	2 546 802
Premises and equipment	-	-	-	-	-	2 494 722	2 494 722
Intangible assets	-	-	-	-	-	151 452	151 452
Total assets	**42 622 917**	**30 991 088**	**32 185 319**	**35 100 336**	**5 837 315**	**4 241 016**	**150 977 991**
Liabilities							
Due to other banks	2 806 215	4 383 486	9 646 215	14 317 320	3 839 880	-	34 993 116
Customer accounts	7 008 084	339 140	483 141	1 424 728	1 723	-	9 256 816
Debt securities in issue	57 127	3 108 313	1 793 557	20 348 207	56 609 692	-	81 916 896
Subordinated debt	-	-	230 769	220 902	4 951 388	-	5 403 059
Other liabilities	2 048 973	110 589	-	-	-	-	2 159 562
Total liabilities	**11 920 399**	**7 941 528**	**12 153 682**	**36 311 157**	**65 402 683**	**-**	**133 729 449**
Net liquidity gap	**30 702 518**	**23 049 560**	**20 031 637**	**(1 210 821)**	**(59 565 368)**	**4 241 016**	**17 248 542**
Cumulative liquidity gap	**30 702 518**	**53 752 078**	**73 783 715**	**72 572 894**	**13 007 526**	**17 248 542**	**-**

26 Financial Risk Management (Continued)

The liquidity position of the Group as at 31 December 2005 is set out below:

In thousands of Russian Roubles	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	5 325 823	-	-	-	-	-	5 325 823
Mandatory cash balances with the CBRF	523 845	-	-	-	-	-	523 845
Due from other banks	2 268 287	777 374	1 001	-	739 663	-	3 786 325
Loans and advances to customers	23 468 037	23 915 942	26 637 041	22 750 585	1 906 490	-	98 678 095
Deferred income tax asset	-	-	-	-	-	557 044	557 044
Other assets	710 692	431 735	353 167	105 333	75 347	158 991	1 835 265
Premises and equipment	-	-	-	-	-	1 895 975	1 895 975
Intangible assets	-	-	-	-	-	133 493	133 493
Total assets	**32 296 684**	**25 125 051**	**26 991 209**	**22 855 918**	**2 721 500**	**2 745 503**	**112 735 865**
Liabilities							
Due to other banks	755 916	1 278 331	9 885 076	9 166 098	1 819 626	-	22 905 047
Customer accounts	8 250 106	762 225	678 433	831 554	687	-	10 523 005
Debt securities in issue	78 587	3 738 221	2 649 356	2 022 903	51 481 723	-	59 970 790
Subordinated debt	-	-	245 405	234 856	5 263 895	-	5 744 156
Other liabilities	1 133 457	349 452	8 066	5 745	8 338	-	1 505 058
Total liabilities	**10 218 066**	**6 128 229**	**13 466 336**	**12 261 156**	**58 574 269**	**-**	**100 648 056**
Net liquidity gap	**22 078 618**	**18 996 822**	**13 524 873**	**10 594 762**	**(55 852 769)**	**2 745 503**	**12 087 809**
Cumulative liquidity gap	**22 078 618**	**41 075 440**	**54 600 313**	**65 195 075**	**9 342 306**	**12 087 809**	**-**

The matching and 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 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 rates and exchange rates. The Management of the Group believes that the short-term nature of the Group's assets provides it with sufficient liquidity for servicing its obligations in accordance with the contractual terms.

26 Financial Risk Management (Continued)

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably 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, as 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 table below summarises the Group's exposure to interest rate risks as at 30 June 2006. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

In thousands of Russian Roubles	**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-monetary**	**Total**
Assets							
Cash and cash equivalents	12 434 897	-	-	-	-	-	12 434 897
Mandatory cash balances with the CBRF	889 206	-	-	-	-	-	889 206
Due from other banks	1 895 338	-	-	2 234	-	-	1 897 572
Loans and advances to customers	26 414 974	30 205 824	32 130 255	35 004 909	5 380 012	-	129 135 974
Deferred income tax asset	-	-	-	-	-	1 427 366	1 427 366
Other assets	1 387 134	785 264	55 064	93 193	58 671	167 476	2 546 802
Premises and equipment	-	-	-	-	-	2 494 722	2 494 722
Intangible assets	-	-	-	-	-	151 452	151 452
Total assets	**43 021 549**	**30 991 088**	**32 185 319**	**35 100 336**	**5 438 683**	**4 241 016**	**150 977 991**
Liabilities							
Due to other banks	3 071 601	5 268 731	12 035 106	13 548 402	1 069 276	-	34 993 116
Customer accounts	7 008 084	339 140	483 141	1 424 728	1 723	-	9 256 816
Debt securities in issue	12 755 743	2 997 911	1 632 548	20 032 514	44 498 180	-	81 916 896
Subordinated debt	-	-	230 769	220 902	4 951 388	-	5 403 059
Other liabilities	2 048 973	110 589	-	-	-	-	2 159 562
Total liabilities	**24 884 401**	**8 716 371**	**14 381 564**	**35 226 546**	**50 520 567**	**-**	**133 729 449**
Net sensitivity gap	**18 137 148**	**22 274 717**	**17 803 755**	**(126 210)**	**(45 081 884)**	**4 241 016**	**17 248 542**
Cumulative sensitivity gap	**18 137 148**	**40 411 865**	**58 215 620**	**58 089 410**	**13 007 526**	**17 248 542**	**-**

26 Financial Risk Management (Continued)

The following table summarises the Group's exposure to interest risks as at 31 December 2005 by showing assets and liabilities categories based the earlier of contractual repricing or maturity dates:

In thousands of Russian Roubles	**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-monetary**	**Total**
Assets							
Cash and cash equivalents	5 325 823	-	-	-	-	-	5 325 823
Mandatory cash balances with the CBRF	523 845	-	-	-	-	-	523 845
Due from other banks	3 004 216	777 374	1 001	-	3 734	-	3 786 325
Loans and advances to customers	23 468 037	23 915 942	26 637 041	22 750 585	1 906 490	-	98 678 095
Deferred income tax asset	-	-	-	-	-	557 044	557 044
Other assets	710 692	431 735	353 167	105 333	75 347	158 991	1 835 265
Premises and equipment	-	-	-	-	-	1 895 975	1 895 975
Intangible assets	-	-	-	-	-	133 493	133 493
Total assets	**33 032 613**	**25 125 051**	**26 991 209**	**22 855 918**	**1 985 571**	**2 745 503**	**112 735 865**
Liabilities							
Due to other banks	755 916	4 761 714	12 584 955	3 720 485	1 081 977	-	22 905 047
Customer accounts	8 250 106	762 225	678 433	831 554	687	-	10 523 005
Debt securities in issue	7 554 523	3 674 347	2 554 589	3 596 613	42 590 718	-	59 970 790
Subordinated debt	-	-	245 405	234 856	5 263 895	-	5 744 156
Other liabilities	1 133 457	349 452	8 066	5 745	8 338	-	1 505 058
Total liabilities	**17 694 002**	**9 547 738**	**16 071 448**	**8 389 253**	**48 945 615**	**-**	**100 648 056**
Net sensitivity gap	**15 338 611**	**15 577 313**	**10 919 761**	**14 466 665**	**(46 960 044)**	**2 745 503**	**12 087 809**
Cumulative sensitivity gap	**15 338 611**	**30 915 924**	**41 835 685**	**56 302 350**	**9 342 306**	**12 087 809**	**-**

The Group is exposed to cash flow interest rate risk, principally through assets and liabilities for which interest rates are reset as market rates change. Such assets and liabilities are primarily presented in the above table as being repriced in the short-term. The Group is exposed to fair value interest rate risk as a result of assets and liabilities at fixed interest rates; these are primarily presented in the above table as being repriced in the long-term. In practice, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Asset/Liability Committee monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions.

26 Financial Risk Management (Continued)

The table below summarises the effective interest rates by major currencies for major debt instruments. The analysis has been prepared based on period-end effective rates used for the amortisation of the respective assets/liabilities.

	30 June 2006			31 December 2005		
In thousands of Russian Roubles	**RR**	**USD**	**Euro**	**RR**	**USD**	**Euro**
Assets						
Cash balances with the CBRF	0.0	-	-	0.0	-	-
Mandatory cash balances with the CBRF	0.0	-	-	0.0	-	-
Correspondent accounts and overnight placements with other banks	1.1	5.1	3.3	0.6	3.2	2.1
Due from other banks	-	4.9	6.3	-	5.0	5.8
Loans and advances to customers						
- consumer loans	53.7	-	-	55.1	-	-
- credit card loans	69.1	64.7	-	68.6	63.8	-
- direct commercial loans	15.3	9.1	8.3	14.1	9.6	8.8
Liabilities						
Due to other banks	8.9	7.6	4.3	9.7	7.7	3.3
Customer accounts						
- term deposits of legal entities	8.7	6.0	-	9.3	6.0	5.0
- term deposits of individuals	10.8	6.6	6.1	11.2	6.2	5.8
Debt securities in issue						
- RR denominated bonds	9.0	-	-	10.0	-	-
- USD denominated loan participation notes	-	8.3	-	-	8.3	-
- EUR denominated notes	-	-	5.4	-	-	5.4
- promissory notes	8.5	-	8.0	9.3	-	8.0
Subordinated debt	-	9.2	-	-	9.2	-

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in corresponding currency.

27 Contingencies and Commitments

***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 internal 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 interim consolidated financial statements.

Dispute with BNP Paribas. In July 2004 BNP Paribas (through its subsidiary Cetelem SA) (BNP Paribas and Cetelem SA are together referred to herein as "BNP Paribas") entered into an agreement with the principal shareholders of the Bank (Roustam Tariko and entities directly or indirectly controlled by him) to acquire an equity ownership interest in the Bank (the "Transaction"). A dispute arose out of and in relation to the Transaction between BNP Paribas and the principal shareholders of the Bank. In May 2005 BNP Paribas and the principal shareholders of the Bank signed an agreement in principle pursuant to which BNP Paribas and the principal shareholders of the Bank agreed to settle the dispute among them. Following this agreement, a settlement agreement was executed on 7 September 2005 among BNP Paribas, the Bank and the principal shareholders of the Bank to settle the dispute. The settlement involves, among other provisions applicable to the principal shareholders of the Bank, (i) withdrawal of all pending claims relating to the dispute, (ii) an undertaking by the principal shareholders of the Bank for a specified period of time, compliance with which (or breach of which) is in the control of the principal shareholders of the Bank and (iii) subject to specified exceptions, an undertaking by the Bank for such specified period of time not to sell, lease, transfer or otherwise dispose of more than 10% of its assets (or any of its assets, if such transaction could have a material adverse effect on the Bank), other than in the ordinary course of business. In the event of a breach of the undertaking by the principal shareholders of the Bank referred to in (ii) above, the settlement agreement provides that the Bank and the principal shareholders of the Bank will be jointly and severally liable to pay liquidated damages to BNP Paribas, subject, in the case of the Bank, to a maximum of USD 25 000 thousand. In the event of a breach of the Bank's undertaking regarding the disposition of assets referred to in (iii) above, the settlement agreement provides that the Bank and the principal shareholders of the Bank will be jointly and severally liable to pay liquidated damages to BNP Paribas in an amount that would be material to the Bank. The Bank believes, based on the information provided by the principal shareholders of the Bank, that the possibility of a breach of the undertaking by the principal shareholders of the Bank referred to in (ii) above is remote. Also, the Bank believes, based on its current and proposed business and operations, that the possibility of a breach of the Bank's undertaking regarding the disposition of assets referred to in (iii) above is remote.

Any breach or alleged breach by the Bank or the principal shareholders of the Bank (over whom the Bank has no control) of their respective undertakings in the settlement agreement could result in a material adverse effect on the Bank's business, results of operations, financial condition and prospects. As at 30 June 2006 and as at 31 December 2005 the Bank has made no provision for any payment that may be required of it under the settlement agreement, although the Bank has recorded an off-balance sheet guarantee in respect of its potential USD 25 000 thousand liability in the event of a breach by the principal shareholders of the Bank of their undertaking in the settlement agreement referred to in (ii) above.

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, the risk of additional taxes, penalties and interest may arise. 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 tax consequence of transactions for Russian taxation purposes is frequently determined by the form in which transactions are documented and the underlying accounting treatment prescribed by Russian Accounting Rules. The interim consolidated financial statements include reclassifications to reflect the underlying economic substance of certain transactions. The Group`s Management believes that its interpretation of the relevant legislation is appropriate and the Group`s tax, currency legislation and customs position will be sustained. Accordingly, as at 30 June 2006 and 31 December 2005 no provision for potential tax liabilities has been recorded.

27 Contingencies and Commitments (Continued)

However, a possible tax risk has been identified in relation to the securitization transaction and the possible tax exposure is calculated as 18% VAT of the amount of loans issued by the Bank subsequently sold under securitization after 1 January 2006 (Refer to Note 14). However, the Tax Code does not provide clear guidance on VAT of securitization of loans (when underlying assets – consumer loans are not subject to VAT), therefore Management believes that, based on relevant legislation and the existing market practice, no VAT should arise as a result of these securitization transactions.

Capital expenditure commitments. As at 30 June 2006 the Group has contractual capital expenditure commitments in respect of premises and equipment totalling RR 76 357 thousand (31 December 2005: RR 327 902 thousand) and no contractual capital expenditure commitments in respect of software and other intangible assets (31 December 2005: nil). The Group believes that future net income and funding will be sufficient to cover this and any similar commitment.

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non cancellable premises operating leases were as follows:

In thousands of Russian Roubles	**30 June 2006**	**31 December 2005**
Not later than 1 year	455 378	391 635
Later than 1 year and not later than 5 years	730 825	494 979
Later than 5 years	91 078	335 711
Total operating lease commitments	**1 277 281**	**1 222 325**

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Undrawn credit lines and other commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on undrawn credit lines and commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

27 Contingencies and Commitments (Continued)

The contractual amounts of the Group's off-balance sheet financial instruments that commit the Group to extend credit to customers were as follows:

In thousands of Russian Roubles	30 June 2006	31 December 2005
Undrawn credit lines on credit cards	22 013 171	16 376 993
Guarantees issued	1 358 487	2 025 820
Undrawn credit lines on loans to customers	808 219	365 734
Import letters of credit	71 347	139 489
Total credit related commitments	**24 251 224**	**18 908 036**

The total outstanding contractual amount of credit related commitments does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Refer to Note 30 for the information on guarantees issued to related parties.

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 30 June 2006 the Group held in safe-custody promissory notes of several Russian and foreign companies with a nominal value of RR 838 435 thousand and (31 December 2005: RR 401 544 thousand).

Assets pledged and restricted. Assets pledged by the Group have been disclosed within the notes to the relevant assets and liabilities included in these interim consolidated financial statements.

As at 30 June 2006 the amount of RR 551 019 thousand (31 December 2005: RR 113 813 thousand) represent the deposits placed with international banks as a collateral for the foreign exchange derivatives transaction and credit related commitments.

Prepaid commission in the amount of RR 329 093 thousand as at 30 June 2006 (31 December 2005: nil) recorded within other assets (Note 10) is payable by the Group to the trade agent in the event of the termination of the existing agreement on cooperation with the trade agent.

As at 30 June 2006 mandatory cash balances with the CBRF in the amount of RR 889 206 thousand (31 December 2005: RR 523 845 thousand) represent mandatory reserve deposits, which are not available to finance the Group's day-to-day operations.

28 Derivative Financial Instruments

Derivative financial instruments. Foreign exchange derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates and other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The Group uses foreign exchange derivative financial instruments for economic hedging purposes. The Group does not apply hedge accounting and carries derivatives at fair value through the consolidated statement of income. These instruments represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.

28 Derivative Financial Instruments (Continued)

The table below sets out fair values at the balance sheet date of currencies receivable or payable under foreign exchange contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions and covers the contracts with settlement dates after the respective balance sheet date.

	Note	30 June 2006		31 December 2005	
In thousands of Russian Roubles		Net asset	Net liability	Net asset	Net liability
Foreign exchange forwards: fair values as at the balance sheet date of					
- USD receivable on settlement		45 512 711	20 203 059	46 731 896	12 990 923
- USD payable on settlement		-	(331 823)	-	-
- Euros receivable on settlement		-	6 797	-	-
- Euros payable on settlement		(50 964)	-	-	(1 787 248)
- RR receivable on settlement		51 357	324 211	-	-
- RR payable on settlement		(45 274 950)	(20 955 570)	(46 282 797)	(11 288 884)
Foreign exchange swaps: fair values as at the balance sheet date of					
- USD receivable on settlement		4 046 444	237 804		
- USD payable on settlement		-	(696 059)	-	(3 001 432)
- Euros receivable on settlement		-	12 782 038	8 496 572	-
- Euros payable on settlement		(1 261 032)	(237 831)	-	-
- RR receivable on settlement		-	350 842	-	3 000 000
- RR payable on settlement		(2 747 911)	(12 545 845)	(8 473 706)	-
Interest rate swaps: fair values as at the balance sheet date of					
- RR receivable on settlement		270 669	-	-	-
- RR payable on settlement		(270 669)	-	-	-
Net fair value of derivatives	**10,16**	**275 655**	**(862 377)**	**471 965**	**(86 641)**

29 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by 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 be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

29 Fair Value of Financial Instruments (Continued)

The following table summarises the carrying amounts and fair values of those principal financial assets and liabilities not presented on the Group's balance sheet at their fair value. Bid prices are used to estimate fair values of assets, whereas offer prices are applied for liabilities. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

	30 June 2006		31 December 2005	
In thousands of Russian Roubles	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Due from other banks	1 897 572	1 897 572	3 786 325	3 786 325
Loans and advances to customers	129 135 974	129 135 974	98 678 095	98 678 095
Financial liabilities				
Due to other banks	34 993 116	34 993 116	22 905 047	22 905 047
Customer accounts	9 256 816	9 256 816	10 523 005	10 523 005
Debt securities in issue	81 916 896	82 935 168	59 970 790	60 172 882
Subordinated debt	5 403 059	5 402 551	5 744 156	5 744 156

Loans and receivables carried at amortised cost. 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. Discount rates used depend on the credit risk of the counterparty and ranged from 8.0% to 70.1% per annum (31 December 2005: from 5.0% to 68.6% per annum).

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid.

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. Refer to Notes 4 and 28.

30 Related Party Transactions

For the purposes of these interim consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or exercises significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

For disclosure of the ownership structure of the Group refer to Note 1 and Note 31.

Banking transactions are entered into in the normal course of business with shareholders and companies affiliated with the shareholders, and with the directors and Management of the Group.

30 Related Party Transactions (Continued)

The outstanding balances as at 30 June 2006 with related parties were as follows:

In thousands of Russian Roubles	**Ultimate controlling shareholder and entities under his control**	**IFC**	**Members of the Board of Directors and of the Executive Board**
Loans and advances to customers			
Loans and advances (contractual interest rate: 9-11% on the loans denominated in USD, 10% on the loans denominated in RR, 8% on the loans denominated in EUR)	227 096	-	22 864
Other assets	131 323	-	-
Due to other banks (Refer to Note 12)	-	4 623 357	-
Customer accounts			
Term deposits (contractual interest rates: 5-13% on deposits denominated in RR, 6.5%-7.5% on deposits denominated in USD)	976 852	-	209 785
Current accounts	748 499	-	24 005
Debt securities in issue			
Bonds guaranteed by the Principal Shareholder (Refer to Note 14)	15 451 095	-	-

As at 30 June 2006, other rights and obligations with related parties were as follows:

In thousands of Russian Roubles	**Ultimate controlling shareholder and entities under his control**	**IFC**	**Members of the Board of Directors and of the Executive Board**
Guarantees issued by the Group	926 379	-	-
Guarantees received by the Group	282 447	-	34 058
Import letters of credit	17 377	-	-

30 Related Party Transactions (Continued)

The results of the transactions with related parties for six months ended 30 June 2006 were as follows:

In thousands of Russian Roubles	Ultimate controlling shareholder and entities under his control	IFC	Members of the Board of Directors and of the Executive Board
Loans and advances to customers			
Interest income	20 156	-	797
Customer accounts			
Interest expense	26 000	-	17 591
Due to other banks			
Interest expense	-	193 213	-
Fee and commission income			
Agency commission from RSI	854 332	-	-
Guarantees and letters of credit	8 533	-	-

The outstanding balances as at 31 December 2005 with related parties were as follows:

In thousands of Russian Roubles	Ultimate controlling shareholder and entities under his control	IFC	Members of the Board of Directors and of the Executive Board
Loans and advances to customers			
Loans and advances (contractual interest rate: 9-12% on the loans denominated in USD, 10-14% on the loans denominated in RR, 8% on the loans denominated in EUR)	235 931	-	11 864
Other assets	115 163	-	-
Due to other banks (Refer to Note 12)	-	2 856 800	-
Customer accounts			
Term deposits (contractual interest rates: 5-13% on deposits denominated in RR, 6.5%-7.5% on deposits denominated in USD, 21% on deposits denominated in EUR)	612 580	-	204 078
Current accounts	95 937	-	47 285
Debt securities in issue			
Bonds guaranteed by the Principal Shareholder (Refer to Note 14)	11 090 784	-	-

30 Related Party Transactions (Continued)

As at 31 December 2005, other rights and obligations with related parties were as follows:

In thousands of Russian Roubles	**Ultimate controlling shareholder and entities under his control**	**IFC**	**Members of the Board of Directors and of the Executive Board**
Guarantees issued by the Group	1 558 951	-	52 096
Guarantees received by the Group	270 937	-	68 493
Import letters of credit	71 236	-	-

The results of the transactions with related parties for the six months ended 30 June 2005 were as follows:

In thousands of Russian Roubles	**Ultimate controlling shareholder and entities under his control**	**IFC**	**Members of the Board of Directors and of the Executive Board**
Loans and advances to customers			
Interest income	33 739	-	720
Customer accounts			
Interest expense	8 383	-	16 039
Due to other banks			
Interest expense	-	84 969	-
Debt securities in issue			
Interest expense	3 299	-	-
Fee and commission income			
Guarantees and letters of credit	7 315	-	-
Other transactions			
Other income/(expense), net	114	-	(97)

Refer to Note 27 for information on a dispute of the shareholders of the Bank with BNP Paribas. Refer to Note 20 for information on arrangements with RSI.

In the six-month period ended 30 June 2006, the total remuneration of members of the Board of Directors and of the Executive Board, comprised salaries, discretionary bonuses and other short-term benefits, amounted to RR 109 789 thousand (the six-month period ended 30 June 2005: RR 86 405 thousand).

31 Subsequent Events

In August 2006 the Principal Shareholder of the Group purchased 6.42% of the Bank’s shares from International Finance Corporation.

In July 2006 the Group organised through several international banks a syndicated loan of USD 202 500 thousand. The loan was received by the Group in August 2006. The loan bears a floating rate of three months LIBOR plus 1.0% payable quarterly and is due in one year after the issue date.

In August 2006 the Group organised two RR denominated bonds issues, each with a nominal amount of RR 5 000 000 thousand due in five years. The bonds are planned to be issued in September and in December 2006, respectively. The interest rate for the bonds will be set at the issue date.

RUSSIAN STANDARD BANK GROUP

Consolidated Financial Statements
and Auditors' Report

31 December 2005

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AUDITORS' REPORT

To the Board of Directors of ZAO Russian Standard Bank:

We have audited the accompanying consolidated balance sheet of ZAO Russian Standard Bank and its subsidiaries (the "Group") as at 31 December 2005, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2005 and the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
10 April 2006

In thousands of Russian Roubles	Note	31 December 2005	31 December 2004
Assets			
Cash and cash equivalents	7	5 325 823	2 850 289
Mandatory cash balances with the Central Bank of the Russian Federation		523 845	267 033
Due from other banks	8	3 786 325	2 009 065
Loans and advances to customers	9	98 678 095	34 364 373
Deferred income tax asset	23	557 044	310 687
Other assets	10	1 835 265	490 409
Premises and equipment	11	1 895 975	853 987
Intangible assets	11	133 493	81 791
Total assets		**112 735 865**	**41 227 634**
Liabilities			
Due to other banks	12	22 905 047	4 766 733
Customer accounts	13	10 523 005	4 235 333
Debt securities in issue	14	59 970 790	23 662 775
Deferred income tax liability	23	-	46 827
Subordinated debt	15	5 744 156	-
Other liabilities	16	1 505 058	903 674
Total liabilities		**100 648 056**	**33 615 342**
Equity			
Share capital	17	1 738 516	1 738 516
Share premium		672 932	672 932
Additional paid-in capital	17	148 286	148 286
Retained earnings	18	9 528 075	5 052 558
Total equity		**12 087 809**	**7 612 292**
Total liabilities and equity		**112 735 865**	**41 227 634**

Approved for issue and signed on behalf of the Board of Directors on 10 April 2006.

D.O. Levin
Chairman of the Executive Board

N.A. Itskov
Chief Financial Officer

In thousands of Russian Roubles	Note	2005	2004
Interest income	19	23 591 358	10 926 759
Interest expense	19	(4 094 384)	(2 057 273)
Net interest income		**19 496 974**	**8 869 486**
Provision for loan impairment	9	(7 258 032)	(1 422 016)
Net interest income after provision for loan impairment		**12 238 942**	**7 447 470**
Fee and commission income	20	892 143	58 615
Fee and commission expense		(73 657)	(72 665)
Foreign exchange translation gains less losses		(894 104)	582 972
Net trading gains	21	507 399	(216 397)
Other operating results		(15 766)	60 026
Operating income		**12 654 957**	**7 860 021**
Administrative and other operating expenses	22	(4 905 094)	(2 066 411)
Profit before tax		**7 749 863**	**5 793 610**
Income tax expense	23	(1 886 904)	(1 400 621)
Profit for the year		**5 862 959**	**4 392 989**

In thousands of Russian Roubles	Note	2005	2004
Cash flows from operating activities			
Interest received		21 985 325	10 216 239
Interest paid		(3 415 782)	(1 582 912)
Net trading losses paid		(108 640)	(70 140)
Fees and commissions received		794 548	58 615
Fees and commissions paid		(73 658)	(73 916)
Other operating income received		5 702	7 923
Staff cost paid		(2 437 577)	(875 724)
Administrative and other operating expenses paid		(2 328 325)	(858 221)
Income tax paid		(2 330 585)	(1 231 366)
Cash flows from operating activities before changes in operating assets and liabilities		**12 091 008**	**5 590 498**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(256 812)	(40 215)
Net increase in due from other banks		(1 594 562)	(2 137 537)
Net increase in loans and advances to customers		(69 971 241)	(22 086 468)
Net increase in other assets		(773 515)	(253 955)
Net increase in due to other banks		17 807 709	1 453 611
Net increase in customer accounts		6 250 197	1 545 223
Net (decrease)/increase in promissory notes issued		(1 675 153)	227 878
Net increase in other liabilities		1 088 639	45 478
Net cash used in operating activities		**(37 033 730)**	**(15 655 487)**
Cash flows from investing activities			
Acquisition of premises and equipment	11,17	(1 326 623)	(512 600)
Proceeds from disposal of premises and equipment	11	13 980	3 884
Acquisition of intangible assets	11	(98 263)	(39 641)
Net cash used in investing activities		**(1 410 906)**	**(548 357)**
Cash flows from financing activities			
Issue of debt securities, other than promissory notes	14	37 886 595	19 186 241
Repayment of debt securities, other than promissory notes	14	(1 314 418)	(829 070)
Equity option settlement	12	(113 608)	-
Dividends paid	24	(1 387 442)	-
Issue of subordinated debt	15	5 704 954	-
Net cash from financing activities		**40 776 081**	**18 357 171**
Effect of exchange rate changes on cash and cash equivalents		**144 089**	**5 197**
Net increase in cash and cash equivalents		**2 475 534**	**2 158 524**
Cash and cash equivalents as at the beginning of the year	7	2 850 289	691 765
Cash and cash equivalents as at the end of the year	**7**	**5 325 823**	**2 850 289**

In thousands of Russian Roubles	**Share capital**	**Share premium**	**Additional paid-in capital**	**Retained earnings**	**Total equity**
Balance as at 1 January 2004 (as previously reported)	**1 738 516**	**672 932**	**-**	**773 177**	**3 184 625**
Effect of adoption of IAS 32 (revised 2003) (Note 5)	-	-	-	(113 608)	(113 608)
Balance as at 1 January 2004 (restated)	**1 738 516**	**672 932**	**-**	**659 569**	**3 071 017**
Contributions from shareholders other than share issues, net of taxation (Note 17)	-	-	148 286	-	148 286
Profit for the year	-	-	-	4 392 989	4 392 989
Balance as at 31 December 2004	**1 738 516**	**672 932**	**148 286**	**5 052 558**	**7 612 292**
Dividends paid (Note 24)	**-**	**-**	-	(1 387 442)	(1 387 442)
Profit for the year	**-**	**-**	-	5 862 959	5 862 959
Balance as at 31 December 2005	**1 738 516**	**672 932**	**148 286**	**9 528 075**	**12 087 809**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005 for ZAO Russian Standard Bank (the "Bank") and its subsidiaries, OOO Russian Standard-Finance, OOO Debt Collection Agency and Russian Consumer Loans No. 1 S.A. (together the "Group" or the "Russian Standard Bank Group").

The Bank was incorporated in 1992 as a closed joint stock company and is domiciled in the Russian Federation.

As at 31 December 2005 and 31 December 2004 the shareholders of the Bank were:

	2005	2004
ZAO Company Russian Standard	90.75%	90.75%
International Finance Corporation ("IFC")	6.42%	6.42%
ZAO Roust Inc.	2.82%	2.82%
Other	0.01%	0.01%
Total	**100.00%**	**100.00%**

ZAO Company Russian Standard and ZAO Roust Inc. are subsidiaries of Roust Trading Limited (the "Principal Shareholder"). The ultimate controlling shareholder of the Group is Mr. Roustam Tariko.

OOO Russian Standard-Finance, a company registered in the Russian Federation, is owned by the Principal Shareholder and in substance is controlled by the Bank. The only activity of this company is the issue of bonds on behalf of the Bank.

OOO Debt Collection Agency, a company registered in the Russian Federation, is owned by the Principal Shareholder and in substance is controlled by the Bank. The only activity of this company is the collection of bad debts of the Bank.

Russian Consumer Loans No. 1 S.A. ("RCL"), a company incorporated in Luxembourg on 2 November 2005, is owned by the foundations established under the laws of The Netherlands. RCL has been established for the purpose of structuring securitisation transactions. RCL is included in the consolidated financial statements of the Group from the date of incorporation, since it is in substance controlled by the Bank.

Principal activity. The Bank's principal business activity is retail and commercial banking operations within the Russian Federation. The Bank has a full banking licence issued by the Central Bank of the Russian Federation ("CBRF"). In addition, starting from March 2004, the Bank acts as an agent in relation to sales of insurance policies of the insurance company ZAO Russian Standard Insurance, a subsidiary of the Principal Shareholder, to the customers of the Bank (Note 25).

In January 2004 the Bank applied for participation in the State deposit insurance scheme, which was introduced by the Federal Law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. In May 2004 the Bank was inspected by the CBRF to assess its compliance with the criteria set for the State deposit insurance scheme and in accordance with the decision of the CBRF, the Bank was accepted to the State deposit insurance scheme on 21 September 2004. The State deposit insurance scheme dictates that the State Deposit Insurance Agency will guarantee repayment of individual deposits up to RR 100 thousand (approximately US Dollars 3 thousand) per individual in the event of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments.

Registered address and place of business. The Bank's registered address is Spartakovskaya Str., 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 Group's employees as at 31 December 2005 was 16 943 (2004: 5 886).

Presentation currency. These financial statements are presented in thousands of Russian Roubles ("RR thousands").

2 Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market, including the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, relatively high inflation and economic growth. The banking sector in the Russian Federation is sensitive to adverse fluctuations in confidence and economic conditions. The Russian economy occasionally experiences falls in confidence in the banking sector accompanied by reductions in liquidity. Management is unable to predict economic trends and developments in the banking sector and what effect, if any, a deterioration in the liquidity of or confidence in the Russian banking system could have on the financial position of the Group.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently. Furthermore, the need for further developments in the bankruptcy laws, the 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. 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.

3 Basis of Preparation and Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5 for the effect of adoption of new or revised standards and interpretations).

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.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

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 govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the acquirer's share of the fair value of the net assets of the acquiree at each exchange transaction is recorded as goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recorded immediately in profit or loss.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest. The difference, if any, between the fair values of the net assets at the dates of exchange and at the date of acquisition is recorded directly in equity.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

In other than active markets, the most recent arms length transactions are the basis of current fair values. Recent transaction prices are appropriately adjusted if they do not reflect current fair values, for example because the transaction was a distress sale. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale.

Valuation techniques such as discounted cash flows models and consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Amortised cost is the amount at which the financial instrument was recorded at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount, are not presented separately and are included in the carrying values of related balance sheet items.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

Initial recognition of financial instruments. Derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

3 Basis of Preparation and Significant Accounting Policies (Continued)

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial instrument. All other purchases and sales are recorded on the settlement date with the change in value between the commitment date and settlement date not recorded for assets carried at cost or amortised cost; recorded in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss; and recorded in equity for assets classified as available for sale.

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. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the CBRF. Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing 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.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Impairment losses are recorded through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recorded (such as an improvement in the debtor's credit rating), the previously recorded impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectable assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed, the Credit Committee of the Bank has formally recognised assets uncollectable and the amount of the loss has been determined.

Credit related commitments. In the normal course of business, the Group enters into credit related commitments, including letters of credit and guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Premiums received for the financial guarantees are amortised on a straight line basis during the life of the guarantee. In determining the amount of provision for financial guarantees, Management uses best estimates of the expenditures required to settle the obligations arising at the reporting date. The estimates of outcome and financial effect are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of Management.

Derecognition of financial assets. The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Premises and equipment. Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required. Cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss. An impairment loss recorded for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised in profit or loss.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Depreciation. Depreciation is calculated using the straight-line method to allocate the cost of premises and equipment to their residual values over their estimated useful lives, as follows:

Premises	50 years;
Office equipment	6 years;
Fixtures and fittings	7 years;
Computers	4 years;
Vehicles	5 years.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Intangible assets. All of the Group's intangible assets have definite useful life and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, eg its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 1 to 10 years.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

***Debt securities in issue**.* Debt securities in issue are stated at amortised cost. 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 retirement of debt.

Subordinated debt. Recognition and measurement of this category is consistent with the above policy for debt securities in issue.

***Derivative financial instruments**.* Derivative financial instruments, including foreign exchange contracts, are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss as trading gains. The Group does not apply hedge accounting.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recorded in the consolidated income statement except if it is recognised directly in equity because it relates to transactions that are also recorded, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary’s dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued 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.

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 recorded 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 and before the financial statements are authorised for issue 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 and expense recognition. Interest income and expense are recorded in the consolidated income statement for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, 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.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

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, which are earned on execution of the underlying transaction are recorded on its completion.

Foreign currency translation. The functional currency of each of the Group's entities is the currency of the primary economic environment in which the entity operates. The Bank and its subsidiaries' functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recorded in profit or loss. Translation at year-end rates does not apply to non-monetary items.

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. Accounting for the effects of hyperinflation prior to 1 January 2003 is detailed further below.

As at 31 December 2005 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 28.7825 (2004: USD 1 = RR 27.7487). 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.

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. The extent of such balances and transactions is indicated in Note 27. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission 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.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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"). 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. It states 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.

The characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current at as 31 December 2002 are 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.

Staff costs and related contributions. Group companies do not operate their own pension schemes. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group and are included in operating expenses.

Segment 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 whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Group have been reported separately within these consolidated financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

Seasonality of the business. The lending operations of the Group are subject to seasonal fluctuations with peak demand in the fourth quarter of each year.

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current year.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recorded in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require Management to make estimates. Changes in assumptions about these factors could affect reported fair values. Changing the assumptions not supported by observable market data to a reasonably possible alternative would not result in significantly different profit, income, total assets or total liabilities.

Special Purpose Entities. Judgement is also required to determine whether the substance of the relationship between the Group and a special purpose entity indicates that the special purpose entity is controlled by the Group. Non-consolidation of special purpose entities would result in decrease in the Groups' assets and liabilities by approximately RR 8 841 000 thousand (2004: nil).

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 27.

Deferred income tax asset recognition. The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future Management makes judgements and applies estimation based on last three years taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

Related party transactions. In the normal course of business the Group enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

5 Adoption of New or Revised Standards and Interpretations

Early adoption of new standards. In 2004, the Group early adopted IAS 8 (revised 2003) "Accounting Policies, Changes in Accounting Estimates and Errors".

Adoption of new standards. Certain new IFRSs became effective for the Group from 1 January 2005. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to the retained earnings at 1 January 2004, unless otherwise described below.

IAS 1 (revised 2003) "Presentation of Financial Statements". Certain new disclosures and changes in presentation required by the revised standard were made in these financial statements.

IAS 16 (revised 2003) "Property, Plant and Equipment". The residual value is now defined as the amount that the Group estimates it would receive currently for the asset if the asset were already of the age and in the condition expected at the end of its useful life. The Group's policy is now not to cease depreciating assets during temporary periods when the assets are idle. All changes to accounting policies as a result of the revised IAS 16 were accounted for retrospectively and did not result in a significant effect on the carrying amount of the Group's assets.

5 Adoption of New or Revised Standards and Interpretations (Continued)

IAS 24 (revised 2003) "Related Party Disclosures". The definition of related parties was extended and additional disclosures required by the revised standard were made in these consolidated financial statements.

IAS 39 (revised 2003) "Financial Instruments: Recognition and Measurement". The definition of originated loans and receivables' was amended to become 'loans and receivables'. This category now comprises originated or purchased loans and receivables that are not quoted in an active market. The Group amended its policies and may designate any financial instrument on initial recognition as one to be measured at fair value, with changes in fair value recorded in profit or loss. Subsequent reclassifications into or out of the 'at fair value through profit or loss' category are prohibited.

The Group amended its policies for derecognition of financial assets. Under the original IAS 39, several concepts governed derecognition. The revised IAS 39 retains the two main concepts of risks and rewards and control, but clarifies that the evaluation of the transfer of risks and rewards precedes the evaluation of the transfer of control. The Group now applies the guidance added to IAS 39 on how to determine fair values using valuation techniques and how to evaluate impairment in a group of loans or receivables which cannot yet be identified with any individual asset in the group. In accordance with the standard's transitional provisions the revised accounting policies are applied retrospectively except for the clarified derecognition rules which are applied prospectively from 1 January 2004. Although allowed by the standard, the Group has not redesignated any financial instrument into 'at fair value through profit or loss' or 'available for sale' categories at the date of initial application of the revised IAS 39.

IFRS 3 (issued 2004) "Business Combinations". The Group applies transitional provisions of IFRS 3 and accounts for all business combinations for which the agreement date is on or after 31 March 2004 and which are within the scope of IFRS 3 by applying the purchase method. For these transactions, the Group amended its policies for the application of the purchase method: (i) the Group now separately records, at the acquisition date, the acquiree's contingent liabilities if their fair values can be measured reliably; and (ii) the identifiable assets, liabilities and contingent liabilities are now measured at their fair values irrespective of the extent of any minority interest.

Effect of Adoption of New or Revised Standards. The effect of adoption of the above new or revised standards on the Group's financial position as at 31 December 2005 and 31 December 2004 and on the results of its operations for the years then ended was not significant, except that equity as at 1 January 2004 decreased and total liabilities as at 1 January 2004 increased by RR 113 608 thousand as a result of the change in classification of and accounting for an option agreement with EBRD (Note 12) in accordance with provisions of IAS 32 (revised 2003) "Financial Instruments: Disclosure and Presentation".

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods and which the Bank has not early adopted:

IFRIC 4 "Determining whether an Arrangement contains a Lease". IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

IAS 39 (Amendment) – The Fair Value Option. IAS 39 (revised 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ('fair value through profit or loss'). The amendment changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category.

IAS 39 (Amendment) – Financial Guarantee Contracts. Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recorded at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognition of financial assets or result in continuing involvement accounting.

6 New Accounting Pronouncements (Continued)

IFRS 7 "Financial Instruments: Disclosures" and a complementary Amendment to IAS 1 "Presentation of Financial Statements" - Capital Disclosures. IFRS 7 introduces new disclosures to improve the information about financial instruments. It replaces IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and some of the requirements in IAS 32 "Financial Instruments: Disclosure and Presentation". The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Group is currently assessing what impact IFRS 7 and the amendment to IAS 1 will have on disclosures in its consolidated financial statements.

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

7 Cash and Cash Equivalents

In thousands of Russian Roubles	**2005**	**2004**
Cash on hand	1 219 102	266 942
Cash balances with the CBRF (other than mandatory reserve deposits)	1 710 522	1 747 586
Correspondent accounts and overnight placements with other banks		
- Russian Federation	1 158 689	625 937
- Other countries	1 237 510	209 824
Total cash and cash equivalents	**5 325 823**	**2 850 289**

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 26.

8 Due from Other Banks

In thousands of Russian Roubles	**Note**	**2005**	**2004**
Term placements with other banks		2 936 582	1 888 251
Deposit in relation to securitisation transaction	14	735 930	-
Collateral deposits		113 813	120 814
Total due from other banks		**3 786 325**	**2 009 065**

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 26. Fair values are disclosed in Note 29.

9 Loans and Advances to Customers

In thousands of Russian Roubles	**2005**	**2004**
Loans to individuals		
Consumer loans	53 422 000	23 455 890
Credit card loans	50 303 329	11 522 795
Other	148 647	104 085
Loans to legal entities	1 667 344	1 207 827
Gross loans and advances to customers	**105 541 320**	**36 290 597**
Less: Provision for loan impairment	(6 863 225)	(1 926 224)
Total loans and advances to customers	**98 678 095**	**34 364 373**

9 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment were as follows:

In thousands of Russian Roubles	2005	2004
Provision for loan impairment as at 1 January	**1 926 224**	**710 080**
Provision for loan impairment during the year	7 258 032	1 422 016
Loans and advances to customers written off during the year as uncollectible	(2 321 031)	(205 872)
Provision for loan impairment as at 31 December	**6 863 225**	**1 926 224**

As at 31 December 2005 the total amount of non-performing loans, i.e. loans not serviced according to the original contractual terms for at least 90 days, was RR 3 657 308 thousand (2004: RR 1 329 769 thousand).

The approximate number of borrowers (in thousands) for main types of loans to individuals were as follows:

	2005	2004
Consumer loans	6 375	2 801
Credit card loans	1 648	531

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.

As at 31 December 2005 consumer loans in the amount of RR 1 496 690 thousand (2004: RR 2 440 053 thousand) were agreed to be pledged as collateral in relation to due to other banks (Notes 12 and 14).

In addition, as at 31 December 2005 loans with the total principal amount of RR 8 456 966 thousand were legally sold in the course of a securitisation transaction (Note 14). These loans were not derecognized and as at 31 December 2005 were recorded on the consolidated balance sheet of the Group.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 26. Fair values are disclosed in Note 29. The information on related party balances is disclosed in Note 30.

10 Other Assets

In thousands of Russian Roubles	Note	2005	2004
Trade debtors and prepayments		681 645	315 435
Foreign exchange forward contracts	28	471 965	24 837
Items in the course of settlement		374 714	99 545
Inventories		158 991	37 243
Agency commissions receivable from RSI	20	115 163	-
Other		32 787	13 349
Total other assets		**1 835 265**	**490 409**

Geographical, currency and maturity analyses of other assets are disclosed in Note 26. The information on the related party balances is disclosed in Note 30.

11 Premises and Equipment and Intangible Assets

In thousands of Russian Roubles	Premises	Office and computer equipment	Intangible assets	Total
Net book amount as at 31 December 2004	**276 992**	**576 995**	**81 791**	**935 778**
Book amount at cost				
Opening balance	279 125	793 437	139 508	1 212 070
Additions	108 239	1 218 384	98 263	1 424 886
Disposals	(7 621)	(27 421)	-	(35 042)
Closing balance	**379 743**	**1 984 400**	**237 771**	**2 601 914**
Accumulated depreciation				
Opening balance	2 133	216 442	57 717	276 292
Depreciation and amortisation charge (Note 22)	6 414	264 242	46 561	317 217
Disposals	(146)	(20 917)	-	(21 063)
Closing balance	**8 401**	**459 767**	**104 278**	**572 446**
Net book amount as at 31 December 2005	**371 342**	**1 524 633**	**133 493**	**2 029 468**

11 Premises and Equipment and Intangible Assets (Continued)

In thousands of Russian Roubles	Premises	Office and computer equipment	Intangible assets	Total
Net book amount as at 31 December 2003	**1 707**	**269 008**	**62 037**	**332 752**
Book amount at cost				
Opening balance	1 808	374 775	100 371	476 954
Additions (Note 17)	277 317	430 396	39 641	747 354
Disposals	-	(11 734)	(504)	(12 238)
Closing balance	**279 125**	**793 437**	**139 508**	**1 212 070**
Accumulated depreciation				
Opening balance	101	105 767	38 334	144 202
Depreciation and amortisation charge (Note 22)	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**	**576 995**	**81 791**	**935 778**

12 Due to Other Banks

In thousands of Russian Roubles	2005	2004
Term loans of other banks	10 192 149	2 911 112
USD syndicated loans	3 537 112	598 326
RR syndicated loans	3 380 939	-
Loans from EBRD	2 938 047	439 345
Loans from IFC	2 856 800	817 950
Total due to other banks	**22 905 047**	**4 766 733**

Term loans of other banks. As at 31 December 2005 term loans of other banks were mainly represented by three loans of USD 100 000 thousand each obtained by the Group in November 2005 from international banks. The loans bear fixed interest rates from 7.07% to 7.09% per annum. Both interest and principal on the loans are due in May 2006.

As at 31 December 2004 consumer loans with a carrying value of RR 780 000 thousand were pledged as collateral in connection to term loans of other banks (Note 9).

12 Due to Other Banks (Continued)

USD syndicated loans. In July 2004 the Group obtained from several Russian and international banks a syndicated loan of USD 21 500 thousand. The loan was at a floating rate of three month LIBOR plus 3.5% and was repaid in July 2005.

In August 2005 the Group obtained from several Russian and international banks a syndicated loan of USD 122 500 thousand. The loan bears a floating rate of three months LIBOR plus 1.8% payable quarterly and is due in August 2006.

RR syndicated loans. In April 2005 the Group obtained from several Russian banks a syndicated loan of RR 1 255 000 thousand. The loan bears a fixed interest rate of 9.5% payable daily. The loan is due in October 2006 and is repayable in equal daily instalments.

In November 2005 the Group obtained from several Russian and international banks a syndicated loan of RR 2 750 000 thousand which is due in November 2006. The loan bears a fixed interest rate of 8.5% payable monthly.

Loans from EBRD. In 2002 the Group obtained a USD 10 000 thousand loan from the European Bank for Reconstruction and Development ("EBRD"), which was due on 15 April 2006. The loan bears a floating interest rate of six month LIBOR plus 4.5%. The loan was repayable in five equal semi-annual instalments, starting 15 April 2004.

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 remained 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 amounting USD 4 000 thousand as compensation to EBRD. Whether to issue the shares or pay the compensation was the decision of the Group. The exercise price of the option was USD 122.36 per share plus an amount equal to 3.5% 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 paid the USD 4 000 thousand settlement amount in compensation on 31 March 2005. The Bank has also paid 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 16).

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 USD 5 000 thousand tranches. The tranches are repayable in semi-annual instalments by November 2007 and bear a floating interest rate of LIBOR plus 4.25%.

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% 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% and is repayable on 22 November 2006.

Loan facilities 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 Roubles or in US Dollars.

In March 2004, the Group obtained a Russian Rouble loan in the equivalent of USD 7 000 thousand, which was repaid on 14 March 2005. The loan was at a fixed interest rate of 7.59% payable quarterly.

In June 2004, the Group obtained a further RR loan in the equivalent amount of USD 21 000 thousand, which was at a fixed interest rate of 10.8% payable quarterly. The loan was repaid on 20 June 2005.

In January, April and August 2005, the Group obtained three further RR loans in the equivalent amount of USD 7 000 thousand, USD 12 000 thousand and USD 21 000 thousand, which bear fixed interest rates of 9.7%, 9.34% and 9.35% respectively, payable quarterly.

12 Due to Other Banks (Continued)

As at 31 December 2005 RR 1 496 690 thousand of the Group's consumer loans were agreed to be pledged under the above facility as collateral in the event of the Group's default (2004: RR 1 010 053 thousand). Refer to Note 9.

In December 2004, a USD 20 000 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 Roubles or in US Dollars. Under this facility, in February 2005, the Group obtained a RR loan in the equivalent of USD 20 000 thousand at a fixed interest rate of 9.25% payable quarterly, which was repaid on 2 February 2006.

In December 2005 the Group obtained a further loan facility from IFC of USD 100 000 thousand. Under this facility, in December 2005 the Group obtained a RR loan in the equivalent of USD 40 000 thousand. The loan is repayable in October 2008 and bears a fixed interest rate of 8.65% payable semi-annually.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 26. Fair values are disclosed in Note 29. The information on related party balances is disclosed in Note 30.

13 Customer Accounts

In thousands of Russian Roubles	**2005**	**2004**
Legal entities		
- Current/settlement accounts	889 153	272 518
- Term deposits	1 092 742	441 575
Individuals		
- Current/demand accounts	7 036 813	2 460 091
- Term deposits	1 504 297	1 061 149
Total customer accounts	**10 523 005**	**4 235 333**

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 26. Fair values are disclosed in Note 29. The information on related party balances is disclosed in Note 30.

14 Debt Securities in Issue

In thousands of Russian Roubles	2005	2004
USD denominated		
USD 500 million 7.5% loan participation notes due October 2010	14 572 379	-
USD 300 million 8.75% loan participation notes due April 2007	8 816 822	8 438 399
USD 300 million 7.8% loan participation notes due September 2007	8 767 020	8 434 911
USD 300 million 8.125% loan participation notes due April 2008	8 722 029	-
USD 30 million 11% loan participation notes due May 2005	-	836 539
RR denominated		
RR 5 000 million 7.6% bonds due September 2010	5 093 307	-
RR 3 000 million 8.99% bonds due March 2008	3 074 608	-
RR 2 000 million 12.9% bonds due August 2007	1 918 830	2 072 868
RR 1 000 million 14% bonds due June 2006	1 004 039	999 085
RR 500 million 20% bonds due August 2005	-	536 321
EUR denominated notes due in November 2008	7 554 523	-
Promissory notes issued	447 233	2 344 652
Total debt securities in issue	**59 970 790**	**23 662 775**

In October 2005 the Group under its Medium Term Notes Programme issued 7.5% loan participation notes due October 2010 with a total nominal amount of USD 500 000 thousand placed at nominal value.

In April 2004 the Group issued 8.75% loan participation notes due April 2007 with a total nominal amount of USD 150 000 thousand, placed at nominal value. In December 2004 the Bank issued additional 8.75% loan participation notes due April 2007 with a total nominal amount of USD 150 000 thousand, placed at nominal value.

In September 2004 the Group issued 7.8% loan participation notes due in September 2007 with a total nominal amount of USD 300 000 thousand, placed at nominal value.

In April 2005 the Group under its Medium Term Notes Programme issued 8.125% loan participation notes due in April 2008 with a total nominal amount of USD 300 000 thousand, placed at nominal value.

In November 2003 the Group issued USD 30 000 thousand 11% loan participation notes which were repaid in May 2005.

In September 2005 the Group issued bonds due September 2010 with a total nominal amount of RR 5 000 000 thousand, placed at nominal value. The Bank has also published an offer to repurchase these bonds at nominal value at 23 March 2007. The bonds bear a fixed interest rate of 7.6% until March 2007. The interest rate for the period starting from March 2007 will be set by the Board of Directors of the Bank and it can not be lower than 5.0% per annum. The bonds are guaranteed by the Principal Shareholder.

In March 2005 the Bank issued bonds due March 2008 with a total nominal amount of RR 3 000 000 thousand, placed at nominal value. The Bank has also published an offer to repurchase these bonds at nominal value 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 and it can not be lower than 5.0% per annum. The bonds are guaranteed by the Principal Shareholder.

In August 2004 the Bank issued at nominal value bonds due in August 2007 with a total nominal amount of RR 2 000 000 thousand and a 12.9% per annum fixed interest rate. The bonds are guaranteed by the Principal Shareholder.

In June 2003 the Bank issued bonds due June 2006 with a total nominal amount of RR 1 000 000 thousand, placed at premium of RR 6 600 thousand. The bonds bear a fixed interest rate of 14% per annum. The bonds are guaranteed by the Principal Shareholder.

14 Debt Securities in Issue (Continued)

The 20% bonds due August 2005 were issued by the Group in August 2002 and were guaranteed by the Bank and the 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 9). The bonds were repaid in August 2005.

In November 2005 the Group completed a securitisation transaction whereby it privately placed EUR 190 000 thousand Class A and EUR 30 000 thousand Class B notes. Class A notes bear a floating interest rate of EURIBOR plus 2.5% per annum payable monthly. Class B notes bear a floating interest rate of EURIBOR plus 3.5% per annum payable monthly. The claims of Class B noteholders against the Group in respect of the principal and interest on the notes are subordinated to the claims of Class A noteholders. Both Class A and Class B notes are due in November 2008 and secured by consumer loans originated by the Group. As at 31 December 2005 consumer loans (Note 9) with the total principal amount of RR 8 456 966 thousand were legally sold by the Bank to RCL and represented collateral in relation to the securitisation transaction.

In the course of the securitisation transaction the Group placed a deposit with the transaction arranger to finance the acquisition by the transaction arranger of Class B notes. As at 31 December 2005 the deposit had a carrying value (principal and interest accrued) of RR 735 930 thousand (RR equivalent of EUR 21 528 thousands), bore interest of EURIBOR plus 3.5% per annum and was repayable subject to repayment by the Group of Class B notes with a total nominal value of EUR 21 500 thousand held by the transaction arranger. Refer to Note 8.

Refer to Note 31 for the information on repurchase by the Group subsequent to 31 December 2005 of some notes issued in the course of the securitisation transaction.

Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 26. Fair values are disclosed in Note 29. The information on debt securities in issue guaranteed by related parties, held by related parties and related interest expenses is disclosed in Note 30.

15 Subordinated Debt

In December 2005 the Group issued loan participation notes due December 2015 with a total nominal amount of USD 200 000 thousand, placed at nominal value. The notes bear a fixed interest rate of 8.875% until December 2010. The interest rate for the period starting from December 2010 will be set at U.S. Treasury Notes rate plus 1.5% per annum. The Bank has the right to repurchase these notes at nominal value at 16 December 2010. The claims of the lenders against the Group in respect of the principal and interest on the notes will be subordinated to the claims of other creditors in accordance with the legislation of the Russian Federation.

16 Other Liabilities

In thousands of Russian Roubles	Note	2005	2004
Settlements on operations with plastic cards		950 385	11 230
Taxes payable		241 401	327 785
Trade creditors and prepayments		128 706	19 908
Foreign exchange forward contracts	28	86 641	170 612
Provision for losses on credit related commitments	27	42 860	21 393
Staff costs accrued		13 385	192 441
Liability for option settlement	12	-	113 608
Other		41 680	46 697
Total other liabilities		**1 505 058**	**903 674**

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 26. The information on related party balances is disclosed in Note 30.

17 Share Capital and Additional Paid-in Capital

Authorised, issued and fully paid share capital of the Bank as at 31 December 2005 and 31 December 2004 comprised:

	Authorised		**Issued and fully paid**		
In thousands of Russian Roubles except for number of shares	**Number of shares**	**Nominal amount**	**Number of shares**	**Nominal amount**	**Inflation adjusted 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**

All ordinary shares have a nominal value of RR 1 000 per share (2004: RR 1 000 per share) and rank equally. Each share carries one vote.

17 Share Capital and Additional Paid-in Capital (Continued)

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 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 equity.

18 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 reserves under Russian Accounting Rules as at 31 December 2005 were RR 9 365 103 thousand (2004: RR 6 085 146 thousand).

19 Interest Income and Expense

In thousands of Russian Roubles	**2005**	**2004**
Interest income		
Loans to individuals	23 254 532	10 814 852
Due from other banks and overnight placements with other banks	181 177	57 079
Loans to legal entities	155 649	54 828
Total interest income	**23 591 358**	**10 926 759**
Interest expense		
USD denominated loan participation notes	2 201 385	624 879
RR denominated bonds	813 985	419 090
Term placements of other banks	748 952	345 785
Customer accounts	188 596	189 765
Promissory notes issued	87 100	477 754
Euro denominated notes	33 823	-
Subordinated debt	20 543	-
Total interest expense	**4 094 384**	**2 057 273**
Net interest income	**19 496 974**	**8 869 486**

20 Fee and Commission Income

Fee and commission income includes RR 736 783 thousand (2004: nil) agency commission from insurance company ZAO Russian Standard Insurance (“RSI”), a subsidiary of the Principal Shareholder.

In March 2004 RSI started issuing individual creditor insurance policies for loan applicants of the Group. Insurance agreements are entered into when the Group issues consumer loans to individuals. Together, with the loan agreement, individuals are offered an insurance policy. The insurance cover protects the policyholder from events such as death or total and permanent disability. The term of an insurance policy equals the term of the underlying consumer loan and the policies have a volume-weighted average maturity of 10 months. The value of any insurance claim to be paid under the insurance policy is equal to the amount of the consumer loan issued by the Group, for policies issued before 27 April 2005, or the outstanding balance on the principal advanced by the Group for policies issued on or after 28 April 2005. The Group is a beneficiary of the insurance policies written by RSI. The Group acts as a payment agent for individuals who purchase the insurance policy and transfers the cash received as an insurance premium from the individuals to RSI. The Group’s decision to provide a loan to a borrower, and the terms that are offered, are independent of the borrowers decision to take out an insurance policy.

20 Fee and Commission Income (Continued)

During 2005 the Group and RSI formally agreed for RSI to compensate the Group for the provision of these services through up-front unconditional commission and back-end extra commission. The back-end extra commission is based upon an agreed formula incorporating premiums written, ultimate claims to be incurred on these premiums, up-front commission and RSI's up-front charge.

The up-front unconditional commission for 2004 and 2005 amounted to RR 950 765 thousand (VAT exclusive) and back-end extra commission for 2004 and 2005 amounted to RR 47 392 thousand (VAT exclusive). The amount payable as agreed between the Group and RSI is limited to the maximum commission rates that may be paid in accordance with the tariff structures approved by RSI's regulator. During 2005 the Group recorded as commission income RR 736 783 thousand (out of which RR 639 187 thousand (VAT exclusive) was received and RR 97 596 thousand (VAT exclusive) was receivable as at 31 December 2005 and was recorded within other assets (Note 10)) being the amount contractually payable by RSI to the Group subject to the regulatory restrictions. As at 31 December 2005 the balance of RR 261 374 thousand (VAT exclusive) was payable subject to RSI's compliance with the regulatory restrictions and represented a constructive obligation for RSI and contingent asset for the Group and has not been recorded in these consolidated financial statements in accordance with requirements of IAS 37 (revised 2003) "Provisions, Contingent Liabilities and Contingent Assets". This amount is expected to be received in full by the Group, subject to the levels of new business continuing and current growth rate, the revision of product tariffs with RSI's regulator as required and upon capital availability of RSI in accordance with its solvency requirements.

Other fee and commission income is represented mainly by commissions on settlement and cash transactions and by commissions in connection to the credit related commitments.

21 Net Trading Gains

In thousands of Russian Roubles	**2005**	**2004**
Gains less losses arising from trading in foreign currencies	422 459	(217 110)
Gains on repricing of due to other banks and debt securities in issue	84 940	-
Gains less losses arising from trading securities	-	713
Total net trading gains	**507 399**	**(216 397)**

22 Administrative and Other Operating Expenses

In thousands of Russian Roubles	**Note**	**2005**	**2004**
Staff costs		2 258 274	1 068 165
Low value items and stationery		363 153	84 781
Rent expenses		350 654	185 632
Taxes other than on income		318 594	128 581
Depreciation and amortisation change	11	317 217	140 444
Telecommunication		316 748	80 984
Advertising and marketing		226 035	56 759
Mail		206 459	130 554
Other costs of premises and equipment		185 709	87 234
Professional services		125 568	35 291
Business trips		42 475	16 271
Security		21 636	14 144
Other		172 572	37 571
Total administrative and other operating expenses		**4 905 094**	**2 066 411**

Included in staff costs are statutory social security and pension contributions of RR 438 290 thousand (2004: RR 203 683 thousand).

23 Income Taxes

Income tax expense comprises the following:

In thousands of Russian Roubles	2005	2004
Current tax charge	2 180 088	1 474 586
Deferred tax	(293 184)	(27 138)
Less: Deferred tax recorded directly to equity	-	(46 827)
Income tax expense for the year	**1 886 904**	**1 400 621**

The income tax rate applicable to the majority of the Group's income is 24% (2004: 24%). The income tax rate applicable to the majority of subsidiaries income ranges from 0% to 24% (2004: 24%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Russian Roubles	2005	2004
IFRS profit before tax	**7 749 863**	**5 793 610**
Theoretical tax charge at the applicable statutory rate (24%)	1 859 967	1 390 466
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible expenses	26 937	10 155
Income tax expense for the year	**1 886 904**	**1 400 621**

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 their tax bases. The tax effect of the movement on these temporary differences is recorded at the rate of 24% (2004: 24%).

In thousands of Russian Roubles	1 January 2004	Movement	31 December 2004	Movement	31 December 2005
Tax effect of deductible and taxable temporary differences					
Accruals net	164 248	191 609	355 857	23 830	379 687
Loan impairment provision	45 544	(70 414)	(24 870)	427 662	402 792
Provision for losses on credit related commitments	17 532	(12 398)	5 134	5 153	10 287
Foreign exchange forward contracts	-	(45 314)	(45 314)	(69 266)	(114 580)
Other differences	9 398	(36 345)	(26 947)	(94 195)	(121 142)
Net deferred tax asset	**236 722**	**27 138**	**263 860**	**293 184**	**557 044**

In the context of the Group's current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

24 Dividends

On 23 March 2005 Annual General Meeting approved a dividend in the amount of RR 1 387 442 thousand (RR 1 090 per share) paid on 24 March 2005. The Bank neither declared nor paid dividends during the year ended 31 December 2004. Refer to Note 31 for the information on dividends declared subsequent to 31 December 2005.

25 Analysis by Segment

The Group's primary format for reporting segment information is geographical segments and the secondary format is business segments. This format reflects the importance of the Group's retail banking segment in different geographical regions, which accounts for 96% of the Group's external revenues in 2005 (2004: 98%). Another reason for adoption of geographical segments as the primary segment reporting format is the expansion of the Group's retail banking business outside of Moscow, with its regional retail business accounting for 70% of external revenues in 2005 (2004: 56%).

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 Group's cost of capital. 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. As at 31 December 2005, the Group's network consisted of 13 regional centres and 173 representative offices, with regional centres opened in a city with a population of over 1 million people. 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:

In thousands of Russian Roubles	**2005**	**2004**
Assets		
Moscow	32 558 499	17 536 033
Other regions	78 223 055	22 735 305
Unallocated assets	1 954 311	956 296
Total assets	**112 735 865**	**41 227 634**
Liabilities		
Moscow	93 653 083	31 489 666
Other regions	5 619 664	1 663 081
Unallocated liabilities	1 375 309	462 595
Total liabilities	**100 648 056**	**33 615 342**

Acquisition of regional asset not funded by regional liabilities as detailed above is funded by the Moscow office of the Group.

25 Analysis by Segment (Continued)

Financial results for the main geographical segments of the Group for the year ended 31 December 2005 are set out below:

2005	Moscow	Other regions	Unallocated	Eliminations	Total
External revenues	7 632 740	17 363 861	-	-	24 996 601
Revenues from other segments	3 154 976	-	926 447	(4 081 423)	-
Total revenues	**10 787 716**	**17 363 861**	**926 447**	**(4 081 423)**	**24 996 601**
Interest expense	(4 094 384)	-	-	-	(4 094 384)
Fee and commission expense	(73 657)	-	-	-	(73 657)
Provisions	(1 866 501)	(5 412 998)	-	-	(7 279 499)
Foreign exchange translation gains less losses	-	-	(894 104)	-	(894 104)
Operating expenses	(3 301 483)	(1 603 611)	-	-	(4 905 094)
Charges from other segments	-	(4 081 423)	-	4 081 423	-
Segment results	**1 451 691**	**6 265 829**	**32 343**	**-**	**7 749 863**
Income tax expense					(1 886 904)
Profit for the year				**-**	**5 862 959**

Other segment items for the year ended 31 December 2005 are set out below:

2005	Moscow	Other regions	Total
Capital expenditure	834 073	590 813	1 424 886
Depreciation and amortisation charge	216 463	100 754	317 217

Financial results for the main geographical segments of the Group for the year ended 31 December 2004 are set out below:

2004	Moscow	Other regions	Unallocated	Eliminations	Total
External revenues	4 793 527	5 983 820	-	-	10 777 347
Revenues from other segments	989 305	-	664 688	(1 653 993)	-
Total revenues	**5 782 832**	**5 983 820**	**664 688**	**(1 653 993)**	**10 777 347**
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)
Foreign exchange translation gains less losses	-	-	582 972	-	582 972
Operating expenses	(1 298 846)	(539 466)	(228 099)	-	(2 066 411)
Charges from other segments	-	(1 653 993)	-	1 653 993	-
Segment results	**2 015 050**	**2 758 999**	**1 019 561**	**-**	**5 793 610**
Income tax expense					(1 400 621)
Profit for the year					**4 392 989**

25 Analysis by Segment (Continued)

Other segment items for the year ended 31 December 2004 are set out below:

2004	Moscow	Other regions	Total
Capital expenditure	642 554	104 800	747 354
Depreciation and amortisation charge	125 656	14 788	140 444

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:

In thousands of Russian Roubles	2005	2004
Assets		
Retail banking	99 566 341	34 214 892
Financial markets	9 584 113	4 889 425
Corporate banking	1 631 100	1 167 021
Unallocated assets	1 954 311	956 296
Total assets	**112 735 865**	**41 227 634**

Business segment breakdown of external revenue is set out below:

In thousands of Russian Roubles	2005	2004
External revenue		
Retail banking	24 053 493	10 598 455
Financial markets	688 574	63 331
Corporate banking	254 534	115 561
Unallocated revenues	-	-
Total external revenue	**24 996 601**	**10 777 347**

External revenue comprises interest, fee and commission income, net trading gains and other operating results (excluding provision for losses on credit related commitments).

26 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 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 Executive 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 regular analysis of the ability of borrowers and potential borrowers to meet interest and capital 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, but a significant portion is personal lending where no such facilities can be obtained.

The Group's maximum exposure to credit risk is primary 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 Group applies a 'value at risk' methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Executive 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.

26 Financial Risk Management (Continued)

Geographical risk. The geographical concentration of the Group's assets and liabilities as at 31 December 2005 is set out below:

In thousands of Russian Roubles	Note	Russia	OECD	Non OECD	Total
Assets					
Cash and cash equivalents		4 088 313	1 237 510	-	5 325 823
Mandatory cash balances with the CBRF		523 845	-	-	523 845
Due from other banks		1 209 220	2 577 105	-	3 786 325
Loans and advances to customers		98 667 350	1 464	9 281	98 678 095
Deferred income tax asset		557 044	-	-	557 044
Other assets		1 709 143	125 226	896	1 835 265
Premises and equipment		1 895 975	-	-	1 895 975
Intangible assets		133 493	-	-	133 493
Total assets		**108 784 383**	**3 941 305**	**10 177**	**112 735 865**
Liabilities					
Due to other banks		3 621 868	18 995 117	288 062	22 905 047
Customer accounts		10 412 225	69 046	41 734	10 523 005
Debt securities in issue		11 401 832	48 508 551	60 407	59 970 790
Subordinated debt		-	5 744 156	-	5 744 156
Other liabilities		1 436 760	62 975	5 323	1 505 058
Total liabilities		**26 872 685**	**73 379 845**	**395 526**	**100 648 056**
Net balance sheet position		**81 911 698**	**(69 438 540)**	**(385 349)**	**12 087 809**
Credit related commitments	**27**	**18 307 353**	**91 156**	**509 527**	**18 908 036**

26 Financial Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities as at 31 December 2004 is set out below:

In thousands of Russian Roubles	Note	Russia	OECD	Non OECD	Total
Assets					
Cash and cash equivalents		2 640 465	209 824	-	2 850 289
Mandatory cash balances with the CBRF		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 income tax asset		310 687	-	-	310 687
Other assets		398 965	75 404	16 040	490 409
Premises and equipment		853 987	-	-	853 987
Intangible assets		81 791	-	-	81 791
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 income 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	**27**	**12 417 685**	**1 000**	**185 453**	**12 604 138**

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from off-shore companies of these Russian counterparties are allocated to the caption "Russia". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

26 Financial Risk Management (Continued)

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. To limit the exposure the Group uses foreign exchange contracts to hedge risks arising from the balance sheet foreign currency mismatch. 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 2005:

In thousands of Russian Roubles	Note	RR	USD	Other currencies	Total
Assets					
Cash and cash equivalents		4 060 242	737 919	527 662	5 325 823
Mandatory cash balances with the CBRF		523 845	-	-	523 845
Due from other banks		-	3 046 662	739 663	3 786 325
Loans and advances to customers		97 088 403	1 480 363	109 329	98 678 095
Deferred income tax asset		557 044	-	-	557 044
Other assets		1 311 919	465 015	58 331	1 835 265
Premises and equipment		1 895 975	-	-	1 895 975
Intangible assets		133 493	-	-	133 493
Total assets		**105 570 921**	**5 729 959**	**1 434 985**	**112 735 865**
Liabilities					
Due to other banks		6 477 881	15 970 993	456 173	22 905 047
Customer accounts		10 083 274	330 406	109 325	10 523 005
Debt securities in issue		11 477 609	40 878 251	7 614 930	59 970 790
Subordinated debt		-	5 744 156	-	5 744 156
Other liabilities		1 450 050	21 096	33 912	1 505 058
Total liabilities		**29 488 814**	**62 944 902**	**8 214 340**	**100 648 056**
Net balance sheet position		**76 082 107**	**(57 214 943)**	**(6 779 355)**	**12 087 809**
Foreign exchange contracts	**28**	**(63 045 387)**	**56 721 386**	**6 709 325**	**385 324**

26 Financial Risk Management (Continued)

As at 31 December 2004 the Group has the following positions in currencies:

In thousands of Russian Roubles	Note	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 CBRF		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 income tax asset		310 687	-	-	310 687
Other assets		398 739	66 342	25 328	490 409
Premises and equipment		853 987	-	-	853 987
Intangible assets		81 791	-	-	81 791
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 income 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**
Foreign exchange contracts	**28**	**(18 094 838)**	**17 949 063**	**-**	**(145 775)**

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 level of certainty. The Asset/Liability Committee of the Group sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The table below shows assets and liabilities as at 31 December 2005 by their remaining contractual maturity, unless there is evidence that any of the assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement of the assets is used. Some of the assets and liabilities, 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.

Overdue liabilities, such as term deposits not withdrawn by the Bank's customers, are classified within the "demand and less than 1 month" column. Overdue assets are allocated based on their expected maturity. Mandatory cash balances with the CBRF are included within demand and less than one month as the requirement is to maintain as a reserve a specified percentage of certain liabilities which are also included within this category.

26 Financial Risk Management (Continued)

The liquidity position of the Group as at 31 December 2005 is set out below.

In thousands of Russian Roubles	**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	5 325 823	-	-	-	-	-	5 325 823
Mandatory cash balances with the CBRF	523 845	-	-	-	-	-	523 845
Due from other banks	2 268 287	777 374	1 001	-	739 663	-	3 786 325
Loans and advances to customers	23 468 037	23 915 942	26 637 041	22 750 585	1 906 490	-	98 678 095
Deferred income tax asset	-	-	-	-	-	557 044	557 044
Other assets	710 692	431 735	353 167	105 333	75 347	158 991	1 835 265
Premises and equipment	-	-	-	-	-	1 895 975	1 895 975
Intangible assets	-	-	-	-	-	133 493	133 493
Total assets	**32 296 684**	**25 125 051**	**26 991 209**	**22 855 918**	**2 721 500**	**2 745 503**	**112 735 865**
Liabilities							
Due to other banks	755 916	1 278 331	9 885 076	9 166 098	1 819 626	-	22 905 047
Customer accounts	8 250 106	762 225	678 433	831 554	687	-	10 523 005
Debt securities in issue	78 587	3 738 221	2 649 356	2 022 903	51 481 723	-	59 970 790
Subordinated debt	-	-	245 405	234 856	5 263 895	-	5 744 156
Other liabilities	1 133 457	349 452	8 066	5 745	8 338	-	1 505 058
Total liabilities	**10 218 066**	**6 128 229**	**13 466 336**	**12 261 156**	**58 574 269**	**-**	**100 648 056**
Net liquidity gap	**22 078 618**	**18 996 822**	**13 524 873**	**10 594 762**	**(55 852 769)**	**2 745 503**	**12 087 809**
Cumulative liquidity gap	**22 078 618**	**41 075 440**	**54 600 313**	**65 195 075**	**9 342 306**	**12 087 809**	

26 Financial Risk Management (Continued)

The liquidity position of the Group as at 31 December 2004 is set out below:

In thousands of Russian Roubles	**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 CBRF	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 income tax asset	-	-	-	-	-	310 687	310 687
Other assets	239 079	140 436	24 806	16 855	32 104	37 129	490 409
Premises and equipment	-	-	-	-	-	853 987	853 987
Intangible assets	-	-	-	-	-	81 791	81 791
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 income 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	**9 880 311**	**15 973 283**	**21 298 332**	**24 557 224**	**6 375 525**	**7 612 292**	

The matching and 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 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 rates and exchange rates. The Management of the Group believes that the short-term nature of the Group's assets provides it with sufficient liquidity for servicing its obligations in accordance with the contractual terms.

26 Financial Risk Management (Continued)

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably 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, as 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 table below summarises the Group's exposure to interest rate risks as at 31 December 2005. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

In thousands of Russian Roubles	**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-monetary**	**Total**
Assets							
Cash and cash equivalents	5 325 823	-	-	-	-	-	5 325 823
Mandatory cash balances with the CBRF	523 845	-	-	-	-	-	523 845
Due from other banks	3 004 216	777 374	1 001	-	3 734	-	3 786 325
Loans and advances to customers	23 468 037	23 915 942	26 637 041	22 750 585	1 906 490	-	98 678 095
Deferred income tax asset	-	-	-	-	-	557 044	557 044
Other assets	710 692	431 735	353 167	105 333	75 347	158 991	1 835 265
Premises and equipment	-	-	-	-	-	1 895 975	1 895 975
Intangible assets	-	-	-	-	-	133 493	133 493
Total assets	**33 032 613**	**25 125 051**	**26 991 209**	**22 855 918**	**1 985 571**	**2 745 503**	**112 735 865**
Liabilities							
Due to other banks	755 916	4 761 714	12 584 955	3 720 485	1 081 977	-	22 905 047
Customer accounts	8 250 106	762 225	678 433	831 554	687	-	10 523 005
Debt securities in issue	7 554 523	3 674 347	2 554 589	3 596 613	42 590 718	-	59 970 790
Subordinated debt	-	-	245 405	234 856	5 263 895	-	5 744 156
Other liabilities	1 133 457	349 452	8 066	5 745	8 338	-	1 505 058
Total liabilities	**17 694 002**	**9 547 738**	**16 071 448**	**8 389 253**	**48 945 615**	**-**	**100 648 056**
Net sensitivity gap	**15 338 611**	**15 577 313**	**10 919 761**	**14 466 665**	**(46 960 044)**	**2 745 503**	**12 087 809**
Cumulative sensitivity gap	**15 338 611**	**30 915 924**	**41 835 685**	**56 302 350**	**9 342 306**	**12 087 809**	

26 Financial Risk Management (Continued)

The following table summarises the Group's exposure to interest risks as at 31 December 2004 by showing assets and liabilities categories based the earlier of contractual repricing or maturity dates:

In thousands of Russian Roubles	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-monetary	Total
Assets							
Cash and cash equivalents	2 850 289	-	-	-	-	-	2 850 289
Mandatory cash balances with the CBRF	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 income tax asset	-	-	-	-	-	310 687	310 687
Other assets	239 079	140 436	24 806	16 855	32 104	37 129	490 409
Premises and equipment	-	-	-	-	-	853 987	853 987
Intangible assets	-	-	-	-	-	81 791	81 791
Total assets	**13 992 147**	**10 002 540**	**9 229 851**	**6 098 336**	**621 166**	**1 283 594**	**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 income tax liability	-	-	-	-	-	46 827	46 827
Other liabilities	18 710	695 800	76 226	105 055	7 883	-	903 674
Total liabilities	**4 634 243**	**3 909 568**	**4 355 184**	**2 299 586**	**18 369 934**	**46 827**	**33 615 342**
Net sensitivity gap	**9 357 904**	**6 092 972**	**4 874 667**	**3 798 750**	**(17 748 768)**	**1 236 767**	**7 612 292**
Cumulative sensitivity gap	**9 357 904**	**15 450 876**	**20 325 543**	**24 124 293**	**6 375 525**	**7 612 292**	

The Group is exposed to cash flow interest rate risk, principally through assets and liabilities for which interest rates are reset as market rates change. Such assets and liabilities are primarily presented in the above table as being repriced in the short-term. The Group is exposed to fair value interest rate risk as a result of assets and liabilities at fixed interest rates; these are primarily presented in the above table as being repriced in the long-term. In practice, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Asset/Liability Committee monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions.

26 Financial Risk Management (Continued)

The table below summarises the effective interest rates by major currencies for major debt instruments. The analysis has been prepared based on period-end effective rates used for the amortisation of the respective assets/liabilities.

	2005			2004		
In thousands of Russian Roubles	RR	USD	Euro	RR	USD	Euro
Assets						
Cash balances with the CBRF	0.0	-	-	0.0	-	-
Mandatory cash balances with the CBRF	0.0	-	-	0.0	-	-
Correspondent accounts and overnight placements with other banks	0.6	3.2	2.1	0.6	3.1	1.0
Due from other banks	-	5.0	5.8	-	2.5	-
Loans and advances to customers						
- consumer loans	55.1	-	-	66.1	-	-
- credit card loans	68.6	63.8	-	91.6	65.2	-
- direct commercial loans	14.1	9.6	8.8	8.6	10.4	8.4
Liabilities						
Due to other banks	9.7	7.7	3.3	12.2	5.9	4.5
Customer accounts						
- term deposits of legal entities	9.3	6.0	5.0	11.1	3.1	-
- term deposits of individuals	11.2	6.2	5.8	12.4	8.1	6.3
Debt securities in issue						
- RR denominated bonds	10.0	-	-	15.4	-	-
- USD denominated loan participation notes	-	8.3	-	-	8.8	-
- EUR denominated notes	-	-	5.4	-	-	-
- promissory notes	9.3	-	8.0	15.7	5.6	7.6
Subordinated debt	-	9.2	-	-	-	-

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in corresponding currency.

27 Contingencies and Commitments

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 internal 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.

Dispute with BNP Paribas. In July 2004 BNP Paribas (through its subsidiary Cetelem SA) (BNP Paribas and Cetelem SA are together referred to herein as "BNP Paribas") entered into an agreement with the principal shareholders of the Bank (Roustam Tariko and entities directly or indirectly controlled by him) to acquire an equity ownership interest in the Bank (the "Transaction"). A dispute arose out of and in relation to the Transaction between BNP Paribas and the principal shareholders of the Bank. In May 2005 BNP Paribas and the principal shareholders of the Bank signed an agreement in principle pursuant to which BNP Paribas and the principal shareholders of the Bank agreed to settle the dispute among them. Following this agreement, a settlement agreement was executed on 7 September 2005 among BNP Paribas, the Bank and the principal shareholders of the Bank to settle the dispute. The settlement involves, among other provisions applicable to the principal shareholders of the Bank, (i) withdrawal of all pending claims relating to the dispute, (ii) an undertaking by the principal shareholders of the Bank for a specified period of time, compliance with which (or breach of which) is in the control of the principal shareholders of the Bank and (iii) subject to specified exceptions, an undertaking by the Bank for such specified period of time not to sell, lease, transfer or otherwise dispose of more than 10% of its assets (or any of its assets, if such transaction could have a material adverse effect on the Bank), other than in the ordinary course of business. In the event of a breach of the undertaking by the principal shareholders of the Bank referred to in (ii) above, the settlement agreement provides that the Bank and the principal shareholders of the Bank will be jointly and severally liable to pay liquidated damages to BNP Paribas, subject, in the case of the Bank, to a maximum of USD 25 000 thousand. In the event of a breach of the Bank's undertaking regarding the disposition of assets referred to in (iii) above, the settlement agreement provides that the Bank and the principal shareholders of the Bank will be jointly and severally liable to pay liquidated damages to BNP Paribas in an amount that would be material to the Bank. The Bank believes, based on the information provided by the principal shareholders of the Bank, that the possibility of a breach of the undertaking by the principal shareholders of the Bank referred to in (ii) above is remote. Also, the Bank believes, based on its current and proposed business and operations, that the possibility of a breach of the Bank's undertaking regarding the disposition of assets referred to in (iii) above is remote.

Any breach or alleged breach by the Bank or the principal shareholders of the Bank (over whom the Bank has no control) of their respective undertakings in the settlement agreement could result in a material adverse effect on the Bank's business, results of operations, financial condition and prospects. As at 31 December 2005 the Bank has made no provision for any payment that may be required of it under the settlement agreement, although the Bank has recorded an off-balance sheet guarantee in respect of its potential USD 25 000 thousand liability in the event of a breach by the principal shareholders of the Bank of their undertaking in the settlement agreement referred to in (ii) above.

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 2005 no provision for potential tax liabilities had been recorded in this regard (2004: nil). The Group estimates that it has no potential obligations from exposure to other than remote tax risks (2004: nil).

Capital expenditure commitments. As at 31 December 2005 the Group has contractual capital expenditure commitments in respect of premises and equipment totalling RR 327 902 thousand (2004: RR 18 963 thousand) and no contractual capital expenditure commitments in respect of software and other intangible assets (2004: nil). The Group believes that future net income and funding will be sufficient to cover this and any similar commitment.

27 Contingencies and Commitments (Continued)

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non cancellable premises operating leases were as follows:

In thousands of Russian Roubles	2005	2004
Not later than 1 year	391 635	142 512
Later than 1 year and not later than 5 years	494 979	137 949
Later than 5 years	335 711	-
Total operating lease commitments	**1 222 325**	**280 461**

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Undrawn credit lines and other commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on undrawn credit lines and commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

The contractual amounts of the Group's off-balance sheet financial instruments that commit the Group to extend credit to customers were as follows:

In thousands of Russian Roubles	2005	2004
Undrawn credit lines on credit cards	16 376 993	11 252 043
Guarantees issued	2 053 337	862 493
Undrawn credit lines on loans to customers	379 134	446 274
Import letters of credit	141 432	60 586
Other	-	4 135
Less: provision for losses on credit related commitments	(42 860)	(21 393)
Total credit related commitments	**18 908 036**	**12 604 138**

The total outstanding contractual amount of credit related commitments does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Refer to Note 30 for the information on guarantees issued to related parties.

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 2005 the Group held promissory notes of several Russian and foreign companies with a nominal value of RR 401 544 thousand and (2004: RR 13 501 thousand).

Assets pledged and restricted. 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 2005 mandatory cash balances with the CBRF in the amount of RR 523 845 thousand (2004: RR 267 033 thousand) represent mandatory reserve deposits, which are not available to finance the Group's day-to-day operations.

28 Derivative Financial Instruments

Derivative financial instruments. Foreign exchange derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates and other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The Group uses foreign exchange derivative financial instruments for economic hedging purposes. The Group does not apply hedge accounting and carries derivatives at fair value through the consolidated statement of income. These instruments represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.

The table below sets out fair values at the balance sheet date of currencies receivable or payable under foreign exchange contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions and covers the contracts with settlement dates after the respective balance sheet date.

	Note	2005		2004	
In thousands of Russian Roubles		**Net asset forwards**	**Net liability forwards**	**Net asset forwards**	**Net liability forwards**
Foreign exchange forwards: fair values as at the balance sheet date of					
- USD receivable on settlement (+)		46 731 896	12 990 923	7 545 824	10 972 087
- USD payable on settlement (-)		-	-	(430 105)	(138 744)
- Euros payable on settlement (-)		-	(1 787 248)	-	-
- RR receivable on settlement (+)		-	-	431 128	138 650
- RR payable on settlement (-)		(46 282 797)	(11 288 884)	(7 522 010)	(11 142 605)
Foreign exchange swaps: fair values as at the balance sheet date of					
- USD payable on settlement (-)		-	(3 001 432)	-	-
- Euros receivable on settlement (+)		8 496 572	-	-	-
- RR receivable on settlement (+)		-	3 000 000	-	-
- RR payable on settlement (-)		(8 473 706)	-	-	-
Net fair value of foreign exchange contracts	**10,16**	**471 965**	**(86 641)**	**24 837**	**(170 612)**

29 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by 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 be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

29 Fair Value of Financial Instruments (Continued)

The following table summarises the carrying amounts and fair values of those principal financial assets and liabilities not presented on the Group's balance sheet at their fair value. Bid prices are used to estimate fair values of assets, whereas offer prices are applied for liabilities. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

	2005		2004	
In thousands of Russian Roubles	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Due from other banks	3 786 325	3 786 325	2 009 065	2 009 065
Loans and advances to customers	98 678 095	98 678 095	34 364 373	34 364 373
Financial liabilities				
Due to other banks	22 905 047	22 905 047	4 766 733	4 766 733
Customer accounts	10 523 005	10 523 005	4 235 333	4 235 333
Debt securities in issue	59 970 790	60 172 882	23 662 775	23 725 565
Subordinated debt	5 744 156	5 744 156	-	-

Loans and receivables carried at amortised cost. 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. Discount rates used depend on the credit risk of the counterparty and ranged from 5.0% to 68.6% per annum (2004: from 2.5% to 91.6% per annum).

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid.

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. Refer to Notes 4 and 28.

30 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, is under common control, or exercises significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

For disclosure of the ownership structure of the Group refer to Note 1.

Banking transactions are entered into in the normal course of business with shareholders and companies affiliated with the shareholders, and with the directors and Management of the Group. During the years ended 31 December 2005 and 31 December 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 debt securities issued by the Group (refer to Note 14) and the guarantee issued free of charge by the Bank in connection with the dispute related to the principal shareholders of the Bank (refer to Note 27).

30 Related Party Transactions (Continued)

The outstanding balances as at 31 December 2005 with related parties were as follows:

In thousands of Russian Roubles	**Ultimate controlling shareholder and entities under his control**	**IFC**	**Members of the Board of Directors and of the Executive Board**
Loans and advances to customers			
Loans and advances (contractual interest rate: 9-12% on the loans denominated in USD, 10-14% on the loans denominated in RR, 8% on the loans denominated in EUR)	235 931	-	11 864
Other assets	115 163	-	-
Due to other banks	-	2 856 800	-
Customer accounts			
Term deposits (contractual interest rates: 5-13% on deposits denominated in RR, 6.5%-7.5% on deposits denominated in USD, 21% on deposits denominated in EUR)	612 580	-	204 078
Current accounts	95 937	-	47 285
Debt securities in issue			
Bonds guaranteed by the Principal Shareholder	11 090 784	-	-

The results of the transactions with related parties for the year ended 31 December 2005 were as follows:

In thousands of Russian Roubles	**Ultimate controlling shareholder and entities under his control**	**IFC**	**Members of the Board of Directors and of the Executive Board**
Loans and advances to customers			
Interest income	77 517	-	1 992
Customer accounts			
Interest expense	32 533	-	30 680
Due to other banks			
Interest expense	-	169 018	-
Debt securities in issue			
Interest expense	6 322	-	-
Fee and commission income			
Agency commission from RSI	736 783	-	-
Guarantees and letters of credit	19 137	-	-
Other transactions			
Other income/(expense), net	12 431	-	(3 908)

30 Related Party Transactions (Continued)

As at 31 December 2005, other rights and obligations with related parties were as follows:

In thousands of Russian Roubles	**Ultimate controlling shareholder and entities under his control**	**IFC**	**Members of the Board of Directors and of the Executive Board**
Guarantees issued by the Group	1 558 951	-	52 096
Guarantees received by the Group	270 937	-	68 493
Import letters of credit	71 236	-	-

The outstanding balances as at 31 December 2004 with related parties were as follows:

In thousands of Russian Roubles	**Ultimate controlling shareholder and entities under his control**	**IFC**	**Members of the Board of Directors and of the Executive Board**
Loans and advances to customers			
Loans and advances (contractual interest rate: 10-15% on the loans denominated in USD, 15% on the loans denominated in RR)	182 182	-	10 086
Due to other banks	-	817 950	-
Customer accounts			
Term deposits (contractual interest rates: 10-13% on deposits denominated in RR, 3% on deposits denominated in USD)	147 657	-	118 527
Current accounts	140 062		17 475
Debt securities in issue			
Bonds guaranteed by related parties	3 608 274	-	-
Promissory notes held by related parties	62 119	-	-
Other liabilities			
Staff costs accrued	-	-	192 441

30 Related Party Transactions (Continued)

The results of the transactions with related parties for the year ended 31 December 2004 were as follows:

In thousands of Russian Roubles	**Ultimate controlling shareholder and entities under his control**	**IFC**	**Members of the Board of Directors and of the Executive Board**
Loans and advances to customers			
Interest income	19 961	-	527
Customer accounts			
Interest expense	2 286	-	13 551
Due to other banks			
Interest expense	-	85 977	-
Fee and commission income			
Guarantees and letters of credit	10 363	-	-
Other transactions			
Other income/(expense), net	-	-	(183)

As at 31 December 2004, other rights and obligations with related parties were as follows:

In thousands of Russian Roubles	**Ultimate controlling shareholder and entities under his control**	**IFC**	**Members of the Board of Directors and of the Executive Board**
Guarantees issued by the Group	643 928	-	-

Refer to Note 27 for information on a dispute of the shareholders of the Bank with BNP Paribas. Refer to Note 20 for information on arrangements with RSI.

In 2005, the total remuneration of members of the Board of Directors and of the Executive Board, comprised salaries, discretionary bonuses and other short-term benefits, amounted to RR 365 554 thousand (2004: RR 302 784 thousand).

31 Subsequent Events

In January 2006 the Group obtained a RR 900 000 thousand loan from EBRD. The loan bears a floating interest rate of MosPrime rate plus 3.0% per annum payable quarterly and is repayable in seven equal semi-annual instalments, starting January 2007.

In December 2005 the Group obtained a USD 100 000 thousand loan facility from IFC (Note 12). Under this facility, in January 2006 the Group obtained a loan in the amount of USD 60 000 thousand. The loan is repayable in January 2008 and bears a floating interest rate of LIBOR plus 2% per annum payable semi-annually.

31 Subsequent Events (Continued)

In February 2006 the Group issued bonds due February 2011 with a total nominal amount of RR 6 000 000 thousand, placed at nominal value. The Group has also published an offer to repurchase these bonds at nominal value on 23 August 2007. The bonds bear a fixed interest rate of 8.1% until February 2007. The interest rate for the period starting from February 2007 will be set by the Board of Directors of the Bank and it can not be lower than 5.0% per annum. The bonds are guaranteed by the Principal Shareholder.

In February 2006 the Group under its Medium Term Notes Programme issued 6.72% loan participation notes due February 2007 with a total nominal amount of USD 200 000 thousand placed at nominal value.

On 28 March 2006 the Annual General Meeting of Shareholders approved a dividend on ordinary shares in the amount of RR 1 394 061 thousand (RR 1 095 per ordinary share) which was paid by the end of March 2006.

In April 2006 the Group partly repurchased the notes placed in the course of the previous securitisation transaction (Note 14). Repurchased notes include Class A notes with nominal amount of EUR 115 000 thousand and Class B notes with nominal amount of EUR 30 000 thousand. The maturity of the remaining part of Class A notes was changed to December 2009 and the interest rate was changed to EURIBOR plus 2.0% effective from 6 April 2006. The Group has also obtained the right to repurchase the remaining part of Class A notes at nominal value in April 2007. In April 2006 consumer loans with the total principal amount of RR 5 876 208 thousand were repurchased by the Bank from RCL. The repurchase of consumer loans resulted in decrease in collateral amount in relation to the securitisation transaction.

In April 2006 the Group completed a securitisation transaction whereby it placed three classes of notes: EUR 228 300 thousand Class A1, EUR 39 300 thousand Class A2 and EUR 32 400 thousand Class B floating interest rate notes. The notes were placed via Russian Consumer Finance # 1 S.A. (“RCF”), a special purpose vehicle incorporated in Luxembourg. Class A1 notes bear a floating interest rate of EURIBOR plus 1.65% per annum payable monthly. Class A2 notes bear a floating interest rate of EURIBOR plus 3.5% per annum payable monthly. Class B notes bear a floating interest rate of EURIBOR plus 3.25% per annum payable monthly. Repayments of principal on Class A2 notes are deposited on an escrow account to provide protection against commingling losses. The claims of Class B noteholders against the Group in respect of the principal and interest on the notes are subordinated to the claims of Class A1 and Class A2 noteholders. All Class A1, Class A2 and Class B notes are due in January 2012 and secured by consumer loans originated by the Group. In April 2006 consumer loans with the total principal amount of RR 9 828 781 thousand were legally sold by the Bank to RCF and represented collateral in relation to the securitisation transaction. The Group has also the right to repurchase these notes at nominal value in March 2009.

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.

PricewaterhouseCoopers

Moscow, Russian Federation
16 March 2005

(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.

D.O. Levin
Chairman of the Management Board

M.Y. Berezov
Finance Director

(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**

(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.

(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**

(in thousands of Russian Roubles)

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 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 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.

(in thousands of Russian Roubles)

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.

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.

(in thousands of Russian Roubles)

3 Basis of Preparation (Continued)

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 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.

4 Significant Accounting Policies (Continued)

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 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.

4 Significant Accounting Policies (Continued)

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

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.

4 Significant Accounting Policies (Continued)

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 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.

4 Significant Accounting Policies (Continued)

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.

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.

(in thousands of Russian Roubles)

4 Significant Accounting Policies (Continued)

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 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			
Loans to individuals			
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
Loans to legal entities			
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**

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.

(in thousands of Russian Roubles)

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**

(in thousands of Russian Roubles)

9 Fixed and Intangible Assets (Continued)

	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**
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.

(in thousands of Russian Roubles)

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.

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 thousands of Russian Roubles)

10 Due to Other Banks (Continued)

In October 2003 the Group obtained a further loan facility from EBRD of USD 20 000 thousand. Under this facility, the Group has drown dawn 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**

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**

(in thousands of Russian Roubles)

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.

The geographical, currency and maturity analyses of other liabilities are disclosed in Note 23. Information on related party balances is disclosed in Note 25.

(in thousands of Russian Roubles)

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		
	Number of shares	**Nominal amount**	**Number of shares**	**Nominal amount**	**Inflation adjusted 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		
	Number of shares	**Nominal amount**	**Number of shares**	**Nominal amount**	**Inflation adjusted 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).

(in thousands of Russian Roubles)

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**

(in thousands of Russian Roubles)

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.

(in thousands of Russian Roubles)

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**

(in thousands of Russian Roubles)

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**

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**

(in thousands of Russian Roubles)

21 Analysis by Segment (Continued)

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.

(in thousands of Russian Roubles)

22 Financial Risk Management (Continued)

The Group's maximum exposure to credit risk is primary 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.

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**

(in thousands of Russian Roubles)

22 Financial Risk Management (Continued)

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.

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**	**-**	**-**

(in thousands of Russian Roubles)

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**	**-**	**-**

(in thousands of Russian Roubles)

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.

(in thousands of Russian Roubles)

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**	**-**

(in thousands of Russian Roubles)

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**	**-**

(in thousands of Russian Roubles)

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.

(in thousands of Russian Roubles)

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**	**-**

(in thousands of Russian Roubles)

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**	**-**

(in thousands of Russian Roubles)

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	Non-interest bearing	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**	**-**

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

(in thousands of Russian Roubles)

22 Financial Risk Management (Continued)

	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**

(in thousands of Russian Roubles)

23 Contingencies, Commitments and Derivative Financial Instruments (Continued)

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.

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.

(in thousands of Russian Roubles)

23 Contingencies, Commitments and Derivative Financial Instruments (Continued)

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).

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.

(in thousands of Russian Roubles)

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).

(in thousands of Russian Roubles)

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			
Loans and advances to customers			
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
Due to other banks			
Current term placements of other banks guaranteed by the principal shareholder	-	-	317 373
Customer accounts			
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
Debt securities in issue			
Bonds guaranteed by the principal shareholder	3 608 274	1 524 241	524 643
Promissory notes	62 119	-	156 099
Credit related commitments			
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			
Loans and advances to customers			
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
Customer accounts			
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
Other liabilities			
Staff costs	192 441	-	-

(in thousands of Russian Roubles)

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			
Loans and advances to customers			
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
Customer accounts			
Interest expense during the period	2 286	-	182
Debt securities in issue			
Interest expense on promissory notes during the period	-	9 330	11 852
Credit related commitments			
Fee and commission income	10 363	6 522	3 224
Other transactions			
Other income/(expense), net	(183)	359	3 771
IFC			
Due to other banks			
Interest expense during the period	85 977	1 953	-
Management of the Group			
Loans and advances to customers			
Interest income on loans during the period	527	18	82
Customer accounts			
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.

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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