# ROSBANK FINANCE S.A.

## U.S.$750,000,000

## Guaranteed Debt Issuance Programme

## Guaranteed by

# ROSBANK (OJSC JSCB)

Under the Guaranteed Debt Issuance Programme described in this Base Prospectus (the ''Programme''), Rosbank Finance S.A. (the ''Issuer''), subject to compliance with all relevant laws, regulations and directives, may from time to time issue notes (the ''Notes'') guaranteed by ROSBANK (OJSC JSCB) (''ROSBANK'' or the ''Guarantor'') on the terms set out herein as supplemented by final terms (each a ''Final Terms'') setting out the specific terms of each issue. The aggregate nominal amount of Notes outstanding will not at any time exceed U.S.$750,000,000 (or the equivalent in other currencies).

This Base Prospectus supercedes any previous base prospectus relating to the Programme or any supplement to such base prospectus. Any Notes issued under the Programme on or after the date of this Base Prospectus shall be issued pursuant to this Base Prospectus. This Base Prospectus does not affect any Notes issued under the Programme prior to the date hereof.

The Notes will be constituted by, and have the benefit of, a trust deed dated 8 July 2005 (as amended from time to time) (the ''Trust Deed'') between the Issuer, ROSBANK and J.P. Morgan Corporate Trustee Services Limited (the ''Trustee''). ROSBANK will unconditionally and irrevocably guarantee the due and punctual payment of all amounts due and payable in respect of any Notes issued by the Issuer pursuant to Clause 5 of the Trust Deed (the ''Guarantee''). The Issuer and ROSBANK have, pursuant to a dealer agreement dated 8 July 2005 (as amended from time to time) (the ''Dealer Agreement''), appointed Barclays Bank PLC, Commerzbank Aktiengesellschaft, Credit Suisse Securities (Europe) Limited, HSBC Bank plc, ING Bank N.V., London Branch, Morgan Stanley & Co. International Limited and UBS Limited (the ''Dealers'') as dealers under the Programme, and have authorised and requested the Dealers to circulate this Base Prospectus in connection with the Programme, subject to the provisions of the Dealer Agreement.

Application has been made to list the Notes on the official list of the Luxembourg Stock Exchange and traded on the Regulated Market of the Luxembourg Stock Exchange. Unlisted Notes may be issued pursuant to the Programme. The relevant Final Terms in respect of the issue of any Notes will specify whether or not such Notes will be listed on the official list of the Luxembourg Stock Exchange and admitted to trading on the Regulated Market of the Luxembourg Stock Exchange (or listed or admitted to trading on any other stock exchange).

The Programme has been rated ''B+'' by Fitch and ''Ba3'' by Moody's. Tranches of Notes (as defined in ''General Description of the Programme'') issued under the Programme may be rated or unrated. Where a Tranche of Notes is rated, such rating will not necessarily be the same as the rating assigned to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

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

**The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") or the securities laws of any State of the United States. Subject to certain exceptions, the Notes may not be offered and 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")). For a more complete description of restriction on offers and sales, see "Subscription and Sale".**

The Notes will be in such denominations as may be specified in the relevant Final Terms, provided that (i) Notes shall not be issued or transferred in denominations of less than €50,000 or its equivalent in other currencies and (ii) with respect to Notes with a maturity of less than 365 days, a minimum denomination may apply as more fully set out in the relevant Final Terms. Each Note will be represented by interests in a global note in registered form (the ''Global Note''), without interest coupons, which will be deposited with and registered with a common depository for, Euroclear Bank S.A./N.V. (''Euroclear'') and Clearstream Banking, *société anonyme* (''Clearstream, Luxembourg'') on its Issue Date (as defined in the relevant Final Terms). Beneficial interests in the Global Note will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear or Clearstream, Luxembourg. See ''Summary of the Provisions Relating to the Notes in Global Form.'' Individual definitive Notes in registered form will only be available in certain limited circumstances as described herein.

**Arrangers and Permanent Dealers**

**CREDIT SUISSE** **MORGAN STANLEY**

**Permanent Dealers**

BARCLAYS CAPITAL COMMERZBANK CORPORATES & MARKETS

HSBC ING WHOLESALE BANKING

UBS INVESTMENT BANK

*The date of this Base Prospectus is 5 September 2006*

**All of the information contained in this Base Prospectus concerning the Russian banking market and its competitors, which may include estimates or approximations, has been derived from publicly available information, including press releases and filings made under various securities laws. The Issuer and ROSBANK confirm that the information has been accurately reproduced from its sources. As far as the Issuer and Rosbank are aware and are able to ascertain from information published, no facts have been omitted which would render such information inaccurate or misleading. However, the Issuer and ROSBANK have relied on the accuracy of this information without carrying out an independent verification. In addition, some of the information contained in this Base Prospectus has been derived from official data published by Russian government agencies and the Central Bank of Russia ("CBR"). The Issuer and ROSBANK do not accept responsibility for the accuracy of such information, save to the extent set out above. The official data published by Russian federal, regional and local governments is substantially less complete or researched than those 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 ("Russia" or the "Russian Federation") in this Base 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.**

**No person has been authorised to give any information or to make any representation other than those contained in this Base Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, ROSBANK, the Trustee or any of the Dealers or the Arrangers (as defined in "General Description of the Programme"). Neither the delivery of this Base Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer, ROSBANK or the Group since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer, ROSBANK or the Group since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.**

**This Base Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, ROSBANK or the Dealers or Arrangers to subscribe for, or purchase, any Notes. The distribution of this Base Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. The Issuer, ROSBANK, the Trustee, the Dealers and Arrangers do not and will not represent that this Base Prospectus may be lawfully distributed or that any Notes may be lawfully offered in compliance with any applicable registration or other requirements of any jurisdiction or pursuant to any available exemption or assume any responsibility for facilitating any such distribution or offering. Persons into whose possession this Base Prospectus comes are required by the Issuer, ROSBANK, the Trustee, the Dealers and the Arrangers to inform themselves about and to observe any such restriction. For a description of certain restrictions on offers and sales of Notes and on distribution of this Base Prospectus, in particular with respect to the United States, the United Kingdom, the Russian Federation, Italy and Germany, see "Subscription and Sale".**

**In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment shall be conducted in accordance with all applicable laws and rules.**

**THE TRUSTEE, ARRANGERS AND THE DEALERS HAVE NOT SEPARATELY VERIFIED THE INFORMATION CONTAINED IN THIS BASE PROSPECTUS. NONE OF THE TRUSTEE, THE DEALERS OR THE ARRANGERS MAKES ANY REPRESENTATION, EXPRESS OR IMPLIED, OR ACCEPTS ANY RESPONSIBILITY, WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF ANY OF THE INFORMATION IN THIS BASE PROSPECTUS. EACH PERSON RECEIVING THIS BASE PROSPECTUS ACKNOWLEDGES THAT SUCH PERSON HAS NOT RELIED ON THE TRUSTEE, ANY OF THE DEALERS OR THE ARRANGERS OR ANY PERSON AFFILIATED WITH THE TRUSTEE, ANY OF THE DEALERS OR THE ARRANGERS IN CONNECTION WITH ITS INVESTIGATION OF THE ACCURACY OF SUCH INFORMATION OR INVESTMENT DECISION. NEITHER THIS BASE PROSPECTUS NOR ANY OTHER INFORMATION SUPPLIED IN CONNECTION WITH THE PROGRAMME INCLUDING ANY FINANCIAL STATEMENTS ARE INTENDED TO PROVIDE THE BASIS OF ANY CREDIT OR OTHER EVALUATION AND SHOULD NOT BE CONSIDERED AS A RECOMMENDATION BY ANY OF THE ISSUER, ROSBANK, THE TRUSTEE OR ANY OF THE DEALERS OR THE ARRANGERS THAT ANY RECIPIENT OF THIS BASE PROSPECTUS OR ANY OTHER SUCH INFORMATION SHOULD PURCHASE ANY NOTES. EACH POTENTIAL PURCHASER OF NOTES MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF THE ISSUER AND ROSBANK AND ITS OWN DETERMINATION OF THE SUITABILITY OF ANY SUCH INVESTMENT, WITH PARTICULAR REFERENCE TO ITS OWN INVESTMENT OBJECTIVES AND EXPERIENCE, AND SHOULD DETERMINE FOR ITSELF THE RELEVANCE OF THE INFORMATION CONTAINED IN THIS BASE PROSPECTUS AND ITS PURCHASE OF NOTES SHOULD BE BASED UPON SUCH INVESTIGATION AS IT DEEMS NECESSARY. NONE OF THE DEALERS OR THE ARRANGERS UNDERTAKES TO REVIEW THE FINANCIAL CONDITION OR AFFAIRS OF THE ISSUER OR ROSBANK DURING THE LIFE OF THE ARRANGEMENTS CONTEMPLATED BY THIS BASE PROSPECTUS NOR TO ADVISE ANY INVESTOR OR POTENTIAL INVESTOR IN THE NOTES OF ANY INFORMATION COMING TO THE ATTENTION OF ANY OF THE DEALERS OR THE ARRANGERS.**

**In this Base Prospectus, the term "Group" means ROSBANK and its subsidiaries taken as a whole.**

## RESPONSIBILITY STATEMENT OF THE ISSUER

**The Issuer accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this Base Prospectus is in accordance with the facts and contains no omission likely to affect the import of such information.**

## RESPONSIBILITY STATEMENT OF THE GUARANTOR

**The Guarantor accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge of the Guarantor (which has taken all reasonable care to ensure that such is the case), the information contained in this Base Prospectus is in accordance with the facts and contains no omission likely to affect the import of such information.**

## SUPPLEMENT TO THE BASE PROSPECTUS

Each of the Issuer and ROSBANK has given an undertaking to the Dealers that, if at any time during the duration of the Programme there is a significant change affecting any matter contained in this Base Prospectus whose inclusion would reasonably be required by investors and their professional advisers, and would reasonably be expected by them to be found in this Base Prospectus, for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, ROSBANK and the Group, and the rights attaching to the Notes

or the Guarantee, the Issuer and ROSBANK shall prepare a supplement to this Base Prospectus or publish a replacement Base Prospectus for use in connection with any subsequent offering of the Notes and shall supply to each Dealer such number of copies of such supplement to this Base Prospectus as such Dealer may reasonably request.

## ENFORCEABILITY OF JUDGMENTS

ROSBANK is an open joint stock company incorporated under the law of the Russian Federation. Most of its assets are currently located outside the United Kingdom. In addition, most of the directors and executive officers of ROSBANK are residents of countries other than the United Kingdom. As a result, it may not be possible for investors to:

- effect service of process within United Kingdom upon any of the directors or executive officers of ROSBANK named in this Base Prospectus; or
- enforce, in courts located within the United Kingdom, judgments obtained in courts in jurisdictions located outside the United Kingdom against ROSBANK or any of its directors or executive officers in any action.

In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom, in respect of liabilities predicated upon English law.

Judgments rendered by a court in any jurisdiction outside the Russian Federation will be recognised by courts in Russia only if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered and/or a federal law is adopted in Russia providing for the recognition and enforcement of foreign court judgments. No such treaty exists between the United Kingdom and the Russian Federation for the reciprocal enforcement of foreign court judgments and no relevant federal law on enforcement of foreign court judgments has been adopted in the Russian Federation. See ''Risk Factors – Risks Relating to the Notes and the Trading Market – Foreign judgments may not be enforceable against ROSBANK''.

The Notes, the Trust Deed and the Agency Agreement, each as defined herein, are governed by English law and provide for disputes, controversies and causes of action brought by any party thereto against ROSBANK to be settled by the courts of England or by arbitration in accordance with the Rules of the LCIA (the London Court of International Arbitration). The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, it may be difficult to enforce arbitral awards in the Russian Federation due to the relative inexperience of the Russian courts in international commercial transactions, 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.

## FORWARD LOOKING STATEMENTS

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

- the financial condition of ROSBANK and the characteristics of ROSBANK's strategy, products or services;
- ROSBANK's plans, objectives or goals, including those related to products or services;
- statements of future economic performance; and
- assumptions underlying those statements.

Forward looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ from those in the forward looking statements as a result

of various factors. Accordingly, prospective purchasers of the Notes should not rely on such forward looking statements. The information in this Base Prospectus, including the information under "Risk Factors" and "ROSBANK", identifies important factors that could cause such differences including, *inter alia*, a change in overall economic conditions in Russia, a change in ROSBANK's financial condition, a change in the value of the Russian Rouble relative to the US dollar and euro, a change in the level of tourism and business travel in and to Russia and the effect of new legislation or government regulations in Russia. Such forward-looking statements speak only as of the date of this Base Prospectus, and are not subject to any continuing obligations under the listing rules of the Luxembourg Stock Exchange. Accordingly, ROSBANK does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. ROSBANK does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

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

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

ROSBANK's financial information set forth herein has, unless otherwise indicated, been derived from its unaudited consolidated and combined interim condensed financial statements as of and for the three months ended 31 March 2006 and 2005 (the "Unaudited IFRS Financial Statements") and from its audited consolidated and combined financial statements (the "Audited IFRS Financial Statements" and, together with the Unaudited IFRS Financial Statements, the "IFRS Financial Statements") as of and for the years ended 31 December 2005, 2004 and 2003, in each case prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board. The Russian Rouble is the functional currency for the IFRS Financial Statements. The Audited IFRS Financial Statements as at and for the years ended 31 December 2005, 2004 and 2003 were audited by Deloitte & Touche, independent auditors, who expressed an unqualified opinion in those statements. The address of Deloitte & Touche is 4/7-2 Vozdizhenka St., Moscow 125009, Russian Federation.

The Financial Statements of the Issuer as of and for the year ended 31 December 2005 set forth herein were audited by Deloitte S.A., independent auditors who present an unqualified opinion in those statements. The address of Deloitte S.A. is 560 rue de Neudorf, L-2220 Luxembourg BP. 1173, L-1011 Luxembourg.

In this Base Prospectus, the following currency terms are used:

- "Rbl", "Russian Rouble", "RUR" or "rouble" means the lawful currency of Russia;
- "Dollar", "$", "US dollar", or "U.S.$" means the lawful currency of the United States of America;
- "EUR", "euro" or "€" means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended; and
- "£" means the lawful currency of the United Kingdom of Great Britain and Northern Ireland.

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

The exchange rate of roubles per US dollar as published by the CBR on 31 August 2006 was Rbl 26.7379 per U.S.$1.00. No representation is made that the rouble or US dollar amounts referred to herein could have been or could be converted into roubles or US dollars, as the case may be, at this rate or at any particular rate or at all.

ROSBANK has calculated its market share information presented in this Base Prospectus on the basis of market data regularly published by the CBR.

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## GENERAL DESCRIPTION OF ROSBANK

ROSBANK is currently Russia's seventh largest bank by total assets and eighth largest bank by equity, according to Kommersant, a leading Russian business newspaper. ROSBANK's principal activities include retail banking, SME banking, corporate banking, private banking, financial markets and financial institutions, investment banking, cash management and settlement services, and custody and depository services.

ROSBANK is 79.92 per cent. owned by the Interros Group, which is one of Russia's largest private investment groups, and 10 per cent. owned by Société Générale S.A., the French banking group. According to the official web-site of the Interros Group (www.interros.ru), the Interros Group is engaged in the investment and management of industrial, financial and media assets in Russia. While Interros Group companies previously formed the core of ROSBANK's customer base, the number of Interros Group customers and their contribution to ROSBANK's business has decreased in recent years due to the growth of business activities with non-Interros Group customers. As at 31 March 2006, related parties accounted for 20.8 per cent. of ROSBANK's total customer deposits and 1.8 per cent. of ROSBANK's total loans to banks and customers compared to 25.8 per cent. and 2.0 per cent., 23.8 per cent. and 2.3 per cent., 21.5 per cent. and 3.9 per cent., respectively, as at 31 December 2005, 2004 and 2003.

As at 31 March 2006, ROSBANK operated in Russia through a nationwide network of 787 outlets and over 2,700 third-party points-of-sale, serving approximately 3,000,000 retail customers, 59,000 SME customers and 7,600 corporate customers. In addition, ROSBANK conducts operations outside of Russia through four subsidiaries, located in Switzerland, the Netherlands, Luxembourg and Belarus. See "Subsidiaries".

As at 31 March 2006, ROSBANK's total assets were RUR 222,719.1 million, its total equity was RUR 23,406.6 million, its total capital adequacy ratio was 14.7 per cent., its total loan portfolio was RUR 180,089.0 million and its total deposits were RUR 167,640.1 million. As at 31 December 2005, ROSBANK's total assets were RUR 213,056.6 million, its total equity was RUR 22,820.3 million, its total capital adequacy ratio was 15.6 per cent, its total loan portfolio was RUR 167,313.3 million and its total deposits were RUR 160,199.9 million. For the three months ended 31 March 2006, Rosbank had operating income of RUR 4,070.2 million and net profit of RUR 660.1 million, compared to RUR 3,008.2 million 432.7 million respectively, for the three months ended 31 March 2005. For the year ended 31 December 2005, ROSBANK had operating income of RUR 15,594.6 million and net profit of RUR 3,084.1 million. As at 31 March 2006, ROSBANK's net interest income after provision for impairment losses amounted to RUR 1,963.5 million, representing 48 per cent. of its total operating income, its income on treasury operations arising from sales of securities, foreign currency exchange activities and operations with precious metals amounted to RUR 791.6 million, representing 19 per cent. of total operating income and its net fee and commission income amounted to RUR 877.1 million, representing 22 per cent. of total operating income.

As at 31 March 2006, ROSBANK's total assets were RUR 222,719.1 million, its total equity was RUR 23,406.6 million, as compared to total assets of RUR 213,056.6 million and total equity of RUR 22,820.3 million as at 31 December 2005. For the period ended 31 March 2006, ROSBANK's return on average equity was 2.9 per cent. and its return on average assets was 0.3 per cent., compared to 18.1[(1)] per cent. and 1.7 per cent. as for the year ended 31 December 2005. ROSBANK is currently rated "Ba3" Long Term by Moody's, "B+" by Fitch, and "B" by Standard & Poor's.

[(1)] Net income divided by monthly weighted average equity

## GENERAL DESCRIPTION OF THE PROGRAMME

*The following summary is qualified in its entirety by the remainder of this Base Prospectus.*

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|---|---|
| **Issuer:** | ROSBANK FINANCE S.A. |
| **Guarantor:** | ROSBANK (OJSC JSCB) |
| **Description:** | Guaranteed Debt Issuance Programme |
| **Size:** | Up to U.S.$750,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time. |
| **Arrangers:** | Credit Suisse Securities (Europe) Limited and Morgan Stanley & Co. International Limited |
| **Dealers:** | Barclays Bank PLC, Commerzbank Aktiengesellschaft, Credit Suisse Securities (Europe) Limited, HSBC Bank plc, ING Bank N.V., London Branch, Morgan Stanley & Co. International Limited and UBS Limited<br><br>The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Base Prospectus to "Permanent Dealers" are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and to "Dealers" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches. |
| **Trustee:** | J.P. MORGAN CORPORATE TRUSTEE SERVICES LIMITED. |
| **Principal Paying Agent, Calculation Agent and Transfer Agent:** | JPMORGAN CHASE BANK, N.A. |
| **Luxembourg Paying Agent, Registrar and Transfer Agent:** | J.P. MORGAN BANK LUXEMBOURG S.A. |
| **Method of Issue:** | The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a "Series") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a "Tranche") on the same or different issue dates. The specific terms of each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be set out in a set of final terms to this Base Prospectus (the "Final Terms"). |
| **Issue Price:** | Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments. |

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| **Form of Notes:** | Each Series of Notes will be issued in registered form only. Each Series of Notes will be represented by a Global Note. Each Global Note will be exchangeable for Definitive Notes in the limited circumstances specified in such Global Note. |
| **Clearing Systems:** | Clearstream, Luxembourg, Euroclear and, in relation to any Tranche, any such other recognised clearing system as may be agreed between the Issuer, ROSBANK, the Principal Paying Agent, the Trustee and the relevant Dealer. Any interest in the Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear, Clearstream, Luxembourg, and of any other agreed clearing system, as appropriate. |
| **Initial Delivery of Notes:** | On or before the issue date for each Tranche, the Global Note shall be deposited with a common depository for Euroclear and Clearstream, Luxembourg. The Global Note will be registered in the nominee name of the Common Depository of Euroclear and Clearstream, Luxembourg. Global Notes relating to Notes that are not listed on the official list of the Luxembourg Stock Exchange and admitted to trading on the Regulated Market of the Luxembourg Stock Exchange may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, ROSBANK, the Principal Paying Agent, the Trustee and the relevant Dealer. Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems. |
| **Currencies:** | Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, ROSBANK and the relevant Dealers. |
| **Maturities:** | Subject to compliance with all relevant laws, regulations and directives, any maturity between one month and 30 years. |
| **Denomination:** | Notes will be in such denominations as may be specified in the relevant Final Terms, provided that (i) the Specified Denomination(s) shall not be less than €50,000 or its equivalent in other currencies, and (ii) with respect to Notes with a maturity of less than 365 days, a minimum Specified Denomination may apply as more fully set out in the relevant Final Terms. |
| **Fixed Rate Notes:** | Fixed rate notes will bear interest at a fixed rate specified in the relevant Final Terms payable in arrear on the date or dates in each year specified in the relevant Final Terms. |
| **Floating Rate Notes:** | Floating Rate Notes will bear interest determined separately for each Series as follows:<br><br>(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. or<br><br>(ii) by reference to LIBOR, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the relevant Final Terms) as adjusted for any applicable margin.<br><br>Interest periods will be specified in the relevant Final Terms. |

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| **Zero Coupon Notes:**..... | Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest. |
| **Dual Currency Notes:** ..... | Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange as may be specified in the relevant Final Terms. |
| **Index Linked Notes:**..... | Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as may be specified in the relevant Final Terms. |
| **Interest Periods and Interest Rates:**. | The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms. |
| **Redemption:**..... | The relevant Final Terms will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 must have a minimum redemption amount of £100,000 (or its equivalent in other currencies). |
| **Redemption by Instalments:** ..... | The Final Terms issued in respect of each issue of Notes that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes may be redeemed. |
| **Other Notes:** ..... | Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes, reverse dual currency Notes, optional dual currency Notes, partly paid Notes and any other type of Note that the Issuer, the Trustee and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Final Terms. |
| **Optional Redemption:**..... | The Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption.<br><br>Furthermore, pursuant to Condition 6(f) of the Notes, the Notes may be redeemed by the Issuer, at the request of the Guarantor, by giving not less than 15 nor more than 30 days' notice to the Noteholders at their Early Redemption Amount together with accrued interest to the date fixed for redemption and applicable Make Whole Premium (as defined in Condition 6(g) and the relevant Final Terms). |
| **Status of Notes:** ..... | The Notes and the Guarantee in respect of them will constitute unsubordinated and unsecured obligations of the Issuer and ROSBANK, respectively, all as described in "Terms and Conditions of the Notes – Status". |
| **Negative Pledge:**..... | See "Terms and Conditions of the Notes – Negative Pledge". |
| **Cross Default:** ..... | See "Terms and Conditions of the Notes – Events of Default". |

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| **Rating:**..... | The Programme has been rated ''B+'' by Fitch and ''Ba3'' by Moody's. Notes issued under the Programme may be rated or unrated. Where an issue of Notes under the Programme is rated, its rating will not necessarily be the same as the rating applicable to the Programme.<br><br>Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or ROSBANK could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating. |
| **Early Redemption:**..... | Except as provided in ''Optional Redemption'' above, Notes will be redeemable at the option of the Issuer prior to maturity only for tax reasons. See ''Terms and Conditions of the Notes – Redemption, Purchase and Options''. |
| **Withholding Tax:** ..... | All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of Luxembourg or the Russian Federation, as the case may be, subject to customary exceptions (including the IPMA Standard EU Exception), all as described in ''Terms and Conditions of the Notes – Taxation''. |
| **Governing Law:**..... | The Notes will be governed by, and shall be construed in accordance with, English law. The provisions of articles 86 to 94-8 of the Luxembourg law of August 10, 1915, as amended, on commercial companies are excluded. |
| **Listing and Admission to Trading:**... | Application has been made to list Notes issued under the Programme on the official list of the Luxembourg Stock Exchange and to admit Notes to trading on the Regulated Market of the Luxembourg Stock Exchange or as otherwise specified in the relevant Final Terms. As specified in the relevant Final Terms, a Series of Notes may be unlisted. |
| **Selling Restrictions:**..... | United States, United Kingdom, Russian Federation, Italy and any other jurisdiction relevant to any Tranche. See ''Subscription and Sale''. |
| **Further Issues:**..... | The Issuer may from time to time without the consent of the Noteholders create and issue further securities either having the same terms and conditions as a Series of Notes that was previously issued in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including such Notes) or upon such terms as the Issuer may determine at the time of their issue. |

# RISK FACTORS

*An investment in the Notes involves a high degree of risk. Prospective investors should consider carefully, amongst other things, the risks set forth below and the other information contained in this document prior to making any investment decision with respect to the Notes. The risks highlighted below could have a material adverse effect on ROSBANK's business, financial condition, results of operations or prospects which, in turn, could have a material adverse effect on its ability to service payment obligations under the Guarantee. In addition, the value of the Notes could decline due to any of these risks, and prospective investors may lose the value of their entire investment or part of it, as the case may be.*

*Prospective investors should note that the risks described below are not the only risks that ROSBANK faces. ROSBANK has described only the risks it considers to be material. However, there may be additional risks that ROSBANK currently considers immaterial or of which it is currently unaware, and any of these risks could also have the effect referred to above.*

## RISKS RELATING TO ROSBANK

***The Russian market for financial and banking services is highly competitive, and a number of competitive factors present risks for ROSBANK.***

The Russian market for financial and banking services is highly competitive. Although the Russian banking industry is dominated by a few Moscow-based banks, 1,221 banks and other non-banking credit organisations were reported by the CBR as operating in Russia as at 30 June 2006. According to the CBR, Russia's top five banks accounted for 44.0 per cent. of total bank assets as at 1 June 2006.

Because of the number of Russian banks and differences in their respective businesses, ROSBANK faces competition from Russian banks in substantially all of the areas and locations in which it operates. A number of these competitors are larger than ROSBANK and may have greater access to capital resources than ROSBANK. In addition, some of ROSBANK's competitors have subsidised cost structures, including major banks owned by the government of the Russian Federation, private banks that are affiliated with major corporate issuers in Russia and branches of large international banks with operations in Russia. These banks are not necessarily constrained by market rates that reflect unsubsidised cost structures, and some of these competitors may, from time to time, set loan rates reflecting negative real interest rates, with which ROSBANK cannot compete. In addition, competition between Russian banks and foreign banks operating in the Russian banking market has been increasing in the various market segments of the banking industry in which ROSBANK operates, particularly in the corporate lending market segment, which generates a significant portion of ROSBANK's interest income. ROSBANK's foreign competitors may also have access to cheaper funding than ROSBANK. Also, the CBR may, in the future, relax restrictions on the inflow of foreign capital, which may increase competition by foreign banks in Russia. In addition, access of foreign banks to the Russian market is likely to increase when Russia enters the World Trade Organisation, though when this will occur is currently unclear.

The degree of concentration in the Russian banking industry and advantages that foreign banks have over ROSBANK, as well as the subsidised cost structures of certain of ROSBANK's competitors and the potential relaxation of existing regulations concerning capital flows, may adversely impact ROSBANK's ability to compete in its market segments, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

***ROSBANK is exposed to substantial consumer credit risk and the increasing proportion of loans made to retail customers and small- and medium-sized entities ("SMEs") in ROSBANK's loan portfolio may adversely affect the overall credit quality of its loan portfolio.***

ROSBANK's total loans to retail and SME customers at 31 March 2006 and 31 December 2005 were RUR 56,597.7 million and RUR 2,650.9 million, and RUR 51,967.2 million and RUR 1,833.4 million, respectively. Furthermore, in accordance with its strategy, ROSBANK intends to continue to increase its lending to retail customers and SMEs. SMEs generally have less capital and liability management experience than large companies and both SMEs and retail clients are more sensitive to

economic downturns. As a result, these customers may be more likely to default on their loans and ROSBANK may be required to increase its loan impairment provisions as a result of its increased lending to these sectors. In addition, the availability of accurate and comprehensive financial and general credit information on retail clients and SMEs in Russia is more limited than for larger corporate clients, which reduces ROSBANK's ability to accurately assess the credit risk associated with such lending. ROSBANK's strategy of increasing the number of its retail and SME customers may necessitate lending to customers that do not already have an established credit history with ROSBANK. If the overall credit quality of ROSBANK's loan portfolio declines, it would be subject to increased risks of non-performing loans, which may require further provisioning and could have a material adverse effect on ROSBANK's business, financial condition, results of operations and prospects.

***ROSBANK may fail to manage its growth properly.***

ROSBANK intends to grow its business both organically through the expansion of its branch network, and through mergers and acquisitions. Expansion of ROSBANK's branch network will entail significant investment, as well as increased operating costs. There is no guarantee that ROSBANK will achieve the planned expansion of its retail network or that its newly opened branches will operate profitably, which could have a material adverse effect on ROSBANK's business, financial condition, results of operations and prospects.

***Concentrations among certain industries and borrowers in ROSBANK's loan portfolio could adversely affect ROSBANK's profitability if those industries experience volatility or a business downturn or if one or more of those borrowers failed to honour their obligations to ROSBANK.***

ROSBANK's loan portfolio has concentrations among certain industries and borrowers. As at 31 March 2006, the four largest sectors by exposure in ROSBANK's loan portfolio consisted of Trade (14.7 per cent.), Finance (4.7 per cent.), Government (4.5 per cent.) and Construction (4.4 per cent.). Furthermore, as at 31 March 2006, ROSBANK's ten largest borrowers represented 9.6 per cent. of its total gross loan portfolio. If the above mentioned sectors, or any other sectors represented in ROSBANK's loan portfolio, experience volatility or a business downturn or if any or all of ROSBANK's largest borrowers failed to honour their obligations to ROSBANK, concentrations among these industries and these borrowers may result in significant financial losses, which could have a material adverse effect on ROSBANK's business, financial condition, results of operations and prospects.

***ROSBANK has historically been dependent on its relationship with the Interros Group, which remains an important corporate customer and a provider of significant amounts of funding to ROSBANK.***

As at 30 June 2006, ROSBANK was 79.92 per cent. owned by the Interros Group, which participated in the U.S.$340 million capital increase of ROSBANK (OJSC JSCB) in November 2005 in the amount of U.S.$308 million, much of which reflected the costs of integrating the business of the OVK banks into ROSBANK and the remainder of which was in cash, which ROSBANK used in part to increase its Tier 1 capital. The loss of a significant portion of the Interros Group's business may adversely affect ROSBANK's liquidity or its access to continued contributions or financial support from the Interros Group, which could have a material adverse effect on ROSBANK's business, financial condition, results of operations and prospects.

***ROSBANK depends to a great extent on its net interest income and its net interest margin, and the general downward trend in interest rates may adversely affect ROSBANK's profitability.***

ROSBANK earns interest from loans and other assets and pays interest to its depositors and other creditors. For the last three years and the first quarter of 2006, ROSBANK's results of operations depended to a great extent on its net interest income. Net interest income represented 48.2 per cent. of ROSBANK's operating income in the first quarter of 2006 as compared to 56.6 per cent. for the first quarter of 2005. ROSBANK's net loans and advances to customers represented 55.6 per cent. of ROSBANK's total assets as of 31 March 2006, compared to 53.2 per cent. as of 31 December 2005. ROSBANK's net interest margin, which is the difference between the yield on its interest bearing assets and the cost of its interest bearing liabilities, varies according to prevailing interest rates and is also a significant factor in determining its profitability. Positive economic trends

such as a relatively stable rate of inflation, growth in real income and purchasing power of the population and increasing opportunities to obtain funding in the international capital markets have resulted in a general decline in interest rates and a decrease in interest rate spreads and bank margins in Russia. Interest rates in Russia have reached historically low levels as a result of these factors as well as the stabilisation of the Russian economy and lower interest rates in international financial markets than those in Russia. Further reductions in interest rates and compression of the interest rate spread may result in a decrease in the amount of net interest income generated by ROSBANK and its net interest margin, either or both of which could have a material adverse effect on its business, financial condition, results of operations and prospects.

***Fluctuations in foreign currency exchange rates may adversely affect ROSBANK's profitability.***

ROSBANK trades currency on behalf of its customers and for its own account and maintains open currency positions. ROSBANK is predominantly exposed to the prevailing exchange rate between the Russian Rouble and the U.S. dollar or, to a lesser extent, the euro. Adverse movements in foreign exchange rates may impact ROSBANK and its customers negatively, particularly with respect to their open currency positions. Adverse currency movements may also impact ROSBANK's deposit base and certain borrowers and ROSBANK's exposure to its lenders. Fluctuations in foreign currency exchange rates, in particular if such fluctuations are unanticipated or sudden, may adversely affect ROSBANK's cash flow and could have a material adverse effect on its business, financial condition, results of operations and prospects.

***ROSBANK's income from proprietary securities and currency operations may be volatile.***

ROSBANK's income from securities operations depends on numerous factors beyond its control, such as overall market trading activity, interest rate levels, fluctuations in exchange rates and general market volatility. ROSBANK has in place limits for its trading securities portfolio on various types of securities and securities trading and single issuer limits, which are designed to maintain its securities portfolio risk at an acceptable level. Nevertheless, market price fluctuations may adversely affect the value of ROSBANK's securities portfolio, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

***Maturity mismatches between ROSBANK's assets and liabilities could create a liquidity risk that may adversely affect ROSBANK's profitability.***

ROSBANK meets most of its funding requirements using short-term funding sources, such as deposits, interbank loans, time deposits and cash bonds. However, some of ROSBANK's assets have medium- or long-term maturities, which creates a potential for maturity mismatches. See "Business – Risk Management – Liquidity Risk". To date, ROSBANK has met its short-term liquidity needs by accessing domestic and international interbank markets. If its short-term funding sources become volatile or are unavailable, ROSBANK would be required to utilise other, more expensive methods to meet its liquidity needs, such as secured borrowings or asset sales, which may not be available on commercially reasonable terms. The use of more expensive funding sources may adversely affect ROSBANK's profitability, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

***ROSBANK's customer due diligence procedures and monitoring systems may not ensure that it does not violate applicable financial assistance or money laundering laws.***

The existence of "black" and "grey" market economies in Russia, the presence of organised crime in the economy, loopholes in legislation (including, but not limited to, tax legislation) and lack of administrative guidance regarding its interpretation increase the risk of Russian financial institutions being used as vehicles for money laundering. In addition, recent terrorist attacks in Moscow and in the south of Russia infer the existence of terrorist financing networks that support terrorist activities in Russia.

ROSBANK's due diligence procedures and monitoring systems may fail to identify the sources and uses of all of its customers' funds and to ensure that such customers and transactions do not violate any financial assistance or money laundering laws in any of the jurisdictions applicable to such customers, transactions or to ROSBANK. Failure to comply with such laws could result in significant

fines as well as reputational damage for ROSBANK, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

***ROSBANK's banking operations will be impaired if ROSBANK fails to receive the licences required for it to conduct its operations, or if any of its existing licences are revoked.***

All banking and various related activities in Russia require licences from the CBR and/or other regulatory agencies. See ''Regulation of the Russian Banking Sector''. The CBR or other regulatory agencies may impose additional licence requirements at any time. Applying for licences is a burdensome and time-consuming process and there can be no assurance that ROSBANK will be able to obtain any such additional licences or meet such additional licensing requirements or to obtain or meet them on commercially reasonable terms. In addition, the CBR or other regulatory agencies may revoke any of ROSBANK's current licences (including for breaches of regulatory requirements or if ROSBANK is insolvent – see generally ''Overview of the Banking Sector and Banking Regulation in the Russian Federation'' and the section ''Insolvency Regime'' in particular). The loss of a current licence or ROSBANK's failure to obtain additional licences or to obtain them on commercially reasonable terms may adversely affect ROSBANK's ability to conduct its banking operations, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

***An interruption in, or breach of, ROSBANK's information technology systems may result in lost business, significant financial losses and reputational damage.***

Large-scale institutional banking activities, such as those conducted by ROSBANK, are dependent on highly sophisticated information technology (''IT'') systems. IT systems are vulnerable to a number of problems, including computer viruses, unauthorised access, physical damage to vital IT centres and software or hardware malfunctions. Any interruption in, or breach of, its IT systems, even for a short period of time, could adversely affect ROSBANK's operations, such as the ability to serve its customers in a timely manner, accurately record financial data and protect ROSBANK and its customers from financial fraud or theft. If its banking operations are compromised, ROSBANK may experience lost business due to a lack of customer confidence, significant financial losses and/or reputational damage, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

***Unsuccessful implementation of new or adaptation of current IT systems and programmes could adversely affect ROSBANK's future growth.***

If ROSBANK cannot implement new systems, or adapt its current IT systems and programmes in line with the expected growth of its business, it may not be able to meet the expectations or changing demands of its customers. If ROSBANK fails to effectively implement new IT systems and programmes or to adapt to new technological developments, it may incur substantial additional expenses or be unable to compete successfully in the market, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

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

The risk-adjusted capital guidelines promulgated by the Basel Committee on Banking Supervision, or the Basel Accord, which form the basis for the capital adequacy guidelines of the CBR, are being revised and are expected to come into force in certain jurisdictions in 2006 or 2007. The implementation of the Basel Accord in Russia is not expected to occur until 2008 or later. The effect these revised guidelines will have on ROSBANK's requirements for capital and its capital position is uncertain. If any future alterations to the capital adequacy standards under the Basel Accord (or CBR regulations interpreting the Basel Accord) with regard to limits on the deployment and use of capital require ROSBANK to maintain higher capital levels or limit the use of significant portions of ROSBANK's capital, this could have a material adverse effect on ROSBANK's business, financial condition, results of operations and prospects.

***ROSBANK may be unable to obtain the necessary approval of disinterested directors or disinterested shareholders required for certain transactions between ROSBANK and its interested parties or affiliated companies.***

Russian law requires companies to obtain the approval of a majority of the disinterested directors or a majority of the disinterested shareholders before entering into certain transactions with an ''interested party''. Under Russian law, an ''interested party'' includes any member of ROSBANK's board of directors (''Board of Directors''), ROSBANK's chief executive officer, any person who, together with its affiliates, owns at least 20 per cent. of the ordinary shares and any other person who has the legal right to give mandatory instructions to ROSBANK. The transactions that have been entered into, or may be entered into, by ROSBANK with members of the Interros Group require such approvals. If these approvals are not obtained or are improperly obtained, ROSBANK may be unable to enter into such transactions or the transactions may be declared invalid and ROSBANK may lose a portion of the Interros Group's business or access to continued contributions and financial support from the Interros Group, which could have a material adverse effect on ROSBANK's business, financial condition, results of operations and prospects.

***The public reporting requirements to which ROSBANK is subject differ significantly from comparable listed companies in other jurisdictions.***

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

In accordance with the Banking Law and CBR regulations, ROSBANK must publish quarterly reports and file such quarterly reports with the CBR within 43 business days of the end of each quarter. Such reports include certain financial information, including a balance sheet, income statement and information on ROSBANK's assets, capital reserves and allowances for problem loans, but do not contain all of the information contained in ROSBANK's IFRS financial statements. ROSBANK began publishing annual IFRS financial statements starting with the year ended 31 December 1999.

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

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

***ROSBANK's previous reorganisation could be challenged.***

In 2000, ROSBANK acquired Uneximbank by means of a merger, which constituted a reorganisation under Russian law. Under Russian law, the reorganisation of a legal entity is a complex process that requires compliance with numerous laws, regulations and administrative requirements. Non-compliance with any applicable required legal procedure in the course of reorganisation may impair the validity of the reorganisation or make corporate decisions or administrative acts related thereto subject to legal challenge by concerned parties. Furthermore, creditors and shareholders of companies being reorganised enjoy special rights aimed at protecting their material interests (such as the right of creditors to accelerate payment of liabilities owed to them and the right of shareholders to claim redemption of their shares). Creditors and shareholders deprived of such rights may be allowed to pursue claims against the applicable reorganised company. There can be no assurance that ROSBANK complied fully with all applicable legal and

administrative requirements in connection with its merger with Uneximbank. While the risk of any claims relating to ROSBANK's reorganisation appears to be low, due to, among other things, the lapse of applicable statute of limitations periods, potential claims against ROSBANK relating to alleged violations committed during the course of the reorganisation could have a material adverse effect on ROSBANK's business, financial condition, results of operations and prospects.

## RISKS RELATING TO THE RUSSIAN BANKING INDUSTRY

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

In 2004, the Russian banking sector experienced instability and uncertainty resulting from actions taken by the CBR and a crisis of confidence among Russian banking customers. See "Russian Banking Industry – History". During the period from May until August of 2004, the CBR revoked the banking licences of a number of Russian banks, and the resulting uncertainty in the Russian banking system led to the virtual collapse of the interbank lending system and to liquidity pressures for many Russian banks. The collapse of a number of Russian banks caused panic among depositors and even larger banks were reported to have experienced deposit withdrawals. Similar events in the future could undermine depositors' trust in the Russian banking system and create overall instability in the markets, which could have a material adverse effect on ROSBANK's business, financial condition, results of operations and prospects.

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

In December 2003, Federal Law of December 23, 2003, No. 177-FZ "On Insurance of Deposits of Individuals in Banks of the Russian Federation" ("Deposits Insurance Law"), was signed into law. The Agency for Insurance of Deposits is responsible for collecting deposits, managing the funds in the mandatory insurance pool, determining the insurance premiums and monitoring insurance payments. See "Regulation of the Russian Banking Sector – Banking Reform". The Deposits Insurance Law is designed to increase consumer confidence in the Russian banking industry by protecting the deposits of individuals. However, the Russian insurance deposits system is relatively new and it is difficult to forecast how the Deposits Insurance Law will affect the Russian banking industry. There can be no assurance that the Russian insurance deposits system will not affect the banking industry in a way that will impair ROSBANK's ability to provide a full range of banking services or to compete effectively, which would have a material adverse effect on its business, financial condition, results of operations and prospects.

***Difficulties enforcing security arrangements for ROSBANK's loans under Russian law or a decline in the value of the collateral securing its loans may increase ROSBANK's risk of non-recovery in the event that any of its loans fail to perform.***

As at 31 March 2006, ROSBANK had entered into security and/or guarantee arrangements in connection with over 46 per cent. of the total amount of loans outstanding from its non-bank customers. A substantial portion of ROSBANK's loans to legal entities and individuals in the Russian Federation is secured by collateral such as real estate, land lease rights, equipment, securities, precious metals, raw materials and inventory. However, under Russian law, security arrangements, such as pledges and mortgages, and guarantees, other than bank guarantees, are considered secondary obligations, which automatically terminate if the relevant secured or guaranteed obligation becomes void. Furthermore, foreclosure under Russian law generally requires a court order and a public sale of the collateral. In addition, a court may delay such public sale for a period of up to one year. A pledge over real property, such as land and buildings, requires government registration to be valid. Such government registration may be difficult to obtain, especially for real property under construction. Russian law has no pledge perfection system for collateral other than in respect of mortgages, which may lead to unexpected and/or conflicting claims of secured creditors upon the pledged property. In addition, the value of collateral may decline; for example, as a result of downturns in the relevant markets or a general deterioration in economic conditions in Russia. Difficulties enforcing the security arrangements for its loans or a decline in the value of the collateral securing its loans increase ROSBANK's risk of non-recovery in the event any of its loans fail to perform and may require ROSBANK to reclassify the relevant loans, establish additional allowances

for loan losses and increase reserve requirements, all of which could have a material adverse effect on ROSBANK's business, financial condition, results of operations and prospects.

## RISKS RELATING TO RUSSIA

ROSBANK is a bank organised and incorporated in Russia. Substantially all of its fixed assets are located in Russia and substantially all of its revenues are derived from Russia. There are certain risks associated with an investment in Russia.

***Uncertainties about the availability and reliability of statistical information make business planning inherently uncertain and may impair the ability of Russian companies to plan effective strategies.***

Statistical data, including official data, published in Russia are substantially less complete and reliable and may be produced on a different basis than those published in countries with more developed market economies. Due to the unavailability of alternative, reliable sources of country-specific data, Russian companies necessarily rely to some extent on this statistical data in their business planning. As a result, assumptions made by Russian companies in their business plans may prove to be incorrect. The lack of accurate statistical data for use in business planning may contribute to the overall volatility of the Russian economy and may adversely affect the profitability of large numbers of ROSBANK's corporate customers, which would have a material adverse effect on its business, financial condition, results of operations and prospects.

***Terrorist activity could negatively affect the Russian economy, which could adversely affect ROSBANK's business.***

Recent terrorist activity worldwide has had a significant effect on international and domestic financial and commodity markets. In the past several years Russia has suffered a number of terrorist attacks resulting in significant loss of life and damage to property, including bombings near and inside metro stations in Moscow and bombings of two domestic airline passenger flights. 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 economy in Russia or internationally, which could also have a material adverse effect on ROSBANK's business, financial condition, results of operations and prospects.

### Economic Risks

***Economic instability in Russia could adversely affect ROSBANK's business.***

Since the dissolution of the former Soviet Union, the Russian economy has at various times experienced significant declines in gross domestic product, hyperinflation, an unstable currency and high government debt relative to gross domestic product. It has also experienced weaknesses in its banking system (see "Overview of the Banking Sector and Banking Regulations in the Russian Federation – History and Development of the Russian Banking Sector"), which resulted in limited liquidity to Russian enterprises, high levels of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings, significant use of barter transactions and illiquid promissory notes to settle commercial transactions, and widespread tax evasion. As a consequence, Russia has significant unemployment and underemployment, resulting in high poverty levels among the Russian population. There can be no assurance that the recent positive trends experienced by the Russian economy, such as the increase in gross domestic product, a relatively stable Russian Rouble and the reduced rate of inflation, will continue or will not be abruptly reversed. Moreover, fluctuations in international oil and natural gas prices, fluctuations in the value of the Russian Rouble in real terms relative to the US dollar and the consequences of any changes in monetary policy and other factors may significantly affect Russia's economy, which would have a material adverse effect on its business, financial condition, results of operations and prospects, as well as on the value of the Notes.

**Political and Social Risks**

***Reversals in government policy or other government actions that incite doubts in future reforms could adversely affect ROSBANK's investments in Russia.***

Since 1991, Russia has sought to transform itself from a one-party state with a centrally planned economy to a democracy with a market-oriented economy. As a result of the sweeping nature of the reforms, and the ineffectiveness of some of them, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatisations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups.

Political conditions in Russia were highly volatile in the 1990s, as evidenced by frequent conflicts amongst executive, legislative and judicial authorities, which negatively affected Russia's business and investment climate. In February 2004, President Putin dismissed his entire cabinet, including the Prime Minister, and appointed a new Prime Minister. Shortly thereafter, a presidential decree significantly reduced the number of ministries and overhauled governmental structures. In addition to restructuring the Russian federal government, President Putin has implemented reforms under which the population no longer directly elects the governors of Russia's sub-federal units. Furthermore, President Putin has proposed to eliminate single-member district elections for the State Duma, so that voters would only cast ballots for political parties. In May 2005, President Putin ordered the Prime Minister to submit to the Russian parliament draft laws limiting foreign ownership of sectors that "ensure government security". The nature and scope of any such limitations that may be proposed is currently uncertain.

The next Russian Presidential elections are scheduled for 2008. Future changes in government, major policy shifts or lack of consensus between various branches of the government and powerful economic groups could disrupt or reverse economic and regulatory reforms. Any significant struggle over the direction of future reforms, disruption or reversal of the reform policies, recurrence of political or governmental instability or the occurrence of conflicts with powerful economic groups could have a material adverse effect on ROSBANK's business, financial condition, operating results and prospects and the value of investments in Russia.

In 2003, Russian authorities arrested certain key shareholders and managers of the Yukos Oil Company, then Russia's largest oil company by production, on tax evasion and related charges. In 2005, these individuals were each sentenced to nine, subsequently reduced to eight, years of imprisonment on these charges. Significant back tax claims have since been brought against Yukos, resulting in the auction of its major production subsidiary, OAO Yuganskneftegaz, and the effective end of Yukos. Yuganskneftegaz was acquired, indirectly, by OAO NK Rosneft, a state-owned oil company, resulting in the first effective renationalisation of a significant company privatised in the 1990s. Some analysts contend that these arrests and the effective renationalisation of Yukos occurred in connection with such persons' involvement in Russia's political affairs, and some believe that the arrests portend a willingness on the part of the Putin administration to reverse key political and economic reforms of the 1990s, including certain privatisations. There were additional claims and actions by the Russian authorities in 2004 (for example, a U.S.$157 million back tax claim against VimpelCom, Russia's second largest mobile phone operator, although this claim was subsequently reduced). If similar events occur in the future, a deterioration of Russia's investment climate may result, which could constrain ROSBANK's ability to obtain future financing in the international capital markets and otherwise harm its business, financial condition and future prospects. Furthermore, there can be no assurance that representatives of the Russian federal or Moscow government will not seek to renationalise the assets of other Russian companies, or even banks such as ROSBANK, in the future.

***Political and social conflicts or instability could create an uncertain business environment, which could adversely affect the value of ROSBANK's investments in Russia.***

The Russian Federation is a federation of 87 sub-federal political units, some of which exercise considerable autonomy in their internal affairs pursuant to arrangements with the federal government. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government and among and within Russia's sub-federal units is, in many instances, unclear and contested, particularly with respect to the division of tax revenues and authority over regulatory

matters. Lack of consensus between the federal government and local or regional authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. In particular, sub-federal units have enacted conflicting laws in areas such as privatisation, land ownership and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. In addition, President Putin recently implemented reforms under which the population no longer directly elect the governors of Russia's sub-federal units. Instead, the President nominates such governors, and the sub-federal unit's legislature confirms their nomination. For these reasons, the Russian political system is vulnerable to tension and conflict between federal, regional and local authorities. This tension creates uncertainties in the operating environment in Russia, which hinders ROSBANK's planning ability and may prevent it from carrying out its business strategy effectively.

Additionally, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict, such as the continuing conflict in Chechnya, which has brought normal economic activity within Chechnya to a halt and disrupted the economies of neighbouring regions. Various armed groups have regularly engaged in guerrilla attacks in Chechnya and elsewhere in the Caucasus. Violence and attacks relating to this conflict have spread to other parts of Russia. The further intensification of violence, including terrorist attacks and suicide bombings, or its continued spread to other parts of Russia, could have significant political consequences, including the imposition of a state of emergency in some or all of Russia. Moreover, any terrorist attacks and the resulting heightened security measures are likely to cause disruptions to domestic commerce and exports from Russia, which could have a material adverse effect on ROSBANK's business, financial condition, results of operations and prospects.

**Legislative and Legal Risks**

***Russia's legislative and legal framework is still developing, resulting in an uncertain environment for investment and business activities.***

Russia is still developing the legal framework required by a market economy. Since 1991, Russian law has been largely, but not entirely, replaced by the new legal regime established by the 1993 Federal Constitution. ROSBANK's business is subject to the rules of the Russian Civil Code, other federal laws and decrees, and orders and regulations issued by the Russian president, the Russian government, the federal ministries and the CBR, which are, in turn, complemented by regional and local rules and regulations. The relatively recent enactment of much of Russian legislation and the rapid evolution of the Russian legal system has resulted in a legal framework that is, in many respects, incomplete, ambiguous and inconsistent. For example, bankruptcy procedures are not well established and are subject to abuse. In addition, Russian legislation often leaves substantial gaps in the regulatory infrastructure and there is limited judicial and administrative guidance available for judges, who are relatively inexperienced at interpreting Russian legislation.

The uncertain nature of Russia's legislation and legal structure may impair ROSBANK's ability to enforce its rights under contracts or to defend itself against claims by others, which could have a material adverse effect on its business, financial condition, results of operations and prospects and also may impair the Trustee's ability (acting on behalf of the Noteholders) to enforce rights under the Guarantee.

***Changes and inconsistencies in the Russian tax system could adversely affect ROSBANK's business.***

Generally, taxes payable by Russian companies are substantial and numerous. These taxes include, among others, income taxes, value-added tax or VAT, excise taxes, social and pension contributions and property tax. All of these taxes are subject to change. The discussion below provides general information regarding Russian taxes and is not intended to be inclusive of all issues. Investors should seek advice from their own tax advisors as to these tax matters before investing in the Notes.

The tax environment in Russia has historically been complicated by the fact that various authorities have often issued contradictory pieces of tax legislation. Because of the political changes

that have occurred in Russia over the past several years, there have recently been significant changes to the Russian taxation system.

Tax reform commenced in 1999 with the introduction of Part One of the Russian Tax Code (the "Tax Code"), which sets out general taxation guidelines. Since then, Russia has been in the process of replacing legislation regulating the application of major taxes such as corporate income tax, VAT and property tax with new chapters of the Tax Code.

In practice, Russian tax authorities often have their own interpretation of the tax laws that rarely favours taxpayers, who often must resort to court proceedings to defend their position against the tax authorities. Differing interpretations of tax regulations exist both among and within government ministries and organisations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with related documentation, such as customs declarations, are subject to review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges. Generally, taxpayers are subject to inspection for a period of three calendar years of their activities immediately preceding the year in which the audit is carried out. As previous audits do not exclude subsequent claims relating to the audited period, the statute of limitations is not entirely effective. In addition, in some instances, new tax regulations have been given retroactive effect.

The conditions mentioned above create tax risks in Russia that are more significant than those typically found in countries with more developed tax systems, imposing additional burdens and costs on ROSBANK's operations and management resources. In addition, there can be no assurance that the current tax rates will not be increased or that new taxes will not be introduced. In some instances, the Russian tax authorities have applied new provisions retroactively in violation of Russian law. Increases in the taxes payable by ROSBANK and the imposition of fines, penalties or interest charges could have a material adverse effect on its business, financial condition, results of operations and prospects.

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

The independence of the judicial system and its immunity from economic, political and nationalistic influences in Russia remains largely untested. Court claims are sometimes used in furtherance of political aims without regard to a fair trial.

Judicial decisions in Russia are difficult to predict as judicial precedents in a civil law jurisdiction are not binding and most court decisions are not readily available to the public. Judges and courts are often inexperienced in the area of business and corporate law and enforcement of court judgments can, in practice, be very difficult. The court system is understaffed and underfunded and law enforcement agencies do not always enforce or follow court judgments.

There are also legal uncertainties relating to property rights. During Russia's transformation from a centrally planned economy to a market economy, legislation was enacted to protect private property against expropriation and nationalisation. However, it is possible that, due to the lack of experience and consistency in enforcing these provisions and due to political changes, these protections would not be enforced in the event of an attempted expropriation or nationalisation of ROSBANK's assets, or if ROSBANK's business and/or its clients' businesses are reorganised. Expropriation or nationalisation of any of ROSBANK's assets or portions thereof, potentially without adequate compensation, could have a material adverse effect on its business, financial condition, results of operations and prospects, as well as on the value of the Notes.

***Certain unlawful or arbitrary governmental actions may have an adverse effect on ROSBANK's business.***

Government authorities and the CBR have a high degree of discretion in Russia and have in the past exercised their discretion arbitrarily, without a hearing or prior notice, and sometimes in a manner that was contrary to law. Moreover, government authorities also have the power in certain circumstances, by virtue of a regulation or government act, to interfere with the performance of, nullify or terminate contracts. Unlawful or arbitrary governmental actions have reportedly included

withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities have also used common defects in matters surrounding share issuances and registration of legal entities as pretexts for court claims and other demands to invalidate such issuances and registrations and/or to invalidate transactions, sometimes for political purposes. Press reports have also described instances in which government officials have engaged in selective investigations and prosecutions to further the interests of the Russian government and individual officials. Although unlawful or arbitrary government action may be challenged in court, such action, if directed at ROSBANK or its shareholders, could have a material adverse effect on ROSBANK's business, financial condition, results of operations and prospects, as well as on the value of the Notes.

***Russian currency regulation and control legislation may adversely affect an investment in the Notes.***

The Law ''On Currency Regulation and Currency Control'', or the Currency Law provides for certain restrictions applicable to certain operations, including operations with securities: such as the use of special accounts for settlements. Under the Currency Law, the CBR has the authority to impose requirements for mandatory use of special accounts for various operations with foreign currencies and securities. This may have a negative impact on the development of the Russian capital markets. However, in the context of liberalisation of the currency legislation the CBR has recently abolished applying such measures. The majority of the restrictive provisions of the Currency Law must, in any event, be abolished by 1 January 2007.

Due to the limited development of the foreign currency market in Russia, ROSBANK may experience difficulty converting Russian Roubles into other currencies. Any delay or other difficulty in converting Russian Roubles into foreign currencies to make payments or a delay or restriction in the transfer of foreign currency could adversely affect ROSBANK's ability to meet its payment and debt obligations, resulting in the loss of suppliers or contractors or acceleration of debt obligations or cross-defaults, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

***Payment of judgments may be in a foreign currency.***

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

## RISKS RELATING TO THE NOTES AND TRADING MARKET

***The Issuer's ability to fulfil its obligations to make payments on the Notes is dependent on ROSBANK.***

The Issuer is an indirect wholly owned subsidiary of ROSBANK and will use the net proceeds from the issue of each Series of Notes to make an intercompany loan to ROSBANK. The Issuer has insufficient net assets, other than amounts due to it from ROSBANK in respect of any intercompany loans, to meet its obligations to pay redemption amounts and other amounts payable under the Notes. The Issuer would, therefore, in the absence of other funding sources, have to rely on ROSBANK providing sufficient funds to meet such obligations.

***The lack of a public market for the Notes could reduce the value of the investment in the Notes.***

The Notes are listed on the official list of the Luxembourg Stock Exchange and admitted to trading on the Regulated Market of the Luxembourg Stock Exchange since July 2005. However, there can be no assurance that an active trading market will be maintained, that holders will be able to sell their Notes or that such holders of the Notes will be able to sell their Notes for a price that reflects their value.

The market for securities issued or guaranteed by Russian entities is influenced by economic and market conditions in other Eastern European countries and other emerging markets. Although

international markets have stabilised since the Asian financial crisis in 1997 and the devaluation of the rouble in 1998, there can be no assurance that another financial crisis in any of the emerging markets will not occur in the foreseeable future. Any adverse development in any of the emerging markets may have a material adverse effect on the value of the Notes.

***Payments under the Guarantee may be subject to Russian withholding tax.***

Payments under the Guarantee to a holder of the Notes who is not a resident of Russia might, due to the lack of clarity in the law, be characterised as Russian source income that would be subject to a 20 per cent. withholding tax (if the holder is not an individual) or 30 per cent. withholding tax (if a holder is an individual) at source. This tax may be reduced under an applicable double tax treaty to which Russia is a party, but obtaining advance relief or a refund may be extremely difficult, if not impossible.

If such payments are subject to withholding tax, ROSBANK will be obligated (subject to certain exceptions) to pay additional amounts in order that every net payment made by it under the Guarantee after deduction or withholding for any taxes is not less that the full amount then due and payable.

Furthermore, the Issuer may at its option redeem the Notes if, as a result of any change in applicable tax legislation or interpretation, ROSBANK (if the Guarantee were called) would be obliged to pay additional amounts in order that every net payment made after deduction or withholding for any taxes is not less than the full amount then due and payable. If the Issuer redeems the Notes under such circumstances, the redemption price will be equal to 100 per cent. of the principal amount of the Notes plus any interest and additional amounts due.

***The tax gross-up provisions contained in the Terms and Conditions of the Notes andlor the Trust Deed, to the extent that ROSBANK is required to make payments under the Guarantee, may not be enforceable under Russian Law.***

If payments made by the Issuer on the Notes, or by ROSBANK on the Guarantee, are subject to withholding, the Issuer or ROSBANK, as the case may be, will be required (subject to certain exceptions) to make additional payments to the Noteholders to ensure that they receive a net amount that is not less than the amount they would have received in the absence of such withholding. There is some doubt as to whether such gross-up provisions are enforceable under Russian law against ROSBANK. If ROSBANK is prohibited from making payment of any additional amounts by a Russian court or other governmental authority, there is a risk that the gross-up for withholding tax may not take place and that payments made by ROSBANK under the Guarantee will be reduced by Russian income tax withheld by ROSBANK at a rate of 20 per cent. if the holder is not an individual or 30 per cent., if the holder is an individual. In the event that such payments are so reduced, holders of the Notes may not receive required payments in full of interest and principal in respect of the Notes which would constitute an Event of Default under the Notes.

***In certain circumstances, the Issuer's paying agents may levy withholding tax on interest payments made in respect of the Notes.***

On 3 June 2003, the Council of the European Union adopted a directive regarding the taxation of savings income in the form of interest payments within the European Community which requires tax authorities in a member state to share information concerning payments of interest (or other similar income) made by a paying agent within its jurisdiction to or for the benefit of an individual resident in another member state with the tax authorities of such member state. The directive requires member states to adopt implementing legislation by 1 January 2004. See "Taxation – EU Directive on the Taxation of Savings Income".

This European Union directive on taxation of savings income has been implemented in Luxembourg by the Laws of 21 June 2005. In addition, the Luxembourg Law of 23 December 2005 provides for the introduction of a withholding tax on certain income and from savings derived by Luxembourg residents. As from 1 January 2006, Luxembourg paying agents shall withhold a final tax of 10 per cent. on certain income from savings. Interest on notes paid to a Luxembourg resident individual would fall under the scope of this Law.

The Issuer currently has paying agents for the Notes in Luxembourg and the United Kingdom. Where any obligation to withhold amounts in respect of payments on the Notes to individuals arises as a result of this European directive, the Issuer and ROSBANK will not have an obligation to pay additional amounts in respect of Notes presented for payment in a member state operating such a withholding system.

***Tax might be withheld on dispositions of the Notes, reducing their value.***

If a non-resident holder sells the Notes to a Russian resident, there is a risk that the proceeds from such disposal may be subject to a withholding tax on any gain realised, subject to any available treaty relief. There is no assurance that advance treaty relief would be granted and obtaining a refund in Russia can be difficult, if not impossible.

Where proceeds from disposal of the Notes are received from a source within Russia by an individual non-resident holder, individual income tax could be charged at 30 per cent. The relevant tax law is unclear as to whether the tax should be withheld from proceeds or paid by an individual non-resident holder based on a personal tax return. The individual income tax may be reduced or eliminated pursuant to the provisions of any applicable tax treaty. However, an advance relief will not be available and obtaining a refund should be done by submission of a personal tax return.

Proceeds from the sale of Notes to a Russian resident received by non-resident holders who are not individuals should not be subject to Russian taxation. However, it is not clear how the tax authorities will, in practice, apply the relevant provisions of Russian tax law. For example, the tax authorities have recently confirmed that a portion of proceeds allocable to accrued interest may be subject to 20 per cent. withholding tax. Withholding tax on interest may be reduced or eliminated in accordance with the provisions of any applicable double taxation treaty. The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Notes.

***Foreign judgments may not be enforceable against ROSBANK.***

Although the Trust Deed will require ROSBANK to submit to the jurisdiction of the courts of England for controversies, claims and causes of action brought by any party thereto against it, ROSBANK's presence outside the United Kingdom may limit the legal recourse against it. ROSBANK is incorporated under the laws of Russia. Most of ROSBANK's directors and executive officers named in this Base Prospectus are residents of countries other than the United Kingdom. Most of the assets of ROSBANK and the assets of its officers and directors are currently located outside the United Kingdom. As a result, the Noteholders may not be able to effect service of process within the United Kingdom on ROSBANK or on its officers and directors. Similarly, the Noteholders may not be able to obtain or enforce English court judgments against ROSBANK, its officers and directors.

Judgments rendered by a court in any jurisdiction outside Russia are likely to be recognised by courts in Russia only (i) if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between Russia and the country where the judgment is rendered and/or (ii) a federal law of Russia providing for the recognition and enforcement of foreign court judgments is adopted. No such federal law has been adopted and no such treaty exists between the United Kingdom and Russia for the reciprocal enforcement of foreign court judgments. Thus, the enforcement of the court judgments rendered in these countries against the Group may be impossible in Russia. Also, the Trust Deed will provide that disputes, controversies, claims and causes of action brought by any party thereto against ROSBANK may be settled by arbitration in accordance with the Rules of the LCIA (the London Court of International Arbitration). Russia is a party to the New York Convention. Consequently, an arbitral award against ROSBANK from an arbitral tribunal in the United Kingdom should generally be recognised and enforced in the Russian Federation on the basis of the rules of the New York Convention, subject to the qualifications set out therein and compliance with applicable Russian legislation. However, in practice it may be difficult to enforce arbitral awards in Russia due to a number of factors, including the lack of experience of Russian courts in international commercial transactions, official and unofficial political resistance to enforcement of awards against Russian companies in favour of foreign investors and Russian courts' inability to enforce such orders.

***Adverse changes in the credit rating of ROSBANK or the Russian Federation may adversely affect the value of the Notes.***

ROSBANK has received a long-term rating of ''Ba3'' by Moody's, ''B+'' by Fitch and ''B'' by Standard & Poor's. Outstanding Eurobonds of the Russian Federation are rated BBB- by Standard & Poor's, Baa3 by Moody's and BBB+ by Fitch. Standard & Poor's, Moody's and Fitch have each raised Russia's sovereign rating to investment grade levels in 2005, and Fitch has recently raised the Russian Federation rating another notch, highlighting their positive expectations in respect of Russia's medium- to long-term performance. Any adverse change in the credit rating of either ROSBANK or the Russian Federation may adversely affect the value of the Notes.

**Other Risks**

***ROSBANK has not independently verified information regarding its competitors and official data from Russian government agencies and the CBR***

ROSBANK has derived substantially all of the information contained in this document concerning its competitors from publicly available information, and ROSBANK has relied on the accuracy of this information without independent verification.

In addition, some of the information contained in this document has been derived from official data of Russian government agencies and the CBR. The official data published by Russian federal, regional and local government agencies are substantially less complete or researched than those of Western countries. Official statistics, including those produced by the CBR, may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia in this document must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

The veracity of some official data released by the Russian government may be questionable. In the summer of 1998, the Director of the Russian State Committee on Statistics and a number of his subordinates were arrested and charged with manipulating economic data to hide the actual output of various companies.

# USE OF PROCEEDS

The net proceeds from each offering of a Series of Notes will be used by the Issuer for the sole purpose of financing an intercompany loan to ROSBANK. The net proceeds of each such intercompany loan will be used by ROSBANK for general corporate purposes (unless otherwise specified in the relevant Final Terms).

# CAPITALISATION OF THE GROUP

The following table sets forth the Group's consolidated capitalisation as at 31 December 2005, based on the last available information. For further information regarding the Group's Financial condition see "Selected Consolidated Financial Information", and ROSBANK's consolidated and combined IFRS financial statements, including the notes thereto, which are included in this prospectus beginning on page F-2.

| | **As at 31 December 2005** |
|---|---|
| | *RUR '000* |
| Long-term debt (net of current portion)[1] | 22,399,662 |
| Debt securities issued | 15,229,097 |
| Other provisions | 55,565 |
| Other borrowings | — |
| **Total long-term debt[2]** | 37,684,324 |
| **Equity** | |
| Share capital | 8,876,500 |
| Share premium | 9,177,470 |
| Translation reserve | (82,280) |
| Revaluation reserve | 2,993,114 |
| Reorganization reserve | 1,881,029 |
| Accumulated deficit | (245,266) |
| **Equity attributable to equity holders of the parent** | 22,600,567 |
| Minority interest | 219,699 |
| **Total equity** | 22,820,266 |
| **Total capitalisation** | 60,504,590 |

Save as disclosed above, since 31 December 2005 there has been no material change in the Group's capitalisation.

[1] The Group's long-term debt (with remaining contractual maturity of over one year) includes long-term deposits, interbank loans, promissory notes and certificates of deposit incurred or issued in the ordinary course of its banking business.

[2] None of this debt is secured or guaranteed by third parties.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

*The following table presents selected consolidated financial information derived from ROSBANK's audited annual consolidated and combined financial statements as at and for the years ended 31 December 2005, 2004 and 2003 and unaudited consolidated and combined interim condensed financial statements 3 months ended 31 March 2006 and 2005 including the notes thereto, which were prepared in accordance with international financial reporting standards, or IFRS, as applicable at the time of the preparation of such financial statements. For a description of the basis of presentation of ROSBANK's consolidated and combined IFRS Financial Statements, see the IFRS Financial Statements.*

*The following selected consolidated financial information should be read in conjunction with ROSBANK's IFRS Financial Statements, including the notes thereto, included in this prospectus beginning on page F-2.*

| **Profit and Loss** | **For the 3 months ended 31 March** | | **For the year ended 31 December** | | |
|---|---|---|---|---|---|
| | **2006** | **2005** | **2005** | **2004** | **2003** |
| | *(unaudited)* | *(unaudited)* | | | |
| | *RUR '000* | *RUR '000* | *RUR '000* | *RUR '000* | *RUR '000* |
| Interest income | 5,640,815 | 4,164,369 | 21,153,436 | 15,637,271 | 7,398,204 |
| Interest expense | (2,970,871) | (2,557,005) | (10,933,901) | (7,194,872) | (4,746,800) |
| Recovery/(Provision) for impairment losses on interest bearing assets | (706,432) | 94,448 | (1,038,566) | (1,543,846) | (36,353) |
| **Net interest income** | 1,963,512 | 1,701,812 | 9,180,969 | 6,898,553 | 2,615,051 |
| Net gains on financial assets(1) | 791,612 | 435,990 | 2,085,639 | 862,026 | 1,013,112 |
| Net fee and commission income/ (expense)(2) | 877,057 | 587,033 | 3,119,289 | 3,227,083 | 719,218 |
| Dividend and other income | 438,056 | 283,321 | 1,208,665 | 810,532 | 134,250 |
| **Net non-interest income** | 2,106,725 | 1,306,344 | 6,413,593 | 4,899,641 | 1,866,580 |
| **Operating income** | 4,070,237 | 3,008,156 | 15,594,562 | 11,798,194 | 4,481,631 |
| **Operating expenses** | (2,811,458) | (2,191,035) | (11,228,645) | (8,389,667) | (3,227,572) |
| **Operating profit** | 1,258,779 | 817,121 | 4,365,917 | 3,408,527 | 1,254,059 |
| Other provisions | (101,927) | (65,534) | (7,326) | (131,221) | (133,507) |
| Profit before income tax | 1,156,852 | 751,587 | 4,358,591 | 3,277,306 | 1,120,552 |
| Income tax expense | (496,745) | (318,850) | (1,274,529) | (951,996) | (778,049) |
| **Net profit** | 660,107 | 432,737 | 3,084,062 | 2,325,310 | 342,503 |
| Attributable to: | | | | | |
| Equity holders of the parent | 660,440 | 487,272 | 3,017,498 | 2,327,064 | 342,503 |
| Minority interest | (333) | (54,535) | 66,564 | (1,754) | — |
| | 660,107 | 432,737 | 3,084,062 | 2,325,310 | 432,503 |
| Earnings per share attributable to equity holders of the parent | | | | | |
| Basic and diluted (in RUR) | 0.97 | 1.43 | 7.80 | 6.83 | 1.01 |

(1) Includes net gain on financial assets at fair value through profit or loss, net gain/(loss) on sale of investments available-for-sale, net gain/(loss) on foreign exchange operations, net gain on precious metals operations.

(2) Includes fee and commission income and fee and commission expense.

| Balance Sheet Data | As at 31 March | As at 31 December | | |
|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2003 |
| | *(unaudited)* *RUR'000* | *RUR'000* | *RUR'000* | *RUR'000* |
| **Assets:** | | | | |
| Cash and balances with Central and National banks | 18,875,155 | 19,455,358 | 28,367,163 | 21,513,900 |
| Financial assets at fair value through profit or loss | 12,980,644 | 15,677,102 | 10,821,284 | 10,667,955 |
| Precious metals | 1,346,569 | 978,040 | 69,342 | 39,170 |
| Loans and advances to banks, less allowance for impairment losses | 56,349,463 | 53,995,068 | 21,003,058 | 10,748,392 |
| Loans to customers, less allowance for impairment losses | 123,739,540 | 113,318,224 | 79,682,626 | 61,406,161 |
| Investment available-for-sale, less allowance for impairment losses | 359,355 | 478,334 | 1,937,346 | 7,787,638 |
| Securities held-to-maturity | — | — | — | 132,787 |
| Fixed assets purchased for transfer into finance lease | 490,430 | 329,005 | — | — |
| Fixed assets, net | 6,767,208 | 6,723,177 | 6,929,456 | 2,397,010 |
| Current income tax assets | 529,046 | 484,307 | 327,866 | 98,202 |
| Other assets, less allowance for impairment losses | 1,281,650 | 1,617,987 | 735,592 | 636,512 |
| **Total assets** | 222,719,060 | 213,056,602 | 149,873,733 | 115,427,727 |
| **Liabilities and equity** | | | | |
| **Liabilities:** | | | | |
| Deposits from banks | 15,213,208 | 11,139,028 | 8,618,844 | 7,863,506 |
| Customer accounts | 152,426,871 | 149,060,894 | 101,220,183 | 76,610,016 |
| Financial liabilities at fair value through profit or loss | 2,243,185 | 1,840,641 | 31,699 | 8,701 |
| Debt securities issued | 26,896,961 | 26,044,207 | 19,901,584 | 18,224,705 |
| Other provisions | 217,969 | 174,729 | 252,287 | 357,602 |
| Current income tax liabilities | 50,465 | 11,155 | 106,839 | 294,269 |
| Deferred income tax liabilities | 951,484 | 926,371 | 982,467 | 87,797 |
| Other liabilities | 1,312,321 | 1,039,311 | 884,262 | 697,389 |
| | 199,312,464 | 190,236,336 | 131,998,165 | 104,143,985 |
| Subordinated debt | — | — | 1,450,000 | — |
| Total liabilities | 199,312,464 | 190,236,336 | 133,448,165 | 104,143,985 |
| **Equity:** | | | | |
| Share capital | 8,876,500 | 8,876,500 | 8,083,306 | 8,162,743 |
| Share premium | 9,177,470 | 9,177,470 | 6,445,058 | 6,445,058 |
| Translation reserve | (44,881) | (82,280) | (62,387) | (120,636) |
| Revaluation reserve | 2,975,402 | 2,993,114 | 3,095,261 | — |
| Reorganization reserve | 1,816,991 | 1,881,029 | — | — |
| Accumulated deficit | 459,898 | (245,266) | (1,229,819) | (3,295,818) |
| Equity attributable to equity holders of the parent | 23,261,380 | 22,600,567 | 16,331,419 | 11,191,347 |
| Minority interest | 145,216 | 219,699 | 94,149 | 92,395 |
| Total equity | 23,406,596 | 22,820,266 | 16,425,568 | 11,283,742 |
| **Total liabilities and equity** | 222,719,060 | 213,056,602 | 149,873,733 | 115,427,727 |

| | For the 3 months ended 31 March | For the year ended 31 December | | |
|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2003 |
| **Loan portfolio quality**[1] | *(unaudited)* | | | |
| Non-performing loans to gross loans[2] | n/a | 4.2% | 2.1% | 1.1% |
| Allowance for loan losses to gross loans | 5.3% | 4.9% | 5.8% | 5.1% |
| Allowance for loan losses to non-performing loans | n/a | 117.7% | 283.9% | 480.6% |
| **Balance sheet and capital adequacy** | | | | |
| Net loans to total assets | 55.6% | 53.2% | 53.2% | 53.3% |
| Net loans to customer deposits | 81.2% | 76.0% | 78.7% | 80.2% |
| Customer deposits to total assets | 68.4% | 70.0% | 67.5% | 66.4% |
| Tier 1 capital adequacy ratio | 12.8% | 13.6% | 12.1% | 12.6% |
| Total capital adequacy ratio | 14.7% | 15.6% | 16.1% | 12.6% |
| Equity to total assets | 10.5% | 10.7% | 11.0% | 9.8% |
| **Profitability ratios** | | | | |
| Return on equity[3], [4] | 2.9% | 18.1% | 16.8% | n/a |
| Return on total assets[5] | 0.3% | 1.7% | 1.8% | n/a |
| Net interest margin[6], [8] | n/a | 7.2% | 8.7% | n/a |
| Net interest spread[7], [8] | n/a | 7.5% | 8.6% | n/a |
| Non-interest expense/net interest income before provisions for losses plus non-interest income | 5.7% | 5.5% | 5.3% | 6.1% |
| Non-interest expense as a percentage of net interest income before provisions for losses | 10.9% | 9.5% | 8.8% | 11.1% |
| Non-interest expense as a percentage of average total assets | 0.1% | 0.5% | 0.6% | 0.5% |

(1) Loan portfolio quality analysed for non-bank loans only.

(2) Non-performing loans include doubtful and loss categories by Russian definitions.

(3) Net income divided by monthly weighted average equity.

(4) Compared to 2003, the increase in interest on loans to individuals in 2004 was primarily due to a 145 per cent. increase in the volume of loans to individuals and the first time combination of the loan portfolio of the OVK banking group into ROSBANK's results of operations. The average interest rate remained essentially stable in 2004 compared to 2003.

(5) Net income divided by average total assets. The average total assets were calculated as a simple average of ROSBANK's total assets as at 31 December of the relevant years.

(6) Net interest income before loan loss provisions divided by the average interest bearing assets. The average interest bearing assets was calculated as a simple average of the interest bearing assets as at 31 December of the relevant year.

(7) Interest income divided by the average interest bearing assets, less interest expenses divided by the interest bearing liabilities. Both the average interest bearing assets and the average interest bearing liabilities were calculated as a simple average of the interest bearing assets/liabilities as at 31 December of the relevant years.

(8) For the period ended 31 March 2006 these ratios are not presented as to the Consolidated and Combined Interim Condensed Financial Statements for 3 months ended 31 March 2006 and 2005 does not contain information necessary for their calculation.

# ROSBANK

# BUSINESS

## OVERVIEW

ROSBANK is one of the leading universal banks in Russia. It is currently Russia's seventh largest bank by total assets and eighth largest bank by equity, according to Kommersant, a leading Russian business newspaper. ROSBANK's principal activities include retail banking, SME banking, corporate banking, private banking, financial markets and financial institutions, investment banking, cash management and settlement services, and custody and depository services. ROSBANK is headquartered in Moscow and, as at 31 March 2006, operates through a nationwide network of 787 outlets and over 2,700 third-party points-of-sale, serving approximately 3,000,000 retail customers, 59,000 SME customers and 7,600 corporate customers.

As at 31 March 2006, ROSBANK's total assets were RUR 222,719.1 million, its total equity was RUR 23,406.6 million, its total capital adequacy ratio was 14.7 per cent., its total loan portfolio was RUR 180,089.0 million and its total deposits were RUR 167,640.1 million. As at 31 December 2005, ROSBANK's total assets were RUR 213,056.6 million, its total equity was RUR 22,820.3 million, its total capital adequacy ratio was 15.6 per cent., its total loan portfolio was RUR 167,313.3 million and its total deposits were RUR 160,199.9 million. For the three months ended 31 March 2006, Rosbank had operating income of RUR 4,070.2 million and net profit of RUR 660.1 million, compared to RUR 3,008.2 million and RUR 432.7 million, respectively, for the three months ended 31 March 2005. For the year ended 31 December 2005, ROSBANK had operating income of RUR 15,594.6 million and net profit of RUR 3,084.1 million. ROSBANK is currently rated "Ba3" Long Term by Moody's, "B+" by Fitch, and "B" by Standard & Poor's.

ROSBANK is 79.92 per cent. owned by the Interros Group, which is one of Russia's largest private investment groups, and 10 per cent. owned by Société Générale S.A., the French banking group. The Interros Group is engaged in the investment and management of industrial, financial and media assets in Russia. Although the Interros Group has historically represented a substantial portion of ROSBANK's customer base, its importance has decreased over the last few years due to the growth of ROSBANK's business activities with customers unrelated to Interros. As at 31 March 2006, related parties accounted for 20.8 per cent. of ROSBANK's total customer deposits and 1.8 per cent. of ROSBANK's total loans to banks and customers compared to 25.8 per cent. and 2.0 per cent., 23.8 per cent. and 2.3 per cent., and 21.5 per cent. and 3.9 per cent., respectively, as at 31 December 2005, 2004 and 2003.

ROSBANK is registered in the Unified Register of Legal Entities of the Russian Federation under number 1027739460737. The address of its registered office is 11 Masha Poryvaeva Street, Moscow 107078, Russian Federation and the telephone number is +7 495 725 0595.

No material contracts other than those described in this Base Prospectus have been entered into by ROSBANK outside the ordinary course of its business which could result in ROSBANK having an entitlement or being under an obligation that is material to ROSBANK's ability to meet its obligations to the Noteholders.

This description of ROSBANK contains no profit forecasts or estimates.

## RECENT DEVELOPMENTS

ROSBANK's net profit decreased by approximately RUR 370 million for the period from 1 January 2006 to 23 August 2006 as compared to the corresponding period in the preceding year. This decline in net profit was caused by the growth of the provisions for impairment losses in such period due to the rapid increase of the loan portfolio.

## COMPETITIVE STRENGTHS

ROSBANK has the following competitive strengths, which it believes will enable it to retain and strengthen its position as a leading universal bank in Russia.

**Second largest branch network in Russia**

ROSBANK's branch network consisted of 787 outlets in 320 cities and towns as at 31 March 2006, representing the second largest network in Russia. The network has nationwide coverage with a presence in both densely-populated and competitive regional banking markets, such as Moscow, Nizhny Novgorod and Saint Petersburg, and in less competitive markets, such as Siberia and the Russian Far East. ROSBANK is present in all Russian cities of more than 1,000,000 inhabitants and in 17 out of 20 of those with 500,000 to 1,000,000 inhabitants.

ROSBANK's extensive branch network provides a platform through which it intends to further grow its retail and SME banking operations by establishing long-term relationships with existing and new customers. Equivalent branch networks with nationwide coverage are scarce in Russia and organically developing a branch network with a size equivalent to ROSBANK's would be a time-consuming and expensive process. ROSBANK has the largest branch network among privately held banks and believes that its extensive branch network distinguishes it in its ability to benefit from the expected growth in demand for banking services across Russia.

**Leading universal bank**

ROSBANK has successfully transformed itself through acquisitions and organic growth into a leading universal bank, with a comprehensive offering of products and services to retail, SME and corporate customers. ROSBANK believes that this position enables it to:

- benefit from increasing demand for banking services across the entire spectrum of products and customers;
- better focus its resources and expertise on the most profitable segments of the market;
- cross-sell products and services between its principal lines of business; and
- generate a diversified income stream and mitigate exposure to specific segments of the market.

**Leadership position in retail banking**

ROSBANK has, following the integration of the OVK banking business into ROSBANK, gained significant retail banking experience and market share in customer deposits, car loans, cash advances, mortgages and credit and debit cards. Currently, ROSBANK estimates that it is, in Russia, the largest privately-owned bank measured by retail deposits and the second largest privately-owned bank measured by loans to retail customers. ROSBANK believes that its size and experience in retail banking provides it with a number of advantages, including:

- brand recognition – ROSBANK's brand name is widely recognised in Russia and was awarded the title of "Superbrand 2005" by the international programme, Superbrand, which is based on data from the market research companies, COMCON and ACNielsen;
- knowledge of retail customers – ROSBANK has gained a detailed understanding of the specific requirements of retail customers, which enables it to adjust its products and services, as well as operational procedures, to meet such demands;
- customer information system – ROSBANK is developing a comprehensive information system containing customer profiles and information on the use of ROSBANK's banking products. ROSBANK anticipates that this information system will enable it to reach specific groups of existing customers to offer additional banking products and services and to develop products for targeted customer groups; and
- control of credit quality – ROSBANK has developed credit databases for approving consumer loans and analysing and monitoring their performance, including the recent introduction of a credit scoring system. ROSBANK intends to continue to improve its credit databases, which ROSBANK believes will enable it to improve its asset quality and to offer more competitive rates to retail customers with a better credit profile.

**Experienced management team**

ROSBANK's management team has extensive experience in all of the market segments in which ROSBANK is active. All of the members of ROSBANK's management board have more than ten years of experience in the Russian banking industry and several members also have substantial international banking experience. ROSBANK's management team was responsible for the successful transformation of ROSBANK into one of the leading universal banks in Russia, as evidenced, in particular, by the integration of the OVK banking business into ROSBANK's banking operations. (See "– History".)

## STRATEGY

ROSBANK's strategy is to strengthen its position as a leading universal bank in Russia. The key elements of this strategy are set forth below.

**Expand retail banking operations**

ROSBANK believes that retail banking penetration in the Russian market will continue to increase due to the expected rise in real wealth of individuals in Russia, the evolving shift in retail banking habits and an increased level of retail customer confidence in the integrity of the Russian banking industry. ROSBANK intends to respond to this growing demand by further expanding its retail banking operations. Specifically, ROSBANK intends to:

- introduce new and improved products and services to broaden its portfolio of retail banking products, in areas such as instant consumer loans, mortgages, credit cards and online banking;
- increase the proportion of products and services offered through its branch network relative to third-party points-of-sale by developing customer-friendly formats for its outlets, training service-oriented staff, using general and targeted advertising campaigns and establishing performance-based compensation schemes for bank staff; and
- continue developing and utilising its customer information system and credit database to market new products to existing and new customers, to enhance the quality of its retail loan portfolio and to enable ROSBANK to offer more competitive rates to customers with better credit profiles.

**Develop SME banking services**

ROSBANK anticipates that the demand for banking services from SMEs will grow significantly and that ROSBANK's extensive branch network in Russia provides a cost-effective distribution platform from which to target these customers. Using its experience in corporate banking, ROSBANK has developed and introduced a loan programme specifically designed for SMEs, with flexible loan terms and a transparent cost structure. ROSBANK continues to roll out its SME loan products and other banking services through its branch network and benefits from experienced staff who understand local businesses and industries.

**Enlarge and optimise branch network**

ROSBANK utilises its extensive branch network to distribute banking products and services directly to customers and to create long-term customer relationships. In response to the expected increase in demand for banking products in the Russian market, ROSBANK intends to enlarge and optimise its branch network by:

- increasing the density of its branch network in Russian cities with populations of over one million;
- opening outlets in economically attractive areas that are currently under-served;
- closing underperforming outlets, particularly in sparsely-populated rural areas;
- enhancing customer service by providing additional facilities, such as ATM machines and deposit boxes, that can be accessed 24 hours a day; and

- centralising cost-intensive administrative operations in larger outlets and being selective as to how smaller outlets are utilised to enhance efficiency and limit investment requirements.

**Maintain ROSBANK's strong position in corporate banking**

ROSBANK aims to maintain its strong position in the growing corporate banking market by providing existing and new corporate customers with the comprehensive range of products and services available from a universal bank. ROSBANK intends to utilise its highly trained and experienced industry and product specialists to further develop its relationships with existing corporate customers and to identify new customers and product opportunities such as the recently introduced automated cash management and settlement system. In addition, ROSBANK aims to increase its proportion of fee-based income by more aggressive marketing of its cash management and settlement services, custody and depository services, and investment banking products to its corporate banking customers.

## HISTORY

ROSBANK was originally incorporated in the Russian Federation and in accordance with the laws of the Russian Federation under the name ''Nezavisimost'' as an open joint-stock company on 2 March 1993. In September 1998, the Interros Group acquired Nezavisimost and changed its name to ROSBANK. The initial purpose of the acquisition of ROSBANK was to provide banking services to the Interros Group companies, whose then existing core banking institutions were experiencing financial difficulties resulting from the August 1998 financial crisis in Russia. In connection with the acquisition, ROSBANK's capital base was significantly increased and its management commenced a policy of expansion to transform ROSBANK into a universal bank engaged in a full range of banking activities. On 19 November 1998, ROSBANK was granted a general banking licence by the CBR. ROSBANK also acquired licences to trade and hold precious metals and securities and to engage in other securities-related activities, including broker and dealer services, securities management activities, and custodial and depository services.

Beginning in 2000, the Interros Group elected to concentrate all of its banking operations into ROSBANK. As part of this process, ROSBANK acquired Uneximbank on 21 November 2000. The core banking business of Uneximbank, a majority-owned subsidiary of the Interros Group, included trade finance, corporate lending, agency business with federal and local governments, securities trading, foreign exchange and custody services. Prior to its acquisition by ROSBANK, Uneximbank was experiencing financial difficulties as a result of the August 1998 financial crisis in Russia. Uneximbank had ceased performing regular banking activities and was attempting to restructure its outstanding indebtedness. On 3 July 2000, as part of its final debt restructuring, and in connection with its merger into ROSBANK, all claims against Uneximbank were withdrawn. Subsequent to the debt restructuring, Uneximbank was merged into ROSBANK and ceased to exist as a legal entity, with ROSBANK assuming all of its remaining assets and liabilities of which ROSBANK had knowledge. All outstanding receivables acquired and all outstanding liabilities assumed by ROSBANK pursuant to the Uneximbank acquisition were settled by the end of 2005.

In 2002, the operations of Commercial Bank ''MFK Bank'' (''MFK''), a wholly owned subsidiary of the Interros Group, which was primarily involved in investment banking, were integrated into ROSBANK. Approximately 70 per cent. of MFK Bank's personnel were transferred to ROSBANK during the course of that year. The integration process was completed in March 2003, when MFK Bank surrendered its banking licence to the CBR. MFK Bank was officially liquidated on 15 September 2004.

In October 2003, the Interros Group acquired OVK, a Russian banking group with one of Russia's largest retail banking networks, and a broad retail customer base. The integration of the OVK banking business into ROSBANK was undertaken in two stages and was completed by the end of 2005. The first stage included the development of the general structure of the integration process, creation of a unified administrative and personnel structure, unification of the budget processes, unification and standardisation of the product base and credit and banking procedures and the unification of IT systems. The second stage included the integration of the businesses of the six OVK banks into ROSBANK and the purchase by ROSBANK of all of the outstanding shares of the six

OVK banks from the Interros Group, completing ROSBANK's transformation into one of Russia's leading universal banks.

In June 2006, the Interros Group sold to the French banking group Société Générale S.A. shares representing 10 per cent. of all the shares in ROSBANK.

## PRINCIPAL ACTIVITIES

### Retail Banking

ROSBANK is a leading universal bank in Russia that offers its retail banking customers a full range of financial products, including car loans, cash loans, express loans, mortgages, deposits and savings accounts, credit and debit cards and other banking services. For the three month period ended 31 March 2006, ROSBANK's retail banking operations accounted for 35.5 per cent. of its operating income, compared to 40.3 per cent. for the period ended 31 March 2005 and 31.4 per cent. and 36.0 per cent. for the years ended 31 December 2005 and 2004. As at 31 March 2006, ROSBANK had RUR 57,954.3 million of retail deposits and RUR 56,597.7 million in loans to retail customers compared to RUR 57,160.0 million and RUR 51,967.2 million, respectively, as at 31 December 2005, RUR 36,922.6 million and RUR 26,717.1 million, respectively, as at 31 December 2004 and RUR 30,520.1 million and RUR 11,016.4 million respectively as at 31 December 2003. As at 31 March 2006, ROSBANK had approximately 3,000,000 active customers, compared to 2,900,000 as at 31 December 2005. ROSBANK's market share of the Russian retail banking market as at 31 March 2006 was 2.0 per cent. in respect of deposits and 4.7 per cent. in respect of loans, compared to 2.6 per cent. and 4.5 per cent., respectively, as at 31 December 2005 and 2.0 per cent. and 4.2 per cent., respectively, as at 31 December 2004.

Car Loans

ROSBANK is the leading provider of car loans in Russia, with a market share of approximately 18 per cent. according to Kommersant newspaper's regular banking supplement. ROSBANK offers car loans for the purchase of new and used cars through its retail branch network and third-party points-of-sale. As at 31 March 2006, ROSBANK's car loan portfolio was 45.2 per cent. of gross retail loan portfolio compared to 43.9 per cent. as at 31 December 2005 and 28.8 per cent. as at 31 December 2004. ROSBANK's car loans are targeted to buyers of Russian and cheaper/lower end foreign-made cars. Car loans are available with a maturity of up to five years and in amounts normally ranging from U.S.$5,000 to U.S.$15,000, although the actual available range is from U.S.$2,000 to U.S.$100,000. Each car loan is secured by the purchased vehicle, and accident, theft, liability and life insurance for the borrower is currently compulsory.

ROSBANK aims to launch a new car loan product in September 2006 in order to become more active in the upper middle class segment of the car loan market, with loans typically in amounts ranging from U.S.$15,000 to U.S.$25,000 per loan. Such loans will be aimed not only at affluent customers and upmarket car dealers but also with a view to building relationships with car manufacturers. In order to remain competitive in this market segment, ROSBANK continuously reviews and revises the terms of its car loan products, whilst ensuring an adequate risk profile in its car loan portfolio.

Cash Loans

Cash loans are short-term cash advances that are only available in ROSBANK's outlets. Cash loans are available in relatively small amounts ranging from RUR 10,000 to RUR 200,000 and are typically used to finance general consumer expenditures. In September 2005, ROSBANK introduced a new unsecured loan product, "Prosto Dengi" or "Simply Money", to improve its offering in the cash loan product category. Prosto Dengi is an unsecured cash loan. Prosto Dengi makes available loans in amounts ranging from RUR 10,000 to RUR 200,000 with an average amount of RUR 110,000, for terms between three and 60 months, with an average term of 30 to 36 months. Credit approvals can be granted within minutes after application using an advanced audit scoring system developed with Experian-Scorex. As at 31 March 2006, ROSBANK had a cash loan portfolio of 15.0 per cent. of gross retail loan portfolio compared to 13.7 per cent. as at 31 December 2005 and 19.9 per cent. as at 31 December 2004.

Express Loans

Express loans are available to consumers in retail stores to finance purchases, such as consumer electronics, white goods, mobile phones and furniture. Express loans range in amount from RUR 3,000 to RUR 200,000, and typically have a maturity of one year. ROSBANK distributes express loans through approximately 2,700 retail stores pursuant to a contract between ROSBANK and the relevant retail store. ROSBANK extends approximately 3,500 express loans daily throughout Russia. Information that ROSBANK collects from express loan customers is utilised to cross-sell other ROSBANK products, including credit and debit cards, cash loans and car loans. ROSBANK's express loan portfolio as at 31 March 2006 was 29.0 per cent. of gross retail loan portfolio compared to 32.8 per cent. as at 31 December 2005 and 36.7 per cent. as at 31 December 2004.

Mortgages

Mortgage loans are available for the purchase of real estate that is under construction or sold on the secondary market and are secured by a pledge of the purchased real estate. ROSBANK's mortgages may not exceed 70 per cent. of the purchase price for property under construction and 90 per cent. of the purchase price of the property for secondary market purchases. Mortgages can be denominated in Russian Roubles, U.S. dollars or euros and are generally for a term of up to 15 years. ROSBANK requires three types of insurance as a condition for the grant of a mortgage: life and health insurance for the borrower, insurance cover in the event of damage to the real estate and title insurance. ROSBANK began its mortgage programme in 2005 and mortgages are currently available through 32 mortgage centres located in full service branches. By the end of 2006, ROSBANK intends to open mortgage centres in every city in which ROSBANK has a full service branch. As at 31 March 2006, ROSBANK's outstanding mortgage loan portfolio was 1.8 per cent. of its gross retail loan portfolio compared to 1.2 per cent. as at 31 December 2005.

Deposits and Savings Accounts

ROSBANK offers a variety of interest-bearing bank accounts designed for different categories of retail customers, including simple interest and fixed-term savings accounts and compound-interest accounts with options of penalty-free early withdrawal.

The aggregate amount of term deposits from retail customers was 48.9 per cent. of ROSBANK's total term deposits as at 31 March 2006, compared to 42.8 per cent. and 46.6 per cent., respectively, at as 31 December 2005 and 2004. As at 31 March 2006, approximately 70 per cent. of ROSBANK's total deposits by retail customers were in Russian roubles and 30 per cent. were in foreign currencies, compared to 69.3 per cent. and 30.7 per cent., respectively, as at 31 December 2005 and 68.1 per cent. and 31.9 per cent., respectively, as at 31 December 2004.

Credit and Debit Cards

As a Principal Member of the VISA International and MasterCard International Payment Systems, ROSBANK issues a full range of Visa and MasterCard credit and debit cards. In 2005, ROSBANK issued approximately 1.9 million credit and debit cards and as at 31 March 2006, ROSBANK had issued in total approximately 3.4 million credit and debit cards.

Other Banking Services

ROSBANK provides a number of multi-functional current accounts and other banking services to its retail customers, including buying, selling and exchanging all major foreign currencies and providing domestic and international money transfer services through its branch and correspondent banking network. ROSBANK's other banking services also include the provision of securities accounts and other custody services, and the purchase and sale of precious metals and coins.

**SME Banking**

ROSBANK offers its SME banking customers specialised lending programmes and cash settlement services. ROSBANK launched its SME programme in mid-2005 targeting companies with annual revenues of up to U.S.$6 million. SME services are currently offered at 63 outlets, including almost all of its outlets in Moscow. ROSBANK intends to continue to increase the number of outlets offering its SME services. As at 31 March 2006, ROSBANK had approximately 59,000 SME

customers, the majority of which were located in Siberia, the Russian Far East and the Central Region.

Lending Programmes

ROSBANK's SME lending programmes are designed to provide its SME customers with loans for working capital and capital investment. The terms of the loans are flexible and can be adjusted to meet the specific demands of the customer in terms of maturity, currency and repayment schedule. Loans are available to SME customers with maturities from three to 36 months and at interest rates of 15 to 19 per cent. for loans in Russian Roubles and 13 to 17 per cent. for loans in foreign currencies. There is also a monthly commission of 0.5 to 1.5 per cent. of the principal amount of the loan. ROSBANK utilises a standard methodology to evaluate the loan applications of its SME customers in an efficient and cost-effective manner.

All of ROSBANK's SME loans require a form of collateral or security, which may be provided in the form of real estate, inventory, equipment and guarantees from legal entities or individuals. If the SME customer has no prior credit history with ROSBANK, the value of the collateral must cover 100 per cent. of the principal amount of the loan. If the SME customer has a satisfactory credit history with ROSBANK, the value of the collateral must cover not less than 50 per cent. of the principal amount of the loan. For the purposes of calculating how much collateral is required in accordance with the percentage amounts specified above, the value of any collateral that is to be used as security is calculated at 50 to 75 per cent. of the fair market value of the collateral. In addition, any individuals or entities owning more than 50 per cent. of the equity interests of the borrower must also guarantee the loan.

Other Services

In addition to its lending programmes, ROSBANK provides its SME customers with a range of other banking services for businesses including current accounts and savings accounts, same day wire transfers, internet access to online payment systems and cash settlement services. ROSBANK pursues a flexible tariff policy in the SME market segment and offers discounts for other banking services to those customers who participate in its SME lending programme, open deposit accounts or use its online payment system.

**Corporate Banking**

ROSBANK offers its corporate customers a wide range of financial products and services, including loans in Russian Roubles, US dollars and other currencies, bank guarantees, letters of credit, current accounts and deposits, foreign exchange trading, custody and depository services and cash settlement services. ROSBANK's traditional customer base includes Russia's largest corporations and regional and municipal governments. ROSBANK's corporate customers operate in a variety of industries, including engineering and machinery manufacturing, oil and petrochemical, telecommunications, ferrous and non-ferrous metals production and food processing. ROSBANK also lends to gold mining companies, forestry and wood processing companies and trading and construction companies. As at 31 March 2006, ROSBANK had approximately 7,600 corporate customers (excluding SME customers). ROSBANK develops and maintains its relationships with its corporate customers through dedicated account managers and teams of product experts to serve the specific needs of its corporate clients.

ROSBANK is committed to a policy of diversifying its loan exposure with respect to both industry sectors and individual corporate borrowers. As at 31 March 2006, the four largest sectors by exposure in ROSBANK's loan portfolio were Trade (14.7 per cent.), Finance (4.7 per cent.), Government (4.5 per cent.) and Construction (4.4 per cent.). No other sector has an exposure in excess of 4 per cent. of ROSBANK's total loan portfolio. As at 31 December 2005, the exposure of these sectors in ROSBANK's loan portfolio was the following: Trade (13.1 per cent.), Finance (6.2 per cent.), Government (4.7 per cent.) and Construction (4.2 per cent.). As at 31 December 2004, the exposure of these sectors in ROSBANK's loan portfolio was the following: Trade (11.5 per cent.), Finance (2.7 per cent.), Government (4.8 per cent.) and Construction (5.0 per cent.). As at 31 December 2003, the exposure of these sectors in ROSBANK's loan portfolio was the following: Trade (14.1 per cent.), Finance (7.3 per cent.), Government (8.5 per cent.) and Construction (1.9 per cent.). ROSBANK's ten

largest borrowers accounted for 9.6 per cent. of its total gross loan portfolio as at 31 March 2006, compared to 9.4 per cent. and 13.1 per cent. as at 31 December 2005 and 2004, respectively. Deposits made by, and loans made to, related parties accounted for 20.8 per cent. of ROSBANK's total customer deposits and 1.8 per cent. of its total customer loans as at 31 March 2006, compared to 25.8 per cent. and 2.0 per cent., 23.8 per cent. and 2.3 per cent., 21.5 per cent. and 3.9 per cent., respectively, as at 31 December 2005, 2004 and 2003.

As at 31 March 2006, 46.3 per cent. of ROSBANK's loans were denominated in foreign currencies and 53.7 per cent. were denominated in Russian Roubles compared to 50.9 per cent. and 49.1 per cent., respectively, as at 31 December 2005 and 55.7 per cent. and 44.3 per cent., respectively, as at 31 December 2004. The high proportion of foreign currency denominated loans reflects the export orientation of ROSBANK's corporate customer base, ROSBANK's significant involvement in foreign trade operations, the presence of foreign currency deposits and balances held by ROSBANK, and increased demand for foreign currency loans in Russia as a result of uncertainty with respect to inflation in Russia.

Historically, the ability to extend loans in Russia for maturities exceeding 12 months has been constrained by the availability of funding in the local and international markets for extended maturities. However, ROSBANK's management believes that the Russian market for longer term loans is developing as such funding becomes more readily available and ROSBANK has been increasing the proportion of medium-term loans in its loan portfolio.

For the period ended 31 March 2006, ROSBANK's corporate banking operations accounted for 51.2 per cent. of its operating income, compared to 63.1 per cent. for the three month period ended 31 March 2005. For the year ended 31 December 2005, ROSBANK's corporate banking operations accounted for 52.6 per cent. of its operating income, compared to 57.2 per cent. for the year ending 31 December 2004. As at 31 March 2006, ROSBANK had RUR 94,472.6 million of corporate customer deposits and RUR 67,141.8 million in loans outstanding to its corporate customers, compared to RUR 91,900.9 million and RUR 61,351.0 million, respectively, as at 31 December 2005, RUR 64,297.6 million and RUR 52,965.5 million, respectively, as at 31 December 2004 and RUR 46,089.9 million and RUR 50,389.8 million, respectively, as at 31 December 2003.

**Private Banking**

ROSBANK offers a comprehensive range of sophisticated and individualised banking services to high net worth individuals. ROSBANK currently targets individuals with deposits in excess of U.S.$300,000, primarily in the Moscow region, although it intends to expand its private banking operations to selected outlets in other regions. As part of this expansion plan, ROSBANK aims to gain wider recognition of its private banking services through, among other things, advertisements in business newspapers, magazines and billboards. ROSBANK aims to double the amount of deposits from private banking clients in the next three years.

ROSBANK offers its private banking customers the following types of products and services:

- premium deposit accounts, including combination term deposits and current accounts;
- financial planning and related tax advice;
- investment advisory services for real estate, real estate development and securities;
- broking services enabling customers to trade securities on MICEX and other major exchanges in Russia, as well as on ROSBANK's online trading platform, RosTrade; and
- asset management services, including cross-selling of services offered by Interros-owned asset management companies.

As at 31 March 2006, ROSBANK had over 1,200 private banking clients. ROSBANK has one customer with deposits of more than RUR 2,897.7 million, which is greater than 5 per cent. of ROSBANK's deposits from individuals as at 31 March 2006, one customer with deposits of more than RUR 2,858.0 million, which was greater than 5 per cent. of ROSBANK's deposits from individuals as at 31 December 2005, and no customers with deposits of more than RUR 1,846.1 million and RUR 1,526.0 million, which were greater than 5 per cent. of ROSBANK's deposits from individuals, respectively, as at 31 December 2004 and 2003.

**Financial Markets and Financial Institutions**

ROSBANK's financial markets and financial institutions services consist of: fixed income and equity trading; foreign exchange and money market loans; precious metals trading; and corporate and institutional sales activities. ROSBANK's financial markets and financial institutions services are provided by its treasury department, which engages in each of these activities, aside from sales activities, on both a proprietary basis and on behalf of its customers. When trading on a proprietary basis, ROSBANK's general policy is to manage liquidity by matching its funding and total loan portfolio in terms of maturity, currency and interest rates, in accordance with the risk management policies adopted by the Credit Committee and the Committee for Liquidity, Risks and Pricing (the "CLRP") as described in "– Risk Management" below. ROSBANK aims to increase customer demand for its financial markets and financial institutions services through its RosTrade website, direct sales to target customer groups, such as institutional investors, and participation in exhibitions and conferences. The treasury department maintains ROSBANK's securities portfolio, consisting of debt securities issued by central governments, local authorities, corporates and financial institutions, and other equity and derivative financial instruments.

For the year ended 31 December 2005, ROSBANK's financial markets and financial institutions services comprised less than 5 per cent. of its operating income. As at 31 March 2006 and 31 December 2005, ROSBANK had approximately 800 financial markets and financial institutions counterparties, compared to 300 as at 31 December 2004.

Fixed Income and Equity Trading

ROSBANK engages in proprietary trading in Russian Rouble and foreign currency denominated government securities, Russian corporate eurobonds and domestic bonds, bonds issued by the Russian Ministry of Finance and promissory notes of large domestic issuers, such as Gazprom and Sberbank. While the majority of ROSBANK's fixed income trades are for its own account, it offers fixed income brokerage services to its corporate customers as well. ROSBANK also trades small domestic equity positions on a proprietary basis and engages in portfolio trading on behalf of a number of customers, particularly the Interros Group.

Foreign Exchange and Money Markets

ROSBANK conducts foreign exchange operations both on the Russian domestic market and the international market. ROSBANK is recognised on the domestic market as a market maker in US dollars, euros and Russian Roubles, and primarily enters into US dollar and euro trades against the Russian Rouble. Foreign exchange operations on the domestic market are mainly driven by ROSBANK's larger corporate customers, reflecting their substantial involvement in foreign trade, and consequent desire to hedge their foreign currency positions. On the international market, ROSBANK normally trades in all major currencies and derivatives, both on behalf of large corporate customers and for its own account.

ROSBANK currently provides money market loans to approximately 100 banks, including financial institutions based in Russia and the CIS. Credit lines for large and medium-sized financial institutions are normally used to place Russian Rouble-denominated short-term deposits and are provided on an unsecured and secured basis. Short-term foreign currency deposits are placed primarily with major international banks with maturities of up to one month.

As at 31 March 2006, ROSBANK had RUR 56,349.5 million in loans outstanding and advances to banks net of allowance for losses, compared to RUR 53,995.1 million, RUR 21,003.1 million and RUR 10,748.4 million respectively, as at 31 December 2005, 2004 and 2003. As at 31 March 2006, loans outstanding and advances to banks represented 31.3 per cent. of ROSBANK's total loan portfolio, compared to 32.3 per cent., 20.9 per cent. and 14.9 per cent., respectively, as at 31 December 2005, 2004 and 2003.

Precious Metals Trading

ROSBANK is licensed by the CBR to trade in and export precious metals. Its core customers for this service include several major producers of gold, silver and platinum from Siberia and the Russian Far East. ROSBANK trades domestically both with other banks and directly with producers, exports metal in physical form, provides agency services for the sale of metals on producers' behalf and

hedges its positions through forward contracts with international banks. ROSBANK aims to increase its precious metals trading activities on behalf of customers, for example, through the launch of a margin trading product in precious metals as well as allocated metals accounts, through which customers may take on cash-based exposures to precious metals prices. As at 31 March 2006, the aggregate value of precious metals in ROSBANK's vault was RUR 1,346.5 million, compared to RUR 978.0 million RUR 69.3 million and RUR 39.2 million, respectively, as at 31 December 2005, 2004 and 2003.

Corporate and Institutional Sales

The treasury department carries out corporate and institutional sales activities both independently and in cooperation with the investment banking department in order to expand the customer base for ROSBANK's investment banking and financial markets and financial institutions services. The sales team works with existing ROSBANK customers in order to cross-sell the bank's investment banking and financial markets and financial institutions services and engages in marketing exercises to identify and approach new customers. See "– Investment Banking".

**Investment Banking**

ROSBANK's investment banking department commenced operations in 2000, initially focusing on underwriting and managing Russian Rouble-denominated domestic bond offerings for large Russian corporations and federal and regional authorities. ROSBANK's investment banking business consists of a capital markets and corporate finance division, which operate through teams of specialists in debt-related capital markets and mergers and acquisitions, respectively. In 2005, ROSBANK participated as lead manager in 14.9 per cent. of, and participated as underwriter with respect to 38.5 per cent. of, the Russian Rouble-denominated bond issues by value.

In debt related capital markets, the management of ROSBANK believe that ROSBANK is the leading underwriter of Russian Rouble denominated bonds in terms of market share. In 2005, ROSBANK participated in 25 placements totalling RUR 49.8 billion worth of debt as a lead underwriter, of which 13 were regional and municipal placements in an aggregate amount of RUR 23.3 billion and 12 were corporate placements in an aggregate amount of RUR 26.5 billion. ROSBANK is expanding its underwriting activities to non-rouble-denominated debt instruments by participating in eurobond issues. In 2005, ROSBANK acted as the sole manager of a credit-linked note for OJSC Nutrivest and as a co-manager for credit notes issued by LLC Holding Company Amtel and CJSC Russian Copper Company. The capital markets team also manages placements of eurobonds issued by ROSBANK, including secured notes issued in 2004 and 2005 and notes issued in 2005 under ROSBANK's Guaranteed Debt Issuance Programme.

Through its corporate finance division, ROSBANK provides equity and debt origination, mergers and acquisitions advisory and transaction support services to its large and medium-sized corporate customers. Corporate finance services were launched in 2002 and ROSBANK's management is committed to continuing to grow this business by leveraging off its extensive corporate customer base and cross-selling these services to its existing customers.

**Asset Management**

ROSBANK launched its asset management business in 2002 and currently provides its asset management services directly to a limited number of corporate and institutional investors. These services include targeted products such as customised investment portfolios with specific risk profiles and asset management consultation services. These services are provided on a customer-by-customer basis. In addition, ROSBANK offers asset management services to high net worth individuals as part of its private banking services.

ROSBANK also provides its retail customers with a wide variety of products offered by a group of asset management companies and mutual funds that are controlled by the Interros Group. These products are offered through ROSBANK's branch network and create cross-selling opportunities which further enhance ROSBANK's customer base. ROSBANK also receives commissions from these companies for the distribution of these products.

**Cash Management and Settlement Services**

ROSBANK provides cash management and settlement services, which include bank accounts, cash handling services, pay-roll facilities, letters of credit, collections and performance of currency control over customer-generated transactions. ROSBANK's bank accounts include regular current and term accounts in Russian Roubles and in certain foreign currencies, predominantly US dollars and euros, as well as special-purpose accounts, such as brokerage accounts and escrow accounts, which are used to settle obligations with Russian and foreign counterparties. These services constitute a basic product set, which facilitate a variety of cross-selling opportunities in lending, trade finance, foreign exchange, investment banking, custody and other corporate and institutional services.

For the three month period ended 31 March 2006, ROSBANK's commission on cash management and settlement operations accounted for 18.4 per cent. of its operating income, compared to 14.5 per cent. for the three month period ended 31 March 2005. For the year ended 31 December 2005, ROSBANK's commission on cash management and settlement operations accounted for 16.3 per cent. of its operating income, compared to 22.6 per cent. and 11.8 per cent., respectively, for the year ended 31 December 2004 and 2003.

**Custody and Depository Services**

ROSBANK provides custody and depository services with respect to the majority of securities traded in Russia, including bonds and eurobonds issued by the Russian Federation, Russian regional and municipal bonds, Russian corporate equity and debt securities, and foreign government and corporate securities. ROSBANK also provides specialised depository services for mutual and pension funds.

ROSBANK's custody division specialises in rendering complex custody and depository services to resident and non-resident custodians, securities brokers and dealers, investment funds, corporations and private individuals. These services include: safekeeping of de-materialised and physical securities, full corporate actions support, settlement of exchange-based trades in Clearstream Banking, Depository Clearing Company, ("**DCC**"), National Depository Center ("**NDC**"), and Gazprombank and over-the-counter trades, collateral management, escrow agent services and assistance in reclaiming tax.

ROSBANK provides specialised depository services to more than 50 Russian mutual funds. Along with a full range of custody services, ROSBANK's specialised depository services include funds administration and controlling services, asset valuation, funds accounting and reporting and cash settlement.

As at 31 March 2006, ROSBANK had a correspondent network of more than 130 registrars and clearing depositories, including DCC and NDC. For the three month period ended 31 March 2006, commission income from ROSBANK's custody and depository services constituted 1.8 per cent. of its operating income, compared to 2.5 per cent. for the three month period ended 31 March 2005. For the year ended 31 December 2005, commission income from ROSBANK's custody and depository services accounted for 4.0 per cent. of its operating income, compared to 3.6 per cent. and 2.4 per cent., respectively, for the year ended 31 December 2004 and 2003.

**ROSBANK'S BRANCH NETWORK**

ROSBANK operates in all Russian cities with more than one million inhabitants and in more than half of the 156 Russian cities with a population greater than 100,000. ROSBANK is most widely represented in the cities of Moscow, with more than 50 offices, and St. Petersburg, with 11 offices, in the Vladimir, Yaroslavl, Saratov, Omsk, Tomsk and Amur oblasts, in the Stavropol, Krasnoyarsk, Altai, Khabarovsk and Primorsky krai, and in the Republic of Buryatia.

As at 31 March 2006, ROSBANK's regional network comprised 69 branches, more than 350 additional offices and over 365 mini-offices, which are operational cash offices, exchange points and credit-cash offices. Around 2,700 ROSBANK credit experts are employed across the network in trade and service enterprises.

ROSBANK believes that its branch network provides it with a competitive advantage over its competitors in part because of the cost that would be necessary to replicate it. To take greater advantage of its extensive branch network, ROSBANK is currently piloting a change in the format of

its branches by incorporating enhancements that allow greater flexibility for the retail customer, including ATMs with cash desks and information desks. ROSBANK will pursue this initially as a pilot plan in two branches, one in Moscow and one outside of Moscow.

## CREDIT PROCEDURES

### The Loan Application Process

**Retail Banking**

*Car Loans*

Car loan applications are processed by ROSBANK's credit experts, at both ROSBANK's outlets and at approved car dealers. For smaller loans, ROSBANK's credit and security specialists check basic details and history (including, for example, the customer's passport and driving licence). For larger loans, more stringent checks (for example, employment history card and marital status) are checked. Applications are usually processed within one day. If the application is approved, the customer executes the purchase agreement with the approved dealer and pays the first instalment to its current account or directly to such approved dealer. Such agreement together with the receipt of payment and the vehicle's passport are presented to ROSBANK. The customer is required to insure the purchased vehicle with an insurance company approved by ROSBANK, following which the customer enters into the loan agreement with a pledge of the vehicle with ROSBANK. After the registration of the vehicle with the relevant state authorities, the customer deposits the vehicle's passport with ROSBANK until the repayment of the loan.

*Other Consumer Loans*

Consumer loan applications are processed by ROSBANK's credit experts at ROSBANK's branches. In making the loan decision, ROSBANK takes into account the customer's income or a certificate of income from the applicant's employer. In addition, security procedures take place, including verification of the information in the application, and the application is scored by an experienced credit scorer, employing ROSBANK's own credit scoring system. Based on the results of this exercise, ROSBANK will establish the amount it is willing to lend to the customer and the terms of any advance.

"Prosto Dengi" loans are offered to staff of ROSBANK's corporate customers, staff of large companies (i.e. those with more than 200 employees for Moscow and 100 employees for other regions), and borrowers who already have a good credit history with ROSBANK. This policy was introduced after the initial launch of "Prosto Dengi" gave rise to a higher than expected level of bad debts.

*Mortgages*

Mortgage applications are processed by ROSBANK's credit experts at ROSBANK's branches, and the final credit decision is currently made by the mortgage group at ROSBANK's head office. Both credit and security specialists review the credit history and other information on the potential borrower and spouse. Documentary requirements for both the borrower and spouse include passport, employment history card, documents stating marital status, income certificate, labour contract and university diploma. Applications are usually processed within 5 days if made in Moscow and 7 days if made in other cities. If the application is approved, the customer receives a confirmation letter and has up to 120 days to find real estate to purchase. Once the real estate is located, the borrower executes the purchase agreement and the loan and security documentation (including insurance), which are then registered with the appropriate authorities.

**SME Banking**

Loan applications from SME borrowers are processed by ROSBANK's credit experts at ROSBANK's branches. Similar to the process with loans to retail customers, ROSBANK typically does a background check to confirm the information on the application form. In addition to these procedures, ROSBANK requires an on-site visit by its credit analyst to see the physical property that will secure the loan. The analyst then develops a prospective profit figure for the borrower, based on an evaluation of the financial information regarding the borrower provided as part of the application,

and this figure is used to determine the amount of money ROSBANK will lend the borrower in question.

**Corporate Banking**

In ROSBANK's Moscow branches, loan applications from corporate customers are initially processed by ROSBANK's Loan Department in Moscow, which employs 79 employees and is divided into seven divisions, including corporate lending, trade finance, project finance, regional network support and monitoring, consumer finance methodology and recovery. In the other branches of ROSBANK that offer corporate lending, loan applications from corporate customers are initially processed by the loan unit at the relevant branch. The branch loan units generally employ 3 to 8 staff members.

ROSBANK's outlet network includes 23 regional branches located in major industrial centres of Russia specialising in corporate lending. Each of these regional branches has an individual credit department that is authorised to provisionally process loan applications that exceed the authority limits for the branch manager or branch, see "Risk Management – Corporate and Institutional Lending", although applications must ultimately be approved by the Loan Department or the Credit Committee, as appropriate, at ROSBANK's head office. Managers of these regional branches are also authorised to provisionally approve loans of up to an aggregate outstanding amount of RUR 300 million, with a maximum exposure of up to RUR 15 million per facility.

The director of the Loan Department is authorised by the Credit Committee to approve up to an aggregate outstanding amount of RUR 600 million, with a maximum exposure to each transaction of RUR 25 million. The Deputy Chairman is authorised by the Credit Committee to approve loans of up to an aggregate outstanding amount of RUR 900 million, with a maximum exposure to each transaction of RUR 35 million. The Chairman of the Management Board is authorised to approve loans up to U.S.$50 million per transaction with no aggregate limit.

All loans, other than loans granted under ROSBANK's standard loan programmes and loans that exceed the limits set forth above but remain within the limits set by ROSBANK's Management Board, must be approved by the Credit Committee. The Credit Committee meets once a week and from time to time on an ad hoc basis. A quorum is established by the presence of 75 per cent. of its members, and a majority of those present is required to approve a loan. Upon approving an application, it is passed to the Chairman of the Management Board for approval, after which the application is passed back to the Loan Department for processing. The Loan Department is responsible for drafting and executing the official application with the assistance of the legal department and customer relations departments.

**Taking Security**

As at 31 March 2006, 46 per cent. of ROSBANK's total loan portfolio, excluding loans to banks and allowance for loan losses, were secured by collateral. ROSBANK's procedures for taking security over the collateral depend on the nature and type of the collateral. Acceptable collateral includes real property, land leasing rights, production equipment, vehicles, aeroplanes, ships, securities, precious metals, raw materials and inventory. ROSBANK also accepts third-party guarantees as security, provided that the credit risk limit for each such guarantor is not exceeded. ROSBANK usually requires that the value of the collateral be determined on the basis of a third-party appraisal conducted by an independent appraiser approved by ROSBANK. If required, the transaction is then submitted to the Credit Committee for approval, and if the loan is approved, the collateral is registered with the appropriate authorities, if applicable. ROSBANK monitors the value of the collateral for the life of the loan. In the case of securities, ROSBANK normally requires the custodian holding such securities to transfer them to ROSBANK in its capacity as custodian. In addition, ROSBANK generally accepts assurance arrangements with customers as collateral. An assurance arrangement is a borrower's agreement that a certain volume of its cash receivables will flow through accounts at ROSBANK over which ROSBANK has an express right of set-off.

**Ongoing Monitoring**

The Loan Department and the relevant loan units in the branch network monitor the financial condition of ROSBANK's borrowers and guarantors primarily on a quarterly basis. If deemed

appropriate, they take measures to reduce exposure to a borrower or guarantor, such as prohibiting further drawings on a credit line, where the terms of the credit line permit, or by creating additional allowances. ROSBANK controls the utilisation of a loan in accordance with the purposes stated in the loan application and agreement, and regularly monitors the progress of financed projects, debt servicing by the borrower and collateral status and value. The Loan Department also monitors the influence of market, economic and political factors on these projects.

**RISK MANAGEMENT**

ROSBANK's risk management system is overseen by four permanent committees: the Credit Committee, which currently consists of nine people, the CLRP, the Committee for Banking and Information Technologies, and the Credit Committee for Retail Services. These committees establish guidelines and risk limits in respect of credit risk, market risk (such as interest rate, currency and securities portfolio risk), liquidity risk and operational risk that are used to define ROSBANK's risk exposure. Risk assessment is also the basis for optimal risk-adjusted capital allocation, transactional pricing and performance assessment.

ROSBANK manages its operational and legal risks through internal monitoring and compliance policies. Its Internal Control Department (the "ICD") and Legal Department monitor compliance with, and ensure the proper functioning of, internal policies and procedures designed to minimise operational and legal risks.

**Retail/SME Banking**

In accordance with ROSBANK's current procedures for risk management, the Credit Committee for Retail Services determines the parameters for risk management in the retail and SME businesses. The Credit Sub-committee is a sub-committee of the Credit Committee and is authorised to take decisions on ROSBANK's operations with individuals and SMEs, and in so doing also ensures that a unified loan policy is adopted within ROSBANK. The Credit Sub-committee is authorised to, among other things, define the loan policy and parameters on retail services and credit programmes; evaluate the risk in connection with the implementation of credit programmes for SMEs; approve the limits for financing retail services and credit programmes; approve the standard quality of retail services and credit programmes and approve the procedure for evaluating different types of collateral. The Credit Sub-committee also develops proposals for improving ROSBANK's strategy in terms of developing retail services and credit programmes.

The risks associated with ROSBANK's implementation and introduction of retail credit programmes are continually managed and assessed by the Loan Department. The Retail Business Department and the SME Department introduce and sell new retail products, study and assess retail clients' needs for financial services, and develop proposals for the creation of new services and the modification of existing ones in order to maintain a product range which meets most, if not all, of the demands of customers.

Methods of risk management in ROSBANK's retail business include: comprehensive analysis of credit risks prior to approval of each retail loan product; use of standard credit programmes which provide common risk parameters to be considered when assessing customers' applications and a common mechanism for calculating the loan amounts for each retail programme; establishment of the authority limits for the approval of retail loans as well as the aggregate limits on different retail loan programmes themselves; establishment of the conditions precedent to be satisfied by customers under different retail loan programmes; and the ongoing monitoring of loans.

**Corporate and Institutional Lending**

For loans of up to RUR 1.5 billion, exposure limits to single corporate borrowers are approved on a case-by-case basis by the Credit Committee. In respect of loans above this amount, the credit decision is taken by the Management Board. ROSBANK's Credit Settlement Department monitors compliance with these limits. Exposure limits to large corporate borrowers may include some or all of their subsidiaries. Exposure limits to such borrowers are set at the head office level and extend to branches that grant loans to the relevant borrower or its subsidiaries. The ability of borrowers and potential borrowers to meet interest and principal repayment obligations is normally analysed quarterly by the

lending units in Head Office and branches, who make recommendations to change exposure limits to single borrowers, where appropriate.

Credit risk limits on operations with banks and other financial institutions are established by ROSBANK's Financial Institutions Department and approved by the Credit Committee and the Management Board. The Financial Institutions Department performs a credit assessment of banks and other financial institutions on the basis of, among other information, detailed financial information, asset quality, liquidity and other common ratios, credit ratings and percentages of overdue loans to outstanding loans. The limits for credit operations with particular banks are set on the basis of the financial position, the size and the status of the relevant bank and the nature and identity of its shareholders. Credit risk limits are reviewed at least on a quarterly basis for domestic banks and annually for foreign banks.

The Management Board approves authorisation limits on aggregate loan amounts established by the Credit Committee within which ROSBANK's branch managers can make their own credit decisions for loans. Branches make decisions on loans to corporate customers and individuals within the limits set for the particular branch. The authorisation limit of each of the branch managers is set at up to RUR 300 million for aggregate limit and up to RUR 15 million per transaction. See "– Credit Procedures – The Loan Application Process". The Credit Committee and the Management Board approve credit exposures that exceed branch limits. Credit limits for branches are reviewed by the Credit Committee normally when the head of the branch is changed or when the existing limit is reached. The Loan Department monitors branch limits and recommends necessary changes.

Credit risks of off-balance sheet exposures involving financial instruments such as guarantees and derivative instruments are regularly monitored by the Loan Department and Treasury Department. These exposures are restricted by counterparty/borrower credit risk and market risk limits established by the Credit Committee and CLRP, respectively.

**Foreign Subsidiaries**

ROSBANK's foreign bank subsidiaries, comprising Rosbank Switzerland and Belrosbank, Belarus, have their own asset, liability and risk management procedures, and comply with applicable laws and regulations in their respective jurisdictions. However, ROSBANK is informed of, and monitors, all significant risk exposures of its bank subsidiaries. Subsidiaries regularly report their credit exposures to the ICD, which takes this information into account in determining ROSBANK's aggregate credit exposures to single borrowers and borrowers in particular industries and countries. ROSBANK also monitors its subsidiaries' exposures to market risk. The ICD evaluates the internal risk management and control systems of ROSBANK's foreign subsidiaries on an annual basis in order to ensure that a uniform approach to risk management is adopted throughout ROSBANK.

**Market Risk**

The CLRP sets ROSBANK's policies for market risks, including currency, interest rate and securities portfolio risk. Market risk is managed in an integrated manner and evaluated in terms of capital risk exposure using value-at-risk ("VaR") methodology and other quantitative techniques. ROSBANK performs back testing of the adequacy of the methodology at least every three months with reference to current market terms to ensure that deviations for all statistical parameters included in the calculation are within prudent ranges. See "– Securities Portfolio Risk".

**Currency Risk**

ROSBANK is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Economic and Finance Department conducts VaR evaluation, analyses the structure of ROSBANK's open currency positions and prepares reports for the CLRP. The CLRP approves the methodology of currency risk analysis and management and sets limits on arbitrage conversion operations. The Treasury Department conducts conversion operations and transactions in derivatives within the limits set by the CLRP and manages ROSBANK's open currency position on a day-to-day basis. The CLRP sets open foreign currency position limits for both overnight and intra-day positions and stop-loss limits. The Credit Settlement Department monitors compliance with these limits and the relevant CBR limits on a daily basis. Credit related

commitments include undrawn letters of credit (both export and import), issued guarantees and commitments to extend credit, less allowance for losses. The off-balance sheet net notional position represents the difference between the notional amounts of foreign currency derivative financial instruments, which are principally used to reduce ROSBANK's exposure to currency movements, and their fair values.

The following table presents ROSBANK's foreign currency exchange rate exposure as at 31 December 2005, including ROSBANK's assets and liabilities, categorised by currency:

| | RUR | US$ 1 US$ = 28.7825 RUR | EUR 1 EUR = 34.1850 RUR | Precious metals | Other currency | 31 December 2005 RUR'000 Total |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and balances with Central and National banks | 17,413,417 | 1,599,607 | 365,564 | — | 76,770 | 19,455,358 |
| Financial assets at fair value through profit or loss | 11,296,601 | 3,704,943 | 269,906 | 99,261 | 306,391 | 15,677,102 |
| Precious metals | — | — | — | 978,040 | — | 978,040 |
| Loans and advances to banks, less allowance for impairment losses | 2,208,976 | 47,593,015 | 3,961,409 | 304 | 231,364 | 53,995,068 |
| Loans to customers, less allowance for impairment losses | 77,187,049 | 32,333,076 | 1,757,064 | 832,381 | 1,208,654 | 113,318,224 |
| Investments available-for-sale, less allowance for impairment loss | 419,146 | — | 396 | — | 58,792 | 478,334 |
| Fixed assets purchased for transfer into finance lease | 329,005 | — | — | — | — | 329,005 |
| Fixed assets, net | 6,705,872 | — | — | — | 17,305 | 6,723,177 |
| Current income tax assets | 484,129 | — | 178 | — | — | 484,307 |
| Other assets, less allowance for impairment losses | 1,293,873 | 147,993 | 1,396 | 83,206 | 91,519 | 1,617,987 |
| **TOTAL ASSETS** | 117,338,068 | 85,378,634 | 6,355,913 | 1,993,192 | 1,990,795 | 213,056,602 |
| **LIABILITIES** | | | | | | |
| Deposits from banks | 3,943,809 | 4,396,000 | 493,621 | 2,027,052 | 278,546 | 11,139,028 |
| Customer accounts | 73,154,491 | 71,252,557 | 3,551,807 | 285,054 | 816,985 | 149,060,894 |
| Financial liabilities at fair value through profit or loss | — | 1,543,323 | 297,318 | — | — | 1,840,641 |
| Debt securities issued | 9,766,918 | 15,653,127 | 616,665 | — | 7,497 | 26,044,207 |
| Other provisions | 105,586 | 62,279 | 5,353 | 1,511 | — | 174,729 |
| Current income tax liabilities | 10,225 | — | 930 | — | — | 11,155 |
| Deferred income tax liabilities | 914,416 | — | 11,955 | — | — | 926,371 |
| Other liabilities | 468,610 | 303,924 | 32,824 | 115,792 | 118,161 | 1,039,311 |
| **TOTAL LIABILITIES** | 88,364,055 | 93,211,210 | 5,010,473 | 2,429,409 | 1,221,189 | 190,236,336 |
| **OPEN BALANCE SHEET POSITION** | 28,974,013 | (7,832,576) | 1,345,440 | (436,217) | 769,606 | |

| | RUR | US$ 1 US$ = 28.7825 RUR | EUR 1 EUR = 34.1850 RUR | Precious metals | Other currency | 31 December 2005 RUR'000 Total |
|---|---|---|---|---|---|---|
| Payables on spot and derivative contracts | 16,170,345 | 26,511,625 | 2,222,025 | 1,378,805 | 2,981,317 | 49,264,117 |
| Receivables on spot and derivative contracts | (24,911,417) | (19,633,500) | (3,718,313) | (699,575) | (237,787) | (49,200,592) |
| **NET POSITION ON SPOT AND DERIVATIVE CONTRACTS** | (8,741,072) | 6,878,125 | (1,496,288) | 679,230 | 2,743,530 | |
| **TOTAL OPEN POSITION** | 20,232,941 | (954,451) | (150,848) | 243,013 | 3,513,136 | |

## Interest Rate Risk

In accordance with Russian market practice, the majority of ROSBANK's assets and liabilities have fixed interest rates. Interest rate risk arises primarily as a result of lending at fixed interest rates for

maturities that differ from the term of borrowings at fixed interest rates. In practice, interest rates are often set on a short-term basis and contractually fixed interest rates on both assets and liabilities (other than retail deposits) are often recalculated based on current market conditions and mutual agreement, which is documented in an addendum to the original agreement setting forth the new interest rate.

ROSBANK manages its interest rate risk by maintaining a sufficient positive differential between the average annual interest rates on its interest-earning assets and liabilities, sufficient to cover operational expenses and risk premium. As at 31 December 2005, this margin was 7.5 per cent. The Economic and Finance Department regularly reviews and reports back to the CLRP the average interest rates on ROSBANK's assets and liabilities and the net interest margin. If the CLRP finds that the net interest margin is insufficient, ROSBANK takes appropriate measures such as reviewing its basic interest rates or adjusting its asset and liability structure.

The following table summarises ROSBANK's effective average interest rate by category of financial assets and liabilities as at 31 December 2005:

| | **31 December 2005** | |
|---|---|---|
| | *RUR* | *US$* |
| **ASSETS** | | |
| Financial assets at fair value through profit or loss | 9.2% | 9.3% |
| Loans and advances to banks, less allowance for impairment losses | 8.5% | 3.7% |
| Loans and advances to customers, less allowance for impairment losses | 17.9% | 11.6% |
| Investments available-for-sale, less allowance for impairment loss | 16.0% | — |
| **LIABILITIES** | | |
| Deposits from banks | 5.66% | 6.34% |
| Customer accounts | 8.67% | 5.94% |
| Debt securities issued | 7.50% | 8.03% |
| Subordinated debt | — | — |

Securities Portfolio Risk

ROSBANK's main source of securities portfolio risk is through its Russian government debt securities portfolio. ROSBANK mitigates this risk through portfolio and single issuer limits on various types of securities. In addition to managing concentrations, ROSBANK has implemented a stop-loss for accumulated losses for one-day and one-month periods which correspond to a percentage of the investments in its securities portfolio. No operations are allowed after the loss reaches the stop-loss limit. For a discussion of ROSBANK's securities portfolio, see "Selected Statistical Information – ROSBANK's Loan, Guarantees and Securities Portfolios – Securities Portfolio".

**Liquidity Risk**

Liquidity risk is the risk of a mismatch between the maturities of assets and liabilities, which may result in ROSBANK being unable to meet its obligations in a timely manner. ROSBANK is subject to liquidity requirements set by the CBR. See "Overview of the Banking Sector and Regulation in the Russian Federation – Role of the CBR and Regulation of the Russian Banking Sector".

The CLRP sets ROSBANK's minimum necessary levels of liquid assets and maximum maturity mismatch limits, approves liquidity assessment and management procedures and determines liquidity requirements. The Economic and Finance Department conducts analyses of ROSBANK's liquidity position and prepares liquidity forecasts on a monthly, or, if necessary, more frequent, basis. ROSBANK's Treasury Department manages ROSBANK's short-term liquidity needs within limits approved by CLRP, placing excess funds and obtaining interbank loans on the domestic and international markets.

Medium-term liquidity is managed through repo transactions and by obtaining funds in the syndicated loan market and the interbank market. ROSBANK also manages its liquidity by issuing debt securities in the Russian domestic market.

The following table provides information regarding ROSBANK's liquidity position as at 31 December 2005:

| | Up to 1 month | 1 month to 3 months | 3 month to 1 year | 1 year to 5 years | Over 5 years | Overdue | Maturity undefined | 31 December 2005 RUR'000 Total |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| **Interest bearing assets** | | | | | | | | |
| Financial assets at fair value through profit or loss | 14,327,927 | — | — | — | — | — | — | 14,327,927 |
| Loans and advances to banks | 35,348,694 | 51,137 | 431,850 | — | — | — | — | 35,831,681 |
| Loans to customers, less allowance for impairment losses | 10,803,424 | 21,917,477 | 40,449,490 | 39,648,843 | 498,990 | — | — | 113,318,224 |
| Investments available-for-sale, less allowance for impairment loss | — | — | 115,722 | — | — | — | — | 115,722 |
| **Total interest bearing assets** | 60,480,045 | 21,968,614 | 40,997,062 | 39,648,843 | 498,990 | — | — | 163,593,554 |
| Cash and balances with Central and National banks | 14,799,277 | — | — | — | — | — | 4,656,081 | 19,455,358 |
| Financial assets at fair value through profit or loss | 1,251,671 | 13,129 | 84,375 | — | — | — | — | 1,349,175 |
| Precious metals | 978,040 | — | — | — | — | — | — | 978,040 |
| Loans and advances to banks | 18,163,387 | — | — | — | — | — | — | 18,163,387 |
| Investments available-for-sale, less allowance for impairment loss | — | — | 145,490 | 217,122 | — | — | — | 362,612 |
| Fixed assets purchased for transfer into finance lease | — | — | — | 329,005 | — | — | — | 329,005 |
| Fixed assets, net | — | — | — | — | — | — | 6,723,177 | 6,723,177 |
| Current income tax assets | — | — | 484,307 | — | — | — | — | 484,307 |
| Other assets, less allowance for impairment losses | 673,912 | — | 944,075 | — | — | — | — | 1,617,987 |
| **Total non- interest bearing assets** | 35,866,287 | 13,129 | 1,658,247 | 546,127 | — | — | 11,379,258 | 49,463,048 |
| **TOTAL ASSETS** | 96,346,332 | 21,981,743 | 42,655,309 | 40,194,970 | 498,990 | — | 11,379,258 | 213,056,602 |
| **LIABILITIES** | | | | | | | | |
| **Interest bearing liabilities** | | | | | | | | |
| Deposits from banks | 7,206,987 | 120,458 | 1,586,420 | 645,458 | — | — | — | 9,559,323 |
| Customer accounts | 45,377,188 | 20,671,806 | 48,085,198 | 21,247,331 | 506,873 | — | — | 135,888,396 |
| Financial liabilities at fair value through profit or loss | 1,700,955 | 11,977 | 4,790 | — | — | — | — | 1,717,722 |
| Debt securities issued | 2,491,187 | 2,482,354 | 3,846,443 | 14,154,773 | 1,074,324 | — | 24,049,081 | |
| **Total interest bearing liabilities** | 56,776,317 | 23,286,595 | 53,522,851 | 36,047,562 | 1,581,197 | — | — | 171,214,522 |
| Deposits from banks | 1,579,705 | — | — | — | — | — | — | 1,579,705 |
| Customer accounts | 13,172,498 | — | — | — | — | — | — | 13,172,498 |
| Financial liabilities at fair value through profit or loss | 122,919 | — | — | — | — | — | — | 122,919 |
| Debt securities issued | 1,995,126 | — | — | — | — | — | — | 1,995,126 |
| Other provisions | 9,645 | 17,356 | 92,163 | 55,565 | — | — | — | 174,729 |
| Current income tax liabilities | — | — | 11,155 | — | — | — | — | 11,155 |
| Deferred income tax liabilities | — | — | 82,444 | — | — | — | 843,927 | 926,371 |
| Other liabilities | 559,443 | 71,133 | 408,735 | — | — | — | — | 1,039,311 |
| **Total non-interest bearing liabilities** | 17,439,336 | 88,489 | 594,497 | 55,565 | — | — | 843,927 | 19,021,814 |
| **TOTAL LIABILITIES** | 74,215,653 | 23,375,084 | 54,117,348 | 36,103,127 | 1,581,197 | — | 843,927 | 190,236,336 |
| Liquidity gap | 22,130,679 | (1,393,341) | (11,462,039) | 4,091,843 | (1,082,207) | | | |
| Interest sensitivity gap | 3,703,728 | (1,317,981) | (12,525,789) | 3,601,281 | (1,082,207) | | | |
| Cumulative interest sensitivity gap | 3,703,728 | 2,385,747 | (10,140,042) | (6,538,761) | (7,620,968) | | | |
| Cumulative interest sensitivity gap as a percentage of total assets | 1.7% | 1.1% | (4.8%) | (3.1%) | (3.6%) | | | |

**Operational Risk**

ROSBANK understands operational risks as the risk of loss that can be caused by inadequate or erroneous internal business processes, systems, personnel or by external events. ROSBANK's internal regulations and procedures are its principal method of managing operational risks. ROSBANK's Financial Monitoring Division oversees these internal regulations and procedures, including anti-money laundering and central bank compliance, and an officer of the Financial Monitoring Division is a part of every operational department of ROSBANK.

## COMPETITION

According to statistics published by the CBR as at 30 June 2006, 1,221 banks and other non-bank credit organisations were operating in Russia. ROSBANK faces challenges from domestic and, increasingly, foreign competitors in the various segments of the banking industry in which it operates. In particular, ROSBANK considers Vneshtorgbank, Alfa Bank, Sberbank, Bank of Moscow and Bank ''Uralsib'' as its major competitors in the corporate sector, with Russian Standard Bank and KMB Bank also competing in the SME sector, and Sberbank, Bank ''Uralsib'', Delta Credit, Citibank and Raiffeisenbank Austria as its major competitors in the retail sector.

Competition from foreign banks has historically been relatively limited and participants tend to confine their operations to providing services to a small number of top tier Russian corporate customers and their existing international corporate clients. Raiffeisenbank Austria and Citibank are two of a number of foreign banks that have begun to operate in the retail market. In addition, a number of smaller banks have emerged that target SMEs and individual clients.

## INFORMATION TECHNOLOGY INFRASTRUCTURE

The development of information technology at ROSBANK is coordinated through the information technology department, whose goal is to provide reliable, safe and cost-effective banking operations. In furtherance of this goal, it carries out a range of activities aimed at updating and improving all of ROSBANK's systems. The information technology department develops, implements and supports application systems in accordance with established written procedures. It maintains application systems that were developed in-house, as well as external vendor application systems in accordance with support contracts. It provides maintenance for all of ROSBANK's servers, workstations and networking equipment in accordance with vendors' recommendations, and provides centralised support for certain external applications.

ROSBANK has undertaken to significantly modernise its current information technology systems, which modernisation is expected to be completed by the end of 2006, and has introduced a number of new information technology systems, such as a credit scoring system, a Client Relationship Management system and call centres.

Outlets of ROSBANK's branch network and the head office are linked by ROSBANK's central Bank Information System (the ''BIS system''). The branch offices use in-house developed systems of reporting, which satisfy the applicable regulatory requirements. The BIS system is an in-house developed system based on RDBMS DB/2 system adopted to comply with Russian regulatory requirements. The BIS system was developed utilising prior experience with EQUATION (supplied by Misys). Two branch offices continue to use IBM AS/400 and TANDEM Himalaya systems for data storage.

ROSBANK currently has an integrated communications network. This network provides ROSBANK's branches and ATMs real-time access to the BIS system.

ROSBANK makes capital expenditures on information technology for the general maintenance and upkeep of ROSBANK's information technology systems and to provide for the ongoing upgrade of these systems.

## EMPLOYEES

As at 31 March 2006, ROSBANK had a total of 2,658 employees in its head office and 15,712 employees in its branch offices, including 121 employees in its foreign subsidiaries. In addition,

ROSBANK had a total of 592 front office administration employees in its head office and 10,888 front office administration employees in its branch offices.

As at 31 December 2005, ROSBANK had a total of 2,707 employees in its head office and 17,162 employees in its branch offices, including 103 employees in its foreign subsidiaries. In addition, ROSBANK had a total of 575 front office administration employees in its head office and 11,009 front office administration employees in its branch offices. The decreases in the employee numbers since 31 December 2005 are part of a programme to reduce staff numbers to cut costs.

The Russian market for qualified financial institutions personnel, especially for junior and middle management, is highly competitive. ROSBANK's personnel management policy is aimed at developing skilled, highly productive staff that are successful in conducting ROSBANK's business. All members of management, and the majority of employees engaged in any business area of ROSBANK, have a university degree and extensive work experience. Internal and external professional personnel training is an ongoing process, aiming to ensure compliance with the CBR certification requirements. Appropriate training of personnel is always undertaken before new products are introduced.

ROSBANK recently completed a study with PricewaterhouseCoopers which led management to conclude that ROSBANK's current compensation package is generally comparable to that offered by the 9 largest Russian banks.

ROSBANK has not experienced any strikes, work stoppages, labour disputes or actions that have affected the operation of its business and there are no unions or collective bargaining arrangements in place with ROSBANK's employees. ROSBANK considers its relationship with its employees to be good.

## LITIGATION

From time to time ROSBANK is involved in legal proceedings arising in the ordinary course of business. However, there are no governmental, legal or arbitration proceedings, including any such proceedings which are pending or threatened of which ROSBANK is aware, during the 12 months preceding the date of this Base Prospectus which may have, or have had in the recent past significant effects on ROSBANK's financial position or profitability.

# SELECTED STATISTICAL AND OTHER INFORMATION RELATING TO ROSBANK

## SELECTED STATISTICAL INFORMATION

The following selected statistical and other financial information is derived, where appropriate, from the audited consolidated and combined financial statements of ROSBANK as of and for the year ended 31 December 2005, 2004 and 2003 and the unaudited consolidated and combined interim condensed financial statements of ROSBANK as of and for the period ended 31 March 2006 and 2005.

## ROSBANK'S LOAN, GUARANTEES AND SECURITIES PORTFOLIOS

### Non-bank Loan Portfolio

#### *Loans to Non-bank Customers by Concentration*

As at 31 March 2006, ROSBANK had no non-bank borrowers with individually outstanding loan balances exceeding 10 per cent. of ROSBANK's equity.

Related parties accounted for 1.8 per cent. of ROSBANK's total customer loans and 20.8 per cent. of its total customer deposits, as at 31 March 2006. The trend in recent years has been for such exposure to be reduced in relative terms and for the amount and size of gross loans to Russian borrowers unrelated to the Interros Group to increase. Overall, the size of ROSBANK's loan portfolio has continued to grow over recent years.

#### *Loans to Non-bank Customers by Industry Concentration*

The following table sets forth economic sector concentrations within ROSBANK's loan portfolio (excluding loans to banks) as at 31 March 2006 and at 31 December 2005, 2004 and 2003.

| | As at 31 March | | As at 31 December | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | | 2005 | | 2004 | | 2003 | |
| | *(unaudited)* | | | | | | | |
| | *RUR'000* | *(%)* | *RUR'000* | *(%)* | *RUR'000* | *(%)* | *RUR'000* | *(%)* |
| Individuals | 61,207,864 | 47.0% | 55,329,595 | 46.4% | 28,367,039 | 33.5% | 11,611,043 | 17.9% |
| Trade | 19,085,417 | 14.7% | 15,590,540 | 13.1% | 9,715,764 | 11.5% | 9,095,535 | 14.1% |
| Finance | 6,067,809 | 4.7% | 7,389,118 | 6.2% | 2,271,333 | 2.7% | 4,700,425 | 7.3% |
| Government | 5,851,852 | 4.5% | 5,567,704 | 4.7% | 4,038,547 | 4.8% | 5,519,359 | 8.5% |
| Construction | 5,734,114 | 4.4% | 4,984,402 | 4.2% | 4,212,826 | 5.0% | 1,219,766 | 1.9% |
| Energy industry | 4,604,915 | 3.5% | 5,008,269 | 4.2% | 2,526,741 | 3.0% | 719,704 | 1.1% |
| Engineering | 3,198,896 | 2.5% | 3,540,018 | 3.0% | 3,542,378 | 4.2% | 1,839,864 | 2.8% |
| Ferrous metals manufacturing | 3,113,557 | 2.4% | 1,731,547 | 1.5% | 3,553,768 | 4.2% | 1,969,467 | 3.0% |
| Food industry | 2,896,042 | 2.2% | 2,646,703 | 2.2% | 2,886,498 | 3.4% | 1,158,014 | 1.8% |
| Real estate and leasing | 2,628,218 | 2.0% | 3,065,807 | 2.6% | 2,954,134 | 3.5% | 2,342,980 | 3.6% |
| Manufacturing | 1,712,352 | 1.3% | 1,230,891 | 1.0% | 3,238,202 | 3.8% | 3,945,521 | 6.1% |
| Telecommunications | 1,374,002 | 1.1% | 1,392,228 | 1.2% | 2,724,153 | 3.2% | 2,732,211 | 4.2% |
| Oil and gas | 1,285,808 | 1.0% | 494,957 | 0.4% | 2,463,326 | 2.9% | 2,815,101 | 4.3% |
| Defence industry | 1,278,054 | 1.0% | 1,485,229 | 1.2% | — | — | — | — |
| Transport | 1,275,213 | 1.0% | 1,302,444 | 1.1% | 821,011 | 1.0% | 4,497,292 | 6.9% |
| Precious metals and diamond extraction and manufacturing | 1,141,021 | 0.9% | 1,193,449 | 1.0% | 1,059,009 | 1.3% | 2,018,844 | 3.1% |
| Heavy industry | 993,316 | 0.8% | 1,922,709 | 1.6% | 1,418,355 | 1.7% | 442,201 | 0.7% |
| Chemical | 904,641 | 0.7% | 679,106 | 0.6% | 511,145 | 0.6% | 610,798 | 0.9% |
| Aircraft engineering | 697,197 | 0.5% | 157,952 | 0.1% | 4,365,154 | 5.2% | 4,055,018 | 6.3% |
| Agriculture | 127,733 | 0.1% | 160,830 | 0.1% | 769,841 | 0.9% | 953,794 | 1.5% |
| Non-ferrous metals manufacturing | 38,908 | 0.0% | 12,968 | 0.0% | 168,212 | 0.2% | 111,496 | 0.2% |
| Insurance | 3,871 | 0.0% | — | — | 40,209 | 0.0% | — | — |
| Hotel business and services | 2,159 | 0.0% | 37,338 | 0.0% | — | — | 583,450 | 0.9% |
| Other | 5,013,772 | 3.8% | 4,282,055 | 3.6% | 2,955,846 | 3.5% | 1,778,980 | 2.7% |
| **Total gross loans**[3] | 130,236,731 | 100.0% | 119,205,859 | 100.0% | 84,603,492 | 100.0% | 64,720,866 | 100.0% |
| Less allowance for impairment losses | (6,497,191) | | (5,887,635) | | (4,920,866) | | (3,314,705) | |
| **Total loans to customers, net** | 123,739,540 | | 113,318,224 | | 79,682,626 | | 61,406,161 | |

[3] Excludes allowance for loan losses and includes accrued interest.

***Loans to Non-bank Customers by Maturity***

The following table sets forth ROSBANK's loan portfolio (excluding loans to banks) by maturity as at 31 December 2005, 2004 and 2003 by amount and as a percentage of the loan portfolio (excluding loans to banks).

| | As at 31 December | | | | | |
|---|---|---|---|---|---|---|
| | **2005** | | **2004** | | **2003** | |
| | *RUR'000* | *(%)* | *RUR'000* | *(%)* | *RUR'000* | *(%)* |
| On demand or less than one month .... | 10,803,424 | 9.5% | 14,488,777 | 18.2% | 9,615,116 | 15.7% |
| One to three months . | 21,917,477 | 19.3% | 8,017,503 | 10.1% | 7,283,944 | 11.9% |
| Three months to one year ..... | 40,449,490 | 35.7% | 27,016,666 | 33.9% | 25,009,014 | 40.7% |
| More than one year... | 40,147,833 | 35.4% | 29,801,267 | 37.4% | 19,492,721 | 31.7% |
| Overdue/no stated maturity..... | — | — | 358,413 | 0.4% | 5,366 | 0.0% |
| **Total loans to customers, net**..... | 113,312,224 | 100.0% | 79,682,626 | 100.0% | 61,406,161 | 100.0% |

Short-term loans make up a large proportion of ROSBANK's loan portfolio, as is customary in the Russian domestic lending market. ROSBANK expects that, as the Russian economy becomes more stable, loans with a maturity of greater than one year will experience significant growth.

***Loans to Non-bank Customers by Currency***

The following table sets forth ROSBANK's loans (excluding loans to banks) by currency as at 31 December 2005, 2004 and 2003.

| | As at 31 December | | | | | |
|---|---|---|---|---|---|---|
| | **2005** | | **2004** | | **2003** | |
| | *RUR'000* | *(%)* | *RUR'000* | *(%)* | *RUR'000* | *(%)* |
| RUR..... | 77,187,049 | 68.1% | 45,608,003 | 57.2% | 22,735,788 | 37.0% |
| US dollars..... | 32,333,076 | 28.5% | 33,308,875 | 41.8% | 37,558,919 | 61.2% |
| Euro..... | 1,757,064 | 1.6% | 589,586 | 0.7% | 951,152 | 1.5% |
| Other currencies ..... | 2,041,035 | 1.8% | 176,162 | 0.2% | 160,302 | 0.3% |
| **Total loans to customers, net**..... | 113,318,224 | 100.0% | 79,682,626 | 100.0% | 61,406,161 | 100.0% |

***Loans to Non-bank Customers by Type of Collateral***

The following table sets forth ROSBANK's loans (excluding loans to banks) by type of collateral as at 31 March 2006 and at 31 December 2005, 2004 and 2003.

| | As at 31 March | | As at 31 December | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | | 2005 | | 2004 | | 2003 | |
| | *(unaudited)* | | | | | | | |
| | *RUR'000* | *(%)* | *RUR'000* | *(%)* | *RUR'000* | *(%)* | *RUR'000* | *(%)* |
| Vehicles | 31,561,064 | 24.2% | 25,837,845 | 21.7% | — | — | — | — |
| Real estate | 9,458,405 | 7.3% | 9,738,841 | 8.2% | 4,288,517 | 5.1% | 1,564,215 | 2.4% |
| Securities | 5,716,532 | 4.4% | 2,823,477 | 2.4% | 2,177,289 | 2.6% | 2,860,677 | 4.4% |
| Corporate guarantees | 4,579,762 | 3.5% | 4,568,907 | 3.8% | 1,174,539 | 1.4% | 4,616,039 | 7.1% |
| Equipment | 4,563,019 | 3.5% | 4,598,411 | 3.9% | 13,751,577 | 16.3% | 6,926,557 | 10.7% |
| Pledge of goods in turnover | 3,915,201 | 3.0% | 6,756,813 | 5.7% | 8,390,691 | 9.9% | 5,631,484 | 8.7% |
| Rights of demand | 1,195,597 | 0.9% | 1,473,511 | 1.2% | — | — | — | — |
| Cash | 504,351 | 0.4% | 2,065,789 | 1.7% | 106,545 | 0.1% | 179,064 | 0.3% |
| Pledge of combined collateral | 141,332 | 0.1% | 1,055,276 | 0.9% | 3,625,280 | 4.3% | 267,206 | 0.4% |
| Others | 1,755,637 | 1.3% | 1,006,454 | 0.8% | — | — | 2,336,751 | 3.6% |
| Unsecured loans | 66,845,831 | 51.3% | 59,280,535 | 49.7% | 51,089,054 | 60.4% | 40,338,873 | 62.3% |
| **Total gross loans**[4] | 130,236,731 | 100.0% | 119,205,859 | 100.0% | 84,603,492 | 100.0% | 64,720,866 | 100.0% |
| Less allowance for impairment losses | (6,497,191) | | (5,887,635) | | (4,920,866) | | (3,314,705) | |
| **Total loans to customers, net** | 123,739,540 | | 113,318,224 | | 79,682,626 | | 61,406,161 | |

**Loans and Advances to Banks**

For the period ended 31 March 2006, loans to banks accounted for 31.3 per cent. of ROSBANK's total loan portfolio. The following table sets forth ROSBANK's loans and advances to banks by type as at 31 March 2006 and at 31 December 2005, 2004 and 2003.

| | As at 31 March | | As at 31 December | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | | 2005 | | 2004 | | 2003 | |
| | *(unaudited)* | | | | | | | |
| | *RUR'000* | *(%)* | *RUR'000* | *(%)* | *RUR'000* | *(%)* | *RUR'000* | *(%)* |
| Loans to banks | 31,269,923 | 55.5% | 26,436,710 | 49.0% | 10,891,536 | 51.8% | 2,275,037 | 21.0% |
| Advances to banks | 22,067,332 | 39.2% | 24,702,060 | 45.7% | 9,684,449 | 46.1% | 8,549,113 | 79.0% |
| Loans under reverse repurchase agreements | 3,012,208 | 5.3% | 2,856,298 | 5.3% | 439,279 | 2.1% | — | — |
| **Total gross loans**[5] | 56,349,463 | 100.0% | 53,995,068 | 100.0% | 21,015,264 | 100.0% | 10,824,150 | 100.0% |
| Less allowance for impairment losses | — | | — | | (12,206) | | (75,758) | |
| **Total loans and advances to banks, net** | 56,349,463 | | 53,995,068 | | 21,003,058 | | 10,748,392 | |

**Guarantees**

As at the period ended 31 March 2006, ROSBANK had issued guarantees in the amount of RUR 7,431.9 million. As at the years ended 31 December 2005, 2004 and 2003, guarantees issued by ROSBANK amounted to, RUR 7,726.4 million, RUR 7,347.7 million and RUR 9,560.0 million, respectively. As at 31 March 2006, guarantees issued to five companies accounted for 68.3 per cent. (RUR 5,080.8 million) of all guarantees issued by ROSBANK. As at 31 December 2005, 2004 and

[4] Excludes allowance for loan losses and includes accrued interest.

[5] Excludes allowance for loan losses and includes accrued interest.

2003, guarantees issued to five companies accounted for 75.6 per cent. (RUR 5,840.4 million), 66.3 per cent. (RUR 4,870.2 million) and 72.1 per cent. (RUR 6,917.5 million), respectively, of all guarantees issued by ROSBANK.

As at 31 March 2006, related parties accounted for 29.9 per cent. of ROSBANK's total guarantees issued compared to 38.7 per cent., 48.5 per cent., and 53.0 per cent., respectively, as at 31 December 2005, 2004 and 2003.

## SECURITIES PORTFOLIO

### Fair Value of Securities of Russian government Agencies and Other Securities

ROSBANK's securities portfolio consists of financial assets at fair value through profit or loss and available-for-sale debt and equity instruments.

***Financial assets at fair value through profit or loss***

The following table sets forth the fair value of securities held as at 31 March 2006 and at 31 December 2005, 2004 and 2003. See also Note 13 to ROSBANK's IFRS financial statements.

| | As at 31 March | | As at 31 December | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | | 2005 | | 2004 | | 2003 | |
| | *(unaudited) RUR'000* | *(%)* | *RUR'000* | *(%)* | *RUR'000* | *(%)* | *RUR'000* | *(%)* |
| Debt securities of corporates | 4,816,256 | 37.1% | 4,511,722 | 28.8% | 4,880,813 | 45.1% | 3,918,095 | 36.7% |
| Equity investments | 2,259,965 | 17.4% | 1,166,303 | 7.4% | 1,769,259 | 16.3% | 1,544,483 | 14.5% |
| Debt securities of local authorities | 2,152,031 | 16.6% | 1,919,267 | 12.2% | 1,617,361 | 14.9% | 2,497,703 | 23.4% |
| Debt securities of financial institutions | 1,926,188 | 14.8% | 1,560,753 | 10.0% | 1,275,016 | 11.8% | 1,974,904 | 18.5% |
| Debt securities of central governments | 1,468,747 | 11.3% | 6,336,185 | 40.4% | 1,201,672 | 11.1% | 640,941 | 6.0% |
| Derivative financial instruments | 357,457 | 2.8% | 182,872 | 1.2% | 77,163 | 0.7% | 91,829 | 0.9% |
| | 12,980,644 | | 15,677,102 | | 10,821,284 | | 10,667,955 | |

Financial assets at fair value through profit or loss represent assets acquired principally for the purpose of selling in the near term, or that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit-taking, or as a derivative, or financial asset which upon initial recognition is designated by ROSBANK at fair value through profit or loss.

*Investments available-for-sale*

The following table sets forth ROSBANK's investment securities available-for-sale as at 31 March 2006 and at 31 December 2005, 2004 and 2003.

| | As at 31 March | As at 31 December | | |
|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2003 |
| | *(unaudited) RUR'000* | *RUR'000* | *RUR'000* | *RUR'000* |
| Equity investments | 529,906 | 482,416 | 1,245,907 | 7,598,687 |
| Debt securities | — | 115,722 | 818,984 | 302,935 |
| | 529,906 | 598,138 | 2,064,891 | 7,901,622 |
| Less allowance for impairment losses | (170,551) | (119,804) | (127,545) | (113,984) |
| Total investments available-for-sale, net | 359,355 | 478,334 | 1,937,346 | 7,787,638 |

Securities available-for-sale represent equity and debt investments that are intended to be held for an indefinite period of time, which may be sold in response to the need for liquidity or changes in interest rates, exchange rates or equity prices.

## ROSBANK'S FUNDING

The primary sources of ROSBANK's funding are deposits from banks, deposits from non-bank customers and debt securities issued, including bonds, eurobonds and promissory notes. The following table sets forth ROSBANK's principal sources of funding in terms of volumes and as a percentage of total sources of funding as at 31 March 2006 and at 31 December 2005, 2004 and 2003.

| | As at 31 March | | As at December 31 | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | | 2005 | | 2004 | | 2003 | |
| | *(unaudited) RUR'000* | *% total liabilities* | *RUR'000* | *% total liabilities* | *RUR'000* | *% total liabilities* | *RUR'000* | *% total liabilities* |
| **Deposits from banks** | | | | | | | | |
| Time deposits from banks | 12,183,256 | 6.1% | 8,295,891 | 4.4% | 7,906,900 | 5.9% | 7,150,447 | 6.9% |
| Correspondent accounts of banks | 1,615,856 | 0.8% | 2,212,030 | 1.2% | 700,917 | 0.5% | 713,059 | 0.7% |
| Loans under repurchase agreements | 1,414,096 | 0.7% | 631,107 | 0.3% | 11,027 | 0.0% | — | — |
| Total deposits from banks | 15,213,208 | 7.6% | 11,139,028 | 5.9% | 8,618,844 | 6.5% | 7,863,506 | 7.6% |
| **Customer accounts** | | | | | | | | |
| Time deposits | 101,390,378 | 50.9% | 111,941,812 | 58.8% | 73,815,177 | 55.3% | 46,314,240 | 44.5% |
| Repayable on demand | 51,036,493 | 25.6% | 37,119,082 | 19.5% | 27,405,006 | 20.5% | 30,295,776 | 29.1% |
| Total customer accounts | 152,426,871 | 76.5% | 149,060,894 | 78.4% | 101,220,183 | 75.8% | 76,610,016 | 73.6% |
| **Financial liabilities at fair value through profit or loss** | | | | | | | | |
| Liabilities sold under repurchase agreements (short position) | 1,768,380 | 0.9% | 1,717,722 | 0.9% | — | — | — | — |
| Derivative financial instruments | 474,805 | 0.2% | 122,919 | 0.1% | 31,699 | 0.0% | 8,701 | 0.0% |
| Total financial liabilities at fair value through profit or loss | 2,243,185 | 1.1% | 1,840,641 | 1.0% | 31,699 | 0.0% | 8,701 | 0.0% |
| **Debt securities issued** | | | | | | | | |
| Discount bearing promissory notes | 9,610,285 | 4.8% | 8,759,724 | 4.6% | 7,608,637 | 5.7% | 6,830,668 | 6.6% |
| Eurobonds due in 2009 | 7,388,342 | 3.7% | 8,104,939 | 4.3% | 6,145,906 | 4.6% | — | — |
| Eurobonds due in 2007 | 4,198,579 | 2.1% | 4,436,034 | 2.3% | — | — | — | — |
| Discount/interest free promissory notes | 1,878,188 | 0.9% | 1,995,126 | 1.0% | 1,916,381 | 1.0% | 1,619,158 | 1.6% |
| Interest bearing promissory notes | 778,510 | 0.4% | 1,148,687 | 0.6% | 721,982 | 0.5% | 1,275,750 | 1.2% |
| Bonds due in 2009 | | | 2,219,646 | 1.1% | 832,555 | 0.4% | 2,024,325 | 1.5% |
| Adjustable Rate Guaranteed Bonds due in 2012 | 823,411 | 0.4% | 744,093 | 0.4% | 1,095,334 | 0.8% | 1,162,667 | 1.1% |
| Certificates of deposit | — | — | 23,049 | 0.0% | 389,019 | 0.3% | 7,336,462 | 7.0% |
| Total debt securities issued | 26,896,961 | 13.5% | 26,044,207 | 13.7% | 19,901,584 | 14.9% | 18,224,705 | 17.5% |
| Other liabilities | 2,314,270 | 1.2% | 1,976,837 | 1.0% | 1,973,568 | 1.5% | 1,079,455 | 1.0% |
| Subordinated debt | — | — | — | — | 1,450,000 | 1.1% | — | — |
| Total funding | 199,094,495 | 99.9% | 190,061,607 | 99.9% | 133,195,878 | 99.8% | 103,786,383 | 99.7% |
| Total provisions | 217,969 | 0.1% | 174,729 | 0.1% | 252,287 | 0.2% | 357,602 | 0.3% |
| Total liabilities | 199,312,464 | 100.0% | 190,236,336 | 100.0% | 133,448,165 | 100.0% | 104,143,985 | 100.0% |

As at 31 December 2005, the volume of bank funding increased by 29.2 per cent. to RUR 11,139 million. As at 31 March 2006, the volume of bank funding was RUR 15,213.2 million.

Deposits from customers increased by 47.3 per cent. in 2005, from RUR 101,220.2 million as at 31 December 2004 to RUR 149,060.9 million as at 31 December 2005. These increases were caused in part by an increase in the number of ROSBANK's retail customers following efforts to strengthen ROSBANK's position in the retail banking market, and by an increase in deposits from large

corporations. As at 31 March 2006, the volume of customer deposits was RUR 152,426.9 million compared to RUR 149,060.9 million. RUR 101,220.2 million and RUR 76,610.0 million, respectively, as at 31 December 2005, 2004 and 2003. As a percentage of total funding, deposits from customers changed from 73.6 per cent. as 31 December 2003 to 75.8 per cent. as at 31 December 2004 to 78.4 per cent. as at 31 December 2005, and then to 76.5 per cent. as at 31 March 2006. On average, deposits from customers form approximately 77 per cent. of ROSBANK's total funding, with minor fluctuations from year-to-year caused primarily by alterations in the legal classification of certain of ROSBANK's funding as between deposits or notes.

Debt securities issued by ROSBANK on the domestic and international market, including promissory notes and bonds, also serve as a source of funding. The value of ROSBANK's debt securities issued amounted to RUR 26,897.0 million as at 31 March 2006, RUR 26,044.2 million as at 31 December 2005, RUR 19,901.6 million as at 31 December 2004 and RUR 18,224.7 million as at 31 December 2003, representing 13.5 per cent., 13.7 per cent., 14.9 per cent. and 17.5 per cent. of ROSBANK's total funding as at 31 March 2006 and 31 December 2005, 2004 and 2003, respectively.

As at 31 March 2006, related parties accounted for 15.9 of ROSBANK's total non-equity funding, compared to 20.2 per cent. as at 31 December 2005, 19.1 per cent. as at 31 December 2004 and 21.5 per cent. as at 31 December 2003. ROSBANK's management expects that related parties will play a lesser role in the future funding of ROSBANK.

**Deposits by Maturity**

The following table sets forth deposits by maturity as at 31 December 2005, 2004 and 2003:

| | As at 31 December | | |
|---|---|---|---|
| | **2005** | **2004** | **2003** |
| | *(RUR'000)* | *(RUR'000)* | *(RUR'000)* |
| On demand or less than one month | 67,336,378 | 63,498,616 | 50,468,728 |
| One to three months | 20,792,264 | 14,676,628 | 17,285,928 |
| Three months to one year | 49,671,618 | 22,976,695 | 10,771,436 |
| One year to five years | 21,892,789 | 3,913,330 | 3,102,390 |
| Over five years | 506,873 | 6,223,758 | 2,845,040 |
| **Total deposits** | 160,199,922 | 119,289,027 | 84,473,522 |

## ROSBANK'S CAPITAL ADEQUACY

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios (as set forth in the table below) of total (8%) and tier 1 capital (4%) to risk weighted assets. The ratio was calculated according to the principles employed by the Basle Committee as at 31 March 2006 and at 31 December 2005, 2004 and 2003 :

| Capital amounts and ratios | Actual amount RUR'000 | For capital adequacy purposes amount RUR'000 | Ratio for capital adequacy purposes | Minimum required ratio |
|---|---|---|---|---|
| **As of 31 March 2006 (unaudited)** | | | | |
| Total capital | 23,406,596 | 23,391,231 | 14.7% | 8% |
| Tier 1 capital | 20,431,194 | 20,431,194 | 12.8% | 4% |
| **As of 31 December 2005** | | | | |
| Total capital | 22,820,266 | 22,804,843 | 15.6% | 8% |
| Tier 1 capital | 19,827,152 | 19,827,152 | 13.6% | 4% |
| **As of 31 December 2004** | | | | |
| Total capital | 16,425,568 | 17,850,419 | 16.1% | 8% |
| Tier 1 capital | 13,330,307 | 13,330,307 | 12.0% | 4% |
| **As of 31 December 2003** | | | | |
| Total capital | 11,283,742 | 11,283,742 | 12.6% | 8% |
| Tier 1 capital | 11,265,882 | 11,265,882 | 12.6% | 4% |

ROSBANK is and always has been in compliance with the minimum capital adequacy guidelines set forth by the CBR.

# PRINCIPAL SHAREHOLDERS

## GENERAL

The following table sets forth principal direct shareholders of ROSBANK (OJSC JSCB) as of 30 June 2006 by shareholders who are members of the Interros Group or who own 5 per cent. or more of the outstanding share capital of ROSBANK (OJSC JSCB). Each percentage of direct shareholdings is based on an aggregate of 680,360,538 ordinary shares outstanding as at 30 June 2006, each such ordinary share with a par value of RUR 10.

| | As at 30 June 2006 | |
|---|---|---|
| | *Number of ordinary shares* | *Percentage (approx.)* |
| KM Technologies (Overseas) Limited | 543,717,125 | 79.92% |
| Societe Generale Group | 68,036,054 | 10.00% |
| Others | 68,607,359 | 10.08% |
| Total | 680,360,538 | 100.00% |

The rights and privileges with regard to matters such as voting, dividends and liquidation preference are equal among all shares.

## THE INTERROS GROUP

ROSBANK is 79.92 per cent. owned by the Interros Group. According to the Interros Group, it is one of Russia's largest private investment groups, with assets under management exceeding U.S.$9.4 billion. Although the Interros Group has historically represented a substantial portion of ROSBANK's customer base, its importance has decreased due to the growth of ROSBANK's business activities with customers unrelated to Interros. As at 31 March 2006, related parties accounted for 20.8 per cent. of ROSBANK's total customer deposits and 1.8 per cent. of ROSBANK's total loans to banks and customers compared to 25.8 per cent. and 2.0 per cent., 23.8 per cent. and 2.3 per cent., 21.5 and 3.9 per cent., respectively, as at 31 December 2005, 2004 and 2003.

Companies within the Interros Group currently operate in most Russian regions and in a number of countries in Europe, Asia, and North America. The Interros Group divides its investment policy between acquiring minority positions in companies for investment purposes only, and acquiring controlling interests in specified companies for the purpose of managing the strategic development of the relevant company on behalf of Interros shareholders.

Interros Group companies include companies in the metallurgy and mining, machine-building, financial, agriculture and food, mass media and real estate investment industries. Each company managed by the Interros Group has an independent management team which is responsible for day-to-day operations, and a board of directors comprising a combination of Interros Group shareholders and independent individuals.

The principal Interros Group companies include, in addition to ROSBANK, Norilsk Nickel (OJSC) (non-ferrous metals and mining), Power Machines (OJSC) (power generating equipment), Soglasiye (insurance), Interros-Dostoinstvo (private pension fund), Agros (JSC) (agriculture), Prof-Media Holding and OJSC Open Investments (real estate and development).

### Norilsk Nickel

Norilsk Nickel and its subsidiaries are an integrated mining and metallurgical group. The Norilsk Nickel group is one of the world's leading producers of nickel and palladium, one of the world's largest producers of platinum and one of the world's top ten producers of gold and copper. Norilsk Nickel's acquisition of the gold mining company CJSC Polus in November 2002 resulted in

its becoming Russia's number one producer of gold. In June 2003, Norilsk Nickel acquired 51 per cent. of Stillwater Mining Company, the only palladium producer located in the United States. The Norilsk Group currently maintains its corporate headquarters in Moscow and has operations in Russia, England, Switzerland, China and the United States.

**Power Machines**

Power Machines is one of Russia's leading manufacturers and suppliers of both equipment for hydro-, steam and gas power plants and equipment for the transmission and distribution of power, transport and railway equipment. It delivers supplies to, and services clients in, more than 87 countries worldwide, from offices located in 16 countries.

**Soglasyie**

Soglasyie is among Russia's ten largest insurance companies and is a leading insurance provider in Russia of car insurance, corporate property insurance, third-party insurance, and professional indemnity insurance. Established in September 1993, Soglasyie originally focused on providing services to Interros Group companies. As Soglasyie developed, it began to expand its customer base to include non-Interros Group companies. It currently offers more than 76 different insurance products to customers in both the Russian domestic and international markets.

**Interros-Dostoinstvo**

In October 1993, the Interros Group established Russia's first non-state pension fund, Interros Dostoinstvo, which engages in the development of corporate pension plans, as well as pension plans for various non-corporate entities.

**Agros**

The investment fund Agros was established in late 2001 to invest in Russia's agriculture and food industry. Through its acquisition of a range of agricultural assets over the past three years, Agros has become Russia's leader in sales of grain and pasta in both the domestic and international markets. It has one of Russia's largest functioning grain storage facilities and is one of the country's largest poultry producers.

**Prof-Media**

The Interros Group established Prof-Media in 1997 in order to manage its various holdings in the mass media industry in Russia. Prof-Media owns controlling interests in the newspapers KomsomolskayaPravda, Sovetsky Sport, and Express Gazeta; in the periodical Financial Director; in the radio stations Avtoradio, Energiya, and Novosti Online; and in the Segodnya Press company. Prof-Media is also a shareholder in the Prof-Media Print printing house.

**OJSC Open Investments**

The Interros Group established OJSC Open Investments in 2002 for the purpose of investing in the Moscow real estate market. OJSC Open Investments currently focuses on investing in the construction of luxury housing, office buildings, trade and leisure centres and hotels.

**SOCIETE GENERALE GROUP**

Societe Generale Group is the owner of 10% of shares, which were acquired in June 2006 from KM Technologies (Overseas) Limited. According to the Societe Generale Group, it serves 19.2 million retail customers around the world, whilst its corporate and investment banking arm is the 3rd largest corporate and investment bank in the euro zone by net banking income.

## RELATED PARTY TRANSACTIONS

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures", represent:

(a) Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Group. (This includes holding companies, subsidiaries and fellow subsidiaries);

(b) Associates — enterprises in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;

(c) Individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group;

(d) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group (also non-executive directors and close members of the families of such individuals);

(e) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Group and enterprises that have a member of key management in common with the Group;

(f) Parties with joint control over the Group;

(g) Joint ventures in which the Group is a venturer; and

(h) Post-employment benefit plans for the benefit of employees of the Group, or of any entity that is a related party to the Group.

ROSBANK has entered into, and will continue to enter into, transactions with companies in which the Interros Group has a controlling interest or that are holding companies or special purpose vehicles within the Interros Group or companies with members of management in common with ROSBANK.

## TRANSACTIONS IN THE ORDINARY COURSE OF BUSINESS

ROSBANK enters into banking transactions in the ordinary course of business with related parties with which ROSBANK has significant shareholders in common, primarily members of the Interros Group. These transactions include loans, deposits, trading and settlement services and letters of credit, lines of credit and guarantees issued and received.

The following table sets forth the portion of selected balance sheet items that are attributable to related party transactions for the three months ended 31 March 2006 and the years ended 31 December 2005, 2004 and 2003:

| Related party transactions | As at 31 March | | As at 31 December | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | | 2005 | | 2004 | | 2003 | |
| | Attributable to related party transactions | % of total line item | Attributable to related party transactions | % of total line item | Attributable to related party transactions | % of total line item | Attributable to related party transactions | % of total line item |
| | *(unaudited) RUR '000* | | *RUR '000* | | *RUR '000* | | *RUR '000* | |
| Financial assets at fair value through profit or loss | 671,197 | 5.2% | 974,382 | 6.2% | 1,916,928 | 17.7% | 1,502 | 0.0% |
| Loans to banks and customers | 3,291,239 | 1.8% | 3,436,265 | 2.0% | 2,377,852 | 2.3% | 2,940,107 | 3.9% |
| Allowance for impairment losses | 66,691 | 1.0% | 169,450 | 2.9% | 138,208 | 2.8% | 130,045 | 3.8% |
| Customer accounts | 31,749,888 | 20.8% | 38,471,040 | 25.8% | 24,073,921 | 23.8% | 16,505,762 | 21.6% |
| Other provisions | 20,298 | 9.3% | 62,459 | 35.8% | 64,504 | 25.6% | 85,269 | 23.9% |

The following table sets forth the portion of selected income statement items that are attributable to related party transactions for the three months ended 31 March 2006 and 2005 and the years ended 31 December 2005, 2004 and 2003:

| | For the 3 months period ended 31 March | | | | For the Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 | | 2005 | | 2005 | | 2004 | | 2003 | |
| | Attributable to related party transactions | % of total line item | Attributable to related party transactions | % of total line item | Attributable to related party transactions | % of total line item | Attributable to related party transactions | % of total line item | Attributable to related party transactions | % of total line item |
| | *(unaudited) RUR'000* | | *(unaudited) RUR'000* | | *RUR'000* | | | | | |
| Interest income | 166,834 | 3.0% | 230,838 | 5.5% | 1,088,199 | 5.1% | 1,373,569 | 8.8% | 615,368 | 8.3% |
| Interest expense | 388,767 | 13.1% | 486,334 | 19.0% | 1,658,205 | 15.2% | 1,503,961 | 20.9% | 778,993 | 16.4% |
| Allowance for impairment losses | (3,010) | 0.4% | 56,909 | 60.3% | 31,243 | 3.0% | 8,162 | 0.5% | 1,394 | 3.8% |
| Net gain/(loss) on financial assets at fair value through profit or loss | 150,493 | n/a | 232,329 | n/a | 379,781 | n/a | (512,595) | n/a | 604,974 | n/a |
| Net gain/(loss) on sale of investments available-for-sale | 142,776 | n/a | 163,871 | n/a | 115,851 | n/a | 56,927 | n/a | 36,528 | n/a |
| Fee and commission income | 47,416 | 18.8% | 38,049 | 21.5% | 823,578 | 20.1% | 589,199 | 14.9% | 553,952 | 54.7% |
| Operating expense | 26,357 | 0.9% | 59,591 | 2.7% | 185,663 | 1.7% | 108,042 | 1.3% | 95,048 | 3.0% |

The following table sets forth the portion of selected off-balance sheet items that are attributable to related party transactions for the three months ended 31 March 2006 and the years ended 31 December 2005, 2004 and 2003:

| **Related party transactions** | **As at 31 March** | | **As at 31 December** | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2006** | | **2005** | | **2004** | | **2003** | |
| | **Attributable to related party transactions** | **% of total line item** | **Attributable to related party transactions** | **% of total line item** | **Attributable to related party transactions** | **% of total line item** | **Attributable to related party transactions** | **% of total line item** |
| | *(unaudited) RUR '000* | | *RUR '000* | | *RUR '000* | | *RUR '000* | |
| Commitments on loans and unused credit lines..... | 238,977 | 3.7% | 276,068 | 1.5% | 1,699,431 | 9.8% | 1,301,730 | 7.0% |
| Letters of credit and other transaction related contingent obligations ..... | 65,544 | 2.8% | 268,780 | 16.5% | 62,474 | 3.4% | — | — |
| Guarantees issued and similar commitments..... | 2,220,776 | 29.9% | 2,989,317 | 38.7% | 3,562,511 | 48.5% | 5,084,488 | 53.0% |
| Guarantees received | 1,473,846 | 0.9% | 1,309,985 | 0.8% | 734,662 | 0.5% | 4,725,489 | 4.3% |

# MANAGEMENT

According to the charter of ROSBANK (OJSC JSCB), the General Shareholders' Meeting, the Board of Directors, the Management Board and the Chairman of the Management Board are responsible for the management of ROSBANK. The Board of Directors is responsible for defining ROSBANK's strategy and setting its priorities, while the Management Board is responsible for the daily management of ROSBANK's operations. See "Share Capital and Shareholder Structure – Management".

The members of ROSBANK's management are domiciled in Moscow and are Russian citizens, except for Mr. Allan Hirst, who is domiciled in London and is a citizen of the United States of America and Mr. Martin Gilman who is domiciled in Moscow and is a citizen of the United States of America.

There are no conflicts of interest between the duties of ROSBANK's management to ROSBANK and their private interests and/or duties to other companies.

## BOARD OF DIRECTORS

Except with respect to matters reserved to the exclusive competence of the General Shareholders' Meeting, the Board of Directors is responsible for managing ROSBANK's operations. Specific responsibilities exclusive to the Board of Directors include:

- setting priorities for ROSBANK;
- convening the annual shareholders' meeting and any extraordinary shareholders' meetings (except for situations reserved to the authority of the Audit Committee, ROSBANK's independent auditor and shareholders) and approving the agenda for such meetings;
- appointing the Chairman and members of the Management Board;
- determining the remuneration payable to members of the Management Board;
- approving internal operating procedures for ROSBANK's management bodies (except for those which must be approved by ROSBANK's annual general shareholders' meeting); and
- approving transactions the value of which is between 5 per cent. and 50 per cent. of the value of ROSBANK's balance sheet assets and interested party transactions.

As at the date of this Base Prospectus, the Board of Directors of ROSBANK had nine members. The following table sets forth the name and position of each member of the Board of Directors:

| Name | Position | Director since |
|---|---|---|
| Andrei Klishas | Chairman and member | 15 September 1998 |
| Andrei Bugrov | member | 24 June 2002 |
| Vyacheslav Fedorov | member | 19 June 2003 |
| Evgueni Ivanov | Deputy Chairman and member | 22 November 2000 |
| Alexander Popov | Chairman of the Management Board and member | 19 June 2003 |
| Mukhadin Eskindarov | member | 23 June 2005 |
| Georgi Zabolotsky | member | 19 February 2004 |
| Allan Hirst | member | 20 February 2006 |
| Martin Gilman | member | 20 February 2006 |

The business address of the Directors of ROSBANK is 11 Masha Poryvaeva Street, Moscow 107078, Russian Federation.

Members of the Board of Directors are generally elected for terms of one-year by the shareholders at the annual general shareholders' meeting by a cumulative voting procedure. Members of the Board of Directors may also be elected by the shareholders at an extraordinary shareholders' meeting until the next scheduled annual general shareholders' meeting or the next extraordinary shareholders' meeting for the purpose of electing Members of the Board of Directors, at which such

members of the Board of Directors may be either re-elected or dismissed. Persons elected to the Board of Directors may be re-elected an unlimited number of times.

The current members of the Board of Directors were re-elected at the annual meeting of shareholders held on 12 May 2006 for terms that will expire on the date of the next annual meeting of the shareholders, which will be held at a date to be determined between 1 April and 30 June 2007. The name, age, qualifications for each member of the Board of Directors and certain other information, including directorships or partnerships of each member of the Board of Directors for the previous five years, are set forth below:

***Andrei Klishas*** (33) has been a member of the Board of Directors since 1998 and currently serves as its Chairman. Mr. Klishas also serves as Chairman of the Management Board and General Director of Interros Holding Company; as a member of the Boards of Directors of RAO Norilsk Nickel, Norilsk Nickel Mining and Metallurgical Company, Power Machines and Agros; and as a member of the Supervisory Board of Finkom-Investments and Management. Previously, Mr Klishas served as Legal Matters Director of Interros Holding Company, as a member of the Board of Directors of Sidanko, as General Director at CJSC Interros-Estate and as Deputy Head of Legal Department at Uneximbank.

***Andrei Bugrov*** (54) has been a member of ROSBANK's Board of Directors since 2002. Mr. Bugrov is also Deputy Chairman of the Management Board of Interros Holding Company; a member of the Board of Directors of Norilsk Nickel Mining and Metallurgical Company; Chairman of the Supervisory Board of Finkom-Investments and Management; and a member of the Board of Directors of OAO Open Investments. Previously, Mr. Bugrov served as Russia's Principal Resident Representative to the World Bank, the International Finance Corporation and the Multilateral Investment Guarantee Agency; as Dean of the Board of Directors of the World Bank; as a senior staff member of the European Bank for Reconstruction and Development in London; and as a member of the Board of Directors of Power Machines. Mr. Bugrov has also previously served as Chairman of ROSBANK's Board of Directors.

***Vyacheslav Fedorov*** (40) has been a member of ROSBANK's Board of Directors since 2003. He is currently Chairman of the Board of Directors of Lipetskkombank, a member of the Board of Directors of Novolipetsky Metallurgical Steelworks, and a member of the Board of Directors and Management Board of Bank Zenit. Mr. Fedorov also serves as a manager in the Management Department of OOO Rumelko. Previously, Mr. Fedorov served as a member of the Board of Directors, as General Director and later as Finance Director of Lipetskkombank. Mr. Fedorov also served as an acting General Director of Bank Central OVK, as Deputy Chairman of the Management Board of Astana-Holding Bank and Astana International Bank, and as Head of Analytics Department of Russian Credit Bank.

***Evgueni Ivanov*** (39) has been a member of ROSBANK's Board of Directors since 2000. Mr. Ivanov is Deputy Chairman of the Board of Directors of Rosbank Switzerland. Mr. Ivanov also serves as a President of the Polyus Goldmining Company. Previously, Mr. Ivanov served as President of the Board of Directors of ROSBANK, following which he served as Chairman of the Management Board and as President. Mr. Ivanov has also served as Deputy Chairman of the Management Board and as Head of the Precious Metals Department of Uneximbank.

***Alexander Popov*** (36) has been a member of ROSBANK's Board of Directors since 2003. Mr. Popov is Chairman of the Management Board of ROSBANK. He also serves as a member of the Board of Directors of Norimet Ltd., Rosbank Switzerland and as a member of the Supervisory Board of Finkom-Investments and Management. Previously, Mr. Popov served as a member of the Management Board and as Director of the Treasury of Uneximbank, as Head of the Treasury Department of ROSBANK, as Deputy Chairman of the Management Board of ROSBANK and as Deputy General Director and Chief Treasurer of Norilsk Nickel Mining and Metallurgical Company.

***Mukhadin Eskindarov*** (56) has been a member of ROSBANK's Board of Directors since 2005. He has served as First Pro-Rector of the Finance Academy of Russian Federation since July 2002. Previously, Mr. Eskindarov served as the Pro-Rector of the Finance Academy of Russian Federation and was in charge of the educational process. Mr. Eskindarov graduated from the Moscow Finance Institute and holds a doctorate in economics.

***Georgi Zabolotsky*** (43) has been a member of ROSBANK's Board of Directors since 2004 and serves as First Vice President of ROSBANK. He also serves as a General Director and as a member of the Supervisory Board of Finkom-Investments and Management. Mr. Zabolotsky is also a member of the Board of Directors of each of Commercial Bank Sibirskoe OVK, Bank First OVK, Bank Central OVK, Bank Middle Volga OVK, Bank Far East OVK and Bank Upper Volga OVK. Previously, Mr. Zabolotsky served as Deputy Chairman of the Management Board of Uneximbank and as Deputy Chairman of the Management Board of ROSBANK.

***Allan Hirst*** (56) has been an independent director of ROSBANK's Board of Directors since 2006. From 1981 till 2005 Mr. Hirst worked for Citigroup in various positions, including CEO of Citibank in Russia. Mr. Hirst also serves as a Member of the Board of Directors in the following companies: Financial Services Volunteer Corps, Phico Therapeutics Ltd. and Northstar Corporate Finance.

***Martin Gilman*** (57) has been an independent director of ROSBANK's Board of Directors since 2006. Mr. Gilman has a PhD in Economics. Between 1997 and 2002 Mr. Gilman headed the representative office of the IMF in Russia. From February 2002 till August 2005 Mr. Gilman worked as Deputy Director of Department of Economic Policy and as a Representative of the IMF in the Paris Club of lenders. Since 2005, Mr. Gilman has been serving as the Professor of Economics and the Head of Economic Policy Center of the Higher School of Economics in Moscow.

The term of the current members of the Board of Directors expires at the annual general meeting scheduled to take place in May/June 2007.

## BOARD OF DIRECTORS' COMMITTEES

ROSBANK's Board of Directors has established three permanent sub-committees, the Strategy Committee, the Remuneration and Personnel Committee and the Audit Committee.

### Strategy Committee

The primary responsibilities of the Strategy Committee include defining long-term goals and priorities of the Company. Its members are Mukhadin Eskindarov, as Chairman, Andrei Bugrov, Alexander Popov and Allan Hirst.

### Audit Committee

The primary responsibilities of the Audit Committee include evaluating and recommending the appointment of the Company's external auditor and monitoring the Company's auditing and internal control systems. Its members are Allan Hirst, as Chairman, Martin Gilman and Evgueni Ivanov.

### Remuneration and Personnel Committee

The Remuneration and Personnel Committee develops the criteria by which candidates for the Board of Directors and the Company's management are selected and evaluates the Company's human resource policies, including in connection with remuneration. Its members are Martin Gilman, as Chairman, Allan Hirst and Andrei Bugrov.

## AUDITING COMMISSION

In accordance with the Company's charter, at the annual General Shareholders' Meeting, the shareholders of the Company appoint a five person Auditing Commission. Members are elected for a term of one year and may not be members of the Board of Directors or persons holding management positions. The main responsibilities of the Auditing Commission are to review compliance by ROSBANK with applicable law and regulations, ROSBANK's internal controls and its cash and asset positions. The Auditing Commission's proceedings are governed by ROSBANK's charter and regulations approved by a general meeting of shareholders. The Auditing Commission has the power to demand the convening of an extraordinary general meeting of shareholders. The members of the Auditing Commission are Marina Risukhina, Dmitry Borovkov, Natalia Bubenkova, Mikhail Pelipenko and Liudmila Yandieva.

## MANAGEMENT BOARD

The charter of ROSBANK (OJSC JSCB) provides that the members of the Management Board are appointed by the Board of Directors for terms of up to three years. The Board of Directors may terminate the term of any member of the Management Board at any time and without cause. In addition, the Board of Directors determines the total number of members of the Management Board. The Management Board, including the chairman, report to the General Shareholders' Meeting of and to the Board of Directors.

The Management Board has the authority to manage the daily operations of ROSBANK, including:

- determining ROSBANK's strategy and annual business plan;
- analysing ROSBANK's financial and business operations;
- proposing amendments to the charter of ROSBANK (OJSC JSCB) for review and approval by the Board of Directors;
- developing proposals for strategic transactions, subject to the approval of the General Shareholders' Meeting or the Board of Directors;
- determining the use of ROSBANK's reserve funds and other funds;
- approving resolutions authorising a transaction, or series of related transactions, which involve obligations in an aggregate amount of cash or in-kind obligations, including obligations involving the transfer of accounts receivable and securities, in excess of U.S.$50,000,000. The Management Board cannot approve resolutions involving matters which are the exclusive competence of the Board of Directors or the General Shareholders' Meeting; The Management Board may delegate its authority to approve any of the above resolutions to the chairman of the Management Board;
- approving resolutions in connection with the admission of claims, waiver of claims, or execution of settlements, which exceed U.S.$50,000,000;
- approving resolutions to appoint directors of the branch and representative offices;
- approving regulations relating to ROSBANK's corporate governance, including regulations on structural units, excluding approvals relating to matters that are the exclusive competence of the Board of Directors or the general shareholders' meeting;
- approving ROSBANK's employee policies and procedures; and
- reviewing the results of periodic audits of ROSBANK's internal control system.

The list below reflects the composition of the Management Board and each member's key responsibilities as at the date of this prospectus:

| Name | Key Responsibilities |
|---|---|
| Alexander Popov | Chairman |
| Vladimir Golubkov | First Deputy Chairman—Retail and SME Banking |
| Igor Antonov | Deputy Chairman—Administration |
| Oksana Lifar | Deputy Chairman—Private Banking |
| Mikhail Kiselev | Deputy Chairman—Chief Financial Officer |
| Larissa Dolotova | Deputy Chairman—Corporate Banking |
| Sergei Koshelenko | Deputy Chairman—Financial Markets and Financial Institutions |
| Guerman Aliev | Deputy Chairman—Corporate Development and Investment banking |
| Maksim Frolov | Deputy Chairman—North-West Regional Development |
| Olga Riabova | Deputy Chairman—Operations and Information Technology |
| Alexander Vedernikov | Deputy Chairman—Moscow Region |
| Olesya Afanasyeva | Deputy Chairman—Credit Risk Management |

The business address of the members of the Management Board of ROSBANK is 11 Masha Poryvaeva Street, Moscow 107078, Russian Federation.

The members of the Management Board are appointed for terms of up to three years. The current Management Board was appointed on 3 May 2006.

The name, age, qualifications for each member of the Management Board who is not a member of the Board of Directors and certain other information, including directorships or partnerships of each member of the Management Board for the previous five years, are set forth below:

***Vladimir Golubkov*** (39) has served as First Deputy Chairman of the Management Board since 4 March 2003. Mr. Golubkov is also President and Chairman of the Board of Directors of UCS, Chairman of the Board of Directors of Interbank Credit Union, and Deputy Chairman of the Management Board of Finkom-Investments and Management. Mr. Golubkov also serves as Chairman of the Board of Directors of United Settlement System. Mr. Golubkov previously served as the Deputy Chairman of the Management Board of ROSBANK responsible for the credit card business and as Senior Vice President of ROSBANK.

***Igor Antonov*** (41) has been Deputy Chairman of the Management Board responsible for regional development and client relations since 14 January 1999. Mr. Antonov also serves as a member of the Board of Directors of each of Commercial Bank Sibirskoe OVK, Bank First OVK, Bank Central OVK, Bank Middle Volga OVK, Bank Far East OVK and Bank Upper Volga OVK and as a member of the Management Board of Finkom-Investments and Management. Previously, Mr. Antonov served as Deputy Chairman of the Management Board of Uneximbank.

***Oksana Lifar*** (37) has been Deputy Chairman of the Management Board responsible for private banking since 12 September 2000. Previously, Ms. Lifar served as Deputy Head of the Client Relations Department and later as Head of the Client Relations Department of Uneximbank.

***Mikhail Kiselev*** (41) has been Deputy Chairman of the Management Board and Chief Financial Officer since 26 June 2002. Mr. Kiselev also serves as a director of MFK Investments (Cyprus) Limited. Previously, Mr. Kiselev served as Deputy Chairman of the Management Board of Uneximbank and as Director of the Budget and Finance Department of ROSBANK.

***Larissa Dolotova*** (38) has been Deputy Chairman of the Management Board responsible for corporate banking since 18 January 2002. Ms. Dolotova is also a member of the Board of Directors of OAO Tverskaya 16. Previously, Ms. Dolotova served as Head of Lending Department of Uneximbank, as director of the Lending Department of ROSBANK and as Senior Vice President of ROSBANK.

***Sergei Koshelenko*** (36) has been Deputy Chairman of the Management Board responsible for financial markets and financial institutions since 28 March 2003. Previously, Mr. Koshelenko served as a Vice President of Bank Credit Suisse (Moscow) A.O. responsible for various sectors including treasury transactions and as a Director of the Corporate Clients Coverage and the Treasury Group for EMEA countries of Bank Credit Suisse. Mr. Koshelenko also served as Treasury Advisor of Vneshtorgbank and Deputy Head of the Investment Programmes Department in Vneshtorgbank.

***Guerman Aliev*** (36) has been Deputy Chairman of the Management Board responsible for corporate development and investment banking since 28 April 2003. Previously, Mr. Aliev was a Director at Dresdner Kleinwort Wasserstein (London), where he was responsible for Western European Markets. Prior to that, Mr. Aliev served as Director of the Derivative Products Department and later as Director of the Equity Capital Markets Department at Merrill Lynch International, London, responsible for Russia, South Africa, Israel and Eastern Europe. Mr Aliev previously also served as a Manager of the Fixed Income Sales Department of Renaissance-Capital (Moscow) and also worked at Gulf Oil (Canada).

***Maksim Frolov*** (39) has been Deputy Chairman of the Management Board since 11 November 2003 and is currently responsible for the North West regional development. Previously, Mr. Frolov served as Senior Vice President of ROSBANK. He has also served as a manager, as Deputy Managing Director and as Managing Director of the Moscow branch of Menatep St.-Petersburg Bank and as a member of the Management Board and as Vice President at Menatep St.-Petersburg Bank.

***Olga Riabova*** (33) has been a member of the Management Board since 19 July 2005 and is responsible for IT and operational development. Previously Ms. Riabova served as ROSBANK's Chief Accountant.

***Alexander Vedernikov*** (36) has been Deputy Chairman of the Management Board since 1 December 2005 and is responsible for the Moscow region. Mr Vedernikov is also a member of the Irkutsk parliament. Previously he served as the Chairman of the Management Boards of Sibirskoe OVK, Baikaloneksimbank and Baikalrosbank.

***Olesya Afanasieva*** (35) has been a member of the Management Board since 14 July 2006 and is responsible for Credit Risk Management. Previously Ms. Afanasieva served as the head of the Corporate Lending department of ROSBANK.

## PERMANENT COMMITTEES

The Management Board has established four permanent committees, the Credit Committee, the Committee on Liquidity, Risk and Pricing (CLRP), the Banking and Technology Committee and the Credit Committee for Retail Services, each of which performs specific internal control functions with respect to the activities of ROSBANK. For a description of the functions of each of these committees, see ''Description of Rosbank – Risk Management''.

## INTERNAL CONTROL

In addition to the above managerial committees, ROSBANK's main supervisory body that assists managerial control is the ICD. The main responsibilities of the ICD include identifying and monitoring banking risks, conducting routine and unannounced internal audit checks, making recommendations on deficiencies discovered and monitoring money laundering controls. The ICD's activities are governed by ROSBANK's internal regulations and technical manuals, which are approved by the Board of Directors. The ICD reports directly to the Board of Directors on a regular basis.

## LOANS TO THE MANAGEMENT OF THE BANK

As at 31 March 2006, the total amount of outstanding loans to members of the Management Board, Board of Directors and other insiders comprised 0.3 per cent. of ROSBANK's statutory capital and did not exceed the official limit of 3 per cent. set by the CBR. There are no other outstanding loans, guarantees (or other contingent liabilities) granted by ROSBANK to any member of the Management Board or Board of Directors.

# THE ISSUER

Rosbank Finance S.A., the Issuer was incorporated as a *société anonyme* on 8 June 2005 for an unlimited duration with limited liability under the laws of the Grand Duchy of Luxembourg. Its Articles of Incorporation were published in the *Memorial, Recueil des Sociétés et Associations* with number 1062 on 19 October 2005. It has also been registered with the Register of Commerce and Companies, Luxembourg with registered number B108 433. Its registered office is located at 1, allée Scheffer, L-2520, Luxembourg. Its telephone number is +352 24 14 33 1.

The Issuer's subscribed share capital amounts to EUR31,000 divided into 310 registered shares with a par value of EUR100 each. All of the shares are fully paid up. The Issuer is owned by ROSBANK.

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

1. TMF Corporate Services S.A.;
2. TMF Secretarial Services S.A.; and
3. TMF Administrative Services S.A.

The business address of each of the directors is 1, allée Scheffer, L-2520, Luxembourg. None of the directors performs principal activities outside the Issuer which are significant with respect to the Issuer. There are no conflicts of interest between any duties of the directors to the Issuer and their private interests and/or duties.

TMF Management 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 immediately in certain circumstances and it may retire upon two months' prior notice.

The corporate objectives of the Issuer, as described in Article 4 of its Articles of Incorporation, are to:

(i) issue debt securities of any nature and in any currency and borrow and raise funds in any form, save that it may not raise funds from the public and may not issue debt securities with a denomination of less than EUR50,000;

(ii) lend funds in any manner, including by granting loans to, or by acquiring, purchasing, subscribing for or otherwise receiving rights to debt instruments of any kind issued by, ROSBANK or any of its affiliates;

(iii) pledge, mortgage or otherwise create security interests in or over its assets, property and rights to secure the payment of any amounts payable under any bond, note, debenture or other debt instrument issued by the Issuer;

(iv) enter into swap agreements;

(v) transfer its receivables pursuant to and in accordance with agreements it may enter with its investors and creditors;

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

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

**Capitalisation**

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

| | **Actual** |
|---|---|
| | *(euros)* |
| Share capital (issued 310 Ordinary Shares of EUR 100 each) | 31,000 |
| Total Capitalisation | 31,000 |

On 31 August 2006 the European Central Bank reference exchange rate for U.S.$ was €1=U.S.$1.2851.

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

**Financial Statements**

The audited financial statements of the Issuer for the year ending 31 December 2005, together with the audit report in respect thereof, are set out on pages F-103 to F-114 of this Base Prospectus. Any future published financial statements prepared by the Issuer (which will be in respect of the year ending on 31 December in each year) will be available from the Paying Agent in Luxembourg. The Issuer will not produce interim financial statements.

# TERMS AND CONDITIONS

*The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Final Terms, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of the Final Terms or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on the Notes in definitive form and the Global Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed or the relevant Final Terms. Those definitions will be endorsed on the Notes in definitive form or Global Notes, as the case may be. References in the Conditions to ''Notes'' are to the Notes of one Series only, not to all Notes that may be issued under the Programme.*

The Notes are constituted by a Trust Deed (as amended or supplemented as at the date of issue of the Notes (the ''Issue Date''), the ''Trust Deed'') dated 8 July 2005 between Rosbank Finance S.A. (the ''Issuer''), ROSBANK (OJSC JSCB) (the ''Guarantor''), and J.P. Morgan Corporate Trustee Services Limited (the ''Trustee'', which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Notes referred to below. An Agency Agreement (as amended or supplemented as at the Issue Date, the ''Agency Agreement'') dated 8 July 2005 has been entered into in relation to the Notes between the Issuer, the Guarantor, the Trustee, JPMorgan Chase Bank, N.A. as calculation agent (the ''Calculation Agent''), principal paying agent (the ''Principal Paying Agent'' and a ''Paying Agent'') and a transfer agent (a ''Transfer Agent'') and J.P. Morgan Bank Luxembourg S.A. as Luxembourg paying agent (the ''Luxembourg Paying Agent'' and a ''Paying Agent''), registrar (the ''Registrar'') and a transfer agent (a ''Transfer Agent''). Copies of the Trust Deed, the relevant Final Terms (as defined in the Trust Deed) and the Agency Agreement are available for inspection during usual business hours at the principal office of the Trustee (presently at Trinity Tower, 9 Thomas More Street, London E1W 1YT) and at the specified offices of the Paying Agents and the Transfer Agents.

The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

As used in these Conditions, ''Tranche'' means Notes which are identical in all respects.

## 1. Form, Denomination and Title

The Notes are issued in registered form in the Specified Denomination(s) shown hereon or integral multiples thereof, without interest coupons, provided that (i) the Specified Denomination(s) shall not be less than €50,000 or its equivalent in other currencies – and (ii) with respect to Notes with a maturity of less than 365 days, a minimum Specified Denomination may apply as more fully set out in the relevant Final Terms.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

Title to the Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the ''Register''). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it or its theft or loss and no person shall be liable for so treating the holder.

In these Conditions, ''Noteholder'' means the person in whose name a Note is registered, ''holder'' (in relation to a Note) means the person in whose name a Note is registered (as the case

may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

**2. Transfers of Notes**

(a) **Transfer of Notes:** One or more Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the relevant Note or Notes, together with the form of transfer endorsed on such Note or Notes, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of a Note, a new Note shall be issued to the transferee in respect of the part transferred and a further new Note in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Guarantor, the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request and will be available at the office of the Paying Agent in Luxembourg.

(b) **Exercise of Options or Partial Redemption in Respect of Notes:** In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Notes, a new Note shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Notes of the same holding having different terms, separate Notes shall be issued in respect of those Notes of that holding that have the same terms. New Notes shall only be issued against surrender of the existing Notes to the Registrar or any Transfer Agent. In the case of a transfer of Notes to a person who is already a holder of Notes, a new Note representing the enlarged holding shall only be issued against surrender of the Note representing the existing holding.

(c) **Delivery of New Notes:** Each new Note to be issued pursuant to Conditions 2(a) or (b) shall be available for delivery within three business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(e)) and surrender of the Note for exchange. Delivery of the new Note(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Note shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Note to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition (c), "business day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(d) **Transfer Free of Charge:** Transfer of Notes on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(e) **Closed Periods:** No Noteholder may require the transfer of a Note to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date (as defined in Condition 7(a)(ii)).

**3. Guarantee and Status**

(a) **Guarantee:** The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Trust Deed and the Notes. Its obligations in that respect (the "Guarantee") are contained in the Trust Deed.

(b) **Status of Notes and Guarantee:** The Notes constitute (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4, at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer and the Guarantor respectively, present and future.

**4. Covenants**

(a) ***Negative Pledge***

So long as any amount remains outstanding under the Notes, neither the Guarantor nor the Issuer shall, and the Guarantor shall not permit any of its Principal Subsidiaries to, directly or indirectly, create, incur or suffer to exist any Encumbrances, other than Permitted Encumbrances, on any of its assets, now owned or hereafter acquired, securing any Consolidated Indebtedness, unless the Notes are secured equally and rateably with such other Consolidated Indebtedness.

(b) ***Maintenance of Authorisations***

So long as any amount remains outstanding under the Notes, the Guarantor and the Issuer 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 required in or by the laws of Russia or Luxembourg, respectively, 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 Russia or Luxembourg, respectively, for the execution, delivery or performance of the Contracts or for the validity or enforceability thereof.

(c) ***Mergers and Consolidations***

So long as any amount remains outstanding under the Notes, the Issuer and the Guarantor shall and the Guarantor shall procure that its Principal Subsidiaries shall:

(i) preserve and maintain their corporate existence; and

(ii) not consolidate with or merge into any other Person or convey, transfer or lease all or substantially all of its assets as an entirety, whether in a single transaction or a series of related transactions, to any other Person unless (with respect to this Clause 4(c)(ii)):

(A) (I) the Issuer, the Guarantor and/or the Principal Subsidiary (as applicable) is the continuing entity, or (II) the Person formed by such consolidation or into which the Issuer, the Guarantor and/or the Principal Subsidiary is merged or that acquired or leased such property or assets of the Issuer, the Guarantor and/or the Principal Subsidiary (the "Successor Company"): (x) will be a company organised and validly existing under the laws of Russia (in the case of the Guarantor) or Luxembourg (in the case of the Issuer) or any other country and if organised in Russia, such company will have a general banking licence, and (y) in respect of a Successor Company to the Issuer or the Guarantor shall assume (jointly and severally with the Issuer and/or the Guarantor unless either/both shall have ceased to exist as a result of such merger, consolidation or amalgamation) all of the obligations of the Issuer and/or the Guarantor (as applicable) under the Contracts and the Notes;

(B) immediately after giving effect to the transaction, no Event of Default shall have occurred and be continuing;

(C) immediately after giving effect to the transaction, neither the Issuer, the Guarantor nor the Successor Company (as applicable) shall be in violation or breach of any of its related covenants, agreements, obligations, representations or warranties contained in the Contracts and the Notes; and

(D) in the event the Issuer and/or the Guarantor is not the continuing entity, the Issuer and/or the Guarantor (as applicable) shall provide to the Trustee one or more opinions of independent reputable counsel in form and substance satisfactory to the Trustee and certificates signed by two directors of the Issuer and/or by the Chairman of the Management Board of the Guarantor or the Successor Company, and which taken together state: (I) that such merger, consolidation, sale, transfer or other conveyance or disposition has occurred and complies with the terms of the Contracts, the Notes and Applicable Law, and (II) that the assumption by the Successor Company of the Issuer's and/or the Guarantor's obligations under the Contracts and the Notes is sufficient for each such Contract and the Notes to constitute a legal, valid and binding obligation of the Successor Company, enforceable against it (subject to customary exceptions to the same extent included in the equivalent opinions of counsel delivered on the relevant Issue Date) in accordance with its terms.

(d) ***Disposals***

So long as any amount remains outstanding under the Notes, the Issuer and the Guarantor shall not, and the Guarantor shall procure that its Subsidiaries shall not, sell, lease, transfer, or otherwise dispose of, to a person other than a Subsidiary, the Issuer or the Guarantor, as the case may be, by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or its assets, if such sale, lease, transfer or disposal would have a Material Adverse Effect.

(e) ***Transactions with Affiliates***

Each of the Guarantor and the Issuer shall not, and the Guarantor shall not permit any of its Subsidiaries to, directly or indirectly, enter into or permit to exist any Affiliate Transaction or series of related Affiliate Transactions including intercompany loans unless (a) the terms of such Affiliate Transaction are no less favourable to the Guarantor, the Issuer 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 Guarantor, the Issuer or such Subsidiary; or (b) such Affiliate Transaction is made pursuant to a contract existing on 8 July 2005 (excluding any amendments or modifications thereof after the Issue Date).

This Condition 4(e) shall not apply to (i) compensation or employee benefit arrangements with any officer or director of the Guarantor, the Issuer or such Subsidiary arising as a result of their employment contract, (ii) transactions between the Guarantor, the Issuer and any of its Subsidiaries or between any such Subsidiaries or (iii) any one or more transactions or series of transactions (whether related or not) by any of the Guarantor, the Issuer or any Subsidiary of the Guarantor which would in aggregate not have a Material Adverse Effect.

(f) ***Limitations on Distributions from Subsidiaries***

The Guarantor will not, nor will it permit any Principal Subsidiary to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or consensual restriction on the ability of any Principal Subsidiary to pay dividends or make any other distributions on its share capital.

(g) ***Books and Records***

The Issuer and the Guarantor shall, and the Guarantor shall cause procure that its Subsidiaries shall, maintain books and records in accordance with the regulations of, in the case of the Guarantor, the Central Bank of Russia and generally accepted accounting principles applied in Russia and in the case of the Issuer, the applicable regulatory authorities in Luxembourg and generally accepted accounting principles applied in Luxembourg or, in the case of any such Subsidiary (or

branch or other office) organised under the laws of (or otherwise subject to the accounting laws of) a jurisdiction outside Russia or Luxembourg, as the case may be, the applicable regulatory authorities in, or the generally accepted accounting principles applied in, such jurisdiction.

(h) ***Maintenance of Properties***

The Issuer and the Guarantor shall, and the Guarantor shall procure that its Subsidiaries shall, cause all of their properties used in or useful for the conduct of its business to be maintained in good repair, and will cause to be made any repairs, replacements and/or improvements thereto as may be necessary to conduct their business, in each case except where the failure to do so would not be reasonably likely to have a Material Adverse Effect.

(i) ***Maintenance of Insurance***

The Issuer and the Guarantor shall maintain any insurance they maintain as of the date hereof or choose to acquire thereafter, with insurance companies reasonably believed by them to be financially sound, or have made provisions for self-insurance, in each case covering such risks as are usually insured against by companies engaged in similar businesses, except where the failure to do so would not be reasonably likely to have a Material Adverse Effect.

(j) ***Anti-Money Laundering***

The Issuer and the Guarantor shall and the Guarantor shall procure that its Subsidiaries shall, comply at all times with all Applicable Laws relating to anti-money laundering activities. The Issuer and the Guarantor shall and the Guarantor shall procure that its Subsidiaries shall, maintain internal anti-money laundering policies and procedures, to a level equivalent to the policies and procedures maintained by the Issuer and the Guarantor as of 8 July 2005 to effect the Issuer's and the Guarantor's compliance with such Applicable Laws and in accordance and compliance with any anti-money laundering guidelines published by the Central Bank of Russia (in the case of the Guarantor only) or any other competent authority in Russia or Luxembourg or otherwise, as the case may be.

(k) ***Use of Proceeds and OFAC Compliance***

The Issuer shall use the proceeds of the Notes for the general corporate purposes of the Group unless otherwise specified hereon. The Issuer shall not use the proceeds of the Notes in a manner that violates: (a) any regulations and (where regulations have not been promulgated) executive orders administered and enforced by the United States Department of the Treasury's Office of Foreign Assets Control, or (b) any similar laws, orders or regulations of any Relevant Jurisdiction.

(l) ***Payment of Taxes and Other Claims***

So long as any amount remains outstanding under the Notes, the Guarantor and the Issuer shall, and the Guarantor shall procure that its Subsidiaries shall, 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 assets of the Guarantor, the Issuer or any of the Guarantor's Subsidiaries and (b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become an Encumbrance (other than a Permitted Encumbrance) upon the property of the Guarantor, the Issuer or any of the Guarantor's Subsidiaries; provided, however that none of the Guarantor, the Issuer nor any other of the Guarantor's Subsidiaries shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (a) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS 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.$20 million.

**5. Interest and other Calculations**

(a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date.

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

(b) **Interest on Floating Rate Notes and Index Linked Interest Notes:**

(i) *Interest Payment Dates:* Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

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

(iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

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

(x) the Floating Rate Option is as specified hereon

(y) the Designated Maturity is a period specified hereon and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

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

(B) Screen Rate Determination for Floating Rate Notes

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

(x) if the Primary Source for Floating Rate is a Page, subject as provided below, the Rate of Interest shall be:

(I) the Relevant Rate (where such Relevant Rate on such Page is a composite quotation or is customarily supplied by one entity) or

(II) the arithmetic mean of the Relevant Rates of the persons whose Relevant Rates appear on that Page,

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

(y) if the Primary Source for the Floating Rate is Reference Banks or if sub-paragraph (x)(I) applies and no Relevant Rate appears on the Page at the Relevant Time on the Interest Determination Date or if sub-paragraph (x)(II) above applies and fewer than two Relevant Rates appear on the Page at the Relevant Time on the Interest Determination Date, subject as provided below, the Rate of Interest shall be the arithmetic mean of the Relevant Rates that each of the Reference Banks is quoting to leading banks in the Relevant Financial Centre at the Relevant Time on the Interest Determination Date, as determined by the Calculation Agent and

(z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are so quoting Relevant Rates, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) that the Calculation Agent determines to be the rates (being the nearest equivalent to the Benchmark) in respect of a Representative Amount of the Specified Currency that at least two out of five leading banks selected by the Calculation Agent in the principal financial centre of the country of the Specified Currency or, if the Specified Currency is euro, in Europe (the ''Principal Financial Centre'') are quoting at or about the Relevant Time on the date on which such banks would customarily quote such rates for a period commencing on the Effective Date for a period equivalent to the Specified Duration (I) to leading banks carrying on business in Europe, or (if the Calculation Agent determines that fewer than two of such banks are so quoting to leading banks in Europe) (II) to leading banks carrying on business in the Principal Financial Centre; except that, if fewer than two of such banks are so quoting to leading banks in the Principal Financial Centre, the Rate of Interest shall be the Rate of Interest determined on the previous Interest Determination Date (after readjustment for any difference between any Margin, Rate Multiplier or Maximum or Minimum Rate of Interest applicable to the preceding Interest Accrual Period and to the relevant Interest Accrual Period).

(iv) *Rate of Interest for Index Linked Interest Notes:* The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.

(c) **Zero Coupon Notes:** Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).

(d) **Dual Currency Notes:** In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.

(e) **Partly Paid Notes:** In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.

(f) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(g) **Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts, Rate Multipliers and Rounding:**

(i) If any Margin or Rate Multiplier is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin or multiplying by such Rate Multiplier, subject always to the next paragraph.

(ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes ''unit'' means the lowest amount of such currency that is available as legal tender in the country or countries (as applicable) of such currency.

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

(i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts:** As soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, it shall determine such rate and calculate the Interest Amounts in respect of each Specified Denomination of the Notes for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Trustee, the Issuer, the Guarantor, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect

of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(j) **Determination or Calculation by Trustee:** If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, the Trustee shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

**6. Redemption, Purchase and Options**

(a) ***Redemption by Instalments and Final Redemption:***

(i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6 or the relevant Instalment Date (being one of the dates so specified hereon) is extended pursuant to any Issuer's or Noteholder's option in accordance with Condition 6(d) or 6(e), each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused on presentation of the related receipt, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

(ii) Unless previously redeemed, purchased and cancelled as provided below or its maturity is extended pursuant to any Issuer's or Noteholder's option in accordance with Condition 6(d) or 6(e), each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

(b) ***Early Redemption:***

(i) *Zero Coupon Notes:*

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c), Condition 6(f) or upon it

becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.

(B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c), Condition 6(f) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (as well after as before judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be a made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

(ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c), Condition 6(f) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.

(c) ***Redemption for Taxation Reasons:*** The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date or, if so specified hereon, at any time, on giving not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 16 (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if (i) the Issuer (or, if the Guarantee were called, the Guarantor) satisfies the Trustee immediately before the giving of such notice that it has or will become obliged to pay additional amounts as described under Condition 8 as a result of any change in, or amendment to, the laws or regulations of Luxembourg (in the case of the Issuer) or Russia (in the case of the Guarantor), or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 60 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such additional amounts were a payment in respect of the Notes (or the Guarantee, as the case may be) then due. Before the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer (or by the Chairman of the Management Board of the Guarantor, as the case may be) stating that the obligation referred to in (i) above cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above in which event it shall be conclusive and binding on Noteholders.

(d) ***Redemption at the Option of the Issuer and Exercise of Issuer's Options:*** If a Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders in accordance with Condition 16 (or such other notice period as may

be specified hereon) redeem, or exercise any Issuer's option (as may be described hereon) in relation to, all or, if so provided, some of the Notes on any Optional Redemption Date or Option Exercise Date, as the case may be. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the minimum nominal amount to be redeemed specified hereon and no greater than the maximum nominal amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed, or the Issuer's option shall be exercised, on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption or a partial exercise of an Issuer's option, the notice to Noteholders shall specify the nominal amount of Notes drawn and the holder(s) of such Notes, to be redeemed or in respect of which such option has been exercised, which shall have been drawn in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements. So long as the Notes are listed on the Luxembourg Stock Exchange or any other stock exchange and the rules of the relevant stock exchange so require, the Issuer shall, once in each year in which there has been a partial redemption of the Notes, cause to be published in a leading newspaper of general circulation in Luxembourg or as specified by such other stock exchange, a notice specifying the aggregate nominal amount of Notes outstanding and a list of the Notes drawn for redemption but not surrendered.

(e) ***Redemption at the Option of Noteholders and Exercise of Noteholders' Options:*** If a Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to the date fixed for redemption.

To exercise such option or any other Noteholders' option that may be set out hereon (which must be exercised on an Option Exercise Date) the holder must deposit the Note with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("Exercise Notice") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer and the Guarantor.

(f) ***Redemption at the request of the Guarantor:*** The Notes may be redeemed by the Issuer, at the request of the Guarantor, in whole, but not in part, on any Interest Payment Date on giving not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 16 (which notice shall be irrevocable) of their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption) and their Make Whole Premium (as described in Condition 6(g) below). Any such redemption of Notes shall be at their Early Redemption Amount together with interest accrued to the date fixed for redemption and applicable Make Whole Premium. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the minimum nominal amount to be redeemed specified hereon and no greater than the maximum nominal amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

(g) ***Make Whole Premium:*** The Make Whole Premium, as of any date of determination, shall be an amount (not to be less than zero) equal to (i) the present value to such date of the remaining principal and interest on the Notes being redeemed, discounted at a per annum rate equal to the then current bid side yield of the Make Whole Premium Reference Security (as specified hereon) having a maturity date closest to the remaining weighted average life on the Notes being redeemed calculated at the time of the repayment plus the Make Whole Premium Margin (as specified hereon) (ii) minus the principal amount of the Notes to be redeemed on such date.

(h) ***Partly Paid Notes:*** Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified hereon.

(i) ***Purchases:*** The Issuer, the Guarantor and any of their subsidiaries may at any time purchase Notes in the open market or otherwise at any price.

(j) ***Cancellation:*** All Notes purchased by or on behalf of the Issuer, the Guarantor or any of their subsidiaries may be surrendered for cancellation by surrendering the Note representing such Notes to the Registrar and, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith. Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Notes shall be discharged.

**7. Payments**

(a) ***Payments of Principal and Interest:***

(i) Payments of principal (which for the purposes of this Condition 7(a) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Notes shall be made against presentation and surrender of the relevant Notes at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) Interest (which for the purpose of this Condition 7(a) shall include all Instalment Amounts other than final Instalment Amounts) on Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "Record Date"). Payments of interest on each Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank.

(b) ***Payments subject to Laws:*** All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Noteholders in respect of such payments.

(c) ***Appointment of Agents:*** The Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and the Guarantor and their respective specified offices are listed below. Subject as provided in the Agency Agreement, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any Noteholder. The Issuer and the Guarantor reserve the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of any Paying Agent, the Registrar, any Transfer Agent or any Calculation Agent and to appoint additional or other Paying Agents, Transfer Agents or Calculation Agents or successor Registrar or Principal Paying Agent provided that the Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, (iv) Paying Agents having specified offices in at least two major European cities (including Luxembourg) so long as the Notes are listed on the Luxembourg Stock Exchange, (v) such other agents as may be required by any other stock exchange on which the Notes may be listed in each case, as approved by the Trustee and (vi) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders and the Luxembourg Stock Exchange.

(d) ***Calculation Agent and Reference Banks:*** The Issuer shall procure that there shall at all times be four Reference Banks (or such other number as may be required) with offices in the Relevant Financial Centre and one or more Calculation Agents if provision is made for them in the Notes and for so long as any such Note is outstanding (as defined in the Trust Deed). If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Issuer shall (with the prior approval of the Trustee) appoint another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall (with the prior written approval of the Trustee) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

Notice of any such change shall promptly be given to the Noteholders.

(e) ***Non-Business Days:*** If any date for payment in respect of any Note is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, ''business day'' means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as ''Financial Centres'' hereon and:

(i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency or

(ii) (in the case of a payment in euro) which is a TARGET Business Day.

**8. Taxation**

All payments of principal and interest by or on behalf of the Issuer or the Guarantor in respect of the Notes or under the Guarantee shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Luxembourg or Russia, or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer or, as the case may be, the Guarantor shall pay such additional amounts as shall result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note:

(a) ***Other connection***: to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with Luxembourg or, in the case of payments by the Guarantor, Russia other than the mere holding of the Note or

(b) ***Presentation more than 30 days after the Relevant Date:*** presented (or in respect of which the Note representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day or

(c) ***Payment to individuals:*** 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 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.

As used in these Conditions, "Relevant Date" in respect of any Note means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) "principal" shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) "interest" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) "principal" and/or "interest" shall be deemed to include any additional amounts that may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

**9. Prescription**

Claims against the Issuer and/or the Guarantor for payment in respect of the Notes shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

**10. Events of Default**

If any of the following events (each an "Event of Default") occurs and is continuing, the Trustee at its discretion may, and if so requested by holders of at least one-fifth in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to it being indemnified and/or secured to its satisfaction), give notice to the Issuer that the Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together with accrued interest:

(a) Any amount payable hereunder is not paid within five Business Days as and when such amount becomes payable in the currency and in the manner specified herein.

(b) The Guarantor or the Issuer fails to perform or comply with any one or more of its covenants or agreements or obligations contained in these Conditions or the Trust Deed to be performed or observed by it and (except where in any such case that failure is not capable of remedy when no such notice as is hereinafter mentioned will be required) if, in any such case, that failure is, in the opinion of the Trustee, capable of remedy and is not in the opinion of the Trustee, remedied within a period of 30 days following the submission by the Trustee to the Issuer or the Guarantor (as the case may be) of notice in writing of such failure.

(c) The Guarantor, the Issuer or any Principal Subsidiary defaults (as principal or guarantor or other surety) in the payment of any principal or premium or interest on any Indebtedness that is outstanding in a principal amount of at least U.S.$15,000,000 (or the equivalent in any currency) in the aggregate, or any other event or condition occurs or exists in connection with any such Indebtedness, the effect of which is to cause, or to permit the holders thereof to cause, such Indebtedness to become due and payable before its stated maturity or its regularly scheduled dates of payment.

(d) The Guarantor, the Issuer or any Principal Subsidiary commences negotiations with its creditors generally with a view to the general readjustment or rescheduling of its Indebtedness or makes a general assignment for the benefit of or a composition with its creditors generally provided that the same would have a Material Adverse Effect.

(e) The occurrence of any of the following events: (i) the Guarantor, the Issuer or any Principal Subsidiary fails or is unable to pay its debts generally as they become due; (ii) revocation of the general banking licence of the Guarantor or any Principal Subsidiary; (iii) the Guarantor or any Principal Subsidiary seeking or consenting to the introduction of proceedings for its liquidation or the appointment of a liquidation committee (*likvidatsionnaya komissiya*) or a similar officer of the Guarantor or such Principal Subsidiary or any analogous procedure or event in any other relevant jurisdiction; (iv) the institution of the supervision (*nablyudeniye*) or bankruptcy management (*konkursnoye proizvodstvo*) of the Guarantor or any Principal Subsidiary, as such terms are defined in the Federal Law of Russia No. 127-FZ "On Insolvency (Bankruptcy)" of 26 October 2002 (as amended or replaced from time to time) or any analogous procedure or event in any other relevant jurisdiction; (v) the institution of the financial rehabilitation (*finansovoye ozdorovleniye*), pursuant to a request of the Central Bank of Russia, temporary administration (*vremennaya administratsiya*) or reorganisation (*reorganizatsiya*) with respect to the Guarantor or any Principal Subsidiary 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) or any analogous procedure or event in any other relevant jurisdiction; (vi) any judicial liquidation, dissolution, administration or winding-up in respect of the Guarantor or any Principal Subsidiary; or (vii) the shareholders of the Guarantor or any Principal Subsidiary approving any plan of dissolution, administration or winding-up of the Guarantor or such Principal Subsidiary.

(f) Any authorisation, licence, consent, registration or approval required under or by the laws of Russia, England or Luxembourg to enable the Guarantor and/or the Issuer to perform their obligations under any Contract to which it is a party ceases to be in full force and effect and such situation shall have continued for a period of 30 days.

(g) Any governmental interference by the Russian government shall occur in connection with, or any legislative, judicial or other action (including without limitation adverse judicial or administrative interpretations of the law) is taken in Russia, or Luxembourg which interferes with the Contracts and such interference has a Material Adverse Effect.

(h) Any Governmental Authority condemns, seizes, makes a compulsory purchase of, or expropriates all or part of the assets or business of the Guarantor, the Issuer or any Principal Subsidiary provided, however, that such condemnation, seizure, compulsory purchase or expropriation has a Material Adverse Effect.

(i) Any execution or distress is levied against, or an encumbrancer takes possession of, the whole or (in the opinion of the Trustee) any material part of, the assets of the Guarantor, the Issuer or any Principal Subsidiary having a fair market value of more than U.S.$15,000,000 or the equivalent thereof in any other currency or any event occurs which under the laws of any jurisdiction has a similar or analogous effect unless such execution, distress, enforcement of an Encumbrance or similar or analogous event is being contested in good faith by the Guarantor, the Issuer or such Principal Subsidiary and is not removed, paid out, stayed or discharged within 45 days of such execution, distress being levied, taking of possession or similar or analogous act, as the case may be.

(j) A judgment or judgments is or are rendered and entered into force (or otherwise become enforceable in accordance with applicable procedural legislation) for the payment of money against the Guarantor, the Issuer or any Principal Subsidiary in excess of U.S.$15,000,000 (or the equivalent in any currency) in the aggregate; and such judgment is not discharged or execution thereon is not stayed pending appeal within 30 days after the entry thereof, or, in the event of such a stay, such judgment is not discharged within 30 days after such stay expires and provided however that in each case that such judgment has a Material Adverse Effect.

(k) The Guarantor, the Issuer or any Principal Subsidiaries ceases to carry on the principal business it carries on at 8 July 2005.

(l) At any time it is or becomes unlawful for the Guarantor or the Issuer to perform or comply with any or all of its obligations hereunder or under the Contracts or any of such obligations are not, or cease to be, legal, valid, binding and enforceable.

(m) The commencement of, or the subsequent occurrence of an adverse development in, any litigation or administrative proceeding (including proceedings of any nature involving claims for payment of taxes) against the Guarantor, the Issuer or any Principal Subsidiary which has a Material Adverse Effect.

(n) At any time the Guarantor's capital adequacy ratio (i) as calculated in accordance with the regulations of the Central Bank of Russia on the basis of the most recent available accounts of the Guarantor falls below the minimum legal requirements imposed by the Central Bank of Russia at such time or (ii) as calculated in accordance with the capital adequacy standards, accords or guidelines published by the Basel Committee on Banking Regulations and Supervision which the Guarantor is subject to in accordance with Russian banking regulations in force from time to time (as amended or supplemented from time to time) falls below 8 per cent. or such other levels as may be established by the Basel Committee on Banking Regulations and Supervision, and, in each case where such breach continues unremedied for a period exceeding 30 days.

(o) Any of the Contracts cease to be in full force and effect in accordance with Applicable Law and such situation is not remedied within 30 days.

(p) 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 paragraphs.

If the Trustee is instructed or directed to declare the Notes immediately due and payable in accordance with this Condition, the Trustee shall have no duty to enquire or satisfy itself as to the existence of an Event of Default and shall be entitled to rely conclusively upon such instruction or direction regarding the same, and shall bear no liability of any nature whatsoever to either the Issuer or the Guarantor for giving any notice to the Noteholders or for otherwise acting upon such instruction or direction.

**11. Meetings of Noteholders, Modification, Waiver and Substitution**

(a) ***Meetings of Noteholders:*** The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by the Guarantor, the Issuer or at the request of Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, (vii) to take any steps that as specified hereon may only be taken following approval by an Extraordinary Resolution to which the special quorum provisions apply, (viii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution, or (ix) to modify or cancel the Guarantee, in

which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed).

*These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Final Terms in relation to such Series.*

(b) ***Modification of the Trust Deed:*** The Trustee may agree, without the consent of the Noteholders, to (i) any modification of any of the provisions of the Trust Deed that is (in the opinion of the Trustee) of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.

(c) ***Substitution:*** The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution of the Issuer's successor in business or of the Guarantor or its successor in business or any subsidiary of the Guarantor or its successor in business in place of the Issuer or Guarantor, or of any previous substituted company, as principal debtor or guarantor under the Trust Deed and the Notes. In the case of such a substitution the Trustee may agree, without the consent of the Noteholders, to a change of the law governing the Notes and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders. Such substitution shall be notified to the Luxembourg Stock Exchange and a prospectus supplement prepared as necessary.

(d) ***Entitlement of the Trustee:*** In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer or the Guarantor any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

**12. Enforcement**

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the terms of the Trust Deed or the Notes but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-fifth in nominal amount of the Notes outstanding, and (b) it shall have been indemnified and/or secured to its satisfaction. No Noteholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

**13. The Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity related to the Issuer or the Guarantor without accounting for any profit.

The Trustee shall be entitled to rely on reports of the Auditors of the Guarantor notwithstanding that the Auditors' liability in respect thereof may be limited (by reference to a monetary cap or otherwise).

**14. Replacement of Notes**

If a Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Registrar or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note is subsequently presented for payment, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes) and otherwise as the Issuer may require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

**15. Further Issues**

The Issuer may from time to time without the consent of the Noteholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides.

**16. Notices**

Notices to the holders of the Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. In addition, so long as any Notes are listed on the Luxembourg Stock Exchange, notices to holders of Notes shall be published in a daily newspaper with general circulation in Luxembourg (which is expected to be the *d'Wort*). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

**17. 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 except and to the extent (if any) that the Notes expressly provide for such Act to apply to any of their terms.

**18. Governing Law and Jurisdiction**

(a) ***Governing Law:*** The Trust Deed and the Notes are governed by, and shall be construed in accordance with, English law. The proposals of articles 86 to 94.6 of the Luxembourg law of August 10, 1915, as amended, on commercial companies are excluded.

(b) ***Jurisdiction:*** The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes or the Guarantee and accordingly any legal action or proceedings arising out of or in connection with any Notes or the Guarantee ("Proceedings") may be brought in such courts. Each of the Issuer and the Guarantor has in the Trust Deed irrevocably submitted to the jurisdiction of such courts.

(c) ***Arbitration:*** Without prejudice to Clause 18(b), the Issuer and the Guarantor have in the Trust Deed agreed that any disputes which may arise out of or in connection with the Trust Deed, the Notes or the Guarantee (including any question regarding their existence, validity or

termination) may be referred to and finally resolved by arbitration under the Rules of LCIA (formerly known as the London Court of International Arbitration), which rules are deemed to be incorporated by reference in the Trust Deed.

(d) ***Service of Process:*** Each of the Issuer and the Guarantor has irrevocably appointed an agent in England to receive, for it and on its behalf, service of process in any Proceedings in England.

**19. Definitions**

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

"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 clause (i) 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.

"Affiliate Transaction" means any transaction or series of related transactions (including 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.

"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 dated 8 July 2005 between the Issuer, the Guarantor and the agents named in it relating to the Programme.

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

"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 these Conditions, such other internationally recognised firm of accountants as may be approved in writing by the Trustee for this purpose.

"Business Day" means:

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

(ii) in the case of euro, a day on which the TARGET system is operating (a "TARGET Business Day") and/or

(iii) in the case of a currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

"Capital Stock" means, with respect to any Person, any and all shares or other equivalents (however designated) of corporate stock, partnership interests or any other participation, right, warrant, option or other interest in the nature of an equity interest in such Person, but excluding any debt security convertible or exchangeable into such equity interest.

"Consolidated Indebtedness" means, as at any date of determination, (and without duplication) all Indebtedness of the Group outstanding on such date, determined on a consolidated basis in accordance with IFRS.

"Contracts" means the Trust Deed, the Agency Agreement and, with respect to a Series of Notes, any Final Terms in relation thereto.

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

(i) if "Actual/365" or "Actual/Actual – ISDA" is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365)

(ii) if "Actual/365 (Fixed)" is specified hereon, the actual number of days in the Calculation Period divided by 365

(iii) if "Actual/360" is specified hereon, the actual number of days in the Calculation Period divided by 360

(iv) if "30/360", "360/360" or "Bond Basis" is specified hereon, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month))

(v) if "30E/360" or "Eurobond Basis" is specified hereon, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of a Calculation Period ending on the Maturity Date, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month) and

(vi) if "Actual/Actual-ICMA" is specified hereon,

(a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(b) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

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

"Determination Date" means the date specified as such hereon or, if none is so specified, the Interest Payment Date

"Dealer Agreement" means the dealer agreement relating to the Programme dated 8 July 2005 between the Issuer, the Guarantor, the arrangers named in it as arrangers and dealers and the other dealers named in it or appointed under it.

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

"Encumbrance" means (a) any mortgage, charge, pledge, lien or other encumbrance securing any obligation of any Person, (b) any sale, transfer or other disposal of receivables on recourse terms or (c) any other type of preferential arrangement (including any conditional sale or title retention arrangement) having a similar effect.

"Euro-zone" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

"Event of Default" has the meaning assigned to such term in Condition 10.

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

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

"IFRS" means the International Financial Reporting Standards issued by the International Accounting Standards Board (as amended, supplemented or re-issued from time to time).

"Indebtedness" means any indebtedness, in respect of any Person for, or in respect of, moneys borrowed; 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; any amount of money under any other transaction (including any forward sale or purchase agreement) having the 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 provided that there shall be no double counting when calculating Indebtedness for the purposes of the definition of Consolidated Indebtedness or in respect of Conditions 4(a) and 10.

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

"Interest Amount" means the amount of interest payable, and in the case of Fixed Rate Notes, means the Fixed Coupon Amount or Broken Amount, as the case may be.

"Interest Commencement Date" means the Issue Date or such other date as may be specified hereon.

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

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

"Interest Period Date" means each Interest Payment Date unless otherwise specified hereon.

"ISDA Definitions" means the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon.

"Issue Date" means the date on which the Notes have been issued.

"Issuer" means Rosbank Finance S.A.

"Material Adverse Effect" means a material adverse effect on (a) the business, operations, property, condition (financial or otherwise) or prospects of the Group taken as a whole; (b) the Guarantor's or the Issuer's ability to perform its obligations under the Contracts or (c) the validity or enforceability of the Contracts or the rights or remedies of the other parties thereto, provided that, to the extent that the Trustee is instructed to take any action pursuant to (i) the instructions of Noteholders holding at least one-fifth in nominal amount of the Notes then outstanding or (ii) an Extraordinary Resolution of Noteholders, and any such action requires the determination of whether an event or occurrence has had a Material Adverse Effect, the Trustee shall have no duty to enquire or satisfy itself as to the existence of an event or occurrence having a Material Adverse Effect and shall be entitled to rely conclusively upon such instructions by, or Extraordinary Resolution of, the Noteholders regarding the same, and shall bear no liability of any nature whatsoever to the Issuer or the Guarantor for acting upon such written instructions or Extraordinary Resolution of the Noteholders.

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

"Permitted Encumbrance" means:

(a) any Encumbrance existing as at 8 July 2005 (provided that the principal, capital or other amount of the obligation secured by such Encumbrance is not increased beyond the amount secured by such Encumbrance as at the date hereof) or any Encumbrance granted in renewal or substitution of any such Encumbrance (provided that the principal amount secured has not increased and the Encumbrance has not been extended to any additional assets) save that any Encumbrance existing in respect of the aggregate nominal amount of U.S.$300,000,000 Class 2004 9.75% Structured Receivables Notes issued by Russia International Card Finance S.A. for the purpose of financing a loan to the Guarantor shall be considered under paragraph (n) of this definition of Permitted Encumbrance rather than this paragraph (a);

(b) any Encumbrance 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 Encumbrance 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 Encumbrance is removed or discharged within three calendar months of the date of acquisition of such asset;

(c) any Encumbrance over or affecting any asset of any company which becomes a member of the Group or is merged into a member of the Group after the date hereof, where such Encumbrance is created prior to the date on which such company becomes a member of the Group or is merged into a member of the Group, if:

  (i) such Encumbrance 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 Encumbrance is removed or discharged within three calendar months of such company becoming a member of the Group;

(d) 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;

(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 Encumbrance arising by operation of law and in the normal course of business, if such Encumbrance is discharged within 30 days of arising;

(g) Encumbrances 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) Encumbrances 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 Guarantor has set aside in its books of account reserves to the extent required by IFRS, as consistently applied;

(i) any Encumbrance granted by any Subsidiary of the Guarantor in favour of the Guarantor;

(j) Encumbrances upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any Repo transaction;

(k) Encumbrances arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market relating to the establishment of margin deposits and similar arrangements in connection with interest rate and foreign currency hedging operations;

(l) any other Encumbrances where the aggregate value of the assets or revenues subject to such Encumbrances do not exceed U.S.$50,000,000;

(m) any Encumbrance arising out of, or created in connection with, a Permitted Securitisation, provided that the aggregate value of Underlying Assets subject to all Encumbrances arising out of, or created in connection with all Permitted Securitisations do not, at any time, exceed 40 per cent. of the aggregate of loans to customers less allowance for loan losses and loans and advances to banks less allowance for loan losses prepared in accordance with IFRS as determined at any time by reference to the most recent quarterly consolidated balance sheet of the Guarantor; and

(n) any Encumbrance arising out of, or created in connection with, a Permitted Future Flow Securitisation, provided that the nominal amount of the Indebtedness secured by any such Encumbrance, when aggregated with the nominal amount of all other Indebtedness secured by Encumbrances arising out of, or created in connection with, Permitted Future Flow Securitisations does not exceed U.S.$750 million.

"Permitted Future Flow Securitisation" means any transaction which involves:

(a) the transfer by the Guarantor of an interest (whether by means of the grant of an Encumbrance or any other means) in any future revenues ("Future Underlying Assets") of the Guarantor;

(b) the transferee of such Future Underlying Assets incurring Indebtedness secured, amongst other things, by such Future Underlying Assets and/or by such transferee's rights of recourse against the Guarantor;

(c) the payment of some or all of the proceeds of such Indebtedness by the transferee to the Guarantor; and

(d) the remittance to the Guarantor of excess collections on the Future Underlying Assets.

"Permitted Securitisation" means any transaction which involves:

(a) the transfer by the Guarantor of an interest (whether by means of the grant of an Encumbrance or any other means) in any presently held undertakings or assets or rights to revenues ("Current Underlying Assets") of the Guarantor;

(b) the transferee of such Current Underlying Assets incurring Indebtedness secured, amongst other things, by such Current Underlying Assets and/or by such transferee's rights of recourse against the Guarantor;

(c) the payment of some or all of the proceeds of such Indebtedness by the transferee to the Guarantor; and

(d) the remittance to the Guarantor of excess collections on the Current Underlying Assets.

"Person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organisation, government, or any agency or political subdivision thereof or any other entity.

"Principal Subsidiary" means, at any relevant time, a Subsidiary of the Guarantor:

(a) whose total assets or gross revenues (or, where the Subsidiary in question prepares consolidated accounts, whose total consolidated assets or gross consolidated revenues, as the case may be) represent not less than 5 per cent. of the total consolidated assets or the gross consolidated revenues of the Guarantor and its Subsidiaries, all as calculated by reference to the then latest audited accounts (or consolidated accounts as the case may be) (in each case, produced on the basis of IFRS, consistently applied) of such Subsidiary and the then latest audited consolidated accounts of the Guarantor (produced on the basis of IFRS, consistently applied) and its consolidated Subsidiaries; or

(b) to which is transferred all or substantially all the assets and undertaking of a Subsidiary which immediately prior to such transfer is a Principal Subsidiary.

"Programme" means the programme for the issuance of notes by the Issuer of euro medium term notes guaranteed by the Guarantor in an aggregate nominal amount outstanding at any one time not exceeding the Programme Limit.

"Programme Limit" means U.S.$750,000,000 or its equivalent in other currencies, as such limit may be increased pursuant to the Dealer Agreement.

"Rate of Interest" means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon.

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

"Relevant Date" has the meaning given to it in Condition 8.

"Relevant Financial Centre" means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the financial centre as may be specified as such hereon or, if none is so specified, the financial centre with which the relevant Benchmark is most closely connected (which, in the case of EURIBOR, shall be Europe) or, if none is so connected, London.

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

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

"Relevant Time" means, with respect to any Interest Determination Date, the local time in the Relevant Financial Centre specified hereon or, if no time is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Specified Currency in the interbank market in the Relevant Financial Centre or, if no such customary local time exists, 11.00 hours in the Relevant Financial Centre and, for the purpose of this definition, "local time" means, with respect to Europe as a Relevant Financial Centre, Brussels time.

"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.

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

"Specified Currency" means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated.

"Specified Duration" means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the duration specified hereon or, if none is specified, a period of time equal to the relative Interest Accrual Period, ignoring any adjustment pursuant to Condition 5(b)(ii).

"Subsidiary" of any specified Person means any corporation, partnership, joint venture, association or other business entity, whether now existing or hereafter organised or acquired, (a) in the case of a corporation, of which at least 50 per cent. of the total voting power of the Capital 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/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 accordance with IFRS such entity would be consolidated with the first-named Person for financial statements purposes.

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

"Trust Deed" means the trust deed dated 8 July 2005 between the Issuer, the Guarantor and the Trustee, as it may be amended from time to time.

"Trustee" means J.P. Morgan Corporate Trustee Services Limited, as trustee under the Trust Deed, and any successor thereto as provided thereunder.

"U.S.$" and "U.S. Dollars" denote the lawful currency for the time being of the United States of America.

# FORM OF FINAL TERMS

## Final Terms dated [●]

**ROSBANK FINANCE S.A**

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
**Guaranteed by Rosbank (OJSC JSCB)**
**under the**
U.S.$750,000,000 Guaranteed Debt Issuance Programme
**Guaranteed by Rosbank (OJSC JSCB)**

**PART A – CONTRACTUAL TERMS**

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Base Prospectus dated [●] 2006 [and the supplement to the Base Prospectus dated [●]][1] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "Prospectus Directive"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. [The Base Prospectus [and the supplement to the Base Prospectus] [is] [are] available for viewing at [address] [and] [website] and copies may be obtained from [address].]

*[The following alternative language applies if the first tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the "Conditions") set forth in the Base Prospectus dated [original date] [and the supplement to the Base Prospectus dated [●]][1]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the "Prospectus Directive") and must be read in conjunction with the Base Prospectus dated [current date] [and the supplement to the Base Prospectus dated [●]][1], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated [original date] [and the supplement to the Base Prospectus dated [●]] and are attached hereto. Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus dated [original date] and [current date] [and the supplements to the Base Prospectuses dated [●] and [●]]. [The Base Prospectuses [and the supplements to the Base Prospectuses] are available for viewing at [address] [and] [website] and copies may be obtained from [address].][2]

*[Include whichever of the following apply or specify as "Not Applicable" (N/A)". Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.]*

| | | |
|---|---|---|
| 1 | (i) Issuer: | Rosbank Finance S.A. |
| | (ii) Guarantor: | Rosbank (OJSC JSCB) |
| 2 | [(i)] Series Number: | [●] |
| | [(ii) Tranche Number: | [●]<br>(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).] |
| 3 | Specified Currency or Currencies: | [●] |
| 4 | Aggregate Nominal Amount of Notes admitted to trading: | [●] |
| | [(i)] Series: | [●] |
| | [(ii) Tranche: | [●]] |
| 5 | Issue Price: | [●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)] |
| 6 | Specified Denominations: | [●][3] |
| 7 | [(i)] Issue Date: | [●] |
| | [(ii)] Interest Commencement Date | [●] |
| 8 | Maturity Date: | [specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year] |
| 9 | Interest Basis: | [[●] % Fixed Rate]<br>[[specify reference rate] +/ [●] % Floating Rate]<br>[Zero Coupon]<br>[Index Linked Interest]<br>[Other (specify)]<br>(further particulars specified below) |
| 10 | Redemption/Payment Basis: | [Redemption at par]<br>[Index Linked Redemption]<br>[Dual Currency]<br>[Partly Paid]<br>[Instalment]<br>[Other (specify)] |
| 11 | Change of Interest or Redemption/ Payment Basis: | [Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis] |
| 12 | Put/Call Options: | [Investor Put]<br>[Issuer Call]<br>[(further particulars specified below)] |
| 13 | [(i)] Status of the Notes: | Senior Dated |
| | [(ii)] Status of the Guarantee: | Senior Dated |
| | [(iii)] [Date [Board] approval for issuance of Notes and Guarantee obtained: | [●] [and [●], respectively]]<br>(N.B Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Guarantee)] |
| 14 | Method of distribution: | [Syndicated/Non-syndicated] |

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

| | | |
|---|---|---|
| 15 | Fixed Rate Note Provisions | [Applicable/Not Applicable]<br>(If not applicable, delete the remaining sub-paragraphs of this paragraph) |
| | (i) Rate[(s)] of Interest: | [●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear] |
| | (ii) Interest Payment Date(s): | [●] in each year [adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"*] /not adjusted] |
| | (iii) Fixed Coupon Amount[(s)]: | [●] per [●] in Nominal Amount |
| | (iv) Broken Amount(s): | [*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)]*] |
| | (v) Day Count Fraction (Condition 19): | [30/360 / Actual/Actual ([ICMA] /ISDA) / other]<br>(*Day count fraction should be Actual/ Actual-ICMA for all fixed rate issues other than those denominated in US dollars, unless requested otherwise*) |
| | (vi) Interest Determination Dates (Condition 19): | [●] in each year (*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)*) |
| | (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: | [Not Applicable/*give details*] |
| 16 | **Floating Rate Note Provisions** | [Applicable/Not Applicable]<br>(*If not applicable, delete the remaining sub-paragraphs of this paragraph*) |
| | (i) Interest Period(s) | [●] |
| | (ii) Specified Interest Payment Dates: | [●] |
| | (iii) Business Day Convention: | [Floating Rate Business Day Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ other (*give details*)] |
| | (iv) Business Centre(s) (Condition 19): | [●] |
| | (v) Manner in which the Rate(s) of Interest is/are to be determined: | [Screen Rate Determination/ISDA Determination/other (*give details*)] |
| | (vi) Interest Period Date(s): | [Not Applicable/*specify dates*] |
| | (vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent): | [●] |
| | (viii) Screen Rate Determination (Condition 5(b)(iii)(B)): | |
| | – Relevant Time: | [●] |
| | – Interest Determination Date(s): | [[●] [TARGET] Business Days in [specify city] for [*specify currency*] prior to [the first day in each Interest Accrual Period/each Interest Payment Date]] [●] |

| | | |
|---|---|---|
| | – Primary Source for Floating Rate: | [*Specify relevant screen page or ''Reference Banks''*] |
| | – Reference Banks (if Primary Source is ''Reference Banks''): | [*Specify four*] |
| | – Relevant Financial Centre: | [*The financial centre most closely connected to the Benchmark – specify if not London*] |
| | – Benchmark: | [*LIBOR, LIBID, LIMEAN, EURIBOR or other benchmark*] |
| | – Representative Amount: | [*Specify if screen or Reference Bank quotations are to be given in respect of a transaction of a specified notional amount*] |
| | – Effective Date: | [*Specify if quotations are not to be obtained with effect from commencement of Interest Accrual Period*] |
| | – Specified Duration: | [*Specify period for quotation if not duration of Interest Accrual Period*] |
| | – Relevant Screen Page: | [●] |
| (ix) | ISDA Determination (Condition 5(b)(iii)(A)): | |
| | – Floating Rate Option: | [●] |
| | – Designated Maturity: | [●] |
| | – Reset Date: | [●] |
| | – ISDA Definitions (if different from those set out in the Conditions): | [●] |
| (x) | Margin(s): | [+/-] [●] per cent. per annum |
| (xi) | Minimum Rate of Interest: | [●] per cent. per annum |
| (xii) | Maximum Rate of Interest: | [●] per cent. per annum |
| (xiii) | Day Count Fraction (Condition 19): | [●] |
| (xiv) | Rate Multiplier | [●] |
| (xv) | Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: | [●] |
| 17 | **Zero Coupon Note Provisions** | [Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*) |
| (i) | Amortisation Yield: | [●] per cent. per annum |
| (ii) | Reference Price: | [●] |
| (iii) | Day Count Fraction (Condition 19): | [●] |
| (iv) | Any other formula/basis of determining amount payable: | [●] |
| 18 | **Index-Linked Interest Note Provisions/Other Variable-Linked Interest Note Provisions5** | [Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*) |
| (i) | Index/Formula/other variable: | [*give or annex details]* |
| (ii) | Calculation Agent responsible for calculating the interest due: | [●] |
| (iii) | Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable: | [●] |
| (iv) | Determination Date(s): | [●] |
| (v) | Provisions for determining Coupon | [●] |

| | | |
|---|---|---|
| | where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: | |
| (vi) | Interest or calculation period(s): | [●] |
| (vii) | Specified Interest Payment Dates: | [●] |
| (viii) | Business Day Convention: | [Floating Rate Business Day Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details)*] |
| (ix) | Business Centre(s) (Condition 19): | [●] |
| (x) | Minimum Rate/Amount of Interest: | [●] per cent. per annum |
| (xi) | Maximum Rate/Amount of Interest: | [●] per cent. per annum |
| (xii) | Day Count Fraction (Condition 19): | [●] |
| 19 | **Dual Currency Note Provisions** | [Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*) |
| (i) | Rate of Exchange/method of calculating Rate of Exchange: | [*give details*] |
| (ii) | Calculation Agent, if any, responsible for calculating the principal and/or interest due: | [●] |
| (iii) | Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: | [●] |
| (iv) | Person at whose option Specified Currency(ies) is/are payable: | [●] |
| (v) | Day Count Fraction (Condition 19): | [●] |

**PROVISIONS RELATING TO REDEMPTION**

| | | |
|---|---|---|
| 20 | **Call Option** | [Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*) |
| (i) | Optional Redemption Date(s): | [●] |
| (ii) | Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): | [●] per Note of [●] specified denomination |
| (iii) | If redeemable in part: | |
| (a) | Minimum Redemption Amount: | [●] |
| (b) | Maximum Redemption Amount: | [●] |
| (iv) | Option Exercise Date(s): | [●] |
| (v) | Description of any other Issuer's option: | [●] |
| (vi) | Notice period[6] | [●] |
| 21 | **Redemption at Guarantor's Request (Condition 6(f))** | |
| (i) | Make Whole Premium Reference Security: | [●] |
| (ii) | Make Whole Premium Margin: | [●] |
| 22 | **Put Option** | [Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*) |
| (i) | Optional Redemption Date(s): | [●] |
| (ii) | Optional Redemption Amount(s) of | [●] per Note of [●] specified denomination |

| | | |
|---|---|---|
| | each Note and method, if any, of calculation of such amount(s): | |
| (iii) | Option Exercise Date(s): | [●] |
| (iv) | Description of any other Noteholder option: | [●] |
| (v) | Notice period[6] | [●] |
| 23 | **Final Redemption Amount of each Note** | [ [●] per Note of [●] specified denomination / other/see Appendix]<br>In cases where the Final Redemption Amount is Index Linked or other variable-linked: |
| (i) | Index/Formula/variable: | [give or annex details] |
| (ii) | Calculation Agent responsible for calculating the Final Redemption Amount: | [●] |
| (iii) | Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable: | [●] |
| (iv) | Determination Date(s): | [●] |
| (v) | Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: | [●] |
| (vi) | Payment Date: | [●] |
| (vii) | Minimum Final Redemption Amount: | [●] |
| (viii) | Maximum Final Redemption Amount: | [●] |
| 24 | **Early Redemption Amount** | |
| (i) | Early Redemption Amount(s) of each Note payable on redemption for taxation reasons (Condition 6(c)) or on event of default (Condition 10) and/or the method of calculating the same (if required or if different from that set out in the Conditions): | [●] |
| (ii) | Redemption for taxation reasons permitted on days other than Interest Payment Dates (Condition 6(c)): | [Yes/No] |

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

| | | |
|---|---|---|
| 25 | Form of Notes: | Registered Notes<br>Global Notes exchangeable for Definitive Notes in the limited circumstances specified in the Global Note |
| 26 | Financial Centre(s) (Condition 7) or other special provisions relating to Payment Dates: | [Not Applicable/give details. *Note that this item relates to the date and place of payment, and not interest period end dates, to which items 15 (ii), 16(iv) and 18(ix) relates*] |
| 27 | Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and | [Not Applicable/*give details*] |

| | | |
|---|---|---|
| | interest due on late payment: | |
| 28 | Details relating to Instalment Notes<br>(i) Instalment Amount(s):<br>(ii) Instalment Date(s):<br>(iii) Minimum Instalment Amount:<br>(iv) Maximum Instalment Amount: | [Not Applicable/*give details*]<br>[●]<br>[●]<br>[●]<br>[●] |
| 29 | Redenomination, renominalisation and reconventioning provisions: | [Not Applicable/The provisions [in Condition [●]] apply] |
| 30 | Consolidation provisions: | [Not Applicable/The provisions [in Condition [●]] apply] |
| 31 | Other final terms: | [Not Applicable/*give details*]<br>(*When adding any other final terms consideration should be given as to whether such terms constitute a "significant new factor" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.*) |

**DISTRIBUTION**

| | | |
|---|---|---|
| 32 | (i) If syndicated, names of Managers:<br>(ii) Stabilising Manager(s) (if any): | [Not Applicable/*give names*]<br>[Not Applicable/*give name*] |
| 33 | If non-syndicated, name of Dealer: | [Not Applicable/*give name*] |
| 34 | Additional selling restrictions: | [Not Applicable/*give details*] |

**[LISTING AND ADMISSION TO TRADING APPLICATION**

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the Issuer's U.S.$750,000,000 Guaranteed Debt Issuance Programme guaranteed by the Guarantor.

**RESPONSIBILITY**

The Issuer and the Guarantor accept responsibility for the information contained in these Final Terms. [[●] has been extracted from [●]. Each of the Issuer and the Guarantor confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced inaccurate or misleading.]

Signed on behalf of the Issuer:

By:_____

Duly authorised

Signed on behalf of the Guarantor:

By:_____

Duly authorised

## PART B – OTHER INFORMATION

| | | |
|---|---|---|
| 1 | **LISTING AND ADMISSION TO TRADING** | |
| | (i) Listing: | Luxembourg/other (*specify*)/None |
| | (ii) Admission to trading: | [Application has been made for the Notes to be admitted to trading on [●] with effect from [●].]<br>[Not Applicable.] |
| | (iii) Estimate of total expenses related to admission to trading: | [●] |
| 2 | **RATINGS** | |
| | Ratings: | The Notes to be issued have been rated:<br>[S & P: [●]]<br>[Moody's: [●]]<br>[[Other]: [●]]<br>(*The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*) |

3 **[NOTIFICATION**

The [*include name of competent authority in EEA home Member State*] [[has/has not been requested to provide/has provided – include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [*include names of competent authorities of host Member States*] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive.]

4 **[INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE**

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"Save as discussed in ["Subscription and Sale"], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer."]

5 **[REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

| | |
|---|---|
| [(i) Reasons for the offer: | [●]<br>(See *"Use of Proceeds" wording in Base Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.*)] |
| [(ii)] Estimated net proceeds: | [●]<br>(*If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.*) |
| [(iii)] Estimated total expenses: | [●] *[Include breakdown of expenses.] (Only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)*] |

6 ***[Fixed Rate Notes only* – YIELD**

| | |
|---|---|
| Indication of yield: | [●]<br>The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.] |

7 **[*Floating Rate Notes only* – HISTORIC INTEREST RATES**

*Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Telerate].]*

8 **[*Index-Linked or other variable-linked Notes only* – PERFORMANCE OF INDEX/FORMULA/ other variable and other information concerning the underlying**

| | |
|---|---|
| Exercise price/final reference price of the underlying: | [●] |
| Details of where information about the past and the future performance and volatility of the underlying index/formula/ other variable can be obtained: | [●] |
| Details of the underlying security: | |
| (i) Name of the issuer of the security: | [●]<br>*(Only required where the underlying is a security)* |
| (ii) ISIN or other security identification code: | [●] |
| Details of the underlying index: | |
| (i) Name of the index: | [●] |
| (ii) Description of the index, if it is composed by the Issuer; if the index is not composed by the Issuer, where information about the index can be obtained: | [●]<br>*(Only required where the underlying is an index)* |
| Details of the underlying interest rate: | |
| (i) Description of the interest rate: | [●]<br>*(Only required where the underlying is an interest rate)* |
| Other details: | [●]<br>*(Where the underlying does not fall within the categories specified above, insert equivalent information. Where the underlying is a baskets of underlyings, disclose the relevant weightings of each underlying in the basket.)* |
| Market disruption or settlement disruption events that affect the underlying: | [●] |
| Adjustment rules in relation to events concerning the underlying: | [●] |

9 ***[Dual Currency Notes only* – PERFORMANCE OF RATE[S] OF EXCHANGE**

*Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.]*

10 **OPERATIONAL INFORMATION**

| | |
|---|---|
| ISIN Code: | [●] |
| Common Code: | [●] |
| Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking Société Anonyme and the relevant identification number(s): | [Not Applicable/*give name(s) and number(s)*] |

| | | |
|---|---|---|
| | Delivery: | Delivery [against/free of] payment |
| | Names and addresses of additional Paying Agent(s) (if any): | [●] |
| **11** | **[Index-Linked or other variable-linked Notes only – TERMS AND CONDITIONS OF THE OFFER** | [●] |
| | Conditions to which the offer is subject: | |
| | Total amount of the issue/offer; if the amount is not fixed, description of the arrangements and time for announcing to the public the amount of the offer: | [●] |
| | Time period (including any possible amendments) during which the offer will be open and description of the application process: | [●] |
| | Details of the minimum and/or maximum amount of application: | [●] |
| | Manner and date in which results of the offer are to be made public: | [●] |
| | Categories of potential investors to which the securities are offered: | [●]<br><br>(if the offer is being made simultaneously in the markets of two or more countries and if a tranche has been or is being reserved for certain of these, indicate any such tranche.) |
| | Process for notification to applicants of the amount allotted and indication whether dealing may begin before notification is made: | [●] |
| | Amount of any expenses and taxes specifically charged to the subscriber/ purchaser: | [●] |
| | Name and address of the co-ordinator(s) of the global offer and of single parts of the offer: | [●]<br><br>(To the extent known to the Issuer, also include details of the placers in the various countries where the offer takes place.) |
| | Name and address of any paying agents and depository agents in each country (in addition to the Paying Agents): | [●] |
| | Entities agreeing to underwrite the issue on a firm commitment basis, and entities agreeing to place the issue without a firm commitment or under ''best efforts'' arrangements: | [●]<br><br>(Where not all of the issue is underwritten, a statement of the portion not covered must be included.) |
| | When the underwriting agreement has been or will be reached: | [●]] |

Notes:

(1) *Only include details of a supplement to the Base Prospectus in which the Conditions have been amended for the purposes of all future issues under the Programme.*

(2) *Article 14.2 of the Prospectus Directive provides that a Prospectus is deemed available to the public when, inter alia*, made available (i) in printed form free of charge at the offices of the market on which securities are being admitted to trading; OR (ii) at the registered office of the Issuer and at the offices of the Paying Agents; OR (iii) in an electronic form on the Issuer's website. Article 16 of the Prospectus Directive requires that the same arrangements are applied to supplements to Prospectuses.

(3) *Section 6: Add the following language if the programme allows for issues of securities with a maturity of less than one year and the issuer is not an authorised person permitted to accept deposits or an exempt person under the UK Financial Services and Markets Act 2000. Delete square-bracketed text for issuers incorporated in the UK or within S 418 FSMA. The issue of securities with a maturity of less than one year by such issuers, where the issue proceeds are to be accepted in the United Kingdom, or, in the case of issuers incorporated in the UK or within S 418 FSMA, will be subject to S 19 FSMA unless their denomination is £100,000 or more (or its equivalent in other currencies) and they are only issued to "professionals" within Article 9(2)(a) of the Financial Services and Markets Act (Regulated Activities) Order 2001:*

*Notes [(including Notes denominated in Sterling) in respect of which the issue proceeds are to be accepted by the issuer in the United Kingdom or whose issue otherwise constitutes a contravention of S 19 FSMA and] which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).*

*Add appropriate provisions to terms and conditions if included.*

(4) *If the Conditions set out in the Base Prospectus do not include a term set out at paragraphs 18 or 22, e.g. Determination Date, Minimum Amount of Interest, Maximum Final Redemption Amount, then the relevant term should be deleted from the form of Final Terms set out in the Base Prospectus.*

(5) *If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Trustee.*

## SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

**The Global Notes**

Each Series of Notes will be evidenced on issue by a Global Note deposited with, and registered in the name of a nominee for, a common depository for Euroclear and Clearstream, Luxembourg.

Beneficial interests in a Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. By acquisition of a beneficial interest in a Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person and that, if it determines to transfer such beneficial interest prior to the expiration of the 40 day distribution compliance period, it will transfer such interest only to a person whom the seller reasonably believes to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. See ''Selling Restrictions''.

No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in a Global Note will not be entitled to receive physical delivery of certificated Notes in definitive form (the ''Definitive Notes''). The Notes are not issuable in bearer form.

**Amendments to Conditions**

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions:

- Payments

  Payments of principal and interest in respect of Notes evidenced by a Global Note will be made against presentation for endorsement by the Principal Paying Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the relevant Notes.

- Notices

  So long as any Notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of such Notes provided that for so long as the Notes are listed on the official list of the Luxembourg Stock Exchange and admitted to trading on the Regulated Market of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, notices will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *d'Wort*).

- Meetings

  The holder of each Global Note will be treated as being one person for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of Notes for which the relevant Global Note may be exchangeable.

- Trustee's Powers

  In considering the interests of Noteholders while the relevant Global Note is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note and may consider such interests as if such accountholders were the holders of such Global Note.

- Trading Amounts

  So long as the Notes are represented by a Global Note and the relevant clearing system(s) so permit, Notes shall be tradable in minimum amounts equal to the Specified Denomination(s) or integral multiples thereof.

- Cancellation

  Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Note.

- Redemption at the Option of Noteholders

  If a Put Option (as defined in the "Terms and Conditions of the Notes") occurs, the Issuer must, upon becoming aware of the occurrence of a Change of Control, promptly give notice to the Noteholders in accordance with the "Terms and Conditions of the Notes" and the standard procedures of Euroclear and Clearstream, Luxembourg of such Change of Control. For so long as all of the Notes are represented by the relevant Global Note and such Global Note is held on behalf of Euroclear and/or Clearstream, Luxembourg, such option of the Noteholders to require redemption of the Notes may be exercised by an accountholder (shown in the records of Euroclear and/or Clearstream, Luxembourg as the holder of Notes) giving notice to a Paying Agent in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg of the principal amount of the Notes in respect of which such option is to be exercised, not later than 30 days after the Issuer has given the notice of the Change of Control referred to above. Following presentation of the relevant Global Note to the Principal Paying Agent for notation, the Issuer shall (subject to certain limitations on the obligation of payment of the Issuer in Condition 7) redeem the relevant proportion of the Global Note five business days after the expiration of the 30 day period detailed above and the Paying Agent will mark down the Global Note in accordance with the terms of the Agency Agreement.

**Exchange for Definitive Notes**

***Exchange***

Each Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive, registered form if: (i) a Global Note is held by or on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent or (ii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) which would not be suffered were the Notes in definitive form and a notice to such effect signed by two directors of the Issuer or by any person(s) empowered by the board of directors of the Issuer to sign on behalf of the Issuer of the Issuer is delivered to the Trustee, by the Issuer giving notice to the Registrar or the Transfer Agent and the Noteholders of its intention to exchange the relevant Global Note for definitive Notes on or after the Exchange Date (as defined below) specified in the notice.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for definitive Notes for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

"Exchange Date" means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

***Delivery***

In such circumstances, the relevant Global Note shall be exchanged in full for definitive Notes and the Issuer will, at the cost of the Issuer, failing which ROSBANK, (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient definitive Notes to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the

Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes.

**Transfer of Definitive Notes**

A Definitive Note is transferable by execution of the form of transfer endorsed thereon under the hand of the registered holder of such Definitive Note or, where the registered holder is a corporation, under its common seal or under the hand of two of its officers duly authorised in writing. The Definitive Notes to be transferred must be delivered for registration to the specified office of the Registrar or the Transfer Agent with the form of transfer endorsed thereon or attached thereto duly completed and executed and must be accompanied by such documents, evidence and information as may be required pursuant to the "Terms and Conditions of the Notes" and such other evidence as the Registrar may reasonably require to prove the title of the transferor or his right to transfer the Definitive Note. Where a Noteholder has transferred part only of his holding of Notes there shall be delivered to such Noteholder, without charge, a Definitive Note in respect of the balance of such holding. Neither the Issuer nor the Registrar shall make any charge to the Noteholders for the registration of a transfer of any Note. No transfer of a Note may be effected otherwise than in accordance with the provisions of any restrictions on transfer specified in the legends set forth on the face of such Note. Holdings in Definitive Notes are transferable in minimum amounts equal to the Specified Denomination(s) or integral multiples thereof.

# TAXATION

*The following is a general description of certain Russian and Luxembourg tax considerations relating to the Notes and the Guarantee. It does not purport to be a complete analysis of all tax considerations relating to each Series of the Notes, whether in those countries or elsewhere. Prospective purchasers of any Series of the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of any Series of the Notes and receiving payments of interest, principal and/or other amounts under any Series of the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Base Prospectus. The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving any Series of 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. The summary is based on the laws of Russia, in effect on the date of this Base 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. No representation with respect to the Russian tax consequences to any particular holder is made hereby.

The discussion with respect to Russian legislation is based on our understanding of current Russian law and Russian tax rules, which are subject to frequent change and varying interpretations. See "Risk Factors – Risks Relating to Russia – Legislative and Legal Risks – Changes and Inconsistencies in the Russian Tax System Could Adversely Affect ROSBANK's Business".

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.

In practice, interpretation by different tax inspectorates may be inconsistent or contradictory and may impose conditions, requirements or restrictions not stated or explicitly stated by the law. Similarly, in the absence of binding precedents, court decisions on tax matters issued by different courts and relating to the same or similar circumstances may also be contradictory.

For the purposes of this summary, a "non-resident holder" means (i) a physical person, actually present in the Russian Federation for an aggregate period of less than 183 days in a given calendar year (excluding days of arrival into Russia but including days of departure from Russia) or (ii) 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.

For the purposes of this summary, a "Russian resident holder" means (i) a physical person actually present in the Russian Federation for 183 days or more in a given calendar year (excluding days of arrival into Russia, but including days of departure from Russia) or (ii) a legal person or organisation, in each case organised under Russian law, or (iii) a legal person or organisation, in each case organised under a foreign law, that holds and disposes of the Notes through its permanent establishment in Russia.

***Taxation of gains and interest on the Notes***

*Non-Resident Holders*

A non-resident holder will not be subject to any Russian taxes on receipt from the Issuer of amounts payable in respect of principal or interest on the Note.

A non-resident holder generally should not be subject to any Russian taxes in respect of gains or other income realised on redemption, sale or other disposition of the Notes outside of Russia provided that the proceeds from such disposition are not received from a source within Russia.

A non-resident holder which is a legal person or organisation generally should not be subject to withholding tax on any gain realised on the sale or on the disposition of the Notes even if proceeds are received from a source within Russia, although there is some residual uncertainty regarding the treatment of any part of such gain which is attributable to accrued interest on the Notes.

Accrued interest may be distinguished from the total gain and be subject to Russian withholding tax at 20 per cent. The separate taxation of the interest accrued may create a tax liability in relation to interest even in a situation of a capital loss on the disposal of the Notes. Non-resident holders should contact their own tax advisers with respect to this possibility. Withholding tax on interest may be reduced or eliminated in accordance with the provisions of an applicable double tax treaty. Advance treaty relief should be available, subject to the requirements of the laws of the Russian Federation (see section ''Tax Treaty Procedures'' below).

A non-resident holder who is a physical person will generally be subject to tax at the rate of 30 per cent. on the gross proceeds from the disposal of the Notes which potentially may be deducted by any available cost (including the original purchase price and documented expenses, such as depository expenses and broker fees, among others) where the proceeds of such disposal are received from a source within Russia, subject to any available double tax treaty relief. If the Notes are disposed to a resident of Russia and payment is made within or from Russia, the proceeds of such disposal are likely to be regarded for personal income tax purposes as income from a source within Russia. The tax law is not clear in all cases as to whether the tax should be withheld from proceeds from the disposal or individual non-resident holders should pay tax based on personal tax returns. If proceeds from the disposal are treated as income from a source within Russia, non-resident holders may be required to file personal tax returns with the Russian tax authorities unless personal income tax was withheld at the source (see section ''Tax Treaty Procedures'' below).

There is a risk that the taxable base may be affected by changes in the foreign currency exchange rates from the date of acquisition of the Notes to the date of selling the Notes.

In order to apply the treaties, the individual holders should receive clearance from the Russian tax authorities as described below under ''Tax Treaty Procedures''.

*Resident Holders*

Resident holders will be subject to all applicable Russian taxes, including any documentation filing procedures that may be required by law or practice, in respect of gains from disposal of the Notes, and interest received on the Notes. Such Noteholders should consent their own tax advisers with respect to their tax position regarding the Notes.

Payments under the Notes should not be subject to Russian Value Added Tax.

***Taxation of payments under the Guarantee***

The full amount of payment without any deduction may be treated as taxable income.

Pursuant to the Russian Tax Code, payment of taxable income under the Guarantee to non-resident holders who are legal entities may be subject to a 20 per cent. withholding tax at source. This tax, however, may be reduced by application of a double tax treaty (see section ''Tax Treaty Procedures'' below).

The amount of Russian source income paid under the Guarantee to an individual non-resident holder would be subject to a 30 per cent. withholding tax at source. It may be possible to reduce this tax under a double taxation treaty (see section ''Tax Treaty Procedures'' below).

When considering if it is possible to apply the provisions of a double tax treaty to reduce the withholding income tax payable in Russia, the Guarantor should take into account the treaty with the country of the residence of the relevant Noteholder rather than the country of the residence of the Trustee who receives and distributes guarantee payments based on the Trust Deed. This approach should apply when non-resident holders keep ultimate legal titles to Notes.

Payments under the Guarantee should not be subject to Russian Value Added Tax.

***Tax Treaty Procedures***

The Profits Tax Chapter of the Tax Code does not contain a requirement that a non-resident holder that is a legal entity or organisation must obtain tax treaty clearance from Russian tax authorities prior to receiving any income in order to qualify for benefits under an applicable tax treaty. A non-resident legal entity seeking to obtain relief from Russian withholding tax under a tax treaty must provide to the income payer a confirmation of its tax treaty residence that complies with the applicable double tax treaty in advance of receiving income.

In the absence of such confirmation the tax agent (i.e., the Russian purchaser of the Notes) should withhold the tax.

In accordance with the Tax Code, a non-resident holder who is an individual must present to the tax authorities a document confirming the income received and the tax paid off-shore, certified by the foreign tax authorities. Technically, such requirement means that an individual cannot rely on the tax treaty until the tax is paid in the jurisdiction of his residence. Therefore advance relief from withholding taxes for individuals will generally be impossible as it is very unlikely that the supporting documentation for the treaty relief can be provided to the tax authorities and approval from the latter obtained before the year end.

If a non-resident does not obtain the double tax treaty relief at the time that income or gains are realised and tax is withheld by a Russian payer, the non-resident holder may apply for a refund within three years from the end of the tax period in which the tax was withheld, if the recipient is a legal entity or organisation, or within the one-year period from the end of the tax period in which the tax was withheld, if the recipient is an individual. To process the claim for a refund, the Russian tax authorities require (i) a confirmation of the tax treaty residence of the non-resident at the time the income was paid, (ii) an application for refund of the tax withheld in a format provided by the Russian tax authorities and (iii) copies of the relevant contracts and payment documents confirming the payment of the tax withheld to be provided to the appropriate Russian authorities (Form 1012DT for dividends and interest and Form 1011DT for other income are designed to combine (i) and (ii) for foreign legal entities and organisations; individuals are also required to submit a document issued or approved by the home country tax authorities confirming the amount of income received and taxed in the home country). The Russian tax authorities may require a Russian translation of some documents. The refund of the tax withheld should be granted within one month from filing the application for the refund and relevant documents with the Russian tax authorities. However, procedures for processing such claims have not been clearly established and there is significant uncertainty regarding the availability and timing of such refunds.

**Luxembourg**

The following general summary is based upon the tax laws of Luxembourg as in effect on the date of this Base Prospectus and is subject to any change that may come into effect after that date. Under the existing laws of Luxembourg:

***Withholding Tax***

All payments of interest and principal by the Issuer under the Notes can be made free and clear of any withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein, in accordance with applicable Luxembourg law to the extent that:

(i) such interest has been negotiated at arm's length and is not profit participating

(ii) such interest is not paid by a Luxembourg Paying Agent to a Residual Entity or to a Beneficial Owner who is a resident of another Member State of the European Union (or of a relevant dependant or associated territory of a Member State of the European Union) or, if such interest is paid by a Luxembourg Paying Agent in such circumstance, the relevant Beneficial Owner has opted for exchange of information or has provided a tax certificate.

According to Luxembourg Laws of 21 June 2005 transposing the Savings and the bilateral agreements described below in "European Union Saving Directive on the Taxation of Saving Income in the form of Interest Payments (Directive 2003/48/EC)" a Luxembourg Paying Agent may, during the transitional period referred to below, be required to withhold tax on interest payments to Residual Entities or to Beneficial Owners resident in other Member States (or of a relevant dependant or associated territories) at a rate of 15 per cent. (the rate will be increased to 20 per cent. as from 1 July 2008 and to 35 per cent. as from 1 July 2011), unless the relevant Beneficial Owner has opted for the exchange of information or has provided a tax certificate.

For the purposes of this section, the terms "Residual Entity", "Paying Agent" and "Beneficial Owner" shall have the meanings given to them in the Laws of 21 June 2005. In particular, the entity may be considered a "Residual Entity" within the meaning of the EU Savings Directive if it meets all of the following criteria:

- the entity does not have legal personality, and
- the profits of the entity are not taxed under the general arrangements for business taxation, and
- the entity does not qualify as a UCITS, and
- the entity did not opt to be treated as a UCITS (where this possibility exists under the local provisions transposing the EU Savings Directive or similar/equivalent measures).

Noteholders should consult their own tax adviser regarding the implication of the Laws of 21 June 2005 in their particular circumstances.

(iii) such interest is not paid by a Luxembourg Paying Agent to a Luxembourg resident individual.

According to the Luxembourg Law of 23 December 2005 providing for introduction of a withholding tax on certain income and from saving derived by Luxembourg residents, a Luxembourg paying agent shall withhold, as from 1 January 2006, a final tax of 10 per cent. on certain income from savings. Interest on notes paid to a Luxembourg resident individual would fall under the scope of this Law.

***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) and capital gains are realised within six months of the acquisition of the Notes; or

(ii) such income or gain is attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in Luxembourg;

***Net Wealth Tax***

Luxembourg net wealth tax will not be levied on a holder of a Note unless:

(i) such holder is not an individual and is, or deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or

(ii) such Note is attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in Luxembourg;

***Inheritance and Gift Tax***

Where the Notes are transferred for no consideration, note in particular:

(i) No Luxembourg inheritance tax is levied on the transfer of the Notes upon death of a holder of a Note in cases where the deceased holder was not a resident of Luxembourg for inheritance tax purposes.

(ii) Luxembourg gift tax will be levied in the event that the gift is made pursuant to a notarial deed signed before a Luxembourg notary;

***Value Added Tax***

There is no Luxembourg value-added tax payable in respect of payments in consideration for the issue of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of a Note provided that Luxembourg value added tax may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg value added tax purposes such services are rendered, or are deemed to be rendered, in Luxembourg and an exemption from value added tax does not apply with respect to such services.

***Other Taxes and Duties***

It is not compulsory that the Notes be filed, recorded or enrolled with any court or other authority in Luxembourg or that registration tax, transfer tax, capital tax, stamp duty or any other similar tax or duty (other than court fees and contributions for the registration with the Chamber of Commerce) be paid in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including any foreign judgment in the courts of Luxembourg) of the Notes in accordance therewith.

However, in the case of court proceedings in a Luxembourg court or the presentation of the documents relating to the Notes, other than the Notes, to an "*autorité constituée*", such court or "*autorité constituée*" may require registration thereof, in which case the documents will be subject to registration duties depending on the nature of the documents and, in particular, a loan agreement, not represented by the Notes, will be subject to an *ad valorem* registration duty of 0.24% calculated on the amounts mentioned therein, and for a debt instrument having the form of a note, a fixed registration duty of €12 will be due.

***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.

**EU Directive on the Taxation of Savings Income**

On 3 June 2003, the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income. The Directive as implemented in the member states became effective on 1 July 2005. Under the directive, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a Paying Agent within its jurisdiction to a Residual Entity or to an Individual resident in that other Member State. For a transitional period, however, Austria, Belgium and Luxembourgare entitled to provide for a withholding tax. The transitional period is to commence on 1 July 2005 and will terminate at the end of the first fiscal year after the European Union and certain non-EU countries reach an agreement on the exchange of information relating to such payments.

Based on bilateral agreement, relevant dependant and associated territories of certain Member States and certain non-European Union states apply similar measures by the same date. By reciprocity, EU Paying Agents apply similar measures on interest payment to residents of relevant dependant and associated territories.

# SUBSCRIPTION AND SALE

**Summary of Dealer Agreement**

Subject to the terms and on the conditions contained in a Dealer Agreement dated 8 July 2005 (as amended from time to time) (the ''Dealer Agreement'') between the Issuer, ROSBANK, the Permanent Dealers and the Arrangers, the Notes will be offered from time to time by the Issuer to the Permanent Dealers or such other Dealers as may be appointed from time to time in respect of any Tranche of Notes pursuant to the Dealer Agreement. Any agreement for the sale of Notes will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, whether the placement of the Notes is underwritten or sold on an agency basis only, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) which are payable or allowable by the Issuer in respect of such purchase and the form of any indemnity to the Dealers against certain liabilities in connection with the offer and sale of the relevant Notes. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Dealer Agreement also provides for Notes to be issued in syndicated Series that may be jointly and severally underwritten by two or more Dealers.

Each of the Issuer, and ROSBANK has agreed to indemnify the Dealers against certain losses, as set out in the Dealer Agreement. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe for the Notes in certain circumstances prior to payment for such Tranche being made to the Issuer.

**Selling Restrictions**

***United States***

The Notes have not been and will not be registered under the Securities Act or the securities laws of any state of the United States. Each Dealer has warranted and agreed, and each further Dealer appointed under the Programme will be required to agree, that:

- The Notes 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.
- Prior to the expiration of 40 days after the commencement of the offering of any Series of Notes, the Notes may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons and any such sales conducted by a dealer (whether or not it is participating in the offering) may violate the registration requirements of the Securities Act. Thereafter, the Notes may not be reoffered or resold within the United States or to or for the account or benefit of U.S. persons except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act.
- Except as permitted by the Dealer Agreement, it will not offer or sell Notes of any Series (i) as part of their distribution at any time or (ii) otherwise until the expiration of 40 days after the completion of the distribution of such Series, as determined and certified to the Principal Paying Agent by such Dealer (or, in the case of a Series of Notes sold to or through more than one Dealer, by each of such Dealers with respect to Notes of such Series sold by or through it, in which case the Principal Paying Agent shall notify each such Dealer when all such Dealers have so certified), within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration 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 in this paragraph have the meanings given to them by Regulation S under the Securities Act.

This Base Prospectus has been prepared by the Issuer and ROSBANK for use in connection with the offer and sale of the Notes outside the United States to non-U.S. persons in reliance on

Regulation S under the Securities Act. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Base Prospectus does not constitute an offer to any person in the United States. Distribution of this Base Prospectus to any U.S. person or to any other person within the United States, is prohibited.

**United Kingdom**

Each Dealer has represented and agreed that:

(i) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (the ''FSMA'') by the Issuer;

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

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

***Russian Federation***

Each Dealer 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 Dealers may distribute the Base 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).

***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 Base 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 Base 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 Base 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.

***Germany***

Each Dealer has represented and agreed that it has only offered and sold and that it will only offer and sell the Securities 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-Verkaufsprospektgesetz*) and any other applicable laws in the Federal Republic of Germany governing the issue, sale and offering of securities.

**General**

Each Dealer has agreed that it has, to the best of its knowledge and belief, complied and will comply with applicable laws and regulations in each jurisdiction in which they offer, sell or deliver Notes or distribute this Base Prospectus (and any supplements thereto) or any other offering or publicity material relating to the Notes, the Issuer or ROSBANK.

No action has or will be taken in any jurisdiction by the Issuer, ROSBANK or any of the Dealers that would, or is intended to, permit a public offer of the Notes or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Accordingly, each Dealer has undertaken to the Issuer and ROSBANK that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

These selling restrictions may be modified by the agreement of the Issuer, ROSBANK and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Base Prospectus.

# GENERAL INFORMATION

(1) In connection with the application to list the Notes on the official list of the Luxembourg Stock Exchange and to trade them on the Regulated Market of the Luxembourg Stock Exchange, copies of the articles of incorporation of the Issuer and ROSBANK will be deposited prior to listing with the Register of Commerce and Companies in Luxembourg (*Registre de Commerce et des Sociétés à Luxembourg*) where such documents may be examined and copies obtained. The Luxembourg Stock Exchange has allocated number 13102 to the Issuer in respect of the Programme. However, Notes may be issued pursuant to this Programme which are not listed on the Luxembourg Stock Exchange or any other stock exchange or which will be listed on such further stock exchange as the Issuer, the Guarantor and the relevant Dealers may agree.

(2) Each of the Issuer and ROSBANK has obtained all necessary consents, approvals and authorisations in the United Kingdom, Luxembourg and Russia in connection with the establishment of the Programme and the guarantee relating to the Programme. The establishment of the Programme was authorised by resolutions of the Board of Directors of the Issuer passed on 5 July 2005 and the giving of the guarantee relating to the Programme by ROSBANK was authorised by resolutions of the Board of Directors of ROSBANK passed on 15 June 2005.

(3) Except as disclosed in this Base Prospectus, there has been no significant change in the financial or trading position of the Issuer since 31 December 2005 or of ROSBANK since 31 March 2006 and no material adverse change in the financial position or prospects of the Issuer since 31 December 2005 or ROSBANK since 31 December 2005.

(4) Except as disclosed in this Base Prospectus, neither the Issuer nor ROSBANK nor any of its subsidiaries is currently engaged in any litigation nor aware of any pending or threatened litigation that it considers may have a significant effect on its financial position or profitability, and has not been engaged in any litigation in the 12 months before the date of this Base Prospectus which has had a significant effect on its financial position or profitability.

(5) Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems. The Common Code, the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms.

(6) The issue price and the amount of the relevant Notes will be determined before filing of the relevant Final Terms of each Tranche, based on then prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to the Notes or in relation to any assets underlying issues of Notes constituting derivative securities.

(7) For so long as Notes may be issued pursuant to this Base Prospectus, the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the offices of the Issuer, Paying Agents and Transfer Agents:

(i) the Agency Agreement, the Trust Deed (which includes the form of the Global Note and the Definitive Notes)

(ii) the Memorandum and Articles of Association of the Issuer and the Charter of ROSBANK

(iii) the consolidated financial statements of the Group for the three financial years most recently ended

(iv) a copy of this Base Prospectus together with any supplement to this Base Prospectus or further Base Prospectus

(v) all reports, letters and other documents, balance sheets, valuations and statements by any expert any part of which is extracted or referred to in this Base Prospectus

(vi) each set of Final Terms for Notes.

(vii) the financial statements of the Issuer and ROSBANK for each financial year that has ended, together with the audit report in respect of such financial statements, and the six month audited interim financial statement of ROSBANK.

On completion of the listing of the Notes on the Luxembourg Stock Exchange, this Base Prospectus together with any Supplement to this Base Prospectus or further Base Prospectus shall be made available in an electronic form on the website of the Luxembourg Stock Exchange (www.bourse.lu).

(8) The EU Transparency Obligations Directive is currently being finalised and will be implemented in Luxembourg. In March 2003 the European Commission published a proposal for a Directive of the European Parliament and of the Council on the harmonisation of transparency requirements with regard to information about issuers whose securities are admitted to trading on a regulated market in the European Union ((2003/0045(COD) (the ''Transparency Directive''). If, as a result of the adoption of the Transparency Directive or any legislation implementing the Transparency Directive, the Issuer could be required to publish financial information either more regularly than it otherwise would be required to or according to accounting principles which are materially different from the accounting principles which it would otherwise use to prepare its published financial information, the Issuer may seek an alternative admission to listing, trading and/or quotation for the Notes by such other listing authority, stock exchange and/or quotation system outside the European Union as it may (with the agreement of the Dealers) decide.

# 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 30 June 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 RUR 9,750.3 billion, with own assets valued at approximately RUR 1,241.8 billion. The total charter capital of Russian credit organisations was just RUR 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 RUR 2,971,180 million as compared to RUR 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 RUR 1,220,705 million in May 2005 to RUR 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) amounting to RUR 806.5 billion as of 1 May 2006, as compared to RUR 624.6 billion in May 2005.

As of 1 January 2006 of the Russian banking sector's total assets, 62.5 per cent. are represented by account receivables under credit operations, 15.8 per cent. are represented by investments into securities, 7.0 per cent. and 2.6 per cent. are represented by credit balances on accounts with the CBR and correspondent banks, respectively, 9.3 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 RUR 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 January 2006, approximately 73.8 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 January 2006, 52 banks controlled by foreign groups through the holding of more than 50 per cent. of their shares were operating in the Russian Federation, of which three banks are ranked top 30 by the value of their assets. Foreign-controlled banks focus primarily on cash and settlement services to non-residents and interbank operations. Although foreign-controlled banks, such as Raiffeisenbank Austria, Citibank, 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 RUR 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) amounted to U.S.$247,343 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 Law "On Currency Regulation and Currency Control" No. 173-FZ dated 10 December 2003, which entered into force on 18 June 2004, as amended (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.

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.

Since 1 January 2004 Russian Banks are obliged to provide financial statements according to IFRS.

***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 RUR 100,000 or in part (90% but in any case not exceeding RUR 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 RUR 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 RUR 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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# ROSBANK Group

**Independent Auditors' Report**

**Consolidated and Combined Financial Statements**
Years Ended 31 December 2005, 2004 and 2003

## ROSBANK GROUP

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## ROSBANK GROUP

### STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated and combined financial statements of ROSBANK Group (the "Group").

Management is responsible for the preparation of the consolidated and combined financial statements that present fairly the financial position of the Group as of 31 December 2005, 2004 and 2003 and the results of its operations, cash flows and changes in equity for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated and combined financial statements, management is responsible for:

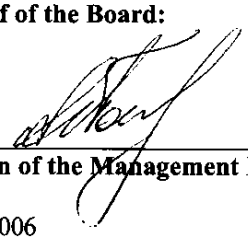
- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the combined financial statements; and
- Preparing the consolidated and combined financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated and combined financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

The consolidated and combined financial statements for the year ended 31 December 2005, 2004 and 2003 were authorised for issue on 18 April 2006, by the Board of Directors of ROSBANK.

**On behalf of the Board:**



**Chairman of the Management Board**

18 April 2006
Moscow

**Chief Financial Officer**

18 April 2006
Moscow

Deloitte.

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Joint Stock Bank ROSBANK:

We have audited the accompanying consolidated and combined balance sheets of ROSBANK Group (hereinafter – the "Group") as of 31 December 2005, 2004 and 2003 and the related consolidated and combined income statements, cash flows and changes in equity for the years then ended (the "financial statements"). These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2005, 2004 and 2003 and the results of its operations and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Deloitte & Touche

18 April 2006
Moscow

## CONSOLIDATED AND COMBINED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

| | Notes | 31 December 2005 RUR'000 | 31 December 2004 RUR'000 | 31 December 2003 RUR'000 |
|---|---|---|---|---|
| Interest income | 4,31 | 21,153,436 | 15,637,271 | 7,398,204 |
| Interest expense | 4,31 | (10,933,901) | (7,194,872) | (4,746,800) |
| NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS | | 10,219,535 | 8,442,399 | 2,651,404 |
| Provision for impairment losses on interest bearing assets | 5,31 | (1,038,566) | (1,543,846) | (36,353) |
| NET INTEREST INCOME | | 9,180,969 | 6,898,553 | 2,615,051 |
| Net gain on financial assets at fair value through profit or loss | 6 | 693,649 | (151,505) | 955,759 |
| Net gain/(loss) on sale of investments available-for-sale | | 994,910 | 668,843 | 29,743 |
| Net gain/(loss) on foreign exchange operations | | 299,864 | 250,886 | (22,411) |
| Net gain on precious metals operations | | 97,216 | 93,802 | 50,021 |
| Fee and commission income | 7,31 | 4,094,129 | 3,970,064 | 1,013,084 |
| Fee and commission expense | 7 | (974,840) | (742,981) | (293,866) |
| Dividend income | | 61,823 | 11,737 | 14,063 |
| Other income | 8 | 1,146,842 | 798,795 | 120,187 |
| NET NON-INTEREST INCOME | | 6,413,593 | 4,899,641 | 1,866,580 |
| OPERATING INCOME | | 15,594,562 | 11,798,194 | 4,481,631 |
| OPERATING EXPENSES | 9,31 | (11,228,645) | (8,389,667) | (3,227,572) |
| OPERATING PROFIT | | 4,365,917 | 3,408,527 | 1,254,059 |
| Other provisions | 5 | (7,326) | (131,221) | (133,507) |
| PROFIT BEFORE INCOME TAX | | 4,358,591 | 3,277,306 | 1,120,552 |
| Income tax expense | 10 | (1,274,529) | (951,996) | (778,049) |
| NET PROFIT | | 3,084,062 | 2,325,310 | 342,503 |
| Attributable to: | | | | |
| Equity holders of the parent | | 3,017,498 | 2,327,064 | 342,503 |
| Minority interest | | 66,564 | (1,754) | - |
| | | 3,084,062 | 2,325,310 | 342,503 |
| EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT | | | | |
| Basic and diluted (in RUR) | 11 | 7.80 | 6.83 | 1.01 |

**On behalf of the Board:**

**Chairman of the Management Board**

18 April 2006
Moscow

**Chief Financial Officer**

18 April 2006
Moscow

The notes on pages 9–63 form an integral part of these financial statements. The Independent Auditors' Report is presented on page 2.

## CONSOLIDATED AND COMBINED BALANCE SHEETS
## AS OF THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

| | Notes | Year ended 31 December 2005 RUR'000 | Year ended 31 December 2004 RUR'000 | Year ended 31 December 2003 RUR'000 |
|---|---|---|---|---|
| **ASSETS:** | | | | |
| Cash and balances with Central and National banks | 12 | 19,455,358 | 28,367,163 | 21,513,900 |
| Financial assets at fair value through profit or loss | 13,31 | 15,677,102 | 10,821,284 | 10,667,955 |
| Precious metals | 14 | 978,040 | 69,342 | 39,170 |
| Loans and advances to banks, less allowance for impairment losses | 15,31 | 53,995,068 | 21,003,058 | 10,748,392 |
| Loans to customers, less allowance for impairment losses | 17,31 | 113,318,224 | 79,682,626 | 61,406,161 |
| Investments available-for-sale, less allowance for impairment losses | 18 | 478,334 | 1,937,346 | 7,787,638 |
| Securities held-to-maturity | 19 | - | - | 132,787 |
| Fixed assets purchased for transfer into finance lease | | 329,005 | - | - |
| Fixed assets, net | 20 | 6,723,177 | 6,929,456 | 2,397,010 |
| Current income tax assets | | 484,307 | 327,866 | 98,202 |
| Other assets, less allowance for impairment losses | 21 | 1,617,987 | 735,592 | 636,512 |
| Total assets | | **213,056,602** | **149,873,733** | **115,427,727** |
| **LIABILITIES AND EQUITY** | | | | |
| LIABILITIES: | | | | |
| Deposits from banks | 22 | 11,139,028 | 8,618,844 | 7,863,506 |
| Customer accounts | 23,31 | 149,060,894 | 101,220,183 | 76,610,016 |
| Financial liabilities at fair value through profit or loss | 24 | 1,840,641 | 31,699 | 8,701 |
| Debt securities issued | 25 | 26,044,207 | 19,901,584 | 18,224,705 |
| Other provisions | 5,31 | 174,729 | 252,287 | 357,602 |
| Current income tax liabilities | | 11,155 | 106,839 | 294,269 |
| Deferred income tax liabilities | 10 | 926,371 | 982,467 | 87,797 |
| Other liabilities | 26,31 | 1,039,311 | 884,262 | 697,389 |
| | | 190,236,336 | 131,998,165 | 104,143,985 |
| Subordinated debt | 27,31 | - | 1,450,000 | - |
| Total liabilities | | **190,236,336** | **133,448,165** | **104,143,985** |

## CONSOLIDATED AND COMBINED BALANCE SHEETS (CONTINUED)
## AS OF THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

| | Notes | Year ended 31 December 2005 RUR'000 | Year ended 31 December 2004 RUR'000 | Year ended 31 December 2003 RUR'000 |
|---|---|---|---|---|
| EQUITY: | | | | |
| Share capital | 28 | 8,876,500 | 8,083,306 | 8,162,743 |
| Share premium | 28 | 9,177,470 | 6,445,058 | 6,445,058 |
| Translation reserve | | (82,280) | (62,387) | (120,636) |
| Revaluation reserve | | 2,993,114 | 3,095,261 | - |
| Reorganization reserve | | 1,881,029 | - | - |
| Accumulated deficit | | (245,266) | (1,229,819) | (3,295,818) |
| Equity attributable to equity holders of the parent | | 22,600,567 | 16,331,419 | 11,191,347 |
| Minority interest | | 219,699 | 94,149 | 92,395 |
| Total equity | | **22,820,266** | **16,425,568** | **11,283,742** |
| TOTAL LIABILITIES AND EQUITY | | **213,056,602** | **149,873,733** | **115,427,727** |

**On behalf of the Board:**

**Chairman of the Management Board**

18 April 2006
Moscow

**Chief Financial Officer**

18 April 2006
Moscow

The notes on pages 9–63 form an integral part of these financial statements. The Independent Auditors' Report is presented on page 2.

## CONSOLIDATED AND COMBINED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

| | Share capital RUR'000 | Share premium RUR'000 | Translation reserve RUR'000 | Revaluation reserve RUR'000 | Reorganization reserve RUR'000 | Accumulated deficit RUR'000 | Equity attributable to equity holders of the parent RUR'000 | Minority interest RUR'000 | Total equity RUR'000 |
|---|---|---|---|---|---|---|---|---|---|
| **31 December 2002** | 5,840,127 | 3,672,190 | (213,500) | - | - | (813,130) | 8,485,687 | - | 8,485,687 |
| Changes in translation reserve | - | - | 92,864 | - | - | - | 92,864 | - | 92,864 |
| Issue of share capital | 165,460 | - | - | - | - | - | 165,460 | - | 165,460 |
| Dividends declared | - | - | - | - | - | (115,780) | (115,780) | - | (115,780) |
| Group reorganization | 2,157,156 | 2,772,868 | - | - | - | (2,709,411) | 2,220,613 | 92,395 | 2,313,008 |
| Net profit | - | - | - | - | - | 342,503 | 342,503 | - | 342,503 |
| **31 December 2003** | 8,162,743 | 6,445,058 | (120,636) | - | - | (3,295,818) | 11,191,347 | 92,395 | 11,283,742 |
| Changes in translation reserves | - | - | 58,249 | - | - | - | 58,249 | - | 58,249 |
| Revaluation reserve (net of deferred tax of RUR 930,367 thousand) | - | - | - | 3,095,261 | - | - | 3,095,261 | - | 3,095,261 |
| Dividends declared | - | - | - | - | - | (299,665) | (299,665) | - | (299,665) |
| Group reorganization | (79,437) | - | - | - | - | 38,600 | (40,837) | 3,508 | (37,329) |
| Net profit | - | - | - | - | - | 2,327,064 | 2,327,064 | (1,754) | 2,325,310 |
| **31 December 2004** | 8,083,306 | 6,445,058 | (62,387) | 3,095,261 | - | (1,229,819) | 16,331,419 | 94,149 | 16,425,568 |
| Increase in share capital | 3,398,321 | 5,505,280 | - | - | - | - | 8,903,601 | - | 8,903,601 |
| Changes in translation reserve | - | - | (19,893) | - | - | - | (19,893) | - | (19,893) |
| Fixed assets disposal (net of deferred tax credit of RUR 86,440 thousand) | - | - | - | (102,147) | - | 102,147 | - | - | - |
| Dividends declared | - | - | - | - | | (2,187,115) | (2,187,115) | - | (2,187,115) |
| Group reorganization | (2,605,127) | (2,772,868) | - | - | 1,881,029 | 52,023 | (3,444,943) | 58,986 | (3,385,957) |
| Net profit | - | - | - | - | - | 3,017,498 | 3,017,498 | 66,564 | 3,084,062 |
| **31 December 2005** | 8,876,500 | 9,177,470 | (82,280) | 2,993,114 | 1,881,029 | (245,266) | 22,600,567 | 219,699 | 22,820,266 |

**On behalf of the Board:**

**Chairman of the Management Board**

18 April 2006
Moscow

**Chief Financial Officer**

18 April 2006
Moscow

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## CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

| | Notes | 31 December 2005 RUR'000 | 31 December 2004 RUR'000 | 31 December 2003 RUR'000 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | | |
| Profit before income tax | | 4,358,591 | 3,277,306 | 1,120,552 |
| Provision for impairment losses on interest bearing assets | | 1,038,566 | 1,543,846 | 36,353 |
| Other provisions | | 7,326 | 131,221 | 133,507 |
| Depreciation charge on fixed assets | | 438,859 | 268,996 | 162,673 |
| Fixed assets impairment | | 7,624 | 239 | - |
| Net change in value of derivatives and spot deals | | (53,577) | 13,183 | 8,116 |
| Net change in interest and other accruals | | 1,326,608 | 1,287,158 | 31,661 |
| Net unrealized (gain)/loss on financial assets at fair value through profit or loss | | (351,809) | 669,894 | (1,570,496) |
| Net foreign currency revaluation loss/(gain) | | 357,964 | (133,480) | 179,459 |
| Cash flow from operating activities before changes in operating assets and liabilities | | 7,130,152 | 7,058,363 | 101,824 |
| Changes in operating assets and liabilities | | | | |
| (Increase)/decrease in operating assets: | | | | |
| Minimum reserve deposit with the Central Bank of the Russian Federation | | (917,585) | 4,556,625 | (632,024) |
| Loans and advances to customers | | (32,680,805) | (22,270,502) | (14,043,320) |
| Loans and advances to banks | | (2,164,277) | (422,376) | (1,162,991) |
| Financial assets at fair value through profit or loss | | 248,353 | (351,651) | (1,834,039) |
| Other assets | | (370,755) | (285,618) | 125,022 |
| Increase/(decrease) in operating liabilities: | | | | |
| Deposits from banks | | 1,181,841 | 1,100,966 | 3,445,652 |
| Customer accounts | | 45,448,494 | 26,516,555 | 28,073,169 |
| Other liabilities | | 1,017,838 | (356,428) | (80,587) |
| Cash inflow from operating activities before taxation | | 18,893,256 | 15,545,934 | 13,992,706 |
| Income tax paid | | (1,499,310) | (1,404,787) | (554,216) |
| Net cash inflow from operating activities | | 17,393,946 | 14,141,147 | 13,438,490 |

## CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

| | Notes | 31 December 2005 RUR'000 | 31 December 2004 RUR'000 | 31 December 2003 RUR'000 |
|---|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | | |
| Purchase of fixed assets | | (578,865) | (932,013) | (255,616) |
| Proceeds on sale of fixed assets | | 363,643 | 141,960 | 57,442 |
| Purchase of fixed assets for transfer into finance lease | | 60,371 | - | - |
| Purchase of subsidiaries, net of cash acquired | | (3,567,889) | - | - |
| Net sale/(purchase) of investment securities | | 1,581,394 | 5,936,870 | (7,192,993) |
| Net cash (outflow)/inflow from investing activities | | (2,141,346) | 5,146,817 | (7,391,167) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | | |
| Share capital issue | | 3,398,321 | - | 165,460 |
| Share premium received | | 5,505,280 | - | - |
| Proceeds from debt securities issued | | 4,926,623 | 1,951,072 | 5,581,602 |
| (Repayment of)/ Proceeds from subordinated debt | | (1,450,000) | 1,450,000 | - |
| Dividends paid | | (2,176,747) | (299,665) | (115,780) |
| Net cash inflows from financing activities | | 10,203,477 | 3,101,407 | 5,631,282 |
| Effect of exchange rate changes on cash and cash equivalents | | 759,533 | (448,202) | (316,494) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 26,215,610 | 21,941,169 | 11,362,111 |
| CASH AND CASH EQUIVALENTS, beginning of the period | 12 | 41,585,012 | 19,643,843 | 8,281,732 |
| CASH AND CASH EQUIVALENTS, end of the period | 12 | 67,800,622 | 41,585,012 | 19,643,843 |

Interest received and paid by the Group during the year ended 31 December 2005 amounted to RUR 20,728,981 thousand and RUR 9,918,976 thousand, respectively.

Interest received and paid by the Group during the year ended 31 December 2004 amounted to RUR 15,912,942 thousand and RUR 6,925,623 thousand, respectively.

Interest received and paid by the Group during the year ended 31 December 2003 amounted to RUR 6,984,019 thousand and RUR 4,420,625 thousand, respectively.

**On behalf of the Board:**

**Chairman of the Management Board**

18 April 2006
Moscow

**Chief Financial Officer**

18 April 2006
Moscow

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## 1. ORGANISATION

ROSBANK (initially named "Nezavisimost") is a joint stock bank which was incorporated in the Russian Federation in 1993. Over the subsequent five years, ROSBANK customers were mainly comprised of medium-sized trade, finance and technology companies for which it conducted a variety of activities, including corporate lending, settlement, government bond trading, foreign exchange and money market transactions. In 1998 ROSBANK was acquired by the Interros Group with the initial purpose of providing banking services to Interros Group companies. In 2000 ROSBANK acquired Uneximbank which was merged into ROSBANK and ceased to exist as a legal entity. In 2002 ROSBANK and Commercial Bank "MFK Bank", specializing in investment banking, were consolidated. In 2003 the Interros Group acquired OVK group – one of Russia's largest retail banking institutions. The integration of OVK with ROSBANK has transformed ROSBANK into a financial institution capable of offering universal services.

ROSBANK is regulated by the Central Bank of the Russian Federation (the "CBR") and conducts its business under license number 2272. ROSBANK is engaged in a full range of banking activities, including commercial and investment banking and custodial services.

The registered office of ROSBANK is located at 11, Masha Poryvaeva Street, Moscow, 107078, Russian Federation.

As of 31 December 2005 ROSBANK had 76 branches in the Russian Federation.

ROSBANK is the parent company of the banking group which consists of the following enterprises:

| Name | Country of incorporation | ROSBANK's ownership interest/voting rights, % | Type of operations |
|---|---|---|---|
| Rosbank (Switzerland) SA | Switzerland | 100/100 | Banking |
| Rosbank International Finance BV | The Netherlands | 100/100 | Issue of Eurobonds |
| RosInvest SA | Luxembourg | 99.97/99.97 | Reorganization of UNEXIM Finance Company |
| Belrosbank | Byelorussia | 80.77/80.77 | Banking |
| Russia International Card Finance S.A. | Luxembourg | 0/100 (Contractual agreement) | Issue of Eurobonds |
| Rosbank Finance S.A | Luxembourg | 100/100 | Issue of Eurobonds |
| BaikalROSBANK JSC | Russia | 90/53 | Banking |
| ROSBANK-VOLGA CJSC | Russia | 100/100 | Banking |
| RB Finance CJSC | Russia | 100/100 | Operations with securities |
| Processing Company NICKEL LLC | Russia | 100/100 | Processing of card operations |
| RB LEASING LLC | Russia | 40/100 | Leasing |
| INKAHRAN OJSC | Russia | 85/ 100 | Cash collection services |

The following enterprises were included in the financial statements as of 31 December 2004 and 2003 on a combined basis, as such entities were under common control of ROSBANK's shareholders (Interros). These entities had all been acquired by ROSBANK by 31 December 2005 and were therefore, consolidated.

| | | Interros's ownership interest/ voting power, % | |
|---|---|---|---|
| Bank Pervoe OVK JSC | Russia | 93.16/100 | Banking |
| Bank Sibirskoe OVK JSC | Russia | 97.32/100 | Banking |
| Bank Povolzhskoe OVK JSC | Russia | 98.04/100 | Banking |
| Bank Centralnoe OVK JSC | Russia | 99.91/100 | Banking |
| Bank Dalnevostochnoe OVK JSC | Russia | 100/100 | Banking |
| Bank Privolzhskoe OVK LLC | Russia | 100/100 | Banking |
| Kapital i zdanie OJSC | Russia | 100/100 | Real estate operations |
| Art Heiser LLC | Russia | 100/100 | Real estate operations |
| Petrovsky Dom-XXI vek LLC | Russia | 100/100 | Real estate operations |
| TOR-Service CJSC | Russia | 100/100 | Office buildings administration |
| PMD Service LLC | Russia | 100/100 | Lease services |
| TD Druzhba LLC | Russia | 100/100 | Other services |
| AVTO LLC | Russia | 100/100 | Transportation services |
| RB Securities LLC | Russia | 100/100 | Operations with securities |
| AVD LLC | Russia | 100/100 | Recovery of bad debts |
| AVD Ekaterinburg LLC | Russia | 100/100 | Recovery of bad debts |
| AVD Saratov LLC | Russia | 100/100 | Recovery of bad debts |
| Dalnevostotnoe AVD LLC | Russia | 100/100 | Recovery of bad debts |
| AVD Krasnoyarsk LLC | Russia | 100/100 | Recovery of bad debts |
| AVD St-Peterburg LLC | Russia | 100/100 | Recovery of bad debts |
| AVD Krasnodar LLC | Russia | 100/100 | Recovery of bad debts |

In 2003 JSC "Interros estate", the major shareholder of the Group, purchased a controlling interest in OVK group. OVK group consisted of 6 commercial banks and other financial and service companies. The main activity of these banks is retail banking. The management of ROSBANK has commenced the process of integrating the operations of OVK with those of ROSBANK and, on 26 January 2004, the CBR approved ROSBANK's proposed plan of consolidation. The integration of banks as large as OVK group requires extensive management, personnel and monetary resources. The integration was completed at the end of 2005, prior to which time management was faced with modernisation of the OVK group network, integrating its operations and personnel with those of ROSBANK, merging its information technology systems with those of ROSBANK, and implementing group-wide financial and management information systems and controls. OVK group was acquired by ROSBANK and the Group reorganization was completed by the end of 2005.

Interros controlled OVK group and had the ability to obtain economic benefits from the banks since the end of 2003. Therefore, combined financial statements are prepared from 31 December 2003 to ensure comparability with 2005. Since ROSBANK acquired OVK group and obtained control of OVK group at the end of 2005, the financial statements as of 31 December 2005 were prepared on a consolidated basis.

As of 31 December 2005, the following shareholders owned the issued shares of ROSBANK:

| **Shareholder** | **%** |
|---|---|
| KM TECHNOLOGIES (OVERSEAS) LIMITED | 97.26% |
| Others | 2.74% |
| **Total** | **100.00%** |

As of 31 December 2005, the ultimate shareholders of the Group are:

| Shareholder | % |
|---|---|
| Mr. Potanin V. O. | 48.58% |
| Mr. Prokhorov M. D. | 48.58% |
| Others | 2.84% |
| **Total** | **100.00%** |

## 2. BASIS OF PRESENTATION

### Accounting basis

These consolidated and combined financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") ("financial statements"). These financial statements are presented in thousands of Russian Roubles ("RUR"), unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments and fixed assets and according to International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29").

Entities incorporated in the Russian Federation maintain their accounting records in accordance with Russian law. Other companies of the Group maintain their accounting records in accordance with statutory accounting standards generally accepted in the countries where they operate. For the purpose of incorporation in the financial statements, the individual financial statements of entities included in the Group prepared under the statutory accounting standards generally accepted in the countries of their origin have been adjusted to conform with IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions.

Although ROSBANK had prepared IFRS financial statements for previous years, the Group has prepared its first annual financial statements in accordance with IFRS, applying all IAS and IFRS required to be adopted for this period including amendments to certain International Accounting Standards and International Financial Reporting Standards. The Group has not prepared statutory financial statements on the same group basis.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for impairment losses and the fair value of financial instruments.

### Key assumptions

Key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

| | 31 December 2005 RUR'000 |
|---|---|
| Loans to customers, less allowance for impairment losses | 113,318,224 |
| Investments available-for-sale, less allowance for impairment losses | 478,334 |
| Fixed assets, net | 6,723,177 |

Loans to customers and investments available-for-sale are measured at amortised cost/cost less allowance for impairment losses. The estimation of allowance for impairment losses involves an exercise of judgement. It is impracticable to assess the extent of the possible effects of key assumptions or other sources of uncertainty on these balances at the balance sheet date.

Certain fixed assets (buildings) are measured at revalued amounts and the date of the latest appraisal was 31 December 2004. Management believes that the next revaluation of fixed assets existing as of 31 December 2005 would not be materially different in the next financial year from the carrying balance. Next appraisal is due on 31 December 2006. Discussion of taxation is presented in Note 29.

**Functional currency**

The functional currency of these financial statements is the Russian Rouble.

## 3. SIGNIFICANT ACCOUNTING POLICIES

**Basis of consolidation/combination**

The financial statements incorporate the financial statements of ROSBANK, entities controlled by ROSBANK (its subsidiaries) and entities under common control made up to the end of each period. Control is achieved where there is the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

For combination purposes, assets, liabilities and all equity balances are added together without any minority interest, except for inter-group balances and transactions as discussed below.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition, unless a business combination involves entities or business under common control. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Goodwill is assessed at least annually for impairment. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the period of acquisition. The minority interest is stated at the minority's proportion of the fair values of assets and liabilities recognised. Subsequently, any losses applicable to minority interest in excess of minority interest are allocated against the interests of the parent. For a business combination involving entities or business under common control, all assets and liabilities of a subsidiary are measured at historical/fair value according to subsidiary stand-alone IFRS financial statements. The residual balance is recognized as "reorganization reserve" in the financial statements.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated and combined income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of individual entities included in the financial statements to bring the accounting policies used into line with those used by the Group.

In translating the financial statements of a foreign subsidiary into the presentation currency for incorporation in the financial statements, the Group follows a translation policy in accordance with International Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates" ("IAS 21") and the following procedures are performed:

- Assets and liabilities, both monetary and non-monetary, of the foreign entity are translated at the closing rate;
- Income and expense items of the foreign entity are translated at exchange rates at the date of respective transactions;
- All resulting exchange differences are classified as equity until the disposal of the investment;
- On disposal of the investment in the foreign entity related exchange differences are recognized in the consolidated and combined income statement.

All intra-group transactions, balances, income and expenses are eliminated on consolidation and combination.

**Recognition and measurement of financial instruments**

The Group recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities, except for investments available-for-sale, are recognized using settlement date accounting. Regular way purchases and sale of investments available-for-sale are recognized using trade date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as that for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the Central Bank of the Russian Federation and National Banks, with original maturity within 90 days, loans and advances to banks in countries included in the Organization for Economic Co-operation and Development ("OECD"), except for margin deposits for operations with plastic cards as well as Government debt securities and precious metals, which may be converted to cash within a short period of time. For purposes of determining cash flows, the minimum reserve deposits required by the Central Bank of the Russian Federation and National Banks is not included as a cash equivalent due to restrictions on its availability.

**Precious metals**

Assets and liabilities denominated in precious metals are measured at fair value which is determined at the current rate computed based on the second fixing of the London Bullion Market rates using the RUR/USD exchange rate effective at the date. Changes in the bid prices are recorded in net (loss)/gain on operations with precious metals in the income statement.

**Loans and advances to banks**

In the normal course of business, the Group maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Amounts due from credit institutions are carried net of any allowance for impairment losses.

**Financial assets/liabilities at fair value through profit or loss**

Financial assets/liabilities at fair value through profit or loss represent assets/liabilities acquired/incurred principally for the purpose of selling/settlement in the near term, or it is a part of portfolio of a identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit-taking, or as a derivative, or financial asset/liability which upon initial recognition is designated by the Group at fair value through profit or loss. Financial assets/liabilities at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Group uses quoted market prices to determine fair value for the Group's financial assets/liabilities at fair value through profit or loss. When reliable market prices are not available or if liquidating the Group's position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or management's estimates of the amounts that can be realized from an orderly disposition over a period of time, assuming current market conditions. Fair value adjustment on financial assets/liabilities at fair value through profit or loss is recognized in the income statement for the period.

**Repurchase and reverse repurchase agreements**

The Group enters into sale and purchase back agreements ("repos") and purchase and sale back agreements ("reverse repos") in the normal course of its business. Repos and reverse repos are utilized by the Group as an element of its treasury management and trading business.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the financial statements and consideration received under these agreements is recorded as collateralized deposit received.

Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit which is collateralized by securities and other assets.

In the event that assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gains/ (losses) on respective assets. Any related income or expense arising from the pricing difference between purchase and sale of the underlying assets is recognized as interest income or expense.

**Derivative financial instruments**

The Group enters into derivative financial instruments to manage currency and liquidity risks and such financial instruments are held primarily for trading purposes. Derivatives entered into by the Group include forwards and swaps.

Derivative financial instruments are initially recorded and subsequently measured at fair value. Fair values are obtained from the interest rate model. Most of the derivatives the Group enters into are of a short-term and trading nature. The results of the valuation of derivatives are reported in assets (aggregate of positive market values) or liabilities (aggregate of negative market values), respectively. Both positive and negative valuation results are recognized in the income statement for the period in which they arise under net gain/(loss) on respective transactions.

**Originated loans**

Loans originated by the Group are financial assets that are created by the Group by providing money directly to a borrower or by participating in a loan facility.

Loans granted by the Group with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the income statement as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

**Purchased loans**

Loans acquired from another lender subsequent to the origination date are either classified as loans or as available-for-sale investments on initial recognition. Purchased loans classified as loans are initially recognized at fair value and subsequently measured at amortised cost using the effective interest method. For purchased loans classified as available-for-sale investments, fair value is based on an active market or on a discounted cash flow ("DCF") model. If market price is not available and the DCF model is not practicable, the price for similar assets is used.

**Write off of loans and advances**

Loans and advances are written off against allowance for impairment losses when estimated to be uncollectible, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. The excess of cash received on such sale over the outstanding debt is returned to the debtor. The decision on writing off bad debt against allowance for impairment losses for all major, preferential, unsecured and insider loans is required to be confirmed by a procedural document of judicial or notary bodies certifying that at the time of the decision the debt could not be repaid (partially repaid) with the debtor's funds.

**Non-accrual loans**

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**Allowance for impairment losses**

The Group establishes an allowance for impairment losses of financial assets that are not carried at fair value when there is objective evidence that a financial asset or group of financial assets is impaired. The allowance for impairment losses is measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate, for financial assets which are carried at amortised cost. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. For financial assets carried at cost the allowance for impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The determination of the allowance for impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of risk assets for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

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

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

**Finance leases**

Leases that transfer substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The lease classified as finance lease if:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of a specialized nature such that only the lessee can use them without major modifications being made.

**Group as lessor**

The Group presents leased assets as loans equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are recognized as expenses when incurred.

**Investments held-to-maturity**

Investments held-to-maturity are debt securities with determinable or fixed payments. The Group has the positive intent and ability to hold such investments to maturity. These securities are carried at amortized cost, less any allowance for impairment. Amortized discounts are recognized in interest income over the period to maturity using the effective interest method.

**Investments available-for-sale**

Investments available-for-sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at fair value. Subsequently the securities are measured at fair value, with such re-measurement recognized directly in equity until sold when gain/loss previously recorded in equity recycles through the income statement, plus accrued coupon income recognized in the consolidated and combined income statement for the period as interest income on investment securities. The Group uses quoted market prices to determine the fair value for the Group's investments available-for-sale. If the market for investments is not active, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. Dividends received are included in dividend income in the consolidated and combined income statement.

Non-marketable debt and equity securities are stated at amortized cost and cost, respectively, less impairment losses, unless fair value can be reliably measured.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognized in the income statement for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognized in the income statement for the period. Reversals of such impairment losses on equity instruments are not recognized in the income statement.

**Fixed assets**

Fixed assets, except for buildings, acquired after 1 January 2003 are carried at historical cost less accumulated depreciation and any recognised impairment loss. Fixed assets, acquired before 1 January 2003, except for buildings, are carried at historical cost restated for inflation less accumulated depreciation and any recognised impairment loss. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

The carrying amounts of fixed assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for fixed assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Depreciation of fixed assets is charged on the carrying value of fixed assets and is designed to write off assets over their useful economic lives. It is calculated on a straight line basis at the following annual rates:

| | |
|---|---|
| Buildings | 2% |
| Equipment | 20% |

Till the end of 2004, buildings were carried at historical cost restated for inflation less accumulated depreciation and any recognised impairment loss.

As of 31 December 2004 the accounting policy was changed and buildings held for use in supply of services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional valuers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Three approaches were used to estimate the market value of property:

- The sales comparison approach based on the analysis of sales prices for similar properties in the market;
- The income approach that assumes direct relationship between income generated by the property and its market value; and
- The cost approach under which the value of property equals the replacement cost adjusted for depreciation.

Any revaluation increase arising on the revaluation of such buildings is credited to the fixed assets revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to income. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to accumulated deficit.

**Taxation**

Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the period. Taxable profit differs from net profit as reported in the consolidated and combined income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

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

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

Countries where the Group operates also have various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated and combined income statement.

**Deposits from banks and customers**

Customer and bank deposits are initially recognized at fair value, which amounts to the issue proceeds less transaction costs incurred. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated and combined income statement over the period of the borrowings using the effective interest method.

**Debt securities issued**

Debt securities issued represent promissory notes, certificates of deposit and debentures issued by the Group. They are accounted for according to the same principles used for customer and bank deposits.

**Provisions**

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

**Financial guarantee contracts issued and letters of credit**

Financial guarantee contracts and letters of credit issued by the Group are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

**Contingent assets**

Contingent assets from financial guarantees received arise when the Bank has indicators of a loss incurred because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. The contingent asset is disclosed where an inflow of economic benefits is probable. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs.

**Share capital and share premium**

Contributions to share capital and share premium, made before 1 January 2003, are recognized at their cost restated for inflation. Contributions to share capital and share premium made after 1 January 2003 are recognized at cost. Share premium represents the excess of contributions over the nominal value of shares issued. Gains and losses on sales of treasury stock are charged or credited to share premium.

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under International Accounting Standard 10 “Events after the Balance Sheet Date” (“IAS 10”) and disclosed accordingly.

**Retirement and other benefit obligations**

The Group does not have any pension arrangements separate from the State pension system of the Russian Federation and other countries, which require current contributions by the Group calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by pension funds selected by employees. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

**Recognition of income and expense**

Interest income and expense are recognized on an accrual basis using the effective interest method. Interest income also includes income earned on investments in securities. Fee and commission income includes loan origination fees, loan commitment fees and loan servicing fees. Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit and loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit and loss on expiry. Loan servicing fees are recognized as revenue as services are provided. Other income is credited to the consolidated and combined income statement when the related transactions are completed. Commission income for the guarantees issued is deferred and recognised as revenue on a time proportion basis over the period of guarantees. Commission expense for guarantees received is deferred and

recognised as expense on a time proportion basis over the period of guarantees. All other commissions are recognized when services are provided.

**Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated into Russian Roubles at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for on the exchange rates prevailing on the date of the transaction. Profits and losses arising from these translations are included in net gain/(loss) on foreign exchange operations.

**Rates of exchange**

The exchange rates at period-end used by the Group in the preparation of the financial statements are as follows:

| | 31 December 2005 | 31 December 2004 | 31 December 2003 |
|---|---|---|---|
| RUR/1 US Dollar | 28.7825 | 27.7487 | 29.4545 |
| RUR/1 Euro | 34.1850 | 37.8104 | 36.8240 |
| RUR/Gold (1 ounce) | 14,765.42 | 12,087.33 | 12,289.90 |
| RUR/Platinum (1 ounce) | 27,746.33 | 23,850.01 | 21,734.45 |

**Offset of financial assets and liabilities**

Financial assets and liabilities are offset and reported net on the balance sheet when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability.

**Fiduciary activities**

The Group provides trustee services to its customers. Also the Group provides depositary services to its customers that include transactions with securities on their depo accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

**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 per cent 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.

**Adoption of new standards**

The Group provided an assessment of the effect of changes on its financial position and results of operations reported under IFRS which would become effective for accounting periods beginning on or after 1 January 2006.

As of 1 January 2006 the International Accounting Standards Board amended the scope of IAS 39 "Financial Instruments: Recognition and Measurement" to include financial guarantee contracts issued and remove them from IFRS 4 "Insurance Contracts". Under IAS 39 financial guarantee contracts issued are accounted and disclosed at the same way as under IFRS 4, therefore the effect of this change on the financial statements of the Group is not significant.

As of 1 January 2006 the option previously contained in IAS 39 to designate any financial asset or any liability to be measured at fair value through profit or loss has been eliminated. The Group reviewed its financial assets and financial liabilities at fair value through profit or loss as of 31 December 2005 and believes that the effect of the change is insignificant.

In accordance with IFRS 7 "Financial Instruments: Disclosures" effective from 1 January 2007 the Group should present additional information regarding financial instruments. The Group assessed the influence of requirements under IFRS 7 and developed a plan for systems to provide appropriate level of disclosures.

## 4. NET INTEREST INCOME

| | Year ended 31 December 2005 RUR'000 | Year ended 31 December 2004 RUR'000 | Year ended 31 December 2003 RUR'000 |
|---|---|---|---|
| **Interest income** | | | |
| Interest on loans to corporate customers | 10,324,860 | 9,524,642 | 4,884,742 |
| Interest on loans to individuals | 8,480,444 | 4,578,464 | 59,223 |
| Interest on loans and advances to banks | 1,405,533 | 338,367 | 554,332 |
| Interest on debt securities | 851,944 | 1,165,684 | 1,886,329 |
| Interest on reverse repurchase transactions | 90,655 | 18,351 | 13,578 |
| Amortization of discount on loans to customers | - | 11,763 | - |
| **Total interest income** | **21,153,436** | **15,637,271** | **7,398,204** |
| **Interest expense** | | | |
| Interest on corporate customer accounts | 5,197,139 | 3,315,796 | 1,616,161 |
| Interest on deposits from individuals | 3,973,687 | 2,439,637 | 1,170,033 |
| Interest on debt securities issued | 1,197,499 | 316,312 | 1,400,970 |
| Interest on deposits from banks | 565,576 | 1,123,127 | 559,636 |
| **Total interest expense** | **10,933,901** | **7,194,872** | **4,746,800** |
| **Net interest income before provision for impairment losses on interest bearing assets** | **10,219,535** | **8,442,399** | **2,651,404** |

## 5. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

The movements in allowance for impairment losses on interest-bearing assets were as follows:

| | Loans and advances to banks RUR'000 | Loans and advances to customers RUR'000 | Total RUR'000 |
|---|---|---|---|
| **31 December 2002** | **89,270** | **2,235,708** | **2,324,978** |
| (Recovery of provision)/Provision | (58,114) | 94,467 | 36,353 |
| Write-offs | - | (1,008) | (1,008) |
| Recovery of assets previously written-off | - | 58,514 | 58,514 |
| Provision in combined entities | 44,602 | 927,024 | 971,626 |
| **31 December 2003** | **75,758** | **3,314,705** | **3,390,463** |
| (Recovery of provision)/Provision | (63,352) | 1,607,198 | 1,543,846 |
| Write-offs | (200) | (1,037) | (1,237) |
| **31 December 2004** | **12,206** | **4,920,866** | **4,933,072** |
| (Recovery of provision)/Provision | (12,206) | 1,050,772 | 1,038,566 |
| Write-offs | - | (100,059) | (100,059) |
| Provision in acquired subsidiaries at acquisition date | - | 16,056 | 16,056 |
| **31 December 2005** | **-** | **5,887,635** | **5,887,635** |

The movements in other provisions were as follows:

| | Investments available-for-sale RUR'000 | Other assets RUR'000 | Provisions for financial guarantees issued, claims and other commitments RUR'000 | Total RUR'000 |
|---|---|---|---|---|
| **31 December 2002** | **90,889** | **18,372** | **218,323** | **327,584** |
| Provision | 3,496 | 595 | 129,416 | 133,507 |
| Provision in combined entities | 19,599 | 7,199 | 9,863 | 36,661 |
| **31 December 2003** | **113,984** | **26,166** | **357,602** | **497,752** |
| Provision | 13,911 | 12,325 | 104,985 | 131,221 |
| Write-offs | (350) | (3,561) | (210,300) | (214,211) |
| **31 December 2004** | **127,545** | **34,930** | **252,287** | **414,762** |
| Provision/(Recovery of provision) | 5,551 | (15,771) | 17,546 | 7,326 |
| Write-offs | (13,292) | (9,271) | (95,104) | (117,667) |
| **31 December 2005** | **119,804** | **9,888** | **174,729** | **304,421** |

Provisions for impairment losses on assets are deducted from the respective assets. Provision for off-balance sheet transactions are recorded in liabilities.

## 6. NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain on financial assets at fair value through profit or loss comprises:

| | Year ended 31 December 2005 RUR'000 | Year ended 31 December 2004 RUR'000 | Year ended 31 December 2003 RUR'000 |
|---|---|---|---|
| Net realised gain/(loss) on operations with financial assets at fair value through profit or loss | 341,840 | 518,389 | (614,737) |
| Net unrealised gain/(loss) on operations with financial assets at fair value through profit or loss | 351,809 | (669,894) | 1,570,496 |
| **Total net gain on financial assets at fair value through profit or loss** | **693,649** | **(151,505)** | **955,759** |

## 7. FEE AND COMMISSION INCOME AND EXPENSES

Fee and commission income and expense comprise:

| | Year ended 31 December 2005 RUR'000 | Year ended 31 December 2004 RUR'000 | Year ended 31 December 2003 RUR'000 |
|---|---|---|---|
| **Fee and commission income:** | | | |
| Settlements | 1,745,652 | 2,004,545 | 386,550 |
| Cash operations | 789,432 | 656,782 | 141,737 |
| Depository and securities operations | 622,625 | 429,787 | 107,158 |
| Credit cards operations | 418,578 | 364,036 | - |
| Documentary operations | 126,251 | 179,340 | 228,812 |
| Foreign exchange operations | 211,830 | 151,135 | 117,522 |
| Intermediary services | 9,162 | 80,721 | - |
| Other operations | 170,599 | 103,718 | 31,305 |
| **Total fee and commission income** | **4,094,129** | **3,970,064** | **1,013,084** |
| **Fee and commission expense:** | | | |
| Credit cards operations | 445,000 | 334,089 | 126,480 |
| Settlements | 167,120 | 263,572 | 120,040 |
| Foreign exchange operations | 125,536 | 7,794 | 2,865 |
| Customs cards | 72,204 | - | - |
| Depository and securities operations | 63,160 | 27,636 | 31,071 |
| Cash operations | 61,179 | 77,303 | 12,791 |
| Other operations | 40,641 | 32,587 | 619 |
| **Total fee and commission expense** | **974,840** | **742,981** | **293,866** |

## 8. OTHER INCOME

Other income for the years ended 31 December 2005, 2004 and 2003 includes penalties received amounting to RUR 5,575 thousand, RUR 284,950 thousand and RUR 1,062 thousand, respectively, and rental income received for the years ended 31 December 2005, 2004 and 2003 amounting to RUR 836,950 thousand, RUR 311,718 thousand and RUR 17,249 thousand, respectively.

## 9. OPERATING EXPENSES

| | Year ended 31 December 2005 RUR'000 | Year ended 31 December 2004 RUR'000 | Year ended 31 December 2003 RUR'000 |
|---|---|---|---|
| Salary and bonuses | 5,395,445 | 4,478,633 | 2,029,723 |
| Operating lease expense | 1,279,195 | 468,833 | 192,610 |
| Unified social tax contribution | 868,117 | 796,784 | 132,861 |
| Taxes, other than income tax | 519,595 | 325,786 | 124,341 |
| Professional services | 465,386 | 372,039 | 68,079 |
| Depreciation charge on fixed assets | 438,859 | 268,996 | 162,673 |
| Repairs and maintenance expense | 425,376 | 383,149 | 85,359 |
| Security | 314,271 | 219,870 | 45,947 |
| Communications | 261,663 | 172,539 | 35,182 |
| Deposit insurance charge | 246,919 | 21,658 | - |
| Advertising and marketing expenses | 198,361 | 189,623 | 51,490 |
| Expenses on stationery and other office expenses | 172,119 | 135,631 | 24,723 |
| Business trip expenses | 80,207 | 24,523 | 22,558 |
| Insurance | 42,201 | 33,425 | 26,058 |
| Charity expenses | 29,474 | 18,624 | 15,406 |
| Representation expenses | 25,219 | 19,303 | 15,184 |
| Customs duties | 14,507 | 10,423 | 36,838 |
| Penalties paid | 13,290 | 24,609 | 1,355 |
| Fixed assets impairment | 7,624 | 239 | - |
| Bank cards services | 4,253 | 26,124 | - |
| Other | 426,564 | 398,856 | 157,185 |
| **Total operating expenses** | **11,228,645** | **8,389,667** | **3,227,572** |

## 10. INCOME TAXES

The Group provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of countries where the Group companies operate and which may differ from International Financial Reporting Standards.

The Group is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 December 2005, 2004 and 2003 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as of 31 December 2005, 2004 and 2003 comprise:

| | 31 December 2005 RUR'000 | 31 December 2004 RUR'000 | 31 December 2003 RUR'000 |
|---|---|---|---|
| **Deferred assets:** | | | |
| Loans to banks and customers | 2,688,684 | 2,085,900 | 2,388,997 |
| Other liabilities | 726,833 | 569,941 | 291,520 |
| Other assets | 159,945 | 98,171 | - |
| Financial liabilities at fair value through profit or loss | 97,850 | 31,699 | 8,701 |
| Deposits from banks and customer accounts | 61,098 | - | 21,586 |
| Financial assets at fair value through profit or loss | - | 47,034 | - |
| Investments available-for-sale | - | 15,880 | - |
| **Total deferred assets** | **3,734,410** | **2,848,625** | **2,710,804** |

| | 31 December 2005 RUR'000 | 31 December 2004 RUR'000 | 31 December 2003 RUR'000 |
|---|---|---|---|
| **Deferred liabilities:** | | | |
| Fixed assets | 3,762,607 | 4,321,601 | 345,905 |
| Debt securities issued | 55,919 | - | - |
| Financial assets at fair value through profit or loss | 44,624 | - | 90,658 |
| Investments available-for-sale | 7,133 | - | 861 |
| Deposits from banks and customer accounts | - | 15,947 | - |
| Other assets | - | - | 64,746 |
| **Total deferred liabilities** | **3,870,283** | **4,337,548** | **502,170** |
| Net deferred (liabilities)/assets | (135,873) | (1,488,923) | 2,208,634 |
| Deferred tax liabilities at the statutory tax rate (24%) | (926,371) | (982,467) | (87,797) |
| Deferred tax assets at the statutory tax rate (24%) | 893,761 | 625,126 | 617,869 |
| Less: valuation allowance | (893,761) | (625,126) | (617,869) |
| **Net deferred tax liability** | **(926,371)** | **(982,467)** | **(87,797)** |

Relationships between tax expenses and accounting profit for the years ended 31 December 2005, 2004 and 2003 are explained as follows:

| | Year ended 31 December 2005 RUR'000 | Year ended 31 December 2004 RUR'000 | Year ended 31 December 2003 RUR'000 |
|---|---|---|---|
| **Profit before income tax** | **4,358,591** | **3,277,306** | **1,120,552** |
| Tax at the statutory tax rate (24%) | 1,046,062 | 786,553 | 268,932 |
| Change in valuation allowance | 268,635 | 7,257 | 330,972 |
| Tax effect due to different tax rates | 4,133 | (948) | (8,906) |
| Tax effect of permanent differences | (44,301) | 159,134 | 187,051 |
| **Income tax expense** | **1,274,529** | **951,996** | **778,049** |
| Current income tax expense | 1,244,185 | 987,693 | 721,573 |
| Deferred income tax expense/(credit) | 30,344 | (35,697) | 56,476 |
| **Income tax expense** | **1,274,529** | **951,996** | **778,049** |

| **Deferred income tax liability** | 31 December 2005 | 31 December 2004 | 31 December 2003 |
|---|---|---|---|
| Beginning of period | 982,467 | 87,797 | 31,321 |
| Deferred tax expense/(credit) | 30,344 | (35,697) | 56,476 |
| Deferred tax (credit)/expense on fixed assets revaluation charged to equity | (86,440) | 930,367 | - |
| End of period | 926,371 | 982,467 | 87,797 |

## 11. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

| | Year ended 31 December 2005 proforma | Year ended 31 December 2004 proforma | Year ended 31 December 2003 proforma |
|---|---|---|---|
| **Profit** | | | |
| Net profit for the period (RUR'000) | 3,017,498 | 2,327,064 | 342,503 |
| **Weighted average number of ordinary shares** | | | |
| For basic earnings per share | 387,080,765 | 340,528,420 | 340,528,420 |
| **Earnings per share** – basic and diluted (RUR) | 7.80 | 6.83 | 1.01 |

Weighted average number of ordinary shares for earnings per share purposes for the year ended 31 December 2005 was calculated as the number of ROSBANK's ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor.

Weighted average number of ordinary shares for earnings per share purposes for the years ended 31 December 2004 and 2003 was calculated using the number of ROSBANK's shares for respective years as if the Group restructuring had happened at the beginning of the earliest period presented.

## 12. CASH AND BALANCES WITH CENTRAL AND NATIONAL BANKS

| | 31 December 2005 RUR'000 | 31 December 2004 RUR'000 | 31 December 2003 RUR'000 |
|---|---|---|---|
| Cash | 5,974,281 | 4,259,798 | 2,988,445 |
| Balances with Central and National banks | 13,481,077 | 12,107,365 | 16,025,455 |
| Time deposit with the Central Bank of the Russian Federation | - | 12,000,000 | 2,500,000 |
| **Total cash and balances with Central and National banks** | **19,455,358** | **28,367,163** | **21,513,900** |

The balances with Central and National banks comprise of balances with the Central Bank of the Russian Federation, the National Bank of Switzerland and the National Bank of Byelorussia as of 31 December 2005, 2004 and 2003 and include RUR 4,656,081 thousand, RUR 3,637,751 thousand and RUR 8,194,376 thousand, respectively, which represent the minimum reserve deposits required by Central and National banks. The Group is required to maintain the reserve balances with Central and National banks at all times.

Cash and cash equivalents for the purposes of the statement of cash flows are comprised of the following:

| | 31 December 2005 RUR'000 | 31 December 2004 RUR'000 | 31 December 2003 RUR'000 |
|---|---|---|---|
| Loans and advances to banks in OECD countries | 46,293,755 | 15,596,179 | 5,644,208 |
| Cash and balances with Central and National banks | 19,455,358 | 28,367,163 | 21,513,900 |
| Trading government debt securities | 5,729,550 | 1,190,079 | 640,941 |
| Precious metals | 978,040 | 69,342 | 39,170 |
| | 72,456,703 | 45,222,763 | 27,838,219 |
| Less minimum reserve deposits | (4,656,081) | (3,637,751) | (8,194,376) |
| **Total cash and cash equivalents** | **67,800,622** | **41,585,012** | **19,643,843** |

## 13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 31 December 2005 RUR'000 | 31 December 2004 RUR'000 | 31 December 2003 RUR'000 |
|---|---|---|---|
| Debt securities of central governments | 6,336,185 | 1,201,672 | 640,941 |
| Debt securities of corporates | 4,511,722 | 4,880,813 | 3,918,095 |
| Debt securities of local authorities | 1,919,267 | 1,617,361 | 2,497,703 |
| Debt securities of financial institutions | 1,560,753 | 1,275,016 | 1,974,904 |
| Equity investments | 1,166,303 | 1,769,259 | 1,544,483 |
| Derivative financial instruments | 182,872 | 77,163 | 91,829 |
| | **15,677,102** | **10,821,284** | **10,667,955** |

| | % rate to nominal | 2005 | % rate to nominal | 2004 | % rate to nominal | 2003 |
|---|---|---|---|---|---|---|
| **Debt securities:** | | | | | | |
| **Central governments:** | | | | | | |
| OFZ bonds | 6%-10% | 4,638,622 | 8%-10% | 587,736 | 6%-10% | 506,656 |
| Government Eurobonds of the Russian Federation | 5%-13% | 804,857 | 5% | 2,681 | 8%-10% | 55,214 |
| T-notes of US Department of Treasury | 4% | 572,358 | - | - | - | - |
| T-bills of MF of Byelorussia | 10%-14% | 243,735 | 10%-14% | 586,812 | - | - |
| OVGVZ bonds | 3% | 76,613 | 3% | 24,443 | 3% | 79,071 |
| | | **6,336,185** | | **1,201,672** | | **640,941** |
| **Corporates:** | | | | | | |
| Eurobonds of JSC Norilsk Nickel | 7% | 507,751 | 7% | 467,705 | - | - |
| Bonds of JSC RAO UES | 8% | 322,417 | - | - | 15% | 167,590 |
| Bonds of JSC Salyut-Energiya | 10% | 289,644 | 14% | 925,453 | - | - |
| Eurobonds of JSC Gazprom | 5% | 269,906 | - | - | - | - |
| Bonds of LLC Mir-Finance | 10% | 256,629 | - | - | - | - |
| Bonds of LLC Group Magnezit | 10% | 250,593 | - | - | - | - |
| Eurobonds of JSC Nutrinvestholding | 11% | 219,563 | - | - | - | - |
| Bonds of JSC RTK-Leasing | 10% | 217,327 | - | - | - | - |
| Bonds of LLC Uralvagonzavod-Finance | 9% | 211,559 | - | - | - | - |
| Eurobonds of JSC Salavatnefteorgsintez | 9% | 189,517 | - | - | - | - |
| Bonds of LLC Neftegazovaya Kompaniya Itera | 10% | 180,760 | 14% | 1,106,353 | - | - |
| Bonds of LLC Sanvey-Group | 12% | 176,346 | - | - | - | - |
| Bonds of LLC Russian Aluminium Finance | 8% | 148,610 | 10% | 2,229 | - | - |
| Bonds of LLC Promtraktor-Finance | 11% | 127,690 | - | - | - | - |
| Eurobonds of LLC EurazHolding | 11% | 125,722 | - | - | 11% | 240,096 |
| Eurobonds of JSC Vympelcom-Kommunikatsii | 8%-10% | 124,289 | - | - | - | - |
| Bonds of JSC Chelyabinsky Truboprokatny Zavod | 10% | 121,930 | - | - | - | - |
| Bonds of JSC Chelyabinsky Metallurgichesky Kombinat | 11% | 111,683 | 11% | 13,316 | 11% | 72,425 |
| Bonds of JSC NPO Irkut | 9% | 98,307 | - | - | - | - |
| Bonds of JSC Salavatnefteorgsintez | 10% | 98,093 | 10% | 151,282 | - | - |
| Eurobonds of LLC FK EvrazHolding | 8% | 72,528 | - | - | - | - |
| Bonds of LLC AirUnion | 13% | 70,330 | - | - | - | - |
| Bonds of LLC Torgoviy Dom MECHEL | 12% | 59,989 | - | - | - | - |
| Bonds of JSC Eastline | 12% | 55,404 | - | - | 12-14% | 600,805 |
| Bonds of JSC Gazprom | 8% | 48,520 | - | - | - | - |
| Bonds of JSC Ochakovo | 9% | 44,275 | - | - | - | - |
| Bonds of JSC OMK | 9% | 41,191 | - | - | - | - |
| Bonds of JSC TMK | 11% | 31,488 | - | - | - | - |
| Eurobonds of JSC Sibneft | 11% | 16,991 | - | - | 11% | 69,224 |

| | % rate to nominal | 2005 | % rate to nominal | 2004 | % rate to nominal | 2003 |
|---|---|---|---|---|---|---|
| Bonds of JSC NPO Saturn | 12% | 16,188 | - | - | - | - |
| Bonds of JSC Rossiskie Zhelezhye Dorogi | 8% | 6,482 | - | - | - | - |
| Bonds of JSC Roskhlebproduct | - | - | 12% | 1,206,959 | - | - |
| Bonds of JSC Uglemet-trading | - | - | 12% | 225,385 | 12% | 488,586 |
| Bonds of MIG Finance | - | - | 16% | 182,307 | - | - |
| Bonds of SU-155 Capital | - | - | 12% | 180,935 | - | - |
| Credit Linked Notes of JSC Salavatnefteorgsintez (SNOS) | - | - | 8% | 181,570 | - | - |
| Eurobonds of JSC Sistema | - | - | 9% | 101,985 | 10-11% | 204,182 |
| Promissory notes of Byelorussian companies | - | - | 0%-16% | 49,486 | - | - |
| Bonds of JSC YuTK | - | - | 12% | 42,200 | 12% | 3,212 |
| Eurobonds of MMK Finance | - | - | 10% | 20,501 | 8-10% | 898,716 |
| Bonds of LLC TD Evroset | - | - | 16% | 15,524 | - | - |
| Bonds of Mairinvest | - | - | 12% | 5,057 | - | - |
| Bonds of JSC MGTS | - | - | 10% | 2,566 | - | - |
| Bonds of JSC IAPO | - | - | - | - | 12-17% | 254,250 |
| Bonds of LLC Russky Aluminy | - | - | - | - | 10% | 190,737 |
| Eurobonds of JSC Rosneft | - | - | - | - | 13% | 137,202 |
| Bonds of JSC Alrosa | - | - | - | - | 16% | 113,301 |
| Eurobonds of JSC MTS | - | - | - | - | 10% | 99,560 |
| Bonds of Mikoyanovskiy Myasokombinat | - | - | - | - | 15% | 81,644 |
| Bonds of RITEK | - | - | - | - | 9% | 68,694 |
| Bonds of Severo-Zapadny Telecom | - | - | - | - | 14% | 50,886 |
| Eurobonds of JSC Alrosa | - | - | - | - | 8% | 40,283 |
| Bonds of Centertelecom | - | - | - | - | 12% | 16,264 |
| Bonds of LLC “Primary Don” | - | - | - | - | 15% | 10,183 |
| Bonds of Ilim Pulp Finance | - | - | - | - | 15% | 5,850 |
| Bonds of JSC Uralsvyazinform | - | - | - | - | 18% | 3,684 |
| Other | - | - | - | - | - | 100,721 |
| | | **4,511,722** | | **4,880,813** | | **3,918,095** |
| **Local authorities:** | | | | | | |
| Bonds of Khabarovsk Region Authority | 9%-11% | 276,859 | 12–13% | 145,107 | 13% | 62,921 |
| Bonds of Novosibirsk City Authority | 5%-12% | 256,988 | 13–16% | 406,760 | 5%-13% | 367,984 |
| Bonds of Kazan city Authority | 10%-11% | 228,683 | - | - | - | - |
| Bonds of Krasnoyarsk Region Authority | 7%-11% | 224,694 | 10–11% | 203,314 | 10%-11% | 239,404 |
| Bonds of Irkutsk Region Authority | 9%-11% | 151,209 | 12% | 178,022 | - | - |
| Bonds of Belgorog Region Authority | 8% | 146,409 | - | - | 19% | 4,920 |
| Bonds of Krasnoyarsk City Authority | 6%-13% | 135,053 | 3–11% | 152,925 | 13% | 881,904 |
| Bonds of Tverskaya region | 8% | 121,703 | - | - | 17% | 21,405 |
| Bonds of Voronezh Region Authority | 13% | 92,133 | 13% | 75,628 | - | - |
| Bonds of Kirov Region Authority | 8% | 86,946 | - | - | - | - |
| Bonds of Yaroslavl Region Authority | 8%-13% | 83,284 | 11% | 3,694 | 10%-13% | 28,204 |
| Bonds of Chuvashia Region Authority | 12% | 52,494 | 10–12% | 132,850 | 12% | 39,308 |
| Bonds of Odintsovo Moscow region district | 12% | 37,273 | - | - | - | - |
| Bonds of Yakutia Region Authority | 9%-13% | 24,286 | 10–14% | 220,684 | - | - |
| Bonds of Moscow Region Authority | 10% | 1,253 | - | - | 11%-17% | 116,083 |
| Bonds of Moscow City Authority | - | - | 10% | 94,992 | 10% | 622,791 |
| Bonds of St-Petersburg City Authority | - | - | 9–10% | 3,385 | 9-15% | 81,640 |
| Bonds of Ufa Authority | - | - | - | - | 10% | 24,049 |
| Bonds of Republic Komi Authority | - | - | - | - | 16% | 7,090 |
| | | **1,919,267** | | **1,617,361** | | **2,497,703** |

| | % rate to nominal | 2005 | % rate to nominal | 2004 | % rate to nominal | 2003 |
|---|---|---|---|---|---|---|
| **Financial institutions:** | | | | | | |
| Bonds of Russia Spread Trust | 8% | 874,080 | - | - | - | - |
| Eurobonds of JSC Impexbank | 9% | 267,708 | - | - | - | - |
| Promissory notes of JSC Vneshtorgbank | - | 112,763 | 7% | 1,229,600 | - | 28,382 |
| Promissory notes of LLC Russkiy Mezhdunarodniy Bank | - | 90,926 | - | - | - | - |
| Promissory notes of JSC Russkiy Mezhregionalniy Bank Razvitiya | - | 56,295 | - | - | - | - |
| Promissory notes of JSC Bank Sojuz | - | 55,735 | - | - | - | - |
| Promissory notes of JSC Absolut Bank | - | 55,350 | - | - | - | - |
| Promissory notes of JSC Vserossiyskiy Bank Razvitiya Regionov | - | 37,726 | - | - | - | - |
| Bonds of JSC Probiznesbank | 11% | 10,170 | - | - | - | - |
| Promissory notes of Byelorussian banks | - | - | - | 45,416 | - | - |
| Promissory notes of JSC Sberbank | - | - | - | - | - | 807,859 |
| Promissory notes of JSC Alfa-Bank | - | - | - | - | - | 412,098 |
| Promissory notes of JSC Gazprombank | - | - | - | - | - | 272,100 |
| Bonds of JSC Vneshtorgbank | - | - | - | - | 15% | 218,241 |
| Promissory notes of JSC MDM-Bank | - | - | - | - | - | 101,719 |
| Promissory notes of Impexbank | - | - | - | - | - | 70,029 |
| Promissory notes of JSC Uralo-Sibirsky Bank | - | - | - | - | - | 28,431 |
| Promissory notes of JSC Altay Capital Bank | - | - | - | - | - | 10,000 |
| Promissory notes of LLC Sibsotsbank | - | - | - | - | - | 10,000 |
| Promissory notes of CJSC Miraf-Bank | - | - | - | - | - | 5,476 |
| Promissory notes of LLC Sibbusinessbank | - | - | - | - | - | 5,000 |
| Promissory notes of CB Forbank | - | - | - | - | 17% | 3,000 |
| Promissory notes of OJSC CB NT and SR Sibacadembank | - | - | - | - | - | 1,205 |
| Promissory notes of CJSC Kedr | - | - | - | - | - | 762 |
| Promissory notes of JSB Avtobank | - | - | - | - | - | 602 |
| | | **1,560,753** | | **1,275,016** | | **1,974,904** |

As of 31 December 2005, 2004 and 2003 accrued interest income on debt securities is included in financial assets at fair value through profit or amounting to RUR 145,834 thousand, RUR 91,978 thousand and RUR 134,198 thousand, respectively.

As of 31 December 2005 T-notes of US Department of Treasury and Bonds of the MF of Byelorussia sold under an agreement to repurchase are included in financial assets at fair value through profit or loss (Note 22).

As of 31 December 2004 Bonds of MF of Byelorussia sold under an agreement to repurchase are included in financial assets at fair value through profit or loss (Note 22).

| | 31 December 2005 RUR'000 | 31 December 2004 RUR'000 | 31 December 2003 RUR'000 |
|---|---|---|---|
| **Equity investments:** | | | |
| Investment in mutual fund Perviy Ipotechniy | 466,631 | - | - |
| Ordinary shares of JSC Avtovaz | 258,459 | 77,610 | 82,118 |
| ADR on shares of JSC YUKOS | 89,456 | 793 | - |
| Ordinary shares of JSC NPO IRKUT | 89,354 | 36,287 | - |
| Ordinary shares of JSC RAO UES | 79,228 | 135,539 | 421,465 |
| Ordinary shares of JSC YUKOS | 56,426 | 6,701 | 126 |
| Ordinary shares of JSC Gazprom | 53,430 | - | 407,748 |
| Ordinary shares of JSC Lukoil | 42,558 | 1,894 | 1,350 |

| | 31 December 2005 RUR'000 | 31 December 2004 RUR'000 | 31 December 2003 RUR'000 |
|---|---|---|---|
| ADR on shares of JSC Lukoil | 8,535 | - | - |
| Ordinary shares of JSC MMK | 7,253 | - | - |
| Ordinary shares of JSC Rostelecom | 6,128 | 4,810 | 5,286 |
| Ordinary shares of JSC Sibneft | 5,376 | - | - |
| Preferred shares of RAO UES | 1,823 | 1,204 | - |
| Ordinary shares of JSC Kurskenergo | 1,010 | - | - |
| Ordinary shares of JSC MGTS | 477 | 299 | - |
| Ordinary shares of GMK Norilsk Nickel | - | 1,437,014 | 1,502 |
| Preferred shares of JSC Sberbank | - | 25,730 | - |
| Ordinary shares of JSC Surgutneftegaz | - | 23,996 | - |
| ADR on shares of GMK Norilsky Nickel | - | 12,209 | - |
| Ordinary shares of Easter Prop. Hold | - | 2,517 | - |
| Ordinary shares of Deutsche Telekom | - | 1,395 | - |
| Ordinary shares of JSC GUM | - | 1,134 | - |
| Preferred shares of JSC Transneft | - | - | 615,515 |
| Other | 159 | 127 | 9,373 |
| | **1,166,303** | **1,769,259** | **1,544,483** |

## 14. PRECIOUS METALS

| | 31 December 2005 RUR'000 | 31 December 2004 RUR'000 | 31 December 2003 RUR'000 |
|---|---|---|---|
| Gold | 593,189 | 28,220 | 5,037 |
| Platinum | 378,842 | 41,122 | 12,395 |
| Silver | 6,009 | - | 21,738 |
| **Total precious metals** | **978,040** | **69,342** | **39,170** |

As of 31 December 2005 precious metals are located in the Group's vaults, except for gold amounting to RUR 242,593 thousand, that are in the process of being refined.

## 15. LOANS AND ADVANCES TO BANKS

| | 31 December 2005 RUR'000 | 31 December 2004 RUR'000 | 31 December 2003 RUR'000 |
|---|---|---|---|
| Loans to banks | 26,436,710 | 10,891,536 | 2,275,037 |
| Advances to banks | 24,702,060 | 9,684,449 | 8,549,113 |
| Loans under reverse repurchase agreements | 2,856,298 | 439,279 | - |
| | 53,995,068 | 21,015,264 | 10,824,150 |
| Less allowance for impairment losses | - | (12,206) | (75,758) |
| **Total loans and advances to banks, net** | **53,995,068** | **21,003,058** | **10,748,392** |

Movements in allowances for impairment losses on loans and advances to banks for the years ended 31 December 2005, 2004 and 2003 are disclosed in Note 5.

As of 31 December 2005, 2004 and 2003 accrued interest income is included in loans to banks amounting to RUR 11,667 thousand, RUR 14,293 thousand and RUR 43,452 thousand, respectively.

As of 31 December 2005, 2004 and 2003 the Group had loans and advances to seven, seven and one banks totalling RUR 41,732,678 thousand, RUR 18,375,016 thousand and RUR 5,669,067 thousand, respectively, which individually exceeded 10% of the Group's equity.

As of 31 December 2005, 2004 and 2003 the maximum credit risk exposure of loans and advances to banks amounted to RUR 53,995,068 thousand, RUR 21,015,264 thousand and RUR 10,824,150 thousand, respectively.

As of 31 December 2005 and 2004 the Group included in loans and advances to banks loans under reverse repurchase agreements amounting to RUR 2,856,298 and RUR 439,279 with maturity within 2 months. Such agreements are secured by the following assets:

| | 31 December 2005 RUR'000 | 31 December 2004 RUR'000 |
|---|---|---|
| United States treasury bills | 1,009,095 | - |
| Ordinary shares of JSC Gazprom | 771,248 | 74,032 |
| Eurobonds of JSC Severstal | 386,027 | - |
| Eurobonds of the German Government | 308,044 | - |
| Eurobonds of the Russian Federation | 295,290 | - |
| Bonds of the Krasnoyarsk Region Authority | 70,892 | - |
| T-bills of the MF of Byelorussia | 15,702 | - |
| Bonds of the City of Novosibirsk Authority | - | 40,756 |
| Bonds of the Voronezh region Authority | - | 50,096 |
| Bonds of JSC YTK | - | 274,395 |
| **Total loans under reverse repurchase agreements** | **2,856,298** | **439,279** |

## 16. DERIVATIVE FINANCIAL INSTRUMENTS

| | 31 December 2005 | | 31 December 2004 | | 31 December 2003 | |
|---|---|---|---|---|---|---|
| | Amount payable RUR'000 | Net fair value RUR'000 | Amount payable RUR'000 | Net fair value RUR'000 | Amount payable RUR'000 | Net fair value RUR'000 |
| **Foreign exchange contracts** | | | | | | |
| Forwards | | | | | | |
| Positive revaluation value | 2,713,590 | 34,469 | 1,683,516 | 53,875 | 421,995 | 9,673 |
| Negative revaluation value | 2,967,670 | (23,908) | 2,712,304 | (15,618) | 1,137,764 | (5,205) |
| Swaps | | | | | | |
| Positive revaluation value | 2,359,918 | 14,931 | - | - | 1,381,416 | 81,843 |
| Negative revaluation value | 3,923,117 | (54,502) | - | - | 36,824 | (316) |
| **Total foreign exchange contracts (liabilities)/assets** | **11,964,295** | **(29,010)** | **4,395,820** | **38,257** | **2,977,999** | **85,995** |
| **Contracts on precious metals** | | | | | | |
| Forwards | | | | | | |
| Positive revaluation value | 589,842 | 92,882 | 37,678 | 366 | 397,102 | 313 |
| Negative revaluation value | 37,156 | (2,231) | 16,587 | (578) | 318,795 | (3,180) |
| Swaps | | | | | | |
| Positive revaluation value | 655,492 | 40,590 | 565,566 | 21,525 | - | - |
| Negative revaluation value | 662,419 | (42,278) | 248,961 | (15,301) | - | - |
| **Total contracts on precious metals asset/(liabilities)** | **1,944,909** | **88,963** | **868,792** | **6,012** | **715,897** | **(2,867)** |

| | 31 December 2005 | | 31 December 2004 | | 31 December 2003 | |
|---|---|---|---|---|---|---|
| | Amount payable RUR'000 | Net fair value RUR'000 | Amount payable RUR'000 | Net fair value RUR'000 | Amount payable RUR'000 | Net fair value RUR'000 |
| **Contracts on securities** | | | | | | |
| Forwards | | | | | | |
| Positive revaluation value | - | - | 261,723 | 1,397 | - | - |
| Negative revaluation value | - | - | 905 | (202) | - | - |
| **Total contracts on securities asset** | **-** | **-** | **262,628** | **1,195** | **-** | **-** |
| **Total** | **13,909,204** | **59,953** | **5,527,240** | **45,464** | **3,693,896** | **83,128** |

## 17. LOANS TO CUSTOMERS

| | 31 December 2005 RUR'000 | 31 December 2004 RUR'000 | 31 December 2003 RUR'000 |
|---|---|---|---|
| Originated loans | 117,621,245 | 84,603,492 | 64,630,558 |
| Net investments in finance lease | 1,164,303 | - | - |
| Advances on finance lease | 401,502 | - | - |
| Loans under reverse repurchase agreements | 18,809 | - | 90,308 |
| | 119,205,859 | 84,603,492 | 64,720,866 |
| Less allowance for impairment losses | (5,887,635) | (4,920,866) | (3,314,705) |
| **Total loans to customers, net** | **113,318,224** | **79,682,626** | **61,406,161** |

| | 31 December 2005 RUR'000 | 31 December 2004 RUR'000 | 31 December 2003 RUR'000 |
|---|---|---|---|
| Loans collateralized by pledge of vehicles | 25,837,845 | - | - |
| Loans collateralized by pledge of real estate | 9,738,841 | 4,288,517 | 1,564,215 |
| Loans collateralized by pledge of goods in turnover | 6,756,813 | 8,390,691 | 5,631,484 |
| Loans collateralized by pledge of equipment | 4,598,411 | 13,751,577 | 6,926,557 |
| Loans collateralized by corporate guarantees | 4,568,907 | 1,174,539 | 4,616,039 |
| Loans collateralized by pledge of securities | 2,823,477 | 2,177,289 | 2,860,677 |
| Loans collateralized by pledge of cash | 2,065,789 | 106,545 | 179,064 |
| Loans collateralized by rights of demand | 1,473,511 | - | - |
| Loans collateralized by pledge of combined collateral | 1,055,276 | 3,625,280 | 267,206 |
| Loans collateralized by others | 1,006,454 | - | 2,336,751 |
| Unsecured loans | 59,280,535 | 51,089,054 | 40,338,873 |
| | 119,205,859 | 84,603,492 | 64,720,866 |
| Less allowance for impairment losses | (5,887,635) | (4,920,866) | (3,314,705) |
| **Total loans to customers, net** | **113,318,224** | **79,682,626** | **61,406,161** |

Movements in allowances for impairment losses on loans to customers for the years ended 31 December 2005, 2004 and 2003 are disclosed in Note 5.

| | 31 December 2005 RUR'000 | 31 December 2004 RUR'000 | 31 December 2003 RUR'000 |
|---|---|---|---|
| **Analysis by sector:** | | | |
| Individuals | 55,329,595 | 28,367,039 | 11,611,043 |
| Trade | 15,590,540 | 9,715,764 | 9,095,535 |
| Finance | 7,389,118 | 2,271,333 | 4,700,425 |
| Government | 5,567,704 | 4,038,547 | 5,519,359 |
| Energy industry | 5,008,269 | 2,526,741 | 719,704 |
| Construction | 4,984,402 | 4,212,826 | 1,219,766 |
| Engineering | 3,540,018 | 3,542,378 | 1,839,864 |
| Real estate and leasing | 3,065,807 | 2,954,134 | 2,342,980 |
| Food industry | 2,646,703 | 2,886,498 | 1,158,014 |
| Heavy industry | 1,922,709 | 1,418,355 | 442,201 |
| Defence industry | 1,485,229 | - | - |
| Ferrous metals manufacturing | 1,731,547 | 3,553,768 | 1,969,467 |
| Telecommunications | 1,392,228 | 2,724,153 | 2,732,211 |
| Transport | 1,302,444 | 821,011 | 4,497,292 |
| Manufacturing | 1,230,891 | 3,238,202 | 3,945,521 |
| Precious metals and diamond extraction and manufacturing | 1,193,449 | 1,059,009 | 2,018,844 |
| Chemical | 679,106 | 511,145 | 610,798 |
| Oil and gas | 494,957 | 2,463,326 | 2,815,101 |
| Agriculture | 160,830 | 769,841 | 953,794 |
| Aircraft engineering | 157,952 | 4,365,154 | 4,055,018 |
| Hotel business and services | 37,338 | - | 583,450 |
| Non-ferrous metals manufacturing | 12,968 | 168,212 | 111,496 |
| Insurance | - | 40,209 | - |
| Other | 4,282,055 | 2,955,847 | 1,778,983 |
| | 119,205,859 | 84,603,492 | 64,720,866 |
| Less allowance for impairment losses | (5,887,635) | (4,920,866) | (3,314,705) |
| **Total loans to customers, net** | **113,318,224** | **79,682,626** | **61,406,161** |

As of 31 December 2005 and 2003 loans collateralized by pledge of securities purchased under agreement to resell are included in loans to customers are amounting to RUR 18,809 thousand and RUR 90,308 thousand, respectively; the reverse repurchase agreements mature within one month.

| | 31 December 2005 RUR'000 | | 31 December 2003 RUR'000 | |
|---|---|---|---|---|
| | **Carrying value** | **Fair value** | **Carrying value** | **Fair value** |
| Mortgages | 18,809 | 18,654 | - | - |
| Bonds of Leningradsky Region Authority | - | - | 80,408 | 104,087 |
| Others | - | - | 9,900 | 9,900 |
| | **18,809** | **18,654** | **90,308** | **113,987** |

As of 31 December 2004 and 2003 the Group had loans to six and ten customers totaling RUR 13,825,515 thousand and 12,670,152 thousand, respectively, which individually exceeded 10% of the Group's equity.

As of 31 December 2005, 2004 and 2003 accrued interest income is included in loans to customers amounting to RUR 829,915 thousand, RUR 440,706 thousand and RUR 597,510 thousand, respectively.

As of 31 December 2004 and 2003 loans are included in loans and advances to customers of RUR 1,693,718 thousand and RUR 2,178,180 thousand, respectively, pledged under advances received from the National Bank of Byelorussia amounting of RUR 1,273,123 thousand and RUR 1,391,600 thousand, respectively.

As of 31 December 2005, 2004 and 2003 a substantial amount of loans is granted to companies operating in the Russian Federation, which represents a significant geographical concentration in one region.

As of 31 December 2005, 2004 and 2003 the maximum credit risk exposure of loans to customers amounted to RUR 119,205,859 thousand, RUR 84,603,492 thousand and RUR 64,720,866 thousand, respectively.

The components of net investment in finance leases as of 31 December 2005 are as follows:

| | 31 December 2005 RUR'000 |
|---|---|
| Net minimum lease payments | 1,922,113 |
| Less: unearned finance income | (757,810) |
| **Net investment in finance lease** | **1,164,303** |
| Current portion | 525,238 |
| Long-term portion | 639,065 |
| **Net investment in finance lease** | **1,164,303** |

The minimum lease payments due from customers under finance lease as of 31 December 2005 are as follows:

| | 31 December 2005 RUR'000 |
|---|---|
| Not later than 1 year | 909,179 |
| Later than 1 year and not later than 5 years | 1,012,934 |
| **Total minimum lease payments** | **1,922,113** |

## 18. INVESTMENTS AVAILABLE-FOR-SALE

| | 31 December 2005 RUR'000 | 31 December 2004 RUR'000 | 31 December 2003 RUR'000 |
|---|---|---|---|
| Equity investments | 482,416 | 1,245,907 | 7,598,687 |
| Debt securities | 115,722 | 818,984 | 302,935 |
| | 598,138 | 2,064,891 | 7,901,622 |
| Less allowance for impairment losses | (119,804) | (127,545) | (113,984) |
| **Total investments available-for-sale, net** | **478,334** | **1,937,346** | **7,787,638** |

Movement of provision for impairment losses on investments available-for-sale for the years ended 31 December 2005, 2004 and 2003 are disclosed in Note 5.

As of 31 December 2005, 2004 and 2003 interest income on debt securities amounting to RUR 3,303 thousand, RUR 19,287 thousand and RUR 13,866 thousand, respectively was accrued and included in securities available-for-sale.

## 19. SECURITIES HELD-TO-MATURITY

As of 31 December 2003 securities held-to-maturity comprise of OFZ Bonds and Bonds of MF of Russia amounting to RUR 18,598 thousand and promissory notes of Russian corporations totaling RUR 114,189 thousand with maturity between 1 and 3 months. Accrued interest income of RUR 7,503 thousand is included in securities held-to-maturity is.

## 20. FIXED ASSETS

| | Buildings<br>RUR`000 | Equipment, CIP, other<br>RUR`000 | Total<br>RUR`000 |
|---|---|---|---|
| **At cost/restated cost/revalued amount** | | | |
| 31 December 2003 | 1,582,897 | 1,661,220 | 3,244,117 |
| Additions | 331,117 | 600,896 | 932,013 |
| Disposals | (47,971) | (177,965) | (225,936) |
| Revaluation | 3,865,798 | - | 3,865,798 |
| Impairment | (263) | - | (263) |
| 31 December 2004 | 5,731,578 | 2,084,151 | 7,815,729 |
| Additions | 147,321 | 431,544 | 578,865 |
| Disposals | (277,169) | (302,577) | (579,746) |
| Impairment | (8,589) | - | (8,589) |
| Group reorganization | - | 42,528 | 42,528 |
| 31 December 2005 | 5,593,141 | 2,255,646 | 7,848,787 |
| **Accumulated depreciation** | | | |
| 31 December 2003 | 127,602 | 719,505 | 847,107 |
| Charge for the period | 34,948 | 234,048 | 268,996 |
| Disposals | (2,696) | (67,280) | (69,976) |
| Revaluation | (159,830) | - | (159,830) |
| Impairment | (24) | - | (24) |
| 31 December 2004 | - | 886,273 | 886,273 |
| Charge for the period | 109,123 | 329,736 | 438,859 |
| Disposals | (4,621) | (211,482) | (216,103) |
| Impairment | (965) | - | (965) |
| Group reorganization | - | 17,546 | 17,546 |
| 31 December 2005 | 103,537 | 1,022,073 | 1,125,610 |
| **Net book value** | | | |
| 31 December 2005 | **5,489,604** | **1,233,573** | **6,723,177** |
| 31 December 2004 | **5,731,578** | **1,197,878** | **6,929,456** |
| 31 December 2003 | **1,455,295** | **941,715** | **2,397,010** |

As of 31 December 2004 revaluation surplus amounted to RUR 4,025,628 thousand.

## 21. OTHER ASSETS

| | 31 December 2005 RUR'000 | 31 December 2004 RUR'000 | 31 December 2003 RUR'000 |
|---|---|---|---|
| Receivable from investments disposal | 604,433 | - | - |
| Taxes, other than income tax, recoverable | 425,215 | 24,062 | 25,926 |
| Due from suppliers and other contractors | 389,147 | 640,464 | 336,886 |
| Non-current assets held-for-sale | 65,002 | - | - |
| Receivables from operation with securities | 60,540 | 1,166 | - |
| Due from employees | 8,939 | 11,891 | - |
| Assets on spot deals | 8,020 | 7,614 | - |
| Accrued commissions on fiduciary operations | - | - | 174,694 |
| Other | 66,579 | 85,325 | 125,172 |
| | 1,627,875 | 770,522 | 662,678 |
| Less allowance for losses on other assets | (9,888) | (34,930) | (26,166) |
| **Total other assets, net** | **1,617,987** | **735,592** | **636,512** |

Movement of provision for impairment losses on other assets for the years ended 31 December 2005, 2004 and 2003 is disclosed in Note 5.

As of 31 December 2005 receivable from investments disposal represents settlement on transaction on sale of the Group's shares in Monchebank. Profit on this transaction amounts to RUR 377,475 thousand accounted for as a gain on sale of investments available-for-sale in the consolidated and combined income statement.

## 22. DEPOSITS FROM BANKS

| | 31 December 2005 RUR'000 | 31 December 2004 RUR'000 | 31 December 2003 RUR'000 |
|---|---|---|---|
| Time deposits from banks | 8,295,891 | 7,906,900 | 7,150,447 |
| Correspondent accounts of banks | 2,212,030 | 700,917 | 713,059 |
| Loans under repurchase agreements | 631,107 | 11,027 | - |
| **Total deposits from banks** | **11,139,028** | **8,618,844** | **7,863,506** |

As of 31 December 2005 securities sold under the agreement to repurchase represent T-notes of US Department of Treasury and Bonds of the MF of Byelorussia that are included in financial assets at fair value through profit or loss at a fair value of RUR 606,635 thousand.

As of 31 December 2005, 2004 and 2003 accrued interest expense is included in deposits from banks amounting to RUR 34,921 thousand, RUR 35,242 thousand and RUR 51,203 thousand, respectively.

As of 31 December 2004 securities sold under an agreement to repurchase represent Bonds of the MF of Byelorussia that are included in financial assets at fair value through profit or loss at a fair value of RUR 11,593 thousand.

As of 31 December 2004 and 2003 time deposits from the National Bank of Byelorussia of RUR 1,273,123 thousand and RUR 2,127,963 thousand, respectively are included in deposits from banks and represent a significant concentration. Of these amounts RUR 1,273,123 thousand and RUR 1,391,600 thousand, respectively, were secured by pledge of loans granted to customers by the Bank of RUR 1,693,718 thousand and RUR 2,178,180 thousand as of 31 December 2004 and 2003, respectively.

## 23. CUSTOMER ACCOUNTS

Customer accounts comprise:

| | 31 December 2005 RUR'000 | 31 December 2004 RUR'000 | 31 December 2003 RUR'000 |
|---|---|---|---|
| Time deposits | 111,941,812 | 73,815,177 | 46,314,240 |
| Repayable on demand | 37,119,082 | 27,405,006 | 30,295,776 |
| **Total customer accounts** | **149,060,894** | **101,220,183** | **76,610,016** |

As of 31 December 2005, 2004 and 2003 customer accounts amounted to RUR 133,896 thousand, RUR 872,389 thousand and RUR 531,810 thousand, respectively, were held as security against letters of credit issued and other transaction related contingent obligations. As of 31 December 2005, 2004 and 2003 customer accounts amounted to RUR 18,756 thousand, RUR 102,651 thousand and RUR 1,437,835 thousand, respectively, were held as security against guarantees issued.

As of 31 December 2005, 2004 and 2003 accrued interest expense is included in term deposits from customers amounting to RUR 1,098,155 thousand, RUR 595,201 thousand and RUR 388,544 thousand, respectively.

| | 31 December 2005 RUR'000 | 31 December 2004 RUR'000 | 31 December 2003 RUR'000 |
|---|---|---|---|
| **Analysis by sector:** | | | |
| Individuals | 57,159,985 | 36,922,595 | 30,520,093 |
| Finance | 41,060,244 | 11,231,701 | 13,558,082 |
| Oil and gas | 9,926,141 | 6,619,701 | 2,391,853 |
| Non-ferrous metallurgy | 7,442,431 | 16,543,927 | 8,684,162 |
| Trading | 7,303,938 | 5,348,154 | 3,782,283 |
| Ferrous metallurgy | 3,670,258 | 5,459,672 | 5,626,646 |
| Regional government | 2,092,939 | 737,565 | 13,059 |
| Real estate dealership | 2,054,094 | 2,035,540 | 1,022,798 |
| Transportation | 1,227,532 | 355,390 | 207,469 |
| Building construction | 1,213,420 | 2,391,447 | 552,462 |
| Mechanical engineering | 989,517 | 640,379 | 334,929 |
| Precious metals and diamond extraction and manufacturing | 867,579 | 565,347 | 379,830 |
| Public health and tourism | 826,263 | 380,109 | 493,573 |
| Hotel business | 671,044 | 756,191 | 336,439 |
| Manufacturing | 647,184 | 26,378 | - |
| Services | 584,941 | 996,537 | - |
| Insurance | 502,589 | 843,649 | 1,207,679 |
| Communications | 491,912 | 1,415,676 | 378,602 |
| Professional services | 470,496 | 761,600 | 528,135 |
| Energy | 460,479 | 245,649 | 496,838 |
| Culture and art | 446,289 | 142,392 | 296,853 |
| Energy | 386,645 | 123,108 | - |
| Food industry | 321,171 | 22,400 | 85,412 |
| Publishing | 213,393 | 121,256 | 44,949 |
| Social organizations | 169,104 | 107,591 | 151,445 |
| Agriculture | 146,148 | 178,590 | 125,142 |
| Geology | 121,813 | 349,581 | 848,823 |
| Chemical | 117,258 | - | - |
| Aircraft industry | 54,305 | 613,890 | 96,987 |
| Information technology | 53,677 | 112,701 | 341,909 |
| Housing | 50,419 | 2,638,495 | 2,336,919 |

| | 31 December 2005 RUR'000 | 31 December 2004 RUR'000 | 31 December 2003 RUR'000 |
|---|---|---|---|
| Supply and production distribution | 28,625 | 22,420 | 161,308 |
| Forest | 23,528 | 61,301 | - |
| Leasing | 5,477 | 29,994 | 444,576 |
| Other | 7,260,056 | 2,419,257 | 1,160,761 |
| **Total customer accounts** | **149,060,894** | **101,220,183** | **76,610,016** |

## 24. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 31 December 2005 RUR'000 | 31 December 2004 RUR'000 | 31 December 2003 RUR'000 |
|---|---|---|---|
| Liabilities sold under repurchase agreements (short position) | 1,717,722 | - | - |
| Derivative financial instruments | 122,919 | 31,699 | 8,701 |
| **Total financial liabilities at fair value through profit or loss** | **1,840,641** | **31,699** | **8,701** |

As of 31 December 2005 the following assets were sold under repurchase agreements with a fair value as follows:

| | 31 December 2005 RUR'000 |
|---|---|
| United States Treasury Bills | 1,005,645 |
| Eurobonds of the German Government | 297,317 |
| Eurobonds of the Russian Federation | 293,150 |
| Eurobonds of JSC Severstal | 121,610 |
| **Total liabilities sold under repurchase agreements (short position)** | **1,717,722** |

## 25. DEBT SECURITIES ISSUED

| | 31 December 2005 RUR'000 | 31 December 2004 RUR'000 | 31 December 2003 RUR'000 |
|---|---|---|---|
| Discount bearing promissory notes | 8,759,724 | 7,608,637 | 6,830,668 |
| Eurobonds due in 2009 | 8,104,939 | 6,145,906 | - |
| Eurobonds due in 2007 | 4,436,034 | - | - |
| Discount/interest free promissory notes | 1,995,126 | 1,916,381 | 1,619,158 |
| Interest bearing promissory notes | 1,148,687 | 721,982 | 1,275,750 |
| Bonds due in 2009 | 832,555 | 2,024,325 | - |
| Adjustable Rate Guaranteed Bonds due in 2012 | 744,093 | 1,095,334 | 1,162,667 |
| Certificates of deposit | 23,049 | 389,019 | 7,336,462 |
| **Total debt securities issued** | **26,044,207** | **19,901,584** | **18,224,705** |

The Group issued Eurobonds due in 2009 collateralized by future receivables on credit card settlements. Discount/interest free promissory notes are issued for settlement purposes, on demand, at nominal value.

As of 31 December 2005, 2004 and 2003 accrued interest expense is included in debt securities issued amounting to RUR 678,711 thousand, RUR 166,415 thousand and RUR 87,865 thousand, respectively.

## 26. OTHER LIABILITIES

| | 31 December 2005 RUR'000 | 31 December 2004 RUR'000 | 31 December 2003 RUR'000 |
|---|---|---|---|
| Accrued bonuses and salary | 455,228 | 383,073 | 225,000 |
| Payable to suppliers, contractors and purchasers | 128,823 | 77,658 | 101,526 |
| Unused vacations provision | 205,932 | 163,203 | 69,365 |
| Deposit insurance charge liability | 74,977 | 21,658 | - |
| Taxes, other than income tax, payable | 71,133 | 51,140 | 16,673 |
| Creditors on other operations | 34,107 | 42,966 | - |
| Creditors on operations with securities and precious metals | 15,704 | 16,649 | 85,255 |
| Dividends payable | 10,368 | - | - |
| Liability on spot deals | 4,448 | 14,022 | 7,891 |
| Creditors on letters of credit for foreign operations | 31 | 5,270 | - |
| Other accrued expenses | - | - | 8,091 |
| Other | 38,560 | 108,623 | 183,588 |
| **Total other liabilities** | **1,039,311** | **884,262** | **697,389** |

## 27. SUBORDINATED DEBT

| | Currency | Maturity date year | Interest Rate % | 31 December 2004 RUR'000 |
|---|---|---|---|---|
| Subordinated debt of CJSC Interros Estate | RUR | 2010 | 8 | 850,000 |
| Subordinated debt of CJSC Interros Estate | RUR | 2012 | 10 | 600,000 |
| **Total subordinated debt** | | | | **1,450,000** |

In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to repayment of ROSBANK's liabilities to all other creditors.

## 28. SHARE CAPITAL

As of 31 December 2005, 2004 and 2003 nominal share capital authorized, issued and fully paid comprised of the following:

| | ROSBANK | OVK banks | Other companies | Total |
|---|---|---|---|---|
| Nominal | 6,803,605 | - | - | 6,803,605 |
| Inflation adjustments | 2,072,895 | - | - | 2,072,895 |
| **Total 31 December 2005** | 8,876,500 | - | - | 8,876,500 |

| | ROSBANK | OVK banks | Other companies | Total |
|---|---|---|---|---|
| Nominal | 3,405,284 | 499,304 | 443,603 | 4,348,191 |
| Inflation adjustments | 2,072,895 | 1,139,053 | 523,167 | 3,735,115 |
| **Total 31 December 2004** | 5,478,179 | 1,638,357 | 966,770 | 8,083,306 |
| | | | | |
| Nominal | 3,377,442 | 502,250 | 464,215 | 4,343,907 |
| Inflation adjustments | 2,072,895 | 1,152,587 | 593,354 | 3,818,836 |
| **Total 31 December 2003** | 5,450,337 | 1,654,837 | 1,057,569 | 8,162,743 |

Share premium of RUR 9,177,470 thousand and RUR 6,445,058 thousand represents the excess of contributions received in share capital over the nominal value of shares issued as of 31 December 2005 and 31 December 2004 and 2003, respectively.

ROSBANK Group shareholders declared the following payment of dividends for 2004 and the first quarter of 2005:

| | Number of shares | Par value of share (RUR) | Dividend payment per share (RUR) for the year 2004 | Dividend payment per share (RUR) for the first quarter of 2005 | Total amount of dividends declared RUR'000 |
|---|---|---|---|---|---|
| ROSBANK | 340,528,420 | 10 | 1.00 | - | 340,528 |
| Bank Pervoe OVK JSC | 100,000,000 | 1 | 1.57 | - | 157,000 |
| Bank Povolzhskoe OVK JSC | 306,000 | 100 | 281.79 | - | 86,228 |
| Bank Sibirskoe OVK JSC | 7,500,000 | 10 | 48.79 | 9.19 | 434,816 |
| Bank Centralnoe OVK JSC | 600,000 | 100 | 917.58 | - | 550,548 |
| Bank Dalnevostochnoe OVK JSC | 112,844,600 | 1 | 2.85 | 2.29 | 580,022 |

Privolzhskoe OVK is a limited liability company. 100% share capital of the bank is owned by one shareholder. Distribution to the shareholder for 2004 and the first quarter of 2005 amounted to RUR 37,973 thousand.

The Group's reserves distributable among shareholders are limited to the amount of its reserves as disclosed in its statutory accounts.

As of 31 December 2005, 2004 and 2003, non-distributable reserves are represented by a general reserve fund, which is created as required by statutory regulations in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with statutes of individual entities that provide for the creation of a reserve for these purposes.

## 29. FINANCIAL COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

As of 31 December 2005, 2004 and 2003, letters of credit and other transactions related to contingent obligations covered by cash amounted to RUR 133,896 thousand, RUR 872,389 thousand and RUR 531,810 thousand, respectively and guarantees issued covered by cash amounted to RUR 18,756 thousand, RUR 102,651 thousand and RUR 1,437,835 thousand, respectively.

The risk-weighted amount is obtained by applying a credit conversion factor and counterparty risk weightings according to principles employed by the Basle Committee on Banking Supervision.

As of 31 December 2005, 2004 and 2003, the nominal or contract amounts and risk-weighted amounts were:

| | 2005 | | 2004 | | 2003 | |
|---|---|---|---|---|---|---|
| | **Nominal amount** | **Risk weighted amount** | **Nominal amount** | **Risk weighted amount** | **Nominal amount** | **Risk weighted amount** |
| **Contingent liabilities and credit commitments** | | | | | | |
| Guarantees issued and similar commitments | 7,726,434 | 7,707,678 | 7,347,678 | 7,245,027 | 9,595,950 | 8,158,115 |
| Letters of credit and other transaction related contingent obligations | 1,627,705 | 746,905 | 1,837,605 | 482,608 | 949,178 | 208,684 |
| Commitments on loans and unused credit lines | 18,446,050 | 4,359,949 | 17,273,441 | 4,239,610 | 18,525,536 | 3,351,308 |
| **Total contingent liabilities and credit commitments** | **27,800,189** | **12,814,532** | **26,458,724** | **11,967,245** | **29,070,664** | **11,718,107** |

***Capital commitments*** – As of 31 December 2005 the Group has commitments for capital expenditure outstanding amounting to RUR 872,475 thousand.

***Operating lease commitments*** – Where the Group is the lessee, the future minimum lease payments under non cancellable operating leases are as follows:

| | **31 December 2005 RUR'000** | **31 December 2004 RUR'000** | **31 December 2003 RUR'000** |
|---|---|---|---|
| Not later than 1 year | 1,027,430 | 433,250 | 198,216 |
| Later than 1 year and not later than 5 years | 1,052,024 | 864,427 | 322,840 |
| Later than 5 years | 457,910 | 47,682 | 16,368 |
| **Total operating lease commitments** | **2,537,364** | **1,345,359** | **537,424** |

***Fiduciary activities*** – In the normal course of its business, the Group enters into agreements with limited rights on decision making with clients for asset management in accordance with specific criteria established by clients. The Group may be liable for losses due to its gross negligence or wilful misconduct until such funds or securities are returned to the client. The maximum potential financial risk of the Group at any given moment is equal to the volume of the clients' funds plus/minus any unrealized income/loss on the client's position. In the judgment of management, as of 31 December 2005, 2004 and 2003 the maximum potential financial risk on securities accepted by the Group on behalf of its clients does not exceed RUR 7,393,671 thousand, RUR 719,474 thousand and RUR 290,757 thousand, respectively.

The Group also provides depositary services to its customers. As of 31 December 2005, 2004 and 2003, the Group had customer securities totalling 3,283,527,374 items, 6,462,105,404 items and 7,626,416,272 items, respectively, in its nominal holder accounts.

***Legal proceedings*** – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

***Taxes*** – Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgments of business activities, if a particular treatment based on Management's judgment of the Group's business activities were to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest. Such uncertainty may relate to valuation of financial instruments, loss and impairment provisions and market level for a deal's pricing. The Group believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax years remain open to review by the tax authorities for three years.

***Pensions and retirement plans*** – Employees receive pension benefits in accordance with the laws and regulations of the respective countries. As of 31 December 2005, 2004 and 2003, the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

***Operating environment*** – The Group's principal business activities are within the Russian Federation. Laws and regulations affecting the business environment in the Russian Federation are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

## 30. SUBSEQUENT EVENTS

On 25 January 2006 at the Board of Directors' meeting the shareholders of ROSBANK decided to increase share capital of ROSBANK by issuing 100,000,000 ordinary shares of a nominal value of RUR 10 each for Initial Public Offering purposes. Shareholders of ROSBANK have also approved share option plan for its certain Management Board members and Board of Directors members. Shareholders allocated 5,6% of outstanding shares for the plan. According to the terms and conditions of the plan, participants are entitled to purchase allocated shares under individual arrangements at US dollar 1.22 per share during three years. If a participant does not continue with ROSBANK, his rights under the plan cease to exist after three months, unless shareholder prolongs this term. Rights of such a participant can be alternatively settled by a shareholder on a net basis at the shareholder's discretion.

## 31. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures", represent:

(a) Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Group. (This includes holding companies, subsidiaries and fellow subsidiaries);

(b) Associates – enterprises in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;

(c) Individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group;

(d) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group (also non-executive directors and close members of the families of such individuals);

(e) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Group and enterprises that have a member of key management in common with the Group;

(f) Parties with joint control over the Group;

(g) Joint ventures in which the Group is a venturer; and

(h) Post-employment benefit plans for the benefit of employees of the Group, or of any entity that is a related party to the Group.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding with related parties:

| | 31 December 2005 RUR'000 | | 31 December 2004 RUR'000 | | 31 December 2003 RUR'000 | |
|---|---|---|---|---|---|---|
| | Related party transactions | Total category as per financial statement caption | Related party transactions | Total category as per financial statement caption | Related party transactions | Total category as per financial statement caption |
| Financial assets at fair value through profit or loss | 974,382 | 15,677,102 | 1,916,928 | 10,821,284 | 1,502 | 10,667,955 |
| - other related parties | 974,382 | | 1,916,928 | | 1,502 | |
| Loans to banks and customers | 3,436,265 | 173,200,927 | 2,377,852 | 105,618,576 | 2,940,107 | 75,745,016 |
| - key management personnel of the Group | 30,909 | | 14,131 | | 1,427 | |
| - other related parties | 3,405,356 | | 2,363,721 | | 2,938,680 | |
| Allowance for impairment losses | 169,450 | 5,887,635 | 138,208 | 4,933,072 | 130,045 | 3,390,463 |
| - key management personnel of the Group | 1,524 | | 821 | | 63 | |
| - other related parties | 167,926 | | 137,387 | | 129,982 | |
| Customer accounts | 38,471,040 | 149,060,894 | 24,073,921 | 101,220,183 | 16,505,762 | 76,610,016 |
| - shareholders | 8,266 | | 1,554,011 | | 90,903 | |
| - key management personnel of the Group | 141,880 | | 167,345 | | 146,205 | |
| - other related parties | 38,320,894 | | 22,352,565 | | 16,268,654 | |
| Other provisions | 62,459 | 174,729 | 64,504 | 252,287 | 85,269 | 357,602 |
| - key management personnel of the Group | 159 | | 95 | | 94 | |
| - other related parties | 62,300 | | 64,409 | | 85,175 | |
| Subordinated debt | - | - | 1,450,000 | 1,450,000 | - | - |
| - shareholders | - | | 1,450,000 | | - | |
| Commitments on loans and unused credit lines | 276,068 | 18,446,050 | 1,699,431 | 17,273,441 | 1,301,730 | 18,525,536 |
| - other related parties | 276,068 | | 1,699,431 | | 1,301,730 | |
| Letters of credit and other transaction related contingent obligations | 268,780 | 1,627,705 | 62,474 | 1,837,605 | - | 949,178 |
| - other related parties | 268,780 | | 62,474 | | - | |
| Guarantees issued and similar commitments | 2,989,317 | 7,726,434 | 3,562,511 | 7,347,678 | 5,084,488 | 9,595,950 |
| - key management personnel of the Group | 7,627 | | 5,272 | | 5,596 | |
| - other related parties | 2,981,690 | | 3,557,239 | | 5,078,892 | |
| Guarantees received | 1,309,985 | 169,340,991 | 734,662 | 145,619,401 | 4,725,489 | 110,669,542 |
| - other related parties | 1,309,985 | | 734,662 | | 4,725,489 | |
| **Key management personnel compensation:** | | | | | | |
| - short-term employee benefits | 142,474 | | 61,592 | | 69,622 | |
| - other payments | 15,801 | | 13,126 | | 10,419 | |
| | **158,275** | **5,395,445** | **74,718** | **4,478,633** | **80,041** | **2,029,723** |

Included in the income statement for the years ended 31 December 2005, 2004 and 2003 are the following amounts which arose due to transactions with related parties:

| | Year ended 31 December 2005 RUR'000 | | Year ended 31 December 2004 RUR'000 | | Year ended 31 December 2003 RUR'000 | |
|---|---|---|---|---|---|---|
| | Related party transactions | Total category as per financial statements caption | Related party transactions | Total category as per financial statements caption | Related party transactions | Total category as per financial statements caption |
| Interest income | 1,088,199 | 21,153,436 | 1,373,569 | 15,637,271 | 615,368 | 7,398,204 |
| - shareholders | 19,781 | | 48,891 | | 189,307 | |
| - key management personnel of the Group | 1,246 | | 1,038 | | 4,458 | |
| - other related parties | 1,067,172 | | 1,323,640 | | 421,603 | |
| Interest expense | 1,658,205 | 10,933,901 | 1,503,961 | 7,194,872 | 778,993 | 4,746,800 |
| - shareholders | 121,569 | | 110,537 | | 79,265 | |
| - key management personnel of the Group | 15,801 | | 13,126 | | 10,419 | |
| - other related parties | 1,520,835 | | 1,380,298 | | 689,309 | |
| Allowance for impairment losses | 31,243 | 1,038,566 | 8,162 | 1,543,846 | 1,394 | 36,353 |
| - key management personnel of the Group | 703 | | 758 | | 1 | |
| - other related parties | 30,540 | | 7,404 | | 1,393 | |
| Net gain/(loss) on financial assets at fair value through profit or loss | 379,781 | 693,649 | (512,595) | (151,505) | (604,974) | 955,759 |
| - shareholders | 16,544 | | 3,377 | | (27,139) | |
| - other related parties | 363,237 | | (515,972) | | (577,835) | |
| Net gain/(loss) on sale of investments available-for-sale | 115,851 | 994,910 | 56,927 | 668,843 | 36,528 | 29,743 |
| - shareholders | - | | - | | - | |
| - other related parties | 115,851 | | 56,927 | | 36,528 | |
| Fee and commission income | 823,578 | 4,094,129 | 589,199 | 3,970,064 | 553,952 | 1,013,084 |
| - shareholders | 351 | | 436 | | 7,990 | |
| - key management personnel of the Group | 100 | | - | | 54 | |
| - other related parties | 823,127 | | 588,763 | | 545,908 | |
| Operating expense | 185,663 | 11,228,645 | 108,042 | 8,389,667 | 95,048 | 3,227,572 |
| - shareholders | 73 | | 18 | | 8 | |
| - key management personnel of the Group | 142,474 | | 61,592 | | 69,622 | |
| - other related parties | 43,116 | | 46,432 | | 25,418 | |

## 32. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. As no readily available published price quotations in an active market exist for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value using a valuation technique, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the balance sheet of the Group is presented below:

| | 2005 | | 2004 | | 2003 | |
|---|---|---|---|---|---|---|
| | Current value, RUR'000 | Fair value, RUR'000 | Current value, RUR'000 | Fair value, RUR'000 | Current value, RUR'000 | Fair value, RUR'000 |
| Cash and balances with Central and National banks | 19,455,358 | 19,455,358 | 28,367,163 | 28,367,163 | 21,513,900 | 21,513,900 |
| Financial assets at fair value through profit or loss | 15,677,102 | 15,677,102 | 10,821,284 | 10,821,284 | 10,667,955 | 10,667,955 |
| Loans and advances to banks, less allowance for impairment losses | 53,995,068 | 53,995,068 | 21,003,058 | 21,003,058 | 10,748,392 | 10,748,392 |
| Deposits from banks | 11,139,028 | 11,139,028 | 8,618,844 | 8,618,844 | 7,863,506 | 7,863,506 |
| Customer accounts | 149,060,894 | 149,060,894 | 101,220,183 | 101,220,183 | 76,610,016 | 76,610,016 |
| Debt securities issued | 26,044,207 | 26,044,207 | 19,901,584 | 19,901,584 | 18,224,705 | 18,224,705 |
| Financial liabilities at fair value through profit or loss | 1,840,641 | 1,840,641 | 31,699 | 31,699 | 8,701 | 8,701 |
| Subordinated debt | - | - | 1,450,000 | 1,450,000 | - | - |

The fair value of loans to customers and investments available for sale can not be measured reliably as it is not practicable to obtain market information or apply any other valuation techniques on such instruments.

## 33. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios (as set forth in the table below) of total (8%) and tier 1 capital (4%) to risk weighted assets.

The ratio was calculated according to the principles employed by the Basle Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for impairment losses:

| Estimate | Description of position |
|---|---|
| 0% | Cash and balances with the Central bank of the Russian Federation |
| 0% | State debt securities |
| 20% | Loans and advances to banks for up to 1 year |
| 100% | Loans to customers |
| 100% | Guarantees |
| 50% | Obligations and commitments on unused loans with initial maturity of over 1 year |
| 100% | Other assets |

| Capital amounts and ratios | Actual amount in RUR'000 | For capital adequacy purposes amount in RUR'000 | Ratio for capital adequacy purposes | Minimum required ratio |
|---|---|---|---|---|
| **As of 31 December 2005** | | | | |
| Total capital | 22,820,266 | 22,804,843 | 15.6% | 8% |
| Tier 1 capital | 19,827,152 | 19,827,152 | 13.6% | 4% |
| **As of 31 December 2004** | | | | |
| Total capital | 16,425,568 | 17,850,419 | 16.1% | 8% |
| Tier 1 capital | 13,330,307 | 13,330,307 | 12.0% | 4% |
| **As of 31 December 2003** | | | | |
| Total capital | 11,283,742 | 11,283,742 | 12.6% | 8% |
| Tier 1 capital | 11,265,882 | 11,265,882 | 12.6% | 4% |

As of 31 December 2004 the Group included in the computation of Total capital for capital adequacy purposes subordinated debt received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to repayment of the Group's liabilities to all other creditors.

## 34. SEGMENT REPORTING

The Group's primary format for reporting segment information is business segments and the secondary format is geographical segments. Most operations of the Group are concentrated in the Russian Federation. Geographical analysis is presented in Note 35.

***Business segments*** – The Group is organised on the basis of two main business segments:

- Retail banking – representing individuals' customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages and private banking.
- Corporate banking – representing direct debt facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products as well as transactions with small and medium enterprises.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding items such as taxation and borrowings. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

Segment information about these businesses is presented below.

| | Retail banking | Corporate banking | Unallocated | 31 December 2005 Consolidated amount RUR'000 |
|---|---|---|---|---|
| External operating income | 6,358,043 | 5,961,487 | 3,275,032 | 15,594,562 |
| Income from other segments | 485,248 | 2,239,490 | (2,724,738) | - |
| **Total operating income** | 6,843,291 | 8,200,977 | 550,294 | 15,594,562 |
| Operating expenses | (5,471,521) | (1,504,741) | (4,252,383) | (11,228,645) |
| **Operating profit** | 1,371,770 | 6,696,236 | (3,702,089) | 4,365,917 |
| Other provisions | - | (17,546) | 10,220 | (7,326) |
| **Profit before tax** | 1,371,770 | 6,678,690 | (3,691,869) | 4,358,591 |
| Income tax expense | - | - | (1,274,529) | (1,274,529) |
| **Net profit** | 1,371,770 | 6,678,690 | (4,966,398) | 3,084,062 |
| Segment assets | 55,243,270 | 62,252,007 | 95,561,325 | 213,056,602 |
| Segment liabilities | 57,159,985 | 91,900,909 | 41,175,442 | 190,236,336 |
| **Other segment items** | | | | |
| Depreciation expense | (213,848) | (58,811) | (166,200) | (438,859) |
| Interest income | 8,480,444 | 10,324,860 | 2,348,132 | 21,153,436 |
| Interest expense | (3,973,687) | (5,197,139) | (1,763,075) | (10,933,901) |
| (Provisions)/recovery of provision for impairment losses on interest bearing assets | (1,733,520) | 682,748 | 12,206 | (1,038,566) |
| Commission income | 3,551,813 | 255,727 | 286,589 | 4,094,129 |
| Commission expense | (845,711) | (129,129) | - | (974,840) |
| Other income | 878,704 | 24,420 | 243,718 | 1,146,842 |
| Loans to customers, less allowance for impairment losses | 51,967,184 | 61,351,040 | - | 113,318,224 |
| Fixed assets, net | 3,276,086 | 900,967 | 2,546,124 | 6,723,177 |
| Customer accounts | 57,159,985 | 91,900,909 | - | 149,060,894 |

| **Cash flow from:** | Retail banking | Corporate banking | 31 December 2005 RUR'000 Total |
|---|---|---|---|
| Operating activities | 2,440,756 | 10,326,933 | 12,767,689 |
| Investing activities | (90,058) | (24,767) | (114,825) |
| | 2,350,698 | 10,302,166 | 12,652,864 |

| | Retail banking | Corporate banking | Unallocated | 31 December 2004 Consolidated amount RUR'000 |
|---|---|---|---|---|
| External operating income | 3,952,624 | 6,395,911 | 1,449,659 | 11,798,194 |
| Income from other segments | 1,450,176 | 353,617 | (1,803,793) | - |
| **Total operating income** | 5,402,800 | 6,749,528 | (354,134) | 11,798,194 |
| Operating expenses | (4,175,906) | (1,154,136) | (3,059,625) | (8,389,667) |
| **Operating profit** | 1,226,894 | 5,595,392 | (3,413,759) | 3,408,527 |
| Other provisions | - | (104,985) | (26,236) | (131,221) |
| **Profit before tax** | 1,226,894 | 5,490,407 | (3,439,995) | 3,277,306 |
| Income tax expense | - | - | (951,996) | (951,996) |
| **Net profit** | 1,226,894 | 5,490,407 | (4,391,991) | 2,325,310 |
| Segment assets | 30,166,197 | 53,918,784 | 65,788,752 | 149,873,733 |
| Segment liabilities | 36,922,595 | 64,297,588 | 32,227,982 | 133,448,165 |
| **Other segment items** | | | | |
| Depreciation expense | 185,180 | 51,180 | 135,679 | 372,039 |
| Interest income | 4,578,464 | 9,524,642 | 1,534,165 | 15,637,271 |
| Interest expense | (2,439,637) | (3,315,796) | (1,439,439) | (7,194,872) |
| Provisions for impairment losses on interest bearing assets | (857,284) | (749,914) | 63,352 | (1,543,846) |
| Commission income | 2,336,279 | 1,355,881 | 277,904 | 3,970,064 |
| Commission expense | (309,110) | (433,871) | - | (742,981) |
| Other income | 643,912 | 14,969 | 139,914 | 798,795 |
| Loans to customers, less allowance for impairment losses | 26,717,102 | 52,965,524 | - | 79,682,626 |
| Fixed assets, net | 3,449,095 | 953,260 | 2,527,101 | 6,929,456 |
| Customer accounts | 36,922,595 | 64,297,588 | - | 101,220,183 |

| **Cash flow from:** | Retail banking | Corporate banking | 31 December 2004 RUR'000 Total |
|---|---|---|---|
| Operating activities | 2,205,413 | 2,040,640 | 4,246,053 |
| Investing activities | (393,244) | (108,685) | (501,929) |
| | 1,812,169 | 1,931,955 | 3,744,124 |

OVK banks were acquired by Interros at the end of 2003. Therefore results of operations of the Group on retail segment started from 1 January 2004. Balance sheet segments disclosures as of 31 December 2003 are presented below:

| | Retail banking | Corporate banking | Unallocated | 31 December 2003 Consolidated amount RUR'000 |
|---|---|---|---|---|
| Segment assets | 12,562,286 | 50,442,315 | 52,423,126 | 115,427,727 |
| Segment liabilities | 30,520,093 | 46,089,923 | 27,533,969 | 104,143,985 |
| **Other segment items** | | | | |
| Loans to customers, less allowance for impairment losses | 11,016,379 | 50,389,782 | - | 61,406,161 |
| Fixed assets, net | 1,545,907 | 52,533 | 798,570 | 2,397,010 |
| Customer accounts | 30,520,093 | 46,089,923 | - | 76,610,016 |

## 35. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Group's banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Group's risk management policies in relation to those risks follows.

### Liquidity risk

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

Liquidity and cash flow risks are managed by the Treasury department. Strategic decisions and overall risk monitoring is provided by the Management Board and Assets and Liabilities Committee.

The treasury department makes weekly forecasts on the Group's liquidity position. The treasury department manages assets/liabilities' structure (maturities up to 7 days). The treasury department manages and controls the current liquidity position of the Group. The combined Economic Department (CED) assesses any excess/lack of liquidity. CED makes analytic reports about assets/liabilities' maturity structure every week which is issued as a basic tool for liquidity risk analysis. CED also analyzes and forecasts liquidity conditions (maturities more than 7 days) and in case of negative economic conditions, creditors' and debtors' delinquencies. CED calculates internal liquidity limits and the Central Bank of Russian the Federation's obligatory ratios.

### Cash flow interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments.

Interest rate risk is managed within the limit framework as established in accordance with the standards set by the Group. Interest rate risks are controlled via regular interest rate gap reporting. The Group does not perform hedging activities, thus no risk management policy for hedging transactions has been developed.

The following table presents an analysis of interest rate risk and thus the potential of the Group for gain or loss. Effective average interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Group.

| | 31 December 2005 | | 31 December 2004 | | 31 December 2003 | |
|---|---|---|---|---|---|---|
| | RUR | USD | RUR | USD | RUR | USD |
| **ASSETS** | | | | | | |
| Financial assets at fair value through profit or loss | 9.2% | 9.3% | 9.2% | 6.4% | 13.0% | 9.2% |
| Loans and advances to banks, less allowance for impairment losses | 8.5% | 3.7% | 8.1% | 2.1% | 8.5% | 2.7% |
| Loans and advances to customers, less allowance for impairment losses | 17.9% | 11.6% | 15.4% | 11.5% | 16.2% | 11.4% |
| Investments available-for-sale, less allowance for impairment loss | 16.0% | - | 9.1% | - | 10.0% | - |
| **LIABILITIES** | | | | | | |
| Deposits from banks | 5.66% | 6.34% | 10.9% | 3.9% | 2.5% | 4.2% |
| Customer accounts | 8.67% | 5.94% | 8.9% | 5.0% | 6.9% | 5.4% |
| Debt securities issued | 7.50% | 8.03% | 9.2% | 5.9% | 13.6% | 5.1% |
| Subordinated debt | - | - | 8.8% | - | - | - |

The analysis of interest rate and liquidity risk on balance sheet transactions is presented in the following table:

| | Up to 1 month | 1 month to 3 months | 3 month to 1 year | 1 year to 5 years | Over 5 years | Overdue | Maturity undefined | 31 December 2005 RUR'000 Total |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| **Interest bearing assets** | | | | | | | | |
| Financial assets at fair value through profit or loss | 14,327,927 | - | - | - | - | - | - | 14,327,927 |
| Loans and advances to banks | 35,348,694 | 51,137 | 431,850 | - | - | - | - | 35,831,681 |
| Loans to customers, less allowance for impairment losses | 10,803,424 | 21,917,477 | 40,449,490 | 39,648,843 | 498,990 | - | - | 113,318,224 |
| Investments available-for-sale, less allowance for impairment loss | - | - | 115,722 | - | - | - | - | 115,722 |
| **Total interest bearing assets** | **60,480,045** | **21,968,614** | **40,997,062** | **39,648,843** | **498,990** | **-** | **-** | **163,593,554** |
| Cash and balances with Central and National banks | 14,799,277 | - | - | - | - | - | 4,656,081 | 19,455,358 |
| Financial assets at fair value through profit or loss | 1,251,671 | 13,129 | 84,375 | - | - | - | - | 1,349,175 |
| Precious metals | 978,040 | - | - | - | - | - | - | 978,040 |
| Loans and advances to banks | 18,163,387 | - | - | - | - | - | - | 18,163,387 |
| Investments available-for-sale, less allowance for impairment loss | - | - | 145,490 | 217,122 | - | - | - | 362,612 |
| Fixed assets purchased for transfer into finance lease | - | - | - | 329,005 | - | - | - | 329,005 |
| Fixed assets, net | - | - | - | - | - | - | 6,723,177 | 6,723,177 |
| Current income tax assets | - | - | 484,307 | - | - | - | - | 484,307 |
| Other assets, less allowance for impairment losses | 673,912 | - | 944,075 | - | - | - | - | 1,617,987 |
| **Total non- interest bearing assets** | **35,866,287** | **13,129** | **1,658,247** | **546,127** | **-** | **-** | **11,379,258** | **49,463,048** |
| **TOTAL ASSETS** | **96,346,332** | **21,981,743** | **42,655,309** | **40,194,970** | **498,990** | **-** | **11,379,258** | **213,056,602** |
| **LIABILITIES** | | | | | | | | |
| **Interest bearing liabilities** | | | | | | | | |
| Deposits from banks | 7,206,987 | 120,458 | 1,586,420 | 645,458 | - | - | - | 9,559,323 |
| Customer accounts | 45,377,188 | 20,671,806 | 48,085,198 | 21,247,331 | 506,873 | - | - | 135,888,396 |
| Financial liabilities at fair value through profit or loss | 1,700,955 | 11,977 | 4,790 | - | - | - | - | 1,717,722 |
| Debt securities issued | 2,491,187 | 2,482,354 | 3,846,443 | 14,154,773 | 1,074,324 | | - | 24,049,081 |
| **Total interest bearing liabilities** | **56,776,317** | **23,286,595** | **53,522,851** | **36,047,562** | **1,581,197** | **-** | **-** | **171,214,522** |
| Deposits from banks | 1,579,705 | - | - | - | - | - | - | 1,579,705 |
| Customer accounts | 13,172,498 | - | - | - | - | - | - | 13,172,498 |
| Financial liabilities at fair value through profit or loss | 122,919 | - | - | - | - | - | - | 122,919 |
| Debt securities issued | 1,995,126 | - | - | - | - | - | - | 1,995,126 |
| Other provisions | 9,645 | 17,356 | 92,163 | 55,565 | - | - | - | 174,729 |
| Current income tax liabilities | - | - | 11,155 | - | - | - | - | 11,155 |
| Deferred income tax liabilities | - | - | 82,444 | - | - | - | 843,927 | 926,371 |
| Other liabilities | 559,443 | 71,133 | 408,735 | - | - | - | - | 1,039,311 |
| **Total non-interest bearing liabilities** | **17,439,336** | **88,489** | **594,497** | **55,565** | **-** | **-** | **843,927** | **19,021,814** |
| **TOTAL LIABILITIES** | **74,215,653** | **23,375,084** | **54,117,348** | **36,103,127** | **1,581,197** | **-** | **843,927** | **190,236,336** |
| Liquidity gap | 22,130,679 | (1,393,341) | (11,462,039) | 4,091,843 | (1,082,207) | | | |
| Interest sensitivity gap | 3,703,728 | (1,317,981) | (12,525,789) | 3,601,281 | (1,082,207) | | | |
| Cumulative interest sensitivity gap | 3,703,728 | 2,385,747 | (10,140,042) | (6,538,761) | (7,620,968) | | | |
| Cumulative interest sensitivity gap as a percentage of total assets | 1.7% | 1.1% | (4.8%) | (3.1%) | (3.6%) | | | |

| | Up to 1 month | 1 month to 3 months | 3 month to 1 year | 1 year to 5 years | Over 5 years | Overdue | Maturity undefined | 31 December 2004 RUR'000 Total |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| **Interest rate bearing assets** | | | | | | | | |
| Cash and balances with Central and National banks | 12,000,000 | - | - | - | - | - | - | 12,000,000 |
| Financial assets at fair value through profit or loss | 8,974,862 | - | - | - | - | - | - | 8,974,862 |
| Loans and advances to banks, less allowance for impairment losses | 16,105,459 | 1,627,066 | 176,547 | - | - | - | - | 17,909,072 |
| Loans to customers, less allowance for impairment losses | 14,488,777 | 8,017,503 | 27,016,666 | 24,277,255 | 5,524,012 | 358,413 | - | 79,682,626 |
| Investments available-for-sale, less allowance for impairment loss | - | - | 818,984 | - | - | - | - | 818,984 |
| **Total interest rate bearing assets** | **51,569,098** | **9,644,569** | **28,012,197** | **24,277,255** | **5,524,012** | **358,413** | **-** | **119,385,544** |
| Cash and balances with Central and National banks | 12,729,412 | - | - | - | - | - | 3,637,751 | 16,367,163 |
| Financial assets at fair value through profit or loss | 1,846,422 | - | - | - | - | - | - | 1,846,422 |
| Precious metals | 69,342 | - | - | - | - | - | - | 69,342 |
| Loans and advances to banks, less allowance for impairment losses | 3,068,703 | - | 25,283 | - | - | - | - | 3,093,986 |
| Investments available-for-sale, less allowance for impairment loss | - | - | 1,042,144 | 76,218 | - | - | - | 1,118,362 |
| Fixed assets, net | - | - | - | - | - | - | 6,929,456 | 6,929,456 |
| Current income tax assets | - | - | 327,866 | - | - | - | - | 327,866 |
| Other assets, less allowance for impairment losses | 115,672 | 103,890 | 268,100 | 123,800 | 123,718 | 412 | - | 735,592 |
| **Total non- interest rate bearing assets** | **17,829,551** | **103,890** | **1,663,393** | **200,018** | **123,718** | **412** | **10,567,207** | **30,488,189** |
| **TOTAL ASSETS** | **69,398,649** | **9,748,459** | **29,675,590** | **24,477,273** | **5,647,730** | **358,825** | **10,567,207** | **149,873,733** |
| **LIABILITIES** | | | | | | | | |
| **Interest rate bearing liabilities** | | | | | | | | |
| Deposits from banks | 3,294,529 | 409,665 | 3,920,322 | 847,639 | - | - | - | 8,472,155 |
| Customer accounts and subordinated debt | 54,077,540 | 14,266,963 | 19,056,373 | 3,065,691 | 6,223,758 | - | - | 96,690,325 |
| Debt securities issued | 560,560 | 1,461,992 | 5,614,004 | 9,291,938 | 1,056,709 | - | - | 17,985,203 |
| **Total interest rate bearing liabilities** | **57,932,629** | **16,138,620** | **28,590,699** | **13,205,268** | **7,280,467** | **-** | **-** | **123,147,683** |
| Deposits from banks | 146,689 | - | - | - | - | - | - | 146,689 |
| Customer accounts | 5,979,858 | - | - | - | - | - | - | 5,979,858 |
| Financial liabilities at fair value through profit or loss | 14,234 | 3,100 | 14,365 | - | - | - | - | 31,699 |
| Debt securities issued | 1,916,381 | - | - | - | - | - | - | 1,916,381 |
| Other provisions | 13,694 | 116,852 | 74,627 | 47,114 | - | - | - | 252,287 |
| Current income tax liabilities | - | - | 106,839 | - | - | - | - | 106,839 |
| Deferred income tax liabilities | | | 52,100 | - | - | - | 930,367 | 982,467 |
| Other liabilities | 469,765 | 35,069 | 379,428 | - | - | - | - | 884,262 |
| **Total non-interest rate bearing liabilities** | **8,540,621** | **155,021** | **627,359** | **47,114** | **-** | **-** | **930,367** | **10,300,482** |
| **TOTAL LIABILITIES** | **66,473,250** | **16,293,641** | **29,218,058** | **13,252,382** | **7,280,467** | **-** | **930,367** | **133,448,165** |
| Liquidity gap | 2,925,399 | (6,545,182) | 457,532 | 11,224,891 | (1,632,737) | | | |
| Interest sensitivity gap | (6,363,531) | (6,494,051) | (578,502) | 11,071,987 | (1,756,455) | | | |
| Cumulative interest sensitivity gap | (6,363,531) | (12,857,582) | (13,436,084) | (2,364,097) | (4,120,552) | | | |
| Cumulative interest sensitivity gap as a percentage of total assets | (4.2%) | (8.6%) | (9.0%) | (1.6%) | (2.7%) | | | |

| | Up to 1 month | 1 month to 3 months | 3 month to 1 year | 1 year to 5 years | Over 5 years | Overdue | Maturity undefined | 31 December 2003 RUR'000 Total |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| **Interest rate bearing assets** | | | | | | | | |
| Cash and balances with Central and National banks | 2,500,000 | - | - | - | - | - | - | 2,500,000 |
| Financial assets at fair value through profit or loss | 9,031,643 | - | - | - | - | - | - | 9,031,643 |
| Loans and advances to banks, less allowance for impairment losses | 775,158 | 837,907 | 386,242 | 214,591 | 16,936 | - | - | 2,230,834 |
| Loans to customers, less allowance for impairment losses | 9,615,116 | 7,283,944 | 25,009,014 | 19,283,049 | 209,672 | 5,366 | - | 61,406,161 |
| Investments available-for-sale, less allowance for impairment loss | - | - | 302,935 | - | - | - | - | 302,935 |
| Securities held-to-maturity | - | - | 132,787 | - | - | - | - | 132,787 |
| **Total interest rate bearing assets** | **21,921,917** | **8,121,851** | **25,830,978** | **19,497,640** | **226,608** | **5,366** | **-** | **75,604,360** |
| Cash and balances with Central and National banks | 10,819,524 | - | - | - | - | - | 8,194,376 | 19,013,900 |
| Financial assets at fair value through profit or loss | 1,636,312 | - | - | - | - | - | - | 1,636,312 |
| Precious metals | 39,170 | - | - | - | - | - | - | 39,170 |
| Loans and advances to banks, less allowance for impairment losses | 8,493,114 | - | 24,444 | - | - | - | - | 8,517,558 |
| Investments available-for-sale, less allowance for impairment loss | - | 13,886 | 6,521,449 | 949,368 | - | - | - | 7,484,703 |
| Fixed assets, net | - | - | - | - | - | - | 2,397,010 | 2,397,010 |
| Current income tax assets | - | 98,202 | - | - | - | - | - | 98,202 |
| Other assets, less allowance for impairment losses | 291,737 | 255,748 | 89,027 | - | - | - | - | 636,512 |
| **Total non- interest rate bearing assets** | **21,279,857** | **367,836** | **6,634,920** | **949,368** | **-** | **-** | **10,591,386** | **39,823,367** |
| **TOTAL ASSETS** | **43,201,774** | **8,489,687** | **32,465,898** | **20,447,008** | **226,608** | **5,366** | **10,591,386** | **115,427,727** |
| **LIABILITIES** | | | | | | | | |
| **Interest rate bearing liabilities** | | | | | | | | |
| Deposits from banks | 2,457,934 | 1,353,623 | 2,448,495 | 881,530 | 8,769 | - | - | 7,150,351 |
| Customer accounts | 17,400,879 | 15,932,305 | 8,322,941 | 2,220,860 | 2,836,271 | - | - | 46,713,256 |
| Debt securities issued | 2,685,654 | 1,248,777 | 3,503,576 | 8,004,872 | 1,162,668 | - | - | 16,605,547 |
| **Total interest rate bearing liabilities** | **22,544,467** | **18,534,705** | **14,275,012** | **11,107,262** | **4,007,708** | **-** | **-** | **70,469,154** |
| Deposits from banks | 713,155 | - | - | - | - | - | - | 713,155 |
| Customer accounts | 29,896,760 | - | - | - | - | - | - | 29,896,760 |
| Financial liabilities at fair value through profit or loss | 8,701 | - | - | - | - | - | - | 8,701 |
| Debt securities issued | 1,619,158 | - | - | - | - | - | - | 1,619,158 |
| Other provisions | - | - | 357,602 | - | - | - | - | 357,602 |
| Current income tax liabilities | - | 294,269 | - | - | - | - | - | 294,269 |
| Deferred income tax liabilities | - | - | 47,247 | - | - | - | 40,550 | 87,797 |
| Other liabilities | 429,821 | 134,964 | 132,604 | - | - | - | - | 697,389 |
| **Total non-interest rate bearing liabilities** | **32,667,595** | **429,233** | **537,453** | **-** | **-** | **-** | **40,550** | **33,674,831** |
| **TOTAL LIABILITIES** | **55,212,062** | **18,963,938** | **14,812,465** | **11,107,262** | **4,007,708** | **-** | **40,550** | **104,143,985** |
| Liquidity gap | (12,010,288) | (10,474,251) | 17,653,433 | 9,339,746 | (3,781,100) | | | |
| Interest sensitivity gap | (622,550) | (10,412,854) | 11,555,966 | 8,390,378 | (3,781,100) | | | |
| Cumulative interest sensitivity gap | (622,550) | (11,035,404) | 520,562 | 8,910,940 | 5,129,840 | | | |
| Cumulative interest sensitivity gap as a percentage of total assets | (0.54%) | (9.56%) | 0.45% | 7.72% | 4.44% | | | |

Substantially all of the Group's interest earning assets and interest bearing liabilities are at fixed rates of assets.

Asset and liability maturity periods and the ability to replace interest bearing liabilities at an acceptance cost when they mature are crucial in determining the Group's liquidity and its fluctuation of interest and exchange rates.

The maturity of time deposits of individuals is based on contractual terms. However, time deposits can be withdrawn by individuals on demand.

Currently, a considerable part of customer deposits are repayable on demand. However, the fact that these deposits are diversified by the number and type of customers and the Group's previous experience indicate that deposits are a stable and long-term source of financing for the Group.

**Currency risk**

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuation in prevailing foreign currency exchange rates on its financial position and cash flows. The Management Board sets limits on the level of exposure by currencies (primarily US Dollar), by branches and in total. These limits also comply with the minimum requirements of the Central Bank of the Russian Federation.

The Group's exposure to foreign currency exchange rate risk is presented in the table below:

| | **RUR** | **USD** 1 USD = 28.7825 RUR | **EUR** 1 EUR = 34.1850 RUR | **Precious metals** | **Other currency** | **31 December 2005 RUR'000 Total** |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and balances with Central and National banks | 17,413,417 | 1,599,607 | 365,564 | - | 76,770 | 19,455,358 |
| Financial assets at fair value through profit or loss | 11,296,601 | 3,704,943 | 269,906 | 99,261 | 306,391 | 15,677,102 |
| Precious metals | - | - | - | 978,040 | - | 978,040 |
| Loans and advances to banks, less allowance for impairment losses | 2,208,976 | 47,593,015 | 3,961,409 | 304 | 231,364 | 53,995,068 |
| Loans to customers, less allowance for impairment losses | 77,187,049 | 32,333,076 | 1,757,064 | 832,381 | 1,208,654 | 113,318,224 |
| Investments available-for-sale, less allowance for impairment loss | 419,146 | - | 396 | - | 58,792 | 478,334 |
| Fixed assets purchased for transfer into finance lease | 329,005 | - | - | - | - | 329,005 |
| Fixed assets, net | 6,705,872 | - | - | - | 17,305 | 6,723,177 |
| Current income tax assets | 484,129 | - | 178 | - | - | 484,307 |
| Other assets, less allowance for impairment losses | 1,293,873 | 147,993 | 1,396 | 83,206 | 91,519 | 1,617,987 |
| **TOTAL ASSETS** | **117,338,068** | **85,378,634** | **6,355,913** | **1,993,192** | **1,990,795** | **213,056,602** |
| **LIABILITIES** | | | | | | |
| Deposits from banks | 3,943,809 | 4,396,000 | 493,621 | 2,027,052 | 278,546 | 11,139,028 |
| Customer accounts | 73,154,491 | 71,252,557 | 3,551,807 | 285,054 | 816,985 | 149,060,894 |
| Financial liabilities at fair value through profit or loss | - | 1,543,323 | 297,318 | - | - | 1,840,641 |
| Debt securities issued | 9,766,918 | 15,653,127 | 616,665 | - | 7,497 | 26,044,207 |
| Other provisions | 105,586 | 62,279 | 5,353 | 1,511 | - | 174,729 |
| Current income tax liabilities | 10,225 | - | 930 | - | - | 11,155 |
| Deferred income tax liabilities | 914,416 | - | 11,955 | - | - | 926,371 |
| Other liabilities | 468,610 | 303,924 | 32,824 | 115,792 | 118,161 | 1,039,311 |
| **TOTAL LIABILITIES** | **88,364,055** | **93,211,210** | **5,010,473** | **2,429,409** | **1,221,189** | **190,236,336** |
| **OPEN BALANCE SHEET POSITION** | **28,974,013** | **(7,832,576)** | **1,345,440** | **(436,217)** | **769,606** | |

**Derivative financial instruments and spot contracts**

The fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents a further analysis of currency risk by types of derivative financial instruments and spot contracts as of 31 December 2005:

| | RUR | USD 1 USD = 28.7825 RUR | EUR 1 EUR = 34.1850 RUR | Precious metals | Other currency | 31 December 2005 RUR'000 Total |
|---|---|---|---|---|---|---|
| Payables on spot and derivative contracts | 16,170,345 | 26,511,625 | 2,222,025 | 1,378,805 | 2,981,317 | 49,264,117 |
| Receivables on spot and derivative contracts | (24,911,417) | (19,633,500) | (3,718,313) | (699,575) | (237,787) | (49,200,592) |
| NET POSITION ON SPOT AND DERIVATIVE CONTRACTS | (8,741,072) | 6,878,125 | (1,496,288) | 679,230 | 2,743,530 | |
| **TOTAL OPEN POSITION** | **20,232,941** | **(954,451)** | **(150,848)** | **243,013** | **3,513,136** | |

| | RUR | USD 1 USD = 27.7487 RUR | EUR 1 EUR = 37.8104 RUR | Precious metals | Other currency | 31 December 2004 RUR'000 Total |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and balances with Central and National banks | 26,862,277 | 1,010,916 | 377,774 | - | 116,196 | 28,367,163 |
| Financial assets at fair value through profit or loss | 9,266,246 | 793,229 | 22,338 | - | 739,471 | 10,821,284 |
| Precious metals | - | - | - | 69,342 | - | 69,342 |
| Loans and advances to banks, less allowance for impairment losses | 1,281,616 | 15,376,111 | 3,186,005 | 584,453 | 574,873 | 21,003,058 |
| Loans to customers, less allowance for impairment losses | 45,608,003 | 33,308,875 | 589,586 | - | 176,162 | 79,682,626 |
| Investments available-for-sale, less allowance for impairment loss | 1,937,277 | - | - | - | 69 | 1,937,346 |
| Fixed assets, net | 6,915,034 | - | - | - | 14,422 | 6,929,456 |
| Current income tax assets | 327,866 | - | - | - | - | 327,866 |
| Other assets, less allowance for impairment losses | 584,195 | 88,164 | 15,480 | - | 47,753 | 735,592 |
| **TOTAL ASSETS** | **92,782,514** | **50,577,295** | **4,191,183** | **653,795** | **1,668,946** | **149,873,733** |
| **LIABILITIES** | | | | | | |
| Deposits from banks | 728,720 | 6,450,124 | 322,893 | 1,100,131 | 16,976 | 8,618,844 |
| Customer accounts and subordinated debt | 55,907,689 | 42,157,712 | 3,345,323 | 34,711 | 1,224,748 | 102,670,183 |
| Financial liabilities at fair value through profit or loss | 11,757 | 19,942 | - | - | - | 31,699 |
| Debt securities issued | 10,710,442 | 8,936,883 | 254,023 | - | 236 | 19,901,584 |
| Other provisions | 85,607 | 143,553 | 10,172 | - | 12,955 | 252,287 |
| Current income tax liabilities | 106,839 | - | - | - | - | 106,839 |
| Deferred income tax liabilities | 982,467 | - | - | - | - | 982,467 |
| Other liabilities | 749,528 | 87,803 | 26,158 | - | 20,773 | 884,262 |
| **TOTAL LIABILITIES** | **69,283,049** | **57,796,017** | **3,958,569** | **1,134,842** | **1,275,688** | **133,448,165** |
| **OPEN BALANCE SHEET POSITION** | **23,499,465** | **(7,218,722)** | **232,614** | **(481,047)** | **393,258** | |

**Derivative financial instruments and spot contracts**

The fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents a further analysis of currency risk by derivative financial instruments and spot contracts as of 31 December 2004:

| | RUR | USD 1 USD = 27.7487 RUR | EUR 1 EUR = 37.8104 RUR | Precious metals | Other currency | 31 December 2004 RUR'000 Total |
|---|---|---|---|---|---|---|
| Payables on spot and derivative contracts | (12,725,092) | (4,786,172) | (283,171) | - | (611,676) | (18,406,111) |
| Receivables on spot and derivative contracts | 2,372,443 | 13,528,052 | 18,905 | 537,050 | 1,988,717 | 18,445,167 |
| NET POSITION ON SPOT AND DERIVATIVE CONTRACTS | (10,352,649) | 8,741,880 | (264,266) | 537,050 | 1,377,041 | |
| **TOTAL OPEN POSITION** | **13,146,816** | **1,523,158** | **(31,652)** | **56,003** | **1,770,299** | |

| | RUR | USD 1 USD = 27.4545 RUR | EUR 1 EUR = 36.8240 RUR | Precious metals | Other currency | 31 December 2003 RUR'000 Total |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and balances with Central and National banks | 19,751,208 | 1,458,818 | 273,583 | - | 30,291 | 21,513,900 |
| Financial assets at fair value through profit or loss | 8,674,828 | 1,446,240 | 398,919 | 4,417 | 143,551 | 10,667,955 |
| Precious metals | - | - | - | 39,170 | - | 39,170 |
| Loans and advances to banks, less allowance for impairment losses | 2,502,051 | 7,181,174 | 841,882 | - | 223,285 | 10,748,392 |
| Loans to customers, less allowance for impairment losses | 22,735,788 | 37,558,919 | 951,152 | - | 160,302 | 61,406,161 |
| Investments available-for-sale, less allowance for impairment loss | 7,685,494 | 1,174 | 100,898 | - | 72 | 7,787,638 |
| Securities held-to-maturity | 132,787 | - | - | - | - | 132,787 |
| Fixed assets, net | 2,384,482 | - | - | - | 12,528 | 2,397,010 |
| Current income tax assets | 98,202 | - | - | - | - | 98,202 |
| Other assets, less allowance for impairment losses | 428,594 | 168,338 | 6,468 | - | 33,112 | 636,512 |
| **TOTAL ASSETS** | **64,393,434** | **47,814,663** | **2,572,902** | **43,587** | **603,141** | **115,427,727** |
| **LIABILITIES** | | | | | | |
| Deposits from banks | 2,189,471 | 5,144,905 | 131,199 | 397,355 | 576 | 7,863,506 |
| Customer accounts | 41,234,268 | 33,179,827 | 1,766,712 | 37,643 | 391,566 | 76,610,016 |
| Financial liabilities at fair value through profit or loss | 8,701 | - | - | - | - | 8,701 |
| Debt securities issued | 14,833,540 | 3,362,468 | - | - | 28,697 | 18,224,705 |
| Other provisions | 91,142 | 265,672 | - | - | 788 | 357,602 |
| Current income tax liabilities | 294,269 | - | - | - | - | 294,269 |
| Deferred income tax liabilities | 87,797 | - | - | - | - | 87,797 |
| Other liabilities | 506,057 | 143,392 | 28,244 | - | 19,696 | 697,389 |
| **TOTAL LIABILITIES** | **59,245,245** | **42,096,264** | **1,926,155** | **434,998** | **441,323** | **104,143,985** |
| **OPEN BALANCE SHEET POSITION** | **5,148,189** | **5,718,399** | **646,747** | **(391,411)** | **161,818** | |

**Derivative financial instruments and spot contracts**

The fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents a further analysis of currency risk by types of derivative financial instruments and spot contracts as of 31 December 2003:

| | RUR | USD 1 USD = 29.4545 RUR | EUR 1 EUR = 36.824 RUR | Precious metals | Other currency | 31 December 2003 RUR'000 Total |
|---|---|---|---|---|---|---|
| Payables on spot and derivative contracts | (1,078,010) | (1,138,410) | (14,707) | (21,831) | (1,490,829) | (3,743,787) |
| Receivables on spot and derivative contracts | 443,572 | 2,550,147 | 128,090 | 691,433 | 5,782 | 3,819,024 |
| NET POSITION ON SPOT AND DERIVATIVE CONTRACTS | (634,438) | 1,411,737 | 113,383 | 669,602 | (1,485,047) | |
| **TOTAL OPEN POSITION** | **4,513,751** | **7,130,136** | **760,130** | **278,191** | **(1,323,229)** | |

According to Regulation of the CBR N41 for open currency position calculation purposes the Group may exclude the contribution to share capital made in foreign currency (US dollars) of RUR equivalent of USD 148,776 thousand from total assets in the respective currency.

**Market risk**

Market risk is assessed by CED using a value at risk (VAR) methodology. VAR is calculated based on an internationally accepted approach. CED provides daily market risk evaluation and prepares a report for the Board of Directors at least twice a month. The Group performs back testing of the adequacy of the methodology at least quarterly with reference to current market terms to ensure that deviations for all statistics parameters included in the calculation are within expected values. Based on statistical for the preceding nine months and maturities of debt securities, the Group produces a model securities portfolio, calculates a proportion of different types of securities in the portfolio and the overall risk of the portfolio which is viewed as a standard portfolio proportion in current terms. In order to decrease risks, the Group sets the following limits: open position limit, stop-loss limit and structure limits. CED daily assesses current risks of the Group and proposes limits for the Liquidity, Risks and Pricing Committee. Currency position control provides data to CED, which calculates the open currency position (OCP) daily based on accounting data, and to Operations Registration Department, which calculates OCP daily according to CBR requirements. A stop-loss instrument is used to prevent unexpected significant losses resulting from fluctuations in the securities portfolio. The stop-loss limits are set for accumulated losses per day and per month as a percentage of investments. The month stop-loss limit is set at 3/2 of a daily limit. No operations are allowed after the loss reaches the stop-loss limit. Daily limit utilization is determined from realized and unrealized mark-to-market adjustment. Market prices used are based on quotations in REUTERS and by brokers of Tradition, ADIX, Eurobroker and Garban.

**Credit risk**

Credit activities are conducted in accordance with the regulatory framework set by the Central Bank of the Russian Federation as well as internationally accepted criteria. Credit Policy is defined by the Group's Management Board and the Credit Committee. Credit Risk is taken based on the principles of risk adequacy, adequacy of profitability and strategic rationale. Credit operations conducted by the Group include term loans, credit lines, overdraft facilities, syndications, documentary operations and other operations involving credit risk. The credit procedure is structured in line with a strict segregation of duties, based on the approved Credit Manual of the Group.

The Credit Committee is a standing body of the Group, authorized to make decisions on all issues relating to the credit operations of the Group. Its task is to ensure design and implementation of a single credit policy of the Group and its branches.

The Credit Committee consider issues regarding the assumption of credit risks for transactions within relevant limits (there are separate limits for corporate clients, financial institutions and individuals) established and revised on an annual basis by the Management Board and/or for which the period does not exceed 12 months.

The assumption of credit risks for transactions exceeding relevant limits established by the Board and/or for which the period exceeds 12 months is considered by the Management Board.

Credit risk management and control are conducted using differentiated multilevel complex approach to evaluation of credit applications. Credit control is carried out at all stages of credit work and credit portfolio structuring. Credit risk policy is conducted in accordance with the following internal documents:

- Banking credit policy;
- Direction for credit operations.

The following methods of credit risk management are used:

- Complex credit risk analysis;
- Approval of credit risk limits for individuals and groups of clients;
- Control over maturity structure of assets;
- Limit and decision-making control;
- Planning spread between cash inflow and outflow, plan vs. actual analysis;
- Analysis of borrower's financial position, monitoring of financial position of guarantors;
- Current banking assets monitoring for management decisions-making.

Credit risk is evaluated by the following bodies:

- Credit operations Department – complex analysis of the risk level;
- Credit Committee – credit limit determination;
- Project financing and control Department – independent risk level evaluation of specific deals;
- Combined Economic Department – standards and essential adequacy of allowance for impairment.

The procedure for credit risk assumption comprises:

- Gathering of essential documents;
- Assessment of reliability and completeness of documents;
- Complex analysis of all risks which may occur;
- Making decisions about credit risk assumption;
- Legal capacity control of clients and their representatives.

**Geographical concentration**

The geographical concentration of assets and liabilities is set out below:

| | Russia | Other CIS countries | OECD countries | Other non-OECD countries | 31 December 2005 RUR'000 Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and balances with Central and National banks | 19,387,997 | 51,943 | 15,418 | - | 19,455,358 |
| Financial assets at fair value through profit or loss | 13,839,516 | 243,735 | 1,593,851 | - | 15,677,102 |
| Precious metals | 978,040 | - | - | - | 978,040 |
| Loans and advances to banks, less allowance for impairment losses | 3,787,140 | 771,675 | 46,300,316 | 3,135,937 | 53,995,068 |
| Loans to customers, less allowance for impairment losses | 102,160,988 | 3,410,993 | 4,614,744 | 3,131,499 | 113,318,224 |
| Investments available-for-sale, less allowance for impairment loss | 448,024 | 29,910 | 400 | - | 478,334 |
| Fixed assets purchased for transfer into finance lease | 329,005 | - | - | - | 329,005 |
| Fixed assets, net | 6,705,873 | 8,699 | 8,605 | - | 6,723,177 |
| Current income tax assets | 484,129 | - | 178 | - | 484,307 |
| Other assets, less allowance for impairment losses | 1,542,533 | 17,329 | 57,602 | 523 | 1,617,987 |
| **TOTAL ASSETS** | **149,663,245** | **4,534,284** | **52,591,114** | **6,267,959** | **213,056,602** |
| **LIABILITIES** | | | | | |
| Deposits from banks | 4,958,186 | 1,355,137 | 3,640,321 | 1,185,384 | 11,139,028 |
| Customer accounts | 107,615,584 | 891,584 | 5,481,584 | 35,072,142 | 149,060,894 |
| Financial liabilities at fair value through profit or loss | 30,499 | - | 1,810,142 | - | 1,840,641 |
| Debt securities issued | 10,043,746 | 7,497 | 14,224,232 | 1768732 | 26,044,207 |
| Other provisions | 164,761 | - | 5091 | 4,877 | 174,729 |
| Current income tax liabilities | 10,225 | - | 930 | - | 11,155 |
| Deferred income tax liabilities | 914,416 | - | 11955 | - | 926,371 |
| Other liabilities | 988,144 | 13,671 | 35,036 | 2460 | 1,039,311 |
| **TOTAL LIABILITIES** | **124,725,561** | **2,267,889** | **25,209,291** | **38,033,595** | **190,236,336** |
| **NET POSITION** | **24,937,684** | **2,266,395** | **27,381,823** | **(31,765,636)** | |

| | Russia | Other CIS countries | OECD countries | Other non-OECD countries | 31 December 2004 RUR'000 Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and balances with Central and National banks | 28,264,632 | 96,460 | 6,071 | - | 28,367,163 |
| Financial assets at fair value through profit or loss | 10,134,010 | 682,920 | 4,354 | - | 10,821,284 |
| Precious metals | 69,342 | - | - | - | 69,342 |
| Loans and advances to banks, less allowance for impairment losses | 3,885,090 | 1,172,528 | 15,723,071 | 222,369 | 21,003,058 |
| Loans to customers, less allowance for impairment losses | 72,308,482 | 728,906 | 2,651,483 | 3,993,755 | 79,682,626 |
| Investments available-for-sale, less allowance for impairment loss | 1,937,346 | - | - | - | 1,937,346 |
| Fixed assets, net | 6,915,034 | 8,412 | 6,010 | - | 6,929,456 |
| Current income tax assets | 327,866 | - | - | - | 327,866 |
| Other assets, less allowance for impairment losses | 711,720 | 22,022 | 1,850 | - | 735,592 |
| **TOTAL ASSETS** | **124,553,522** | **2,711,248** | **18,392,839** | **4,216,124** | **149,873,733** |
| **LIABILITIES** | | | | | |
| Deposits from banks | 2,930,790 | 1,633,841 | 3,112,888 | 941,325 | 8,618,844 |
| Customer accounts and subordinated debt | 87,845,487 | 1,512,313 | 5,959,837 | 7,352,546 | 102,670,183 |
| Financial liabilities at fair value through profit or loss | 16,013 | - | 15,686 | - | 31,699 |
| Debt securities issued | 12,669,487 | 1,003 | 7,231,094 | - | 19,901,584 |
| Other provisions | 106,434 | 115,599 | 30,254 | - | 252,287 |
| Current income tax liabilities | 106,839 | - | - | - | 106,839 |
| Deferred income tax liabilities | 982,467 | - | - | - | 982,467 |
| Other liabilities | 864,604 | 2,556 | 17,102 | - | 884,262 |
| **TOTAL LIABILITIES** | **105,522,121** | **3,265,312** | **16,366,861** | **8,293,871** | **133,448,165** |
| **NET POSITION** | **19,031,401** | **(554,064)** | **2,025,978** | **(4,077,747)** | |

| | Russia | Other CIS countries | OECD countries | Other non-OECD countries | 31 December 2003 RUR'000 Total |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and balances with Central and National banks | 21,389,015 | 119,175 | 5,710 | - | 21,513,900 |
| Financial assets at fair value through profit or loss | 10,586,428 | - | 81,527 | - | 10,667,955 |
| Precious metals | 39,170 | - | - | - | 39,170 |
| Loans and advances to banks, less allowance for impairment losses | 3,936,515 | 176,955 | 6,631,924 | 2,998 | 10,748,392 |
| Loans to customers, less allowance for impairment losses | 55,349,803 | 1,159,507 | 1,802,008 | 3,094,843 | 61,406,161 |
| Investments available-for-sale, less allowance for impairment loss | 7,785,926 | 1,281 | 431 | - | 7,787,638 |
| Securities held-to-maturity | 132,787 | - | - | - | 132,787 |
| Fixed assets, net | 2,384,482 | 6,328 | 6,200 | - | 2,397,010 |
| Current income tax assets | 98,202 | - | - | - | 98,202 |
| Other assets, less allowance for impairment losses | 624,182 | 8,526 | 3,804 | - | 636,512 |
| **TOTAL ASSETS** | **102,326,510** | **1,471,772** | **8,531,604** | **3,097,841** | **115,427,727** |
| **LIABILITIES** | | | | | |
| Deposits from banks | 4,194,981 | 2,428,760 | 503,402 | 736,363 | 7,863,506 |
| Customer accounts | 62,772,517 | 130,199 | 3,759,408 | 9,947,892 | 76,610,016 |
| Financial liabilities at fair value through profit or loss | 8,701 | - | - | - | 8,701 |
| Debt securities issued | 18,224,705 | - | - | - | 18,224,705 |
| Other provisions | 357,602 | - | - | - | 357,602 |
| Current income tax liabilities | 294,269 | - | - | - | 294,269 |
| Deferred income tax liabilities | 87,797 | - | - | - | 87,797 |
| Other liabilities | 677,161 | 5,767 | 14,461 | - | 697,389 |
| **TOTAL LIABILITIES** | **86,617,733** | **2,564,726** | **4,277,271** | **10,684,255** | **104,143,985** |
| **NET POSITION** | **15,708,777** | **(1,092,954)** | **4,254,333** | **(7,586,414)** | |

# ROSBANK Group

**Consolidated and Combined**
**Interim Condensed**
**Financial Statements**
3 Months Ended 31 March 2006 and 2005
(Unaudited)

## ROSBANK GROUP

### CONSOLIDATED AND COMBINED INTERIM CONDENSED INCOME STATEMENTS FOR THE 3 MONTHS ENDED 31 MARCH 2006 AND 2005

| | Notes | 3 months ended 31 March 2006 RUR'000 (unaudited) | 3 months ended 31 March 2005 RUR'000 (unaudited) |
|---|---|---|---|
| Interest income | 4,29 | 5,640,815 | 4,164,369 |
| Interest expense | 4,29 | (2,970,871) | (2,557,005) |
| NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS | | 2,669,944 | 1,607,364 |
| (Provision)/recovery of provision for impairment losses on interest bearing assets | 5,29 | (706,432) | 94,448 |
| NET INTEREST INCOME | | 1,963,512 | 1,701,812 |
| Net gain on financial assets at fair value through profit or loss | 6,29 | 752,098 | 326,853 |
| Net gain on sale of investments available-for-sale | | - | 26,249 |
| Net (loss)/gain on foreign exchange operations | | (38,502) | 80,323 |
| Net gain on precious metals operations | | 78,016 | 2,565 |
| Fee and commission income | 7,29 | 1,129,819 | 763,768 |
| Fee and commission expense | 7,29 | (252,762) | (176,735) |
| Dividend income | 29 | 38,516 | 16,530 |
| Other income | 8,29 | 399,540 | 266,791 |
| NET NON-INTEREST INCOME | | 2,106,725 | 1,306,344 |
| OPERATING INCOME | | 4,070,237 | 3,008,156 |
| OPERATING EXPENSES | 9,29 | (2,811,458) | (2,191,035) |
| OPERATING PROFIT | | 1,258,779 | 817,121 |
| Other provisions | 5 | (101,927) | (65,534) |
| PROFIT BEFORE INCOME TAX | | 1,156,852 | 751,587 |
| Income tax expense | 10 | (496,745) | (318,850) |
| NET PROFIT | | 660,107 | 432,737 |
| Attributable to: | | | |
| Equity holders of the parent | | 660,440 | 487,272 |
| Minority interest | | (333) | (54,535) |
| | | 660,107 | 432,737 |
| EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT | | | |
| Basic and diluted (in RUR) | 11 | 0.97 | 1.43 |

**On behalf of the Board:**

**Chairman of the Management Board**

2 June 2006
Moscow

**Chief Financial Officer**

2 June 2006
Moscow

## ROSBANK GROUP

### CONSOLIDATED BALANCE SHEETS
### AS OF 31 MARCH 2006 (INTERIM CONDENSED) AND 31 DECEMBER 2005

| | Notes | 31 March 2006 RUR'000 (unaudited) | 31 December 2005 RUR'000 |
|---|---|---|---|
| **ASSETS:** | | | |
| Cash and balances with Central and National banks | 12 | 18,875,155 | 19,455,358 |
| Financial assets at fair value through profit or loss | 13,29 | 12,980,644 | 15,677,102 |
| Precious metals | 14 | 1,346,569 | 978,040 |
| Loans and advances to banks | 15,29 | 56,349,463 | 53,995,068 |
| Loans to customers, less allowance for impairment losses | 17,29 | 123,739,540 | 113,318,224 |
| Investments available-for-sale, less allowance for impairment losses | 18 | 359,355 | 478,334 |
| Fixed assets purchased for transfer into finance lease | | 490,430 | 329,005 |
| Fixed assets, net | 19 | 6,767,208 | 6,723,177 |
| Current income tax assets | | 529,046 | 484,307 |
| Other assets, less allowance for impairment losses | 20 | 1,281,650 | 1,617,987 |
| Total assets | | **222,719,060** | **213,056,602** |
| **LIABILITIES AND EQUITY** | | | |
| LIABILITIES: | | | |
| Deposits from banks | 21 | 15,213,208 | 11,139,028 |
| Customer accounts | 22,29 | 152,426,871 | 149,060,894 |
| Financial liabilities at fair value through profit or loss | 23 | 2,243,185 | 1,840,641 |
| Debt securities issued | 24 | 26,896,961 | 26,044,207 |
| Other provisions | 5,29 | 217,969 | 174,729 |
| Current income tax liabilities | | 50,465 | 11,155 |
| Deferred income tax liabilities | 10 | 951,484 | 926,371 |
| Other liabilities | 25 | 1,312,321 | 1,039,311 |
| Total liabilities | | **199,312,464** | **190,236,336** |
| EQUITY: | | | |
| Share capital | 26 | 8,876,500 | 8,876,500 |
| Share premium | 26 | 9,177,470 | 9,177,470 |
| Translation reserve | | (44,881) | (82,280) |
| Revaluation reserve | | 2,975,402 | 2,993,114 |
| Reorganization reserve | | 1,816,991 | 1,881,029 |
| Retained earnings/(accumulated deficit) | | 459,898 | (245,266) |
| Equity attributable to equity holders of the parent | | 23,261,380 | 22,600,567 |
| Minority interest | | 145,216 | 219,699 |
| Total equity | | **23,406,596** | **22,820,266** |
| TOTAL LIABILITIES AND EQUITY | | **222,719,060** | **213,056,602** |

**On behalf of the Board:**

**Chairman of the Management Board**

2 June 2006
Moscow

**Chief Financial Officer**

2 June 2006
Moscow

## ROSBANK GROUP

### CONSOLIDATED AND COMBINED INTERIM CONDENSED STATEMENTS OF CHANGES IN EQUITY FOR THE 3 MONTHS ENDED 31 MARCH 2006 AND 2005

| | Share capital | Share premium | Translation reserve | Revaluation reserve | Reorganization reserve | (Accumulated deficit)/ retained earnings | Equity attributable to equity holders of the parent | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | RUR'000 | RUR'000 | RUR'000 | RUR'000 | RUR'000 | RUR'000 | RUR'000 | RUR'000 | RUR'000 |
| **31 December 2004** | **8,083,306** | **6,445,058** | **(62,387)** | **3,095,261** | **-** | **(1,229,819)** | **16,331,419** | **94,149** | **16,425,568** |
| Changes in translation reserve | - | - | (941) | - | - | - | (941) | - | (941) |
| Fixed assets disposal (net of deferred tax credit of RUR 59,000 thousand) | - | - | - | (119,561) | - | 119,561 | - | - | - |
| Group reorganization | (189,600) | - | - | - | - | 65,984 | (123,616) | 27,342 | (96,274) |
| Net profit | - | - | - | - | - | 487,272 | 487,272 | (54,535) | 432,737 |
| **31 March 2005 (unaudited)** | **7,893,706** | **6,445,058** | **(63,328)** | **2,975,700** | **-** | **(557,002)** | **16,694,134** | **66,956** | **16,761,090** |
| **31 December 2005** | **8,876,500** | **9,177,470** | **(82,280)** | **2,993,114** | **1,881,029** | **(245,266)** | **22,600,567** | **219,699** | **22,820,266** |
| Changes in translation reserve | - | - | 37,399 | - | - | - | 37,399 | - | 37,399 |
| Fixed assets disposal (net of deferred tax credit of RUR 498 thousand) | - | - | - | (17,712) | - | 17,712 | - | - | - |
| Group reorganization | - | - | - | - | (64,038) | 27,012 | (37,026) | (74,150) | (111,176) |
| Net profit | - | - | - | - | - | 660,440 | 660,440 | (333) | 660,107 |
| **31 March 2006 (unaudited)** | **8,876,500** | **9,177,470** | **(44,881)** | **2,975,402** | **1,816,991** | **459,898** | **23,261,380** | **145,216** | **23,406,596** |

**On behalf of the Board:**

**Chairman of the Management Board**

2 June 2006
Moscow

**Chief Financial Officer**

2 June 2006
Moscow

## CONSOLIDATED AND COMBINED INTERIM CONDENSED STATEMENTS OF CASH FLOWS FOR THE 3 MONTHS ENDED 31 MARCH 2006 AND 2005

| | Notes | 3 months ended 31 March 2006 RUR'000 (unaudited) | 3 months ended 31 March 2005 RUR'000 (unaudited) |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Profit before income tax | | 1,156,852 | 751,587 |
| Provision/(recovery of provision) for impairment losses on interest bearing assets | | 706,432 | (94,448) |
| Other provisions | | 101,927 | 65,534 |
| Depreciation charge on fixed assets | | 101,878 | 109,703 |
| Fixed assets impairment | | - | 2,000 |
| Net change in value of derivatives and spot deals | | 165,940 | 11,324 |
| Net change in interest and other accruals | | (330,993) | (153,024) |
| Net unrealized (gain)/loss on financial assets at fair value through profit or loss | | (531,650) | 92,162 |
| Net foreign currency revaluation (gain)/loss | | (194,232) | 12,931 |
| Cash flow from operating activities before changes in operating assets and liabilities | | 1,176,154 | 797,769 |
| Changes in operating assets and liabilities | | | |
| (Increase)/decrease in operating assets: | | | |
| Minimum reserve deposit with the Central and National Banks | | (281,150) | (970,339) |
| Financial assets at fair value through profit or loss | | (1,971,312) | (239,540) |
| Precious metals | | (267,383) | (228,797) |
| Loans and advances to banks | | (8,913,365) | (907,650) |
| Loans to customers | | (12,366,858) | (944,422) |
| Purchase of fixed assets for transfer into finance lease | | (161,425) | - |
| Other assets | | 355,823 | 376,453 |
| (Decrease)/increase in operating liabilities: | | | |
| Deposits from banks | | 4,097,660 | 525,136 |
| Customer accounts | | 5,756,832 | 2,613,357 |
| Financial liabilities at fair value through profit or loss | | 112,992 | 226,846 |
| Other liabilities | | 192,735 | (257,938) |
| Cash (outflow)/inflow from operating activities before taxation | | (12,269,297) | 990,875 |
| Income tax paid | | (476,299) | (266,436) |
| Net cash (outflow)/inflow from operating activities | | (12,745,596) | 724,439 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Purchase of fixed assets | | (170,773) | (119,009) |
| Proceeds on sale of fixed assets | | 24,864 | 283,992 |
| Purchase of subsidiaries, net of cash acquired | | (100,494) | - |
| Sale of investments available-for-sale, net | | 62,301 | 594,325 |
| Net cash (outflow)/inflow from investing activities | | (184,102) | 759,308 |

## CONSOLIDATED AND COMBINED INTERIM CONDENSED STATEMENTS OF CASH FLOWS FOR THE 3 MONTHS ENDED 31 MARCH 2006 AND 2005

| | Notes | 3 months ended 31 March 2006 RUR'000 (unaudited) | 3 months ended 31 March 2005 RUR'000 (unaudited) |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Proceeds from debt securities issued, net | | 1,930,863 | 2,217,573 |
| Net cash inflows from financing activities | | 1,930,863 | 2,217,573 |
| Effect of exchange rate changes on cash and cash equivalents | | (1,538,229) | (116,281) |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | | (12,537,064) | 3,585,039 |
| CASH AND CASH EQUIVALENTS, beginning of the period | 12 | 66,822,582 | 41,515,670 |
| CASH AND CASH EQUIVALENTS, end of the period | 12 | 54,285,518 | 45,100,709 |

Interest received and paid by the Group during the 3 months ended 31 March 2006 amounted to RUR 5,667,138 thousand and RUR 3,424,589 thousand, respectively.

Interest received and paid by the Group during the 3 months ended 31 March 2005 amounted to RUR 4,093,742 thousand and RUR 2,639,402 thousand, respectively.

**On behalf of the Board:**

**Chairman of the Management Board**

2 June 2006
Moscow

**Chief Financial Officer**

2 June 2006
Moscow

## 1. ORGANISATION

ROSBANK (initially named "Nezavisimost") is a joint stock bank which was incorporated in the Russian Federation in 1993. Over the subsequent five years, ROSBANK customers were mainly comprised of medium-sized trade, finance and technology companies for which it conducted a variety of activities, including corporate lending, settlement, government bond trading, foreign exchange and money market transactions. In 1998 ROSBANK was acquired by the Interros Group with the initial purpose of providing banking services to Interros Group companies. In 2000 ROSBANK acquired Uneximbank which was merged into ROSBANK and ceased to exist as a legal entity. In 2002 ROSBANK and Commercial Bank "MFK Bank", specializing in investment banking, were consolidated. In 2003 the Interros Group acquired OVK group – one of Russia's largest retail banking institutions. The integration of OVK with ROSBANK has transformed ROSBANK into a financial institution capable of offering universal services.

ROSBANK is regulated by the Central Bank of the Russian Federation (the "CBR") and conducts its business under license number 2272. ROSBANK is engaged in a full range of banking activities, including commercial and investment banking and custodial services.

The registered office of ROSBANK is located at 11, Masha Poryvaeva Street, Moscow, 107078, Russian Federation.

As of 31 March 2006 ROSBANK had 68 branches in the Russian Federation.

ROSBANK is the parent company of the banking group which consists of the following enterprises:

| Name | Country of incorporation | Group's ownership interest/voting rights, % | Type of operations |
|---|---|---|---|
| Rosbank (Switzerland) SA | Switzerland | 100/100 | Banking |
| Rosbank International Finance BV | The Netherlands | 100/100 | Issue of Eurobonds |
| RosInvest SA | Luxembourg | 99.97/99.97 | Reorganization of UNEXIM Finance Company |
| Belrosbank | Byelorussia | 80.77/80.77 | Banking |
| Russia International Card Finance S.A. | Luxembourg | 0/100 (Contractual agreement) | Issue of Eurobonds |
| Rosbank Finance S.A | Luxembourg | 100/100 | Issue of Eurobonds |
| BaikalROSBANK JSC | Russia | 90.61/90.61 | Banking |
| ROSBANK-VOLGA CJSC | Russia | 100/100 | Banking |
| RB Finance CJSC | Russia | 100/100 | Operations with securities |
| Processing Company NICKEL LLC | Russia | 100/100 | Processing of card operations |
| RB LEASING LLC | Russia | 40/100 | Leasing |
| INKAHRAN OJSC | Russia | 100/100 | Cash collection services |

The following enterprises were included in the financial statements as of 31 March 2005 on a combined basis, as such entities were under common control of ROSBANK's shareholders (Interros). These entities had all been acquired by ROSBANK at the end of 2005 and were therefore, consolidated as of 31 March 2006.

| | | Interros's ownership interest/ voting power, % | |
|---|---|---|---|
| Bank Pervoe OVK JSC | Russia | 96.58/100 | Banking |
| Bank Sibirskoe OVK JSC | Russia | 97.32/100 | Banking |
| Bank Povolzhskoe OVK JSC | Russia | 99.13/100 | Banking |
| Bank Centralnoe OVK JSC | Russia | 99.91/100 | Banking |
| Bank Dalnevostochnoe OVK JSC | Russia | 100/100 | Banking |
| Bank Privolzhskoe OVK LLC | Russia | 100/100 | Banking |
| Kapital i zdanie OJSC | Russia | 100/100 | Real estate operations |
| Art Heiser LLC | Russia | 100/100 | Real estate operations |
| Petrovsky Dom-XXI vek LLC | Russia | 100/100 | Real estate operations |
| TOR-Service CJSC | Russia | 100/100 | Office buildings administration |
| PMD Service LLC | Russia | 100/100 | Lease services |
| TD Druzhba LLC | Russia | 100/100 | Other services |
| AVTO LLC | Russia | 100/100 | Transportation services |
| RB Securities LLC | Russia | 100/100 | Operations with securities |
| AVD LLC | Russia | 100/100 | Recovery of bad debts |
| AVD Ekaterinburg LLC | Russia | 100/100 | Recovery of bad debts |
| AVD Saratov LLC | Russia | 100/100 | Recovery of bad debts |
| Dalnevostotnoe AVD LLC | Russia | 100/100 | Recovery of bad debts |
| AVD Krasnoyarsk LLC | Russia | 100/100 | Recovery of bad debts |
| AVD St-Peterburg LLC | Russia | 100/100 | Recovery of bad debts |
| AVD Krasnodar LLC | Russia | 100/100 | Recovery of bad debts |

In 2006 ROSBANK acquired additional 3.42% of shares of Bank Pervoe OVK JSC and 1.09% of shares of Bank Povolzhskoe OVK JSC from Interros.

In 2003 JSC "Interros estate", the major shareholder of the Group, purchased a controlling interest in OVK group. OVK group consisted of 6 commercial banks and other financial and service companies. The main activity of these banks is retail banking. The management of ROSBANK has commenced the process of integrating the operations of OVK with those of ROSBANK and, on 26 January 2004, the CBR approved ROSBANK's proposed plan of consolidation. The integration of banks as large as OVK group requires extensive management, personnel and monetary resources. The integration was completed at the end of 2005, prior to which time management was faced with modernisation of the OVK group network, integrating its operations and personnel with those of ROSBANK, merging its information technology systems with those of ROSBANK, and implementing group-wide financial and management information systems and controls. OVK group was acquired by ROSBANK and the Group reorganization was completed by the end of 2005.

Interros controlled OVK group and had the ability to obtain economic benefits from the banks since the end of 2003. Therefore, combined financial statements are prepared as of 31 March 2005 to ensure comparability with 31 March 2006. Since ROSBANK acquired OVK group and obtained control of OVK group at the end of 2005, the financial statements as of 31 March 2006 were prepared on a consolidated basis.

As of 31 March 2006, the following shareholders owned the issued shares of ROSBANK:

| **Shareholder** | **%** |
|---|---|
| KM TECHNOLOGIES (OVERSEAS) LIMITED | 97.26% |
| Others | 2.74% |
| Total | 100.00% |

As of 31 March 2006, the ultimate shareholders of the Group are:

| Shareholder | % |
|---|---|
| Mr. Potanin V. O. | 48.58% |
| Mr. Prokhorov M. D. | 48.58% |
| Others | 2.84% |
| Total | 100.00% |

## 2. BASIS OF PRESENTATION

### Accounting basis

These consolidated and combined interim condensed financial statements of the Group have been prepared in accordance with International Accounting Standard 34 ("IAS 34") ("financial statements"). Accordingly, they do not include all of the information required by IFRS for complete financial statements. These financial statements are presented in thousands of Russian Roubles ("RUR"), unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments and fixed assets and according to International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). Hyperinflation ceased to exist in Russia from 1 January 2003.

Operating results for the three months ended 31 March 2006 are not necessarily indicative of the results that may be expected for the year ended 31 December 2006. The Bank and its subsidiaries maintain their accounting records in accordance with regulations applicable in their country of registration. These financial statements are based on those accounting books and records, as adjusted and reclassified to comply with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34").

These interim condensed consolidated financial statements should be read in conjunction with the complete consolidated and combined financial statements as of 31 December 2005. Other than the effect of adoption of new IFRS and revision of existing IAS, as described below, the Group followed the same accounting policies and methods of computation as compared with those applied in the consolidated financial statements at 31 December 2005 and for the year then ended.

Entities incorporated in the Russian Federation maintain their accounting records in accordance with Russian law. Other companies of the Group maintain their accounting records in accordance with statutory accounting standards generally accepted in the countries where they operate. For the purpose of incorporation in the financial statements, the individual financial statements of entities included in the Group prepared under the statutory accounting standards generally accepted in the countries of their origin have been adjusted to conform with IAS 34. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions.

The preparation of financial statements in conformity with IAS 34 requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for impairment losses and the fair value of financial instruments.

**Key assumptions**

Key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period include:

| | 31 March 2006 RUR'000 |
|---|---|
| Loans to customers, less allowance for impairment losses | 123,739,540 |
| Investments available-for-sale, less allowance for impairment losses | 359,355 |
| Fixed assets, net | 6,767,208 |

Loans to customers and investments available-for-sale are measured at amortised cost/cost less allowance for impairment losses. The estimation of allowance for impairment losses involves an exercise of judgement. It is impracticable to assess the extent of the possible effects of key assumptions or other sources of uncertainty on these balances at the balance sheet date.

Certain fixed assets (buildings) are measured at revalued amounts and the date of the latest appraisal was 31 December 2004. Management believes that the next revaluation of fixed assets existing as of 31 March 2006 would not be materially different in the next financial period from the carrying balance. Next appraisal is due on 31 December 2006.

Discussion of taxation is presented in Note 27.

**Functional currency**

The functional currency of these financial statements is the Russian Rouble.

## 3. SIGNIFICANT ACCOUNTING POLICIES

**Basis of consolidation/combination**

The financial statements incorporate the financial statements of ROSBANK, entities controlled by ROSBANK (its subsidiaries) and entities under common control made up to the end of each period. Control is achieved where there is the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

For combination purposes, assets, liabilities and all equity balances are added together without any minority interest, except for inter-group balances and transactions as discussed below.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition, unless a business combination involves entities or business under common control. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Goodwill is assessed at least annually for impairment. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the period of acquisition.
The minority interest is stated at the minority's proportion of the fair values of assets and liabilities recognised. Subsequently, any losses applicable to minority interest in excess of minority interest are allocated against the interests of the parent. For a business combination involving entities or business under common control, all assets and liabilities of a subsidiary are measured at historical/fair value according to subsidiary stand-alone IFRS financial statements. The residual balance is recognized as "reorganization reserve" in the financial statements.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated and combined income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of individual entities included in the financial statements to bring the accounting policies used into line with those used by the Group.

In translating the financial statements of a foreign subsidiary into the presentation currency for incorporation in the financial statements, the Group follows a translation policy in accordance with International Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates" ("IAS 21") and the following procedures are performed:

- Assets and liabilities, both monetary and non-monetary, of the foreign entity are translated at the closing rate;
- Income and expense items of the foreign entity are translated at exchange rates at the date of respective transactions;
- All resulting exchange differences are classified as equity until the disposal of the investment;
- On disposal of the investment in the foreign entity related exchange differences are recognized in the consolidated and combined income statement.

All intra-group transactions, balances, income and expenses are eliminated on consolidation and combination.

**Recognition and measurement of financial instruments**

The Group recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities, except for investments available-for-sale, are recognized using settlement date accounting. Regular way purchases and sale of investments available-for-sale are recognized using trade date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as that for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the Central Bank of the Russian Federation and National Banks, with original maturity within 90 days, loans and advances to banks in countries included in the Organization for Economic Co-operation and Development ("OECD"), except for margin deposits for operations with plastic cards as well as Trading Government debt securities, which may be converted to cash within a short period of time. For purposes of determining cash flows, the minimum reserve deposits required by the Central Bank of the Russian Federation and National Banks is not included as a cash equivalent due to restrictions on its availability. Starting 1 January 2006 the Group changed accounting policy with regard to exclusion of precious metals from cash and cash equivalents.

**Precious metals**

Assets and liabilities denominated in precious metals are measured at fair value which is determined at the current rate computed based on the second fixing of the London Bullion Market rates using the RUR/USD exchange rate effective at the date. Changes in the bid prices are recorded in net gain on operations with precious metals in the income statement.

**Loans and advances to banks**

In the normal course of business, the Group maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Amounts due from credit institutions are carried net of any allowance for impairment losses.

**Financial assets/liabilities at fair value through profit or loss**

Financial assets/liabilities at fair value through profit or loss represent assets/liabilities acquired/incurred principally for the purpose of selling/settlement in the near term, or it is a part of portfolio of a identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit-taking, or as a derivative, or financial asset/liability which upon initial recognition is designated by the Group at fair value through profit or loss. Financial assets/liabilities at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Group uses quoted market prices to determine fair value for the Group's financial assets/liabilities at fair value through profit or loss. Fair value adjustment on financial assets/liabilities at fair value through profit or loss is recognized in the income statement for the period.

**Repurchase and reverse repurchase agreements**

The Group enters into sale and purchase back agreements ("repos") and purchase and sale back agreements ("reverse repos") in the normal course of its business. Repos and reverse repos are utilized by the Group as an element of its treasury management and trading business.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the financial statements and consideration received under these agreements is recorded as collateralized deposit received.

Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit which is collateralized by securities and other assets.

In the event that assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gains/ (losses) on respective assets. Any related income or expense arising from the pricing difference between purchase and sale of the underlying assets is recognized as interest income or expense.

**Derivative financial instruments**

The Group enters into derivative financial instruments to manage currency and liquidity risks and such financial instruments are held primarily for trading purposes. Derivatives entered into by the Group include forwards and swaps.

Derivative financial instruments are initially recorded and subsequently measured at fair value. Most of the derivatives the Group enters into are of a short-term and trading nature. The results of the valuation of derivatives are reported in assets (aggregate of positive market values) or liabilities (aggregate of negative market values), respectively. Both positive and negative valuation results are recognized in the income statement for the period in which they arise under net gain/(loss) on respective transactions.

**Originated loans**

Loans originated by the Group are financial assets that are created by the Group by providing money directly to a borrower or by participating in a loan facility.

Loans granted by the Group with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the income statement as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

**Purchased loans**

Loans acquired from another lender subsequent to the origination date are either classified as loans or as available-for-sale investments on initial recognition. Purchased loans classified as loans are initially recognized at fair value and subsequently measured at amortised cost using the effective interest method. For purchased loans classified as available-for-sale investments, fair value is based on an active market or on a discounted cash flow ("DCF") model. If market price is not available and the DCF model is not practicable, the price for similar assets is used.

**Write off of loans and advances**

Loans and advances are written off against allowance for impairment losses when estimated to be uncollectible, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. The excess of cash received on such sale over the outstanding debt is returned to the debtor. The decision on writing off bad debt against allowance for impairment losses for all major, preferential, unsecured and insider loans is required to be confirmed by a procedural document of judicial or notary bodies certifying that at the time of the decision the debt could not be repaid (partially repaid) with the debtor's funds.

**Non-accrual loans**

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**Allowance for impairment losses**

The Group establishes an allowance for impairment losses of financial assets that are not carried at fair value when there is objective evidence that a financial asset or group of financial assets is impaired. The allowance for impairment losses is measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate, for financial assets which are carried at amortised cost. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. For financial assets carried at cost the allowance for impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The determination of the allowance for impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of risk assets for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

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

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

**Finance leases**

Leases that transfer substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The lease classified as finance lease if:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of a specialized nature such that only the lessee can use them without major modifications being made.

**Group as lessor**

The Group presents leased assets as loans equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are recognized as expenses when incurred.

**Investments available-for-sale**

Investments available-for-sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at fair value. Subsequently the securities are measured at fair value, with such re-measurement recognized directly in equity until sold when gain/loss previously recorded in equity recycles through the income statement, plus accrued coupon income recognized in the consolidated and combined income statement for the period as interest income on investment securities. The Group uses quoted market prices to determine the fair value for the Group's investments available-for-sale. If the market for investments is not active, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. Dividends received are included in dividend income in the consolidated and combined income statement.

Non-marketable debt and equity securities are stated at amortized cost and cost, respectively, less impairment losses, unless fair value can be reliably measured.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognized in the income statement for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognized in the income statement for the period. Reversals of such impairment losses on equity instruments are not recognized in the income statement.

**Fixed assets**

Fixed assets, except for buildings, acquired after 1 January 2003 are carried at historical cost less accumulated depreciation and any recognised impairment loss. Fixed assets, acquired before 1 January 2003, except for buildings, are carried at historical cost restated for inflation less accumulated depreciation and any recognised impairment loss. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

The carrying amounts of fixed assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for fixed assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Depreciation of fixed assets is charged on the carrying value of fixed assets and is designed to write off assets over their useful economic lives. It is calculated on a straight line basis at the following annual rates:

| | |
|---|---|
| Buildings | 2% |
| Leasehold improvements | Over the period of lease |
| Equipment | 20% |
| Intangible assets | Over useful life of 3-10 years |

Buildings held for use in supply of services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional valuers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Three approaches were used to estimate the market value of property:

- The sales comparison approach based on the analysis of sales prices for similar properties in the market;
- The income approach that assumes direct relationship between income generated by the property and its market value; and
- The cost approach under which the value of property equals the replacement cost adjusted for depreciation.

Any revaluation increase arising on the revaluation of such buildings is credited to the fixed assets revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to income. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

**Taxation**

Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the period. Taxable profit differs from net profit as reported in the consolidated and combined income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

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

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

Countries where the Group operates also have various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated and combined income statement.

**Deposits from banks and customers**

Customer and bank deposits are initially recognized at fair value, which amounts to the issue proceeds less transaction costs incurred. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated and combined income statement over the period of the borrowings using the effective interest method.

**Debt securities issued**

Debt securities issued represent promissory notes, certificates of deposit and debentures issued by the Group. They are accounted for according to the same principles used for customer and bank deposits.

**Provisions**

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

**Financial guarantee contracts issued and letters of credit**

Financial guarantee contracts and letters of credit issued by the Group are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

**Contingent assets**

Contingent assets from financial guarantees received arise when the Bank has indicators of a loss incurred because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. The contingent asset is disclosed where an inflow of economic benefits is probable. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs.

**Share capital and share premium**

Contributions to share capital and share premium, made before 1 January 2003, are recognized at their cost restated for inflation. Contributions to share capital and share premium made after 1 January 2003 are recognized at cost. Share premium represents the excess of contributions over the nominal value of shares issued. Gains and losses on sales of treasury stock are charged or credited to share premium.

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under International Accounting Standard 10 "Events after the Balance Sheet Date" ("IAS 10") and disclosed accordingly.

**Retirement and other benefit obligations**

The Group does not have any pension arrangements separate from the State pension system of the Russian Federation and other countries, which require current contributions by the Group calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by pension funds selected by employees. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

On 26 January 2006 shareholders of ROSBANK cancelled share option plan approved on 25 January 2006.

**Recognition of income and expense**

Interest income and expense are recognized on an accrual basis using the effective interest method. Interest income also includes income earned on investments in securities. Fee and commission income includes loan origination fees, loan commitment fees and loan servicing fees. Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan in interest income. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan in interest income. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit and loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized

in profit and loss on expiry. Loan servicing fees are recognized as revenue as services are provided. Other income is credited to the consolidated and combined income statement when the related transactions are completed. Commission income for the guarantees issued is deferred and recognised as revenue on a time proportion basis over the period of guarantees. Commission expense for guarantees received is deferred and recognised as expense on a time proportion basis over the period of guarantees. All other commissions are recognized when services are provided.

**Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated into Russian Roubles at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing on the date of the transaction. Profits and losses arising from these translations are included in net (loss)/gain on foreign exchange operations.

**Rates of exchange**

The exchange rates at period-end used by the Group in the preparation of the financial statements are as follows:

| | 31 March 2006 | 31 December 2005 | 31 March 2005 |
|---|---|---|---|
| RUR/1 US Dollar | 27.7626 | 28.7825 | 27.8256 |
| RUR/1 Euro | 33.4734 | 34.1850 | 36.0564 |
| RUR/Gold (1 ounce) | 16,157.83 | 14,765.42 | 11,895.44 |
| RUR/Platinum (1 ounce) | 29,872.56 | 27,746.33 | 24,041.32 |

**Offset of financial assets and liabilities**

Financial assets and liabilities are offset and reported net on the balance sheet when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability.

**Fiduciary activities**

The Group provides trustee services to its customers. Also the Group provides depositary services to its customers that include transactions with securities on their depo accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

**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 per cent or more of all the segments are reported separately. Geographical segments of the Group have been reported separately within these consolidated and combined financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

**Adoption of new standards**

The Group provided an assessment of the effect of changes on its financial position and results of operations reported under IFRS which would become effective for accounting periods beginning on or after 1 January 2006.

As of 1 January 2006 the International Accounting Standards Board amended the scope of IAS 39 "Financial Instruments: Recognition and Measurement" to include financial guarantee contracts issued and remove them from IFRS 4 "Insurance Contracts". Under IAS 39 financial guarantee contracts issued are accounted and disclosed in the same way as under IFRS 4, therefore the effect of this change on the financial statements of the Group is not significant.

## 4. NET INTEREST INCOME

| | 3 months ended 31 March 2006 RUR'000 | 3 months ended 31 March 2005 RUR'000 |
|---|---|---|
| **Interest income** | | |
| Interest on loans to individuals | 2,825,927 | 1,446,503 |
| Interest on loans to corporate customers | 2,060,504 | 1,834,540 |
| Interest on loans and advances to banks | 492,732 | 551,127 |
| Interest on debt securities | 196,241 | 325,848 |
| Interest on reverse repurchase transactions | 65,411 | 6,351 |
| **Total interest income** | **5,640,815** | **4,164,369** |
| **Interest expense** | | |
| Interest on corporate customer accounts | 1,375,419 | 787,397 |
| Interest on deposits from individuals | 1,172,250 | 905,732 |
| Interest on debt securities issued | 222,623 | 589,859 |
| Interest on repurchase transactions | 112,446 | 6,107 |
| Interest on deposits from banks | 88,133 | 267,910 |
| **Total interest expense** | **2,970,871** | **2,557,005** |
| **Net interest income before (provision)/recovery of provision for impairment losses on interest bearing assets** | **2,669,944** | **1,607,364** |

## 5. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

The movements in allowance for impairment losses on interest-bearing assets were as follows:

| | Loans and advances to banks RUR'000 | Loans and advances to customers RUR'000 | Total RUR'000 |
|---|---|---|---|
| **31 December 2004** | **12,206** | **4,920,866** | **4,933,072** |
| Recovery of provision | (12,206) | (82,242) | (94,448) |
| Write-offs | - | (8,948) | (8,948) |
| Provision in acquired subsidiaries at acquisition date | - | 16,056 | 16,056 |
| **31 March 2005** | **-** | **4,845,732** | **4,845,732** |
| **31 December 2005** | **-** | **5,887,635** | **5,887,635** |
| Provision | - | 706,432 | 706,432 |
| Write-offs | - | (96,876) | (96,876) |
| **31 March 2006** | **-** | **6,497,191** | **6,497,191** |

The movements in other provisions were as follows:

| | Investments available-for-sale | Other assets | Provisions for financial guarantees issued, claims and other commitments | Total |
|---|---|---|---|---|
| | RUR'000 | RUR'000 | RUR'000 | RUR'000 |
| **31 December 2004** | **127,545** | **34,930** | **252,287** | **414,762** |
| Provision | 7,307 | 4,590 | 53,637 | 65,534 |
| Write-offs | (235) | (32) | (94,468) | (94,735) |
| **31 March 2005** | **134,617** | **39,488** | **211,456** | **385,561** |
| **31 December 2005** | **119,804** | **9,888** | **174,729** | **304,421** |
| Provision/(recovery of provision) | 53,371 | (514) | 49,070 | 101,927 |
| Write-offs | (2,624) | (1,649) | (5,830) | (10,103) |
| **31 March 2006** | **170,551** | **7,725** | **217,969** | **396,245** |

Provisions for impairment losses on assets are deducted from the respective assets. Provision for off-balance sheet transactions are recorded in liabilities.

## 6. NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain on financial assets at fair value through profit or loss comprises:

| | 3 months ended 31 March 2006 RUR'000 | 3 months ended 31 March 2005 RUR'000 |
|---|---|---|
| Net realised gain on operations with financial assets at fair value through profit or loss | 220,448 | 419,015 |
| Net unrealised gain/(loss) on operations with financial assets at fair value through profit or loss | 531,650 | (92,162) |
| **Total net gain on financial assets at fair value through profit or loss** | **752,098** | **326,853** |

## 7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

| | 3 months ended 31 March 2006 RUR'000 | 3 months ended 31 March 2005 RUR'000 |
|---|---|---|
| **Fee and commission income:** | | |
| Settlements | 424,571 | 295,516 |
| Cash operations | 325,731 | 141,778 |
| Credit cards operations | 201,900 | 51,859 |
| Depository and securities operations | 74,917 | 75,127 |
| Documentary operations | 42,645 | 28,546 |
| Foreign exchange operations | 15,460 | 61,748 |
| Other operations | 44,595 | 109,194 |
| **Total fee and commission income** | **1,129,819** | **763,768** |

| | 3 months ended 31 March 2006 RUR'000 | 3 months ended 31 March 2005 RUR'000 |
|---|---|---|
| **Fee and commission expense:** | | |
| Credit cards operations | 158,037 | 81,940 |
| Foreign exchange operations | 37,084 | 4,674 |
| Depository and securities operations | 22,136 | 23,035 |
| Cash operations | 12,897 | 9,861 |
| Settlements | 12,128 | 39,750 |
| Other operations | 10,480 | 17,475 |
| **Total fee and commission expense** | **252,762** | **176,735** |

## 8. OTHER INCOME

Other income for the 3 months ended 31 March 2006 and 2005 includes penalties received amounting to RUR 5,119 thousand and RUR 96,376 thousand, respectively, and rental income received amounting to RUR 261,794 thousand and RUR 58,872 thousand, respectively.

## 9. OPERATING EXPENSES

| | 3 months ended 31 March 2006 RUR'000 | 3 months ended 31 March 2005 RUR'000 |
|---|---|---|
| Salary and bonuses | 1,337,367 | 1,141,361 |
| Operating lease expense | 249,015 | 137,322 |
| Unified social tax contribution | 194,213 | 186,880 |
| Repairs and maintenance expense | 194,427 | 102,084 |
| Taxes, other than income tax | 140,161 | 90,217 |
| Communications | 105,170 | 45,928 |
| Depreciation charge on fixed assets | 101,878 | 109,703 |
| Security | 86,055 | 118,712 |
| Deposit insurance charge | 83,895 | 46,093 |
| Business trip expenses | 74,898 | 7,064 |
| Advertising and marketing expenses | 35,137 | 29,258 |
| Professional services | 34,936 | 50,374 |
| Expenses on stationery and other office expenses | 30,372 | 28,239 |
| Charity expenses | 11,511 | 1,228 |
| Insurance | 11,027 | 26,047 |
| Representation expenses | 3,751 | 3,528 |
| Property disposal expenses | 3,206 | 1,608 |
| Customs duties | 3,952 | 2,708 |
| Other | 110,487 | 62,681 |
| **Total operating expenses** | **2,811,458** | **2,191,035** |

## 10. INCOME TAXES

The Group provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of countries where the Group companies operate and which may differ from International Financial Reporting Standards.

The Group is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 March 2006 and 31 December 2005 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets and liabilities.

Temporary differences as of 31 March 2006 and 31 December 2005 comprise:

| | 31 March 2006 RUR'000 | 31 December 2005 RUR'000 |
|---|---|---|
| **Deferred assets:** | | |
| Loans to banks and customers | 1,473,332 | 2,688,684 |
| Other liabilities | 758,141 | 726,833 |
| Financial liabilities at fair value through profit or loss | 397,348 | 97,850 |
| Investments available-for-sale | 125,718 | - |
| Other assets | - | 159,945 |
| Deposits from banks and customer accounts | - | 61,098 |
| **Total deferred assets** | **2,754,539** | **3,734,410** |
| **Deferred liabilities:** | | |
| Fixed assets | 3,713,142 | 3,762,607 |
| Financial assets at fair value through profit or loss | 693,402 | 31,437 |
| Debt securities issued | 60,597 | 55,919 |
| Precious metals | 55,951 | 13,187 |
| Other assets | 41,364 | - |
| Deposits from banks and customer accounts | 24,827 | - |
| Investments available-for-sale | - | 7,133 |
| **Total deferred liabilities** | **4,589,283** | **3,870,283** |
| Net deferred liabilities | (1,834,744) | (135,873) |
| Deferred tax liabilities at the statutory tax rates | (951,484) | (926,731) |
| Deferred tax assets at the statutory tax rates | 579,688 | 893,761 |
| Less: valuation allowance | (579,688) | (893,761) |
| **Net deferred tax liability** | **(951,484)** | **(926,371)** |

Relationships between tax expenses and accounting profit for the 3 months ended 31 March 2006 and 2005 are explained as follows:

| | 3 months ended 31 March 2006 RUR'000 | 3 months ended 31 March 2005 RUR'000 |
|---|---|---|
| **Profit before income tax** | **1,156,852** | **751,587** |
| Tax at the statutory tax rate (24%) | 277,644 | 180,381 |
| Change in valuation allowance | (314,073) | 204,028 |
| Tax effect due to different tax rates | 7,319 | 7,959 |
| Tax effect of permanent differences | 525,855 | (73,518) |
| **Income tax expense** | **496,745** | **318,850** |
| Current income tax expense | 471,134 | 305,903 |
| Deferred income tax expense | 25,611 | 12,947 |
| **Income tax expense** | **496,745** | **318,850** |

| Deferred income tax liability | 3 months ended 31 March 2006 RUR'000 | Year ended 31 December 2005 RUR'000 |
|---|---|---|
| Beginning of period | 926,371 | 982,467 |
| Deferred tax expense | 25,611 | 30,344 |
| Deferred tax credit charged to equity | (498) | (86,440) |
| End of period | 951,484 | 926,371 |

## 11. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

| | 3 months ended 31 March 2006 proforma | 3 months ended 31 March 2005 proforma |
|---|---|---|
| **Profit** | | |
| Net profit attributable to equity holders of the parent for the period (RUR'000) | 660,440 | 487,272 |
| **Weighted average number of ordinary shares** | | |
| For basic and diluted earnings per share | 680,360,538 | 340,528,420 |
| **Earnings per share** – basic and diluted (RUR) | 0.97 | 1.43 |

Weighted average number of ordinary shares for earnings per share purposes for the 3 months ended 31 March 2005 was calculated using the number of ROSBANK's shares for respective period as if the Group restructuring had happened at the beginning of the earliest period presented.

## 11. CASH AND BALANCES WITH CENTRAL AND NATIONAL BANKS

| | 31 March 2006 RUR'000 | 31 December 2005 RUR'000 |
|---|---|---|
| Cash | 3,595,403 | 5,974,281 |
| Balances with Central and National banks | 15,279,752 | 13,481,077 |
| **Total cash and balances with Central and National banks** | **18,875,155** | **19,455,358** |

The balances with Central and National banks comprise balances with the Central Bank of the Russian Federation, the National Bank of Switzerland and the National Bank of Byelorussia as of 31 March 2006 and 31 December 2005 and include RUR 4,937,231 thousand and RUR 4,656,081 thousand, respectively, which represent the minimum reserve deposits required by Central and National banks. The Group is required to maintain the reserve balances with Central and National banks at all times. Cash and cash equivalents for the purposes of the statement of cash flows are comprised of the following:

| | 31 March 2006 RUR'000 | 31 December 2005 RUR'000 | 31 March 2005 RUR'000 |
|---|---|---|---|
| Loans and advances to banks in OECD countries | 39,881,155 | 46,293,755 | 23,893,524 |
| Cash and balances with Central and National banks | 18,875,155 | 19,455,358 | 25,724,909 |
| Trading government debt securities | 466,439 | 5,729,550 | 90,366 |
| | 59,222,749 | 71,478,663 | 49,708,799 |
| Less minimum reserve deposits | (4,937,231) | (4,656,081) | (4,608,090) |
| **Total cash and cash equivalents** | **54,285,518** | **66,822,582** | **45,100,709** |

## 12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 31 March 2006 RUR'000 | 31 December 2005 RUR'000 |
|---|---|---|
| Debt securities of corporates | 4,816,256 | 4,511,722 |
| Equity investments | 2,259,965 | 1,166,303 |
| Debt securities of local authorities | 2,152,031 | 1,919,267 |
| Debt securities of financial institutions | 1,926,188 | 1,560,753 |
| Debt securities of central governments | 1,468,747 | 6,336,185 |
| Derivative financial instruments | 357,457 | 182,872 |
| | **12,980,644** | **15,677,102** |

Debt securities of corporates as of 31 March 2006 and 31 December 2005 are mainly represented by Eurobonds of JSC Severstal, JSC Norilsk Nickel, JSC Salavatnefteorgsintez, JSC Vympelcom-Kommunikatsii, FK EvrazHolding LLC, Bonds of JSC Russian Railways, JSC Gazprom, JSC Salyut-Energiya, Mir-Finance LLC, Group Magnezit LLC.

Equity investments as of 31 March 2006 and 31 December 2005 are mainly represented by ordinary shares of GMK Norilsky Nickel, JSC Avtovaz, JSC Yukos, JSC RAO UES, JSC NPO IRKUT, JSC Gazprom, JSC Lukoil, JSC MMK, JSC Rostelecom, investment in mutual fund Perviy Ipotechniy.

Debt securities of local authorities as of 31 March 2006 and 31 December 2005 are mainly represented by Bonds of Khabarovsk Region Authority, Krasnoyarsk Region Authority, Irkutsk Region Authority, Moscow Region Authority, Yakutia Region Authority, Belgorod Region Authority, Novosibirsk City Authority, Kazan City Authority, Moscow City Authority.

Debt securities of financial institutions as of 31 March 2006 and 31 December 2005 are mainly represented by Bonds of Russia Spread Trust and promissory notes of various Russian banks.

Debt securities of central governments as of 31 March 2006 and 31 December 2005 are mainly represented by Eurobonds of the RF Government, T-Bonds of US Department of Treasury, T-bills of MF of Belorussia, OFZ and OVGVZ bonds.

As of 31 March 2006 and 31 December 2005 included in financial assets at fair value through profit or loss is accrued interest income on debt securities is amounting to RUR 165,590 thousand and RUR 145,834 thousand, respectively.

As of 31 March 2006 T-Bonds of US Department of Treasury, Eurobonds of Russian Federation and Eurobonds of JSC Severstal sold under an agreement to repurchase are included in financial assets at fair value through profit or loss (Note 21).

As of 31 December 2005 T-Bonds of US Department of Treasury and Bonds of the MF of Byelorussia sold under an agreement to repurchase are included in financial assets at fair value through profit or loss (Note 21).

## 13. PRECIOUS METALS

| | 31 March 2006 RUR'000 | 31 December 2005 RUR'000 |
|---|---|---|
| Gold | 659,819 | 593,189 |
| Platinum | 655,254 | 378,842 |
| Silver | 31,496 | 6,009 |
| **Total precious metals** | **1,346,569** | **978,040** |

Precious metals are located in the Group's vaults, except for gold as of 31 March 2006 and 31 December 2005 amounting to RUR 444,711 thousand and RUR 242,593 thousand, respectively, that are in the process of being refined.

## 14. LOANS AND ADVANCES TO BANKS

| | 31 March 2006 RUR'000 | 31 December 2005 RUR'000 |
|---|---|---|
| Loans to banks | 31,269,923 | 26,436,710 |
| Advances to banks | 22,067,332 | 24,702,060 |
| Loans under reverse repurchase agreements | 3,012,208 | 2,856,298 |
| **Total loans and advances to banks** | **56,349,463** | **53,995,068** |

Movements in allowances for impairment losses on loans and advances to banks for the 3 months ended 31 March 2006 and 2005 are disclosed in Note 5.

As of 31 March 2006 and 31 December 2005 accrued interest income is included in loans to banks amounting to RUR 11,364 thousand and RUR 11,667 thousand, respectively.

As of 31 March 2006 and 31 December 2005 the Group had loans and advances to seven banks totalling RUR 33,044,884 thousand and RUR 41,732,678 thousand, respectively, which individually exceeded 10% of the Group's equity.

As of 31 March 2006 and 31 December 2005 the maximum credit risk exposure of loans and advances to banks amounted to RUR 56,349,463 thousand and RUR 53,995,068 thousand, respectively.

As of 31 March 2006 and 31 December 2005 the Group included in loans and advances to banks loans under reverse repurchase agreements amounting to RUR 3,012,208 thousand and RUR 2,856,298 thousand with maturity within 2 months.

## 15. DERIVATIVE FINANCIAL INSTRUMENTS

| | 31 March 2006 | | 31 December 2005 | |
|---|---|---|---|---|
| | Notional amount RUR'000 | Fair value RUR'000 | Notional amount RUR'000 | Fair value RUR'000 |
| **Foreign exchange contracts** | | | | |
| Forwards | 22,763,262 | (88,125) | 5,681,260 | 10,561 |
| Futures | 4,094,660 | (54,500) | - | - |
| Swaps | 12,608,910 | (33,125) | 6,283,035 | (39,571) |
| **Total foreign exchange contracts liability** | | **(175,750)** | | **(29,010)** |
| **Contracts on precious metals** | | | | |
| Forwards | 860,250 | 114,392 | 626,998 | 90,651 |
| Swaps | 1,720,939 | 3,397 | 1,317,911 | (1,688) |
| **Total contracts on precious metals asset** | | **117,789** | | **88,963** |
| **Contracts on securities** | | | | |
| Forwards | 832,940 | (59,387) | - | - |
| **Total contracts on securities liability** | | **(59,387)** | | **-** |
| **Total** | | **(117,348)** | | **59,953** |

## 16. LOANS TO CUSTOMERS

| | 31 March 2006 RUR'000 | 31 December 2005 RUR'000 |
|---|---|---|
| Originated loans | 127,983,452 | 117,621,245 |
| Net investments in finance lease | 1,287,579 | 1,164,303 |
| Advances on finance lease | 355,555 | 401,502 |
| Loans under reverse repurchase agreements | 610,145 | 18,809 |
| | 130,236,731 | 119,205,859 |
| Less allowance for impairment losses | (6,497,191) | (5,887,635) |
| **Total loans to customers, net** | **123,739,540** | **113,318,224** |

As of 31 March 2006 and 31 December 2005 accrued interest income is included in originated loans amounting to RUR 756,291 thousand and RUR 829,915 thousand, respectively.

| | 31 March 2006 RUR'000 | 31 December 2005 RUR'000 |
|---|---|---|
| Loans collateralized by pledge of vehicles | 31,561,064 | 25,837,845 |
| Loans collateralized by pledge of real estate | 9,458,405 | 9,738,841 |
| Loans collateralized by pledge of securities | 5,716,532 | 2,823,477 |
| Loans collateralized by corporate guarantees | 4,579,762 | 4,568,907 |
| Loans collateralized by pledge of equipment | 4,563,019 | 4,598,411 |
| Loans collateralized by pledge of goods in turnover | 3,915,201 | 6,756,813 |
| Loans collateralized by rights of demand | 1,195,597 | 1,473,511 |
| Loans collateralized by pledge of cash | 504,351 | 2,065,789 |
| Loans collateralized by pledge of combined collateral | 141,332 | 1,055,276 |
| Loans collateralized by others | 1,755,637 | 1,006,454 |
| Unsecured loans | 66,845,831 | 59,280,535 |
| | 130,236,731 | 119,205,859 |
| Less allowance for impairment losses | (6,497,191) | (5,887,635) |
| **Total loans to customers, net** | **123,739,540** | **113,318,224** |

Movements in allowances for impairment losses on loans to customers for the 3 months ended 31 March 2006 and 2005 are disclosed in Note 5.

| | 31 March 2006 RUR'000 | 31 December 2005 RUR'000 |
|---|---|---|
| **Analysis by sector:** | | |
| Individuals | 61,207,864 | 55,329,595 |
| Trade | 19,085,417 | 15,590,540 |
| Finance | 6,067,809 | 7,389,118 |
| Government | 5,851,852 | 5,567,704 |
| Construction | 5,734,114 | 4,984,402 |
| Energy industry | 4,604,915 | 5,008,269 |
| Engineering | 3,198,896 | 3,540,018 |
| Ferrous metals manufacturing | 3,113,557 | 1,731,547 |
| Food industry | 2,896,042 | 2,646,703 |
| Real estate and leasing | 2,628,218 | 3,065,807 |
| Manufacturing | 1,712,352 | 1,230,891 |
| Telecommunications | 1,374,002 | 1,392,228 |
| Oil and gas | 1,285,808 | 494,957 |
| Defence industry | 1,278,054 | 1,485,229 |

| | 31 March 2006 RUR'000 | 31 December 2005 RUR'000 |
|---|---|---|
| **Analysis by sector:** | | |
| Transport | 1,275,213 | 1,302,444 |
| Precious metals and diamond extraction and manufacturing | 1,141,021 | 1,193,449 |
| Heavy industry | 993,316 | 1,922,709 |
| Chemical | 904,641 | 679,106 |
| Aircraft engineering | 697,197 | 157,952 |
| Agriculture | 127,733 | 160,830 |
| Non-ferrous metals manufacturing | 38,908 | 12,968 |
| Insurance | 3,871 | - |
| Hotel business and services | 2,159 | 37,338 |
| Other | 5,013,772 | 4,282,055 |
| | 130,236,731 | 119,205,859 |
| Less allowance for impairment losses | (6,497,191) | (5,887,635) |
| **Total loans to customers, net** | **123,739,540** | **113,318,224** |

As of 31 March 2006 and 31 December 2005 loans collateralized by pledge of securities purchased under agreement to resell are included in loans to customers are amounting to RUR 610,145 thousand and RUR 18,809 thousand, respectively; the reverse repurchase agreements mature within one month.

As of 31 March 2006 and 31 December 2005 a substantial amount of loans is granted to companies operating in the Russian Federation, which represents a significant geographical concentration in one region.

As of 31 March 2006 and 31 December 2005 the maximum credit risk exposure of loans to customers amounted to RUR 130,236,731 thousand and RUR 119,205,859 thousand, respectively.

## 17. INVESTMENTS AVAILABLE-FOR-SALE

| | 31 March 2006 RUR'000 | 31 December 2005 RUR'000 |
|---|---|---|
| Equity investments | 529,906 | 482,416 |
| Debt securities | - | 115,722 |
| | 529,906 | 598,138 |
| Less allowance for impairment losses | (170,551) | (119,804) |
| **Total investments available-for-sale, net** | **359,355** | **478,334** |

Movement of provision for impairment losses on investments available-for-sale for the 3 months ended 31 March 2006 and 2005 are disclosed in Note 5.

As of 31 December 2005 interest income on debt securities amounting to RUR 3,303 thousand was accrued and included in securities available-for-sale.

## 18. FIXED ASSETS

| | Buildings RUR`000 | Equipment, construction in progress and other RUR`000 | Total RUR`000 |
|---|---|---|---|
| **At cost/restated cost/revalued amount** | | | |
| 31 December 2005 | 5,593,141 | 2,255,646 | 7,848,787 |
| Additions | 40,651 | 130,122 | 170,773 |
| Disposals | (18,336) | (52,250) | (70,586) |
| 31 March 2006 | 5,615,456 | 2,333,518 | 7,948,974 |
| **Accumulated depreciation** | | | |
| 31 December 2005 | 103,537 | 1,022,073 | 1,125,610 |
| Charge for the period | 31,457 | 70,421 | 101,878 |
| Disposals | (3,528) | (42,194) | (45,722) |
| 31 March 2006 | 131,466 | 1,050,300 | 1,181,766 |
| **Net book value** | | | |
| **31 March 2006** | **5,483,990** | **1,283,218** | **6,767,208** |
| **31 December 2005** | **5,489,604** | **1,233,573** | **6,723,177** |

If buildings were stated on the historical cost basis, the amounts would be as follows:

| | 31 March 2006 RUR'000 | 31 December 2005 RUR'000 |
|---|---|---|
| Cost | 1,885,982 | 1,858,438 |
| Accumulated depreciation | (83,847) | (77,497) |
| **Net book amount** | **1,802,135** | **1,780,941** |

## 19. OTHER ASSETS

| | 31 March 2006 RUR'000 | 31 December 2005 RUR'000 |
|---|---|---|
| Due from suppliers and other contractors | 747,310 | 389,147 |
| Taxes, other than income tax, recoverable | 406,635 | 425,215 |
| Non-current assets held-for-sale | 65,002 | 65,002 |
| Assets on spot deals | 16,740 | 8,020 |
| Due from employees | 16,553 | 8,939 |
| Receivable from investments disposal | - | 604,433 |
| Receivables from operation with securities | - | 60,540 |
| Other | 37,135 | 66,579 |
| | 1,289,375 | 1,627,875 |
| Less allowance for impairment losses | (7,725) | (9,888) |
| **Total other assets, net** | **1,281,650** | **1,617,987** |

Movement of provision for impairment losses on other assets for the 3 months ended 31 March 2006 and 2005 is disclosed in Note 5.

## 20. DEPOSITS FROM BANKS

| | 31 March 2006 RUR'000 | 31 December 2005 RUR'000 |
|---|---|---|
| Time deposits from banks | 12,183,256 | 8,295,891 |
| Correspondent accounts of banks | 1,615,856 | 2,212,030 |
| Loans under repurchase agreements | 1,414,096 | 631,107 |
| **Total deposits from banks** | **15,213,208** | **11,139,028** |

As of 31 March 2006 and 31 December 2005 accrued interest expense is included in time deposits from banks amounting to RUR 60,409 thousand and RUR 34,921 thousand, respectively.

As of 31 March 2006 securities sold under the agreement to repurchase represent T-Bonds of US Department of Treasury, Eurobonds of Russian Federation and Eurobonds of JSC Severstal that are included in financial assets at fair value through profit or loss at a fair value of RUR 1,462,891 thousand.

As of 31 December 2005 securities sold under the agreement to repurchase represent T-Bonds of US Department of Treasury and Bonds of the MF of Byelorussia that are included in financial assets at fair value through profit or loss at a fair value of RUR 606,635 thousand.

## 21. CUSTOMER ACCOUNTS

Customer accounts comprise:

| | 31 March 2006 RUR'000 | 31 December 2005 RUR'000 |
|---|---|---|
| Time deposits | 101,390,378 | 111,941,812 |
| Repayable on demand | 51,036,493 | 37,119,082 |
| **Total customer accounts** | **152,426,871** | **149,060,894** |

As of 31 March 2006 and 31 December 2005 accrued interest expense is included in time deposits amounting to RUR 1,113,178 thousand and RUR 1,098,155 thousand, respectively.

As of 31 March 2006 and 31 December 2005 customer accounts amounted to RUR 390,253 thousand and RUR 133,896 thousand, respectively, were held as security against letters of credit issued and other transaction related contingent obligations. As of 31 March 2006 and 31 December 2005 customer accounts amounted to RUR 31,477 thousand and RUR 18,756 thousand, respectively, were held as security against guarantees issued.

## 22. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 31 March 2006 RUR'000 | 31 December 2005 RUR'000 |
|---|---|---|
| Liabilities under repurchase agreements (short position) | 1,768,380 | 1,717,722 |
| Derivative financial instruments | 474,805 | 122,919 |
| **Total financial liabilities at fair value through profit or loss** | **2,243,185** | **1,840,641** |

As of 31 March 2006 and 31 December 2005 the following assets were sold under repurchase agreements with a fair value as follows:

| | 31 March 2006 RUR'000 | 31 December 2005 RUR'000 |
|---|---|---|
| T-Bonds of US Department of Treasury | 1,314,904 | 1,005,645 |
| Eurobonds of the Russian Federation | 453,476 | 293,150 |
| Eurobonds of the German Government | - | 297,317 |
| Eurobonds of JSC Severstal | - | 121,610 |
| **Total liabilities sold under repurchase agreements (short position)** | **1,768,380** | **1,717,722** |

## 23. DEBT SECURITIES ISSUED

| | 31 March 2006 RUR'000 | 31 December 2005 RUR'000 |
|---|---|---|
| Discount bearing promissory notes | 9,610,285 | 8,759,724 |
| Eurobonds due in 2009 | 7,388,342 | 8,104,939 |
| Eurobonds due in 2007 | 4,198,579 | 4,436,034 |
| Bonds due in 2009 | 2,219,646 | 832,555 |
| Discount/interest free promissory notes | 1,878,188 | 1,995,126 |
| Adjustable Rate Guaranteed Bonds due in 2012 | 823,411 | 744,093 |
| Interest bearing promissory notes | 778,510 | 1,148,687 |
| Certificates of deposit | - | 23,049 |
| **Total debt securities issued** | **26,896,961** | **26,044,207** |

As of 31 March 2006 and 31 December 2005 accrued interest expense on debt securities issued is included in financial assets at fair value through profit or loss amounting to RUR 150,652 thousand and RUR 678,711 thousand, respectively.

The Group issued Eurobonds due in 2009 collateralized by future receivables on credit card settlements. Discount/interest free promissory notes are issued for settlement purposes, on demand, at nominal value.

## 24. OTHER LIABILITIES

| | 31 March 2006 RUR'000 | 31 December 2005 RUR'000 |
|---|---|---|
| Accrued bonuses and salary | 457,337 | 455,228 |
| Unused vacations provision | 302,334 | 205,932 |
| Payable to suppliers, contractors and purchasers | 160,589 | 128,823 |
| Taxes, other than income tax, payable | 159,522 | 71,133 |
| Deposit insurance charge liability | 83,719 | 74,977 |
| Creditors on other operations | 64,058 | 34,107 |
| Dividends payable | 9,415 | 10,368 |
| Liability on spot deals | 1,807 | 4,448 |
| Creditors on operations with securities and precious metals | 191 | 15,704 |
| Other | 73,349 | 38,591 |
| **Total other liabilities** | **1,312,321** | **1,039,311** |

## 25. SHARE CAPITAL

As of 31 March 2006 and 31 December 2005 nominal share capital authorized, issued and fully paid comprised 680,360,538 ordinary shares with par value of RUR 10 each. All shares are ranked equally and carry one vote.

Contributions to share capital and share premium, made before 1 January 2003 are recognized at their cost restated for inflation. Contributions to share capital and share premium, made after 1 January 2003 are recognized at cost. Share premium represents the excess of contributions over the nominal value of the shares issued.

Share premium of RUR 9,177,470 thousand represents the excess of contributions received in share capital over the nominal value of shares issued.

The Group's reserves distributable among shareholders are limited to the amount of its reserves as disclosed in its statutory accounts. As of 31 March 2006 and 31 December 2005 non-distributable reserves are represented by a general reserve fund, which is created as required by statutory regulations in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with statutes of individual entities that provide for the creation of a reserve for these purposes.

## 26. FINANCIAL COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

As of 31 March 2006 and 31 December 2005, letters of credit and other transactions related to contingent obligations covered by cash amounted to RUR 390,253 thousand and RUR 133,896 thousand, respectively and guarantees issued covered by cash amounted to RUR 31,477 thousand and RUR 18,756 thousand, respectively.

The risk-weighted amount is obtained by applying a credit conversion factor and counterparty risk weightings according to principles employed by the Basle Committee on Banking Supervision.

As of 31 March 2006 and 31 December 2005, the nominal or contract amounts and risk-weighted amounts were:

| | 31 March 2006 | | 31 December 2005 | |
|---|---|---|---|---|
| | Nominal amount | Risk weighted amount | Nominal amount | Risk weighted amount |
| **Contingent liabilities and credit commitments** | | | | |
| Guarantees issued and similar commitments | 7,431,924 | 7,400,448 | 7,726,434 | 7,707,678 |
| Letters of credit and other transaction related contingent obligations | 2,272,718 | 941,232 | 1,627,705 | 746,905 |
| Commitments on loans and unused credit lines | 6,532,374 | 937,825 | 18,446,050 | 4,359,949 |
| **Total contingent liabilities and credit commitments** | **16,237,016** | **9,279,505** | **27,800,189** | **12,814,532** |

***Capital commitments*** – As of 31 March 2006 and 31 December 2005 the Group has commitments for capital expenditure on finance lease outstanding amounting to RUR 596,025 thousand and RUR 872,475 thousand respectively.

***Operating lease commitments*** – Where the Group is the lessee, the future minimum lease payments under non cancellable operating leases are as follows:

| | 31 March 2006 RUR'000 | 31 December 2005 RUR'000 |
|---|---|---|
| Not later than 1 year | 875,200 | 1,027,430 |
| Later than 1 year and not later than 5 years | 864,638 | 1,052,024 |
| Later than 5 years | 3,326,930 | 457,910 |
| **Total operating lease commitments** | **5,066,768** | **2,537,364** |

***Fiduciary activities*** – In the normal course of its business, the Group enters into agreements with limited rights on decision making with clients for asset management in accordance with specific criteria established by clients. The Group may be liable for losses due to its gross negligence or wilful misconduct until such funds or securities are returned to the client. The maximum potential financial risk of the Group at any given moment is equal to the volume of the clients' funds plus/minus any unrealized income/loss on the client's position. In the judgment of management, as of 31 March 2006 and 31 December 2005 the maximum potential financial risk on securities accepted by the Group on behalf of its clients does not exceed RUR 7,290,053 thousand and RUR 7,393,671 thousand, respectively.

The Group also provides depositary services to its customers. As of 31 March 2006 and 31 December 2005, the Group had customer securities totalling 3,480,558,272 items and 3,283,527,374 items, respectively, in its nominal holder accounts.

***Legal proceedings*** – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

***Taxes*** – Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgments of business activities, if a particular treatment based on management's judgment of the Group's business activities were to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest. Such uncertainty may relate to valuation of financial instruments, loss and impairment provisions and market level for a deal's pricing. The Group believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax years remain open to review by the tax authorities for three years.

***Pensions and retirement plans*** – Employees receive pension benefits in accordance with the laws and regulations of the respective countries. As of 31 March 2006 and 31 December 2005, the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

***Operating environment*** – The Group's principal business activities are within the Russian Federation. Laws and regulations affecting the business environment in the Russian Federation are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

## 27. SUBSEQUENT EVENTS

Additional issue of 100,000,000 shares with par value of RUR 10 each was approved by the Board of Directors of the Bank on 20 February 2006 which will be issued under Initial Public Offering. On 23 May 2006 the Bank obtained the permission from Russian authorities to place up to 233,327,800 of its shares outside the Russian Federation.

On 26 April 2006 ROSBANK's ordinary shares were listed on MICEX.

## 28. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures", represent:

(a) Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Group. (This includes holding companies, subsidiaries and fellow subsidiaries);

(b) Associates – enterprises in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;

(c) Individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group;

(d) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group (also non-executive directors and close members of the families of such individuals);

(e) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Group and enterprises that have a member of key management in common with the Group;

(f) Parties with joint control over the Group;

(g) Joint ventures in which the Group is a venturer; and

(h) Post-employment benefit plans for the benefit of employees of the Group, or of any entity that is a related party to the Group.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding with related parties:

| | 31 March 2006 RUR'000 | | 31 December 2005 RUR'000 | |
|---|---|---|---|---|
| | **Related party transactions** | **Total category as per financial statement caption** | **Related party transactions** | **Total category as per financial statement caption** |
| Financial assets at fair value through profit or loss | 671,197 | 12,980,644 | 974,382 | 15,677,102 |
| - other related parties | 671,197 | | 974,382 | |
| Loans to banks and customers | 3,291,239 | 186,586,194 | 3,436,265 | 173,200,927 |
| - key management personnel of the Group | 25,575 | | 30,909 | |
| - other related parties | 3,265,664 | | 3,405,356 | |
| Allowance for impairment losses | 66,691 | 6,497,191 | 169,450 | 5,887,635 |
| - key management personnel of the Group | 517 | | 1,524 | |
| - other related parties | 66,174 | | 167,926 | |
| Customer accounts | 31,749,888 | 152,426,871 | 38,471,040 | 149,060,894 |
| - shareholders | 135,008 | | 8,266 | |
| - key management personnel of the Group | 169,062 | | 141,880 | |
| - other related parties | 31,445,818 | | 38,320,894 | |
| Other provisions | 20,298 | 217,969 | 62,459 | 174,729 |
| - key management personnel of the Group | 148 | | 159 | |
| - other related parties | 20,150 | | 62,300 | |
| Commitments on loans and unused credit lines | 238,977 | 6,532,374 | 276,068 | 18,446,050 |
| - other related parties | 238,977 | | 276,068 | |
| Letters of credit and other transaction related contingent obligations | 64,544 | 2,272,718 | 268,780 | 1,627,705 |
| - other related parties | 64,544 | | 268,780 | |
| Guarantees issued and similar commitments | 2,220,776 | 7,431,924 | 2,989,317 | 7,726,434 |
| - key management personnel of the Group | 7,079 | | 7,627 | |
| - other related parties | 2,213,697 | | 2,981,690 | |
| Guarantees received | 1,473,846 | 159,331,457 | 1,309,985 | 169,340,991 |
| - other related parties | 1,473,846 | | 1,309,985 | |

Included in the income statement for the 3 months ended 31 March 2006 and 2005 are the following amounts which arose due to transactions with related parties:

| | 3 months ended 31 March 2006 RUR'000 | | 3 months ended 31 March 2005 RUR'000 | |
|---|---|---|---|---|
| | Related party transactions | Total category as per financial statements caption | Related party transactions | Total category as per financial statements caption |
| Interest income | 166,834 | 5,640,815 | 230,838 | 4,164,369 |
| - key management personnel of the Group | 742 | | 384 | |
| - other related parties | 166,092 | | 230,454 | |
| Interest expense | 388,767 | 2,970,871 | 486,334 | 2,557,005 |
| - key management personnel of the Group | 3,943 | | 3,832 | |
| - other related parties | 384,824 | | 482,502 | |
| (Provision)/recovery of provision for impairment losses | (3,010) | (706,432) | 56,909 | 94,448 |
| - shareholders | (10) | | - | |
| - key management personnel of the Group | (108) | | (317) | |
| - other related parties | (2,892) | | 57,226 | |
| Net gain on financial assets at fair value through profit or loss | 150,493 | 752,098 | 232,329 | 326,853 |
| - shareholders | - | | 6,798 | |
| - other related parties | 150,493 | | 225,531 | |
| Fee and commission income | 142,776 | 1,129,819 | 163,871 | 763,768 |
| - shareholders | 369 | | 16 | |
| - key management personnel of the Group | 13 | | 8 | |
| - other related parties | 142,394 | | 163,847 | |
| Fee and commission expense | 47,416 | 252,762 | 38,049 | 176,735 |
| - other related parties | 47,416 | | 38,049 | |
| Operating expense | 26,357 | 2,811,458 | 59,591 | 2,191,035 |
| - key management personnel of the Group | 22,748 | | 20,367 | |
| - other related parties | 3,609 | | 39,224 | |
| Dividend income | 7,391 | 38,516 | - | 16,530 |
| - other related parties | 7,391 | | - | |
| Other income | 659 | 399,540 | 1,385 | 266,791 |
| - other related parties | 659 | | 1,385 | |
| Key management personnel compensation | 22,748 | 1,337,367 | 20,367 | 1,141,361 |
| - short-term employee benefits | 18,805 | | 16,535 | |
| - other payments | 3,943 | | 3,832 | |

## 29. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the balance sheet of the Group is presented below:

| | 31 March 2006 | | 31 December 2005 | |
|---|---|---|---|---|
| | Carrying value, RUR'000 | Fair value, RUR'000 | Carrying value, RUR'000 | Fair value, RUR'000 |
| Cash and balances with Central and National banks | 18,875,155 | 18,875,155 | 19,455,358 | 19,455,358 |
| Financial assets at fair value through profit or loss | 12,980,644 | 12,980,644 | 15,677,102 | 15,677,102 |
| Loans and advances to banks | 56,349,463 | 56,349,463 | 53,995,068 | 53,995,068 |
| Deposits from banks | 15,213,208 | 15,213,208 | 11,139,028 | 11,139,028 |
| Customer accounts | 152,426,871 | 152,426,871 | 149,060,894 | 149,060,894 |
| Debt securities issued | 26,896,961 | 27,455,052 | 26,044,207 | 26,112,669 |
| Financial liabilities at fair value through profit or loss | 2,243,185 | 2,243,185 | 1,840,641 | 1,840,641 |

The fair value of loans to customers and investments available-for-sale can not be measured reliably as it is not practicable to obtain market information or apply any other valuation techniques on such instruments.

## 30. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios (as set forth in the table below) of total (8%) and tier 1 capital (4%) to risk weighted assets.

The ratio was calculated according to the principles employed by the Basle Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for impairment losses:

| Estimate | Description of position |
|---|---|
| 0% | Cash and balances with the Central and National banks |
| 0% | State debt securities |
| 20% | Loans and advances to banks for up to 1 year |
| 100% | Loans to customers |
| 100% | Guarantees |
| 50% | Obligations and commitments on unused loans with initial maturity of over 1 year |
| 100% | Other assets |

| Capital amounts and ratios | Actual amount in RUR thousand | For capital adequacy purposes amount in RUR thousand | Ratio for capital adequacy purposes | Minimum required ratio |
|---|---|---|---|---|
| **As of 31 March 2006** | | | | |
| Total capital | 23,406,596 | 23,391,231 | 14.7% | 8% |
| Tier 1 capital | 20,431,194 | 20,431,194 | 12.8% | 4% |
| **As of 31 December 2005** | | | | |
| Total capital | 22,820,266 | 22,804,843 | 15.6% | 8% |
| Tier 1 capital | 19,827,152 | 19,827,152 | 13.6% | 4% |

## 31. SEGMENT REPORTING

The Group's primary format for reporting segment information is business segments. Most operations of the Group are concentrated in the Russian Federation.

***Business segments*** – The Group is organised on the basis of two main business segments:

- Retail banking – representing individuals' customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages and private banking.
- Corporate banking – representing direct debt facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products as well as transactions with small and medium enterprises.

In addition, ROSBANK's headquarters, regional centres, administrative operations and certain other business operations, including inter-bank financial markets and financial institutions services and custody and depositary services, are reported separately under segment reporting as unallocated.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding items such as taxation and borrowings. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

Segment information about these businesses is presented below.

| | Retail banking | Corporate banking | Unallocated | 31 March 2006 Consolidated amount RUR'000 |
|---|---|---|---|---|
| External operating income | 1,444,906 | 1,299,030 | 1,326,301 | 4,070,237 |
| Income from other segments | (1,259) | 784,609 | (783,350) | - |
| **Total operating income** | 1,443,647 | 2,083,639 | 542,951 | 4,070,237 |
| Operating expenses | (1,397,294) | (367,511) | (1,046,653) | (2,811,458) |
| **Operating profit** | 46,353 | 1,716,128 | (503,702) | 1,258,779 |
| Other provisions | - | (49,070) | (52,857) | (101,927) |
| **Profit before income tax** | 46,353 | 1,667,058 | (556,559) | 1,156,852 |
| Income tax expense | - | - | (496,745) | (496,745) |
| **Net profit** | 46,353 | 1,667,058 | (1,053,304) | 660,107 |
| Segment assets | 59,961,029 | 68,026,414 | 94,731,617 | 222,719,060 |
| Segment liabilities | 57,954,252 | 94,472,619 | 46,885,593 | 199,312,464 |
| **Other segment items** | | | | |
| Depreciation expense | (50,633) | (13,317) | (37,928) | (101,878) |
| Interest income | 2,825,927 | 2,060,504 | 754,384 | 5,640,815 |
| Interest expense | (1,172,250) | (1,375,419) | (423,202) | (2,970,871) |
| Provisions)/recovery of provision for impairment losses on interest bearing assets | (1,247,725) | 541,293 | - | (706,432) |
| Fee and commission income | 980,161 | 70,571 | 79,087 | 1,129,819 |
| Fee and commission expense | (219,281) | (33,481) | - | (252,762) |
| Other income | 278,074 | 35,562 | 85,904 | 399,540 |
| Loans to customers, less allowance for impairment losses | 56,597,728 | 67,141,812 | - | 123,739,540 |
| Fixed assets, net | 3,363,301 | 884,602 | 2,519,305 | 6,767,208 |
| Customer accounts | 57,954,252 | 94,472,619 | - | 152,426,871 |

| **Cash flow from:** | Retail banking | Corporate banking | 31 March 2006 RUR'000 Total |
|---|---|---|---|
| Operating activities | (3,464,058) | (3,145,968) | (6,610,026) |
| Investing activities | (72,517) | (19,114) | (91,631) |
| | (3,536,575) | (3,165,082) | (6,701,657) |

| | Retail banking | Corporate banking | Unallocated | 3 months ended 31 March 2005 for income statement items/ 31 December 2005 for balance sheet items Consolidated amount RUR'000 |
|---|---|---|---|---|
| External operating income | 1,091,454 | 1,338,727 | 577,975 | 3,008,156 |
| Income from other segments | 121,313 | 559,872 | (681,185) | - |
| **Total operating income** | 1,212,767 | 1,898,599 | (103,210) | 3,008,156 |
| Operating expenses | (1,062,361) | (292,499) | (836,175) | (2,191,035) |
| **Operating profit** | 150,406 | 1,606,100 | (939,385) | 817,121 |
| Other provisions | - | (53,637) | (11,897) | (65,534) |
| **Profit before income tax** | 150,406 | 1,552,463 | (951,282) | 751,587 |
| Income tax expense | - | - | (318,850) | (318,850) |
| **Net profit** | 150,406 | 1,552,463 | (1,270,132) | 432,737 |
| Segment assets | 55,243,270 | 62,252,007 | 95,561,325 | 213,056,602 |
| Segment liabilities | 57,159,985 | 91,900,909 | 41,175,442 | 190,236,336 |
| **Other segment items** | | | | |
| Depreciation expense | (53,192) | (14,645) | (41,866) | (109,703) |
| Interest income | 1,446,503 | 1,834,540 | 883,326 | 4,164,369 |
| Interest expense | (905,732) | (787,397) | (863,876) | (2,557,005) |
| (Provisions)/recovery of provision for impairment losses on interest bearing assets | (32,381) | 126,829 | - | 94,448 |
| Fee and commission income | 449,457 | 260,847 | 53,464 | 763,768 |
| Fee and commission expense | (73,529) | (103,206) | - | (176,735) |
| Other income | 207,136 | 7,114 | 52,541 | 266,791 |
| Loans to customers, less allowance for impairment losses | 51,967,184 | 61,351,040 | - | 113,318,224 |
| Fixed assets, net | 3,276,086 | 900,967 | 2,546,124 | 6,723,177 |
| Customer accounts | 57,159,985 | 91,900,909 | - | 149,060,894 |

| **Cash flow from:** | Retail banking | Corporate banking | 3 months ended 31 March 2005 RUR'000 Total |
|---|---|---|---|
| Operating activities | 558,642 | 1,110,293 | 1,668,935 |
| Investing activities | 80,842 | 21,448 | 102,290 |
| | 639,484 | 1,131,741 | 1,771,225 |

**ROSBANK FINANCE S.A.**
**(LUXEMBOURG)**

**ANNUAL ACCOUNTS**

**FOR THE PERIOD FROM JUNE 8, 2005**
**(DATE OF INCORPORATION)**
**AND INDEPENDENT AUDITORS' REPORT**
**TO DECEMBER 31, 2005**

1. Allée Scheffer
L-2520 Luxembourg
RCS Luxembourg: B 108 433

ROSBANK FINANCE S.A.
(LUXEMBOURG)

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## DIRECTORS' REPORT

The directors present their report and the annual accounts for the period from June 8, 2005 (date of incorporation) to December 31, 2005.

1. ACTIVITIES AND REVIEW OF THE DEVELOPMENT OF THE BUSINESS

The object of the Company is to raise funds and to lend these funds to Rosbank (OJSC JSCB) and any of its affiliates.

2. RESULTS AND ALLOCATION

The result for the year ended is a profit of EUR 52.657, which we propose to allocate as follows:

Legal reserve: EUR 2.634
Dividend payment: EUR 50.023

3. POST BALANCE SHEET EVENTS

There were no important events since the period end which could influence the presentation of the current annual accounts.

4. PROPOSAL

We propose the approval of the annual accounts as well as the proposed allocation of the results and to give full discharge to the board of directors and the statutory auditors for their mandates during the period to December 31, 2005.

Luxembourg, May 31, 2006

TMF Corporate Services S.A.

TMF Administrative Services S.A.

TMF Secretarial Services S.A.

Deloitte.

Deloitte SA
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To the Shareholders of
Rosbank Finance S.A.
Luxembourg

## INDEPENDENT AUDITORS' REPORT

We have audited the attached annual accounts of Rosbank Finance S.A. for the first financial year ended December 31, 2005 and have read the related Directors' report. These annual accounts and the Directors' report are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these annual accounts based on our audit and to verify the consistency of the Directors' report with the annual accounts.

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 annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors in preparing the annual accounts, as well as evaluating the overall annual accounts' presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the attached annual accounts give, in conformity with the legal and regulatory requirements in Luxembourg, a true and fair view of the assets, liabilities and financial position of Rosbank Finance S.A. at December 31, 2005 and the results of its operations for the first financial year ended December 31, 2005.

The Directors' report is consistent with the annual accounts.

Deloitte SA
Réviseur d'Entreprises

B. Dam
*Partner*

July 18, 2006

Audit.Tax.Consulting.Financial Advisory.

Member of
Deloitte Touche Tohmatsu

Société Anonyme
RCS Luxembourg B 67.895
Autorisation d'établissement: n° 88607

Rosbank Finance S.A.
(Luxembourg)
**BALANCE SHEET**
December 31, 2005
(Expressed in EUR)

| ASSETS | Notes | 2005 | LIABILITIES | Notes | 2005 |
|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | **CAPITAL AND RESERVES** | | |
| Loan to affiliated undertaking | 3.1 | 126.018.651 | Issued and paid-up share capital | 3.4 | 31.000 |
| | | | Legal reserve | 3.4 | - |
| | | | Result for the first financial year | 3.4 | 52.657 |
| | | | | | 83.657 |
| **DEBTORS** | | | **CREDITORS** | | |
| | | | Debenture notes due in more than one year | 3.5 | 126.018.651 |
| Other receivables | 3.2 | 1.714 | Accrued interest payable due in one year or less | 3.7 | 4.619.649 |
| Cash at Bank | 3.3 | 4.970.115 | Other creditors due in one year or less | | 245.448 |
| | | | Creditors for taxes | | 23.075 |
| | | | | | 130.906.823 |
| | | 130.990.480 | | | 130.990.480 |

The accompanying notes form an integral part of these annual accounts

Rosbank Finance S.A.

(Luxembourg)

**PROFIT AND LOSS ACCOUNT**

For the first financial year ended December 31, 2005

(Expressed in EUR)

| | Notes | 06/08/2005 - 12/31/2005 |
|---|---|---|
| **CHARGES** | | |
| Operating charges | 3.6 | 1.482.819 |
| Interest payable and similar charges | 3.7 | 4.619.649 |
| Taxation | | 23.075 |
| Profit for the first financial year | | 52.657 |
| TOTAL | | 6.178.200 |
| **INCOME** | | |
| Other operating income | 3.8 | 1.482.819 |
| Interest receivable and similar income | 3.9 | 4.695.381 |
| TOTAL | | 6.178.200 |

The accompanying notes form an integral part of these annual accounts.

Rosbank Finance S.A.
(Luxembourg)
**NOTES TO THE ACCOUNTS**
December 31, 2005

## NOTE 1 - GENERAL

Rosbank Finance S.A. (the Company) was incorporated in Luxembourg on June 8, 2005 as a "société anonyme". The first financial year starts on June 8, 2005 and ends on December 31, 2005.

The registered office of the Company is established in Luxembourg City.

The object of the Company is to raise funds and to lend these funds to Rosbank OJSC JSCB and any of its affiliates.

The Company is subject to the provisions of the Luxembourg Law of August 10, 1915, as amended.

The authorized share capital of the Company consist of 310 shares with a par value of EUR 100 each (EUR 31.000).

The information disclosed under the notes to the accounts is partly derived from and should be read in conjunction with the full text and definitions of the Offering Circular. Any decision to buy, sell or hold Notes issued by the Company should not be based solely on the information in these annual accounts (including the notes thereto). (Potential) Investors should also refer to the Offering Circular which, amongst other, gives a more thorough and detailed description of the risks involved in investing in the notes issued by the Company.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The annul accounts are prepared in accordance and compliance with Luxembourg Law and Generally Accepted Accounting Principles, and are prepared under the historical cost convention.

The Board of Directors believes that the loan to affiliated company and related debenture notes are linked economically and should be translated into EUR at the exchange rate as of the date of the transaction in order to give true and fair view of the Company's assets, liabilities, financial position and results in accordance with the Article 26 (5) of the Law of December 19, 2002.

Assets and Liabilities

Unless otherwise stated, assets and liabilities have been stated at their historical cost, expressed in EUR.

The value adjustments and provisions are established by the Board of Directors when it its opinion there is a permanent diminution in the value of the assets. The Board of Directors believes that no value adjustments are necessary for the purpose of these annual accounts.

Foreign Currency Translation

Assets and liabilities expressed in currencies other than EUR are translated into EUR at lower of the historical exchange rates and the year end exchange rates, except monetary assets and liabilities and these assets and liabilities that are economically linked.

Monetary assets and liabilities are recorded at the exchange rates prevailing at the balance sheet date. The assets and liabilities, which are economically linked, are recorded at the exchange rates prevailing at the date of the transaction.

## NOTE 3 - NOTES TO THE ACCOUNTS

Balance sheet

3.1. Loan to affiliated undertaking

Loan to affiliated undertaking is comprised as follows:

| | Principal | Maturity date | Annual interest % | 2005 EUR |
|---|---|---|---|---|
| Loan receivable Series 1 | USD 150.000.000 | July 9, 2007 | 7,750 | 126.018.651 |

3.2. Other debtors

Other debtors are comprised as follows:

| | 2005 EUR |
|---|---|
| Expenses to be reimbursed | 1.714 |

Expenses to be reimbursed comprise of expenses paid by the Company that will be reimbursed by Rosbank OJSC JSCB under the Disbursement Agreement.

3.3. Cash at bank

The Cash at Bank is comprised as follows:

| | | **2005 EUR** |
|---|---|---|
| JPMorgan Bank Luxembourg S.A. | | |
| EUR account | | 29.486 |
| USD account | USD 5.750.520 | 4.861.375 |
| Rosbank (OJSC) | | |
| USD account | USD 93.750 | 79.254 |
| Balance | | 4.970.115 |

3.4. Capital and Reserves

| | **Authorized, issued and paid up Share Capital** | **Legal Reserve** | **Accumulated Results** | **Total** |
|---|---|---|---|---|
| | **EUR** | **EUR** | **EUR** | **EUR** |
| Balance as at Incorporation | 31.000 | - | - | 31.000 |
| | - | - | - | - |
| Balance at December 31, 2005 | 31.000 | - | - | 31.000 |

Legal Reserve

In accordance with Luxembourg Law, the Company is required to transfer a minimum of 5% of its net profit for each financial year to a legal reserve. This requirement ceases to be necessary once the balance of the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to the shareholders.

3.5. Debenture Notes

The debenture notes payable are comprised as follows:

| | **Principal** | **Maturity date** | **Annual interest** | **2005** |
|---|---|---|---|---|
| | | | **%** | **EUR** |
| Series 1<br>USD 150,000,000<br>7.625% Notes due 2007 | USD 150.000.000 | July 9, 2007 | 7,625% | 126.018.651 |

The debenture notes are issued under USD 750.000.000 Guaranteed Debt Issuance Program and guaranteed by Rosbank OJSC JSCB.

Profit and Loss Statement

3.6. Operating charges

The operating charges are comprised as follows:

| | **06/08/2005 - 12/31/2005** |
|---|---|
| Fees paid regarding the issuance of series 1 | 1.482.819 |

3.7. Interest Payable and Similar Charges

The Interest Payable and Similar Charges are comprised as follows:

| | **06/08/2005 - 12/31/2005** |
|---|---|
| Interest payable - Series 1 | 4.619.649 |

3.8. Other operating income

The Other Income is comprised as follows:

| | **06/08/2005 - 12/31/2005** |
|---|---|
| Fees received regarding the issuance of series 1 | 1.482.819 |

3.9. Interest Receivable and Similar Income

The Interest Receivable and Similar Income are comprised as follows:

| | **06/08/2005 - 12/31/2005** |
|---|---|
| Interest Loan to Rosbank OJSC JSCB | 4.695.381 |

**NOTE 4 - OTHER INFORMATION**

During the first financial year, the Company did not employ any personnel and, consequently, no payments for wages, salaries or social securities were made.

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**Permanent Dealers**

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**HSBC Bank plc**
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United Kingdom

**ING Bank N.V., London Branch**
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United Kingdom

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**Trustee**
**J.P. Morgan Corporate Trustee Services Limited.**
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United Kingdom

**Principal Paying Agent, Calculation Agent and Transfer Agent**
**JPMorgan Chase Bank, N.A.**
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**Luxembourg Paying Agent, Registrar and Transfer Agent**
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## Auditors

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Grand Duchy of Luxembourg

**To ROSBANK**
**Deloitte and Touche**
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Russian Federation

## Legal Advisers to the Issuer and ROSBANK

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## Legal Advisers to the Arrangers, the Permanent Dealers and the Trustee

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