



U.S.\$100,000,000 9.75 PER CENT. LOAN PARTICIPATION NOTES DUE 2008

*issued by Dresdner Bank Aktiengesellschaft on a limited recourse
basis for the sole purpose of financing a loan to*

**JOINT STOCK COMPANY
SIBACADEMBANK**

Issue Price: 100 per cent.

Dresdner Bank Aktiengesellschaft, a bank established under the laws of the Federal Republic of Germany (the “**Issuer**” or the “**Lender**”) is issuing an aggregate principal amount of U.S.\$100,000,000 9.75 per cent. Loan Participation Notes due 2008 (the “**Notes**”) for the sole purpose of financing a loan (the “**Loan**”) to Joint-Stock Company Sibacadembank (“**Sibacadembank**” or the “**Bank**”) pursuant to a loan agreement dated 16 May 2005 (the “**Loan Agreement**”) between the Issuer and Sibacadembank. The Issuer will charge by way of security in favour of J.P. Morgan Corporate Trustee Services Limited, as trustee (the “**Trustee**”) for the benefit of the holders of the Notes (the “**Noteholders**”), its rights to principal, interest and additional amounts (if any) under the Loan Agreement and its rights, title and interest in and all sums held on deposit in a certain account of the Issuer (other than certain Reserved Rights (as defined in “**Terms and Conditions of the Notes**”)), and will assign its rights under the Loan Agreement (save for those rights charged or reserved as described above) to the Trustee for the benefit of the Noteholders upon the closing of the offering of the Notes.

The Notes are limited recourse obligations of the Issuer. In each case where amounts are stated to be payable with respect to the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders, on each date upon which such amounts are due in respect of the Notes, for all amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement (excluding, however, any amounts paid in relation to the Reserved Rights). The Issuer will have no other financial obligations under the Notes. **Noteholders are deemed to have agreed that they will rely solely and exclusively on the covenants of Sibacadembank set out in the Loan Agreement, and Sibacadembank’s own credit and financial standing, in respect of the Issuer’s ability to make any payments under the Notes.**

Interest on the Notes will be payable at an annual rate equal to 9.75 per cent. Subject to receipt of the funds necessary therefor from Sibacadembank, the Issuer will make interest payments on the Notes semi-annually in arrear on 19 May and 19 November of each year, commencing on 19 November 2005. Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 19 May 2008. Payments on the Notes will be made free and clear of, and without withholding or deduction for or on account of, any taxes that the Federal Republic of Germany imposes, except as described under “Terms and Conditions of the Notes”. In certain circumstances, the Loan may be prepaid at its principal amount, together with accrued interest and additional amounts (if any), at the option of Sibacadembank if Sibacadembank is required to increase its payments under the Loan in respect of Russian or German withholding tax applicable to payments under the Loan or the Notes or to pay certain increased costs of the Issuer. The Loan may also be prepaid if it becomes unlawful for the Issuer to fund the Loan or to allow the Loan or the Notes to remain outstanding, as set out in the Loan Agreement. Upon prepayment of the Loan (subject to receipt by the Issuer of the relevant funds from Sibacadembank), the principal amount of all outstanding Notes will be prepaid by the Issuer, together with accrued interest and additional amounts (if any).

Subject to the Loan being secured in accordance with its terms, the Loan will rank *pari passu* in right of payment with Sibacadembank’s other outstanding unsecured and unsubordinated indebtedness. Other than as described in this Offering Circular and in a trust deed to be entered into between the Issuer and the Trustee on 19 May 2005 (the “**Trust Deed**”), the Noteholders have no proprietary or other direct interest in the Issuer’s rights under or in respect of the Loan Agreement or the Loan. Subject to the terms of the Trust Deed, no Noteholder will have any rights to enforce any of the provisions in the Loan Agreement or have direct recourse to Sibacadembank except through action by the Trustee.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE “CERTAIN RISK FACTORS”.

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

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

The Notes will be in registered form in the denomination of U.S.\$2,000 and integral multiples thereof. The Notes will be represented by a global registered certificate (the “**Global Certificate**”) registered in the name of a nominee for, and deposited with, a common depository for Euroclear Bank S.A./N.V., as operator of the Euroclear system (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”). Definitive registered certificates (“**Definitive Certificates**”) evidencing holdings of Notes will only be available in certain limited circumstances. See “Summary of Provisions Relating to the Notes in Global Form”.

Lead Manager

DRESDNER KLEINWORT WASSERSTEIN

The date of this Offering Circular is 16 May 2005

IMPORTANT INFORMATION

Prospective investors should rely only on the information contained in this Offering Circular in making their investment decision. Sibacadembank, the Issuer, the Trustee and Dresdner Bank AG London Branch (the “Lead Manager”) have not authorized any person to provide prospective investors with different information. No person is authorised to provide any information or to make any representation not contained in this Offering Circular, and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of Sibacadembank, the Issuer, the Trustee or the Lead Manager. The delivery of this document at any time does not imply that the information contained in it is correct as at any time subsequent to its date. Without limitation to the generality of the foregoing, the contents of Sibacadembank’s website as at the date hereof do not form any part of this Offering Circular (and, in particular, are not incorporated by reference herein).

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

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

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

No representation or warranty, express or implied, is made by the Lead Manager, the Issuer (save for the responsibility statement above), the Trustee or any of their respective affiliates or any person acting on their behalf as to the accuracy or completeness of the information contained in this Offering Circular, and none of such persons has attempted to verify such information.

Information contained in this Offering Circular relating to the Russian banking sector and information regarding the competitors of Sibacadembank (which may include estimates) was derived from publicly available information, including press releases and various legal and regulatory filings under various securities laws. Sibacadembank accepts responsibility for accurately reproducing such information and data. However, Sibacadembank has relied on the accuracy of such information without carrying out an independent verification. In addition, Sibacadembank has derived some of the information contained in this Offering Circular from official data published by Russian government agencies, such as the Central Bank of the Russian Federation (the “**CBR**”). See “Certain Risk Factors—Risks Related to the Russian Federation—Lack of Reliable Official Data”.

This Offering Circular does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by Sibacadembank, the Issuer and the Lead Manager to inform themselves about and to observe any such restrictions. In particular, the Notes have not been and will not be registered under the Securities Act. Subject to certain exceptions, the Notes may not be offered, sold or delivered in the United States or to U.S. persons. In addition, none of the Issuer, Sibacadembank or the Lead Manager has authorised any offer of Notes to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (the “**POS Regulations**”). Notes may not lawfully be offered or sold to persons in the United Kingdom except in circumstances which do not result in an offer to the public in the United Kingdom within the meaning of the POS Regulations or otherwise in compliance with all applicable provisions of the POS Regulations. For a description of certain further restrictions on offers and sales of Notes and distribution of this Offering Circular, see “Subscription and Sale”.

This Offering Circular may only be used for the purposes for which it has been published.

IN CONNECTION WITH THIS ISSUE, DRESDNER BANK AG LONDON BRANCH OR ANY PERSON ACTING FOR IT MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD. HOWEVER, THERE MAY BE NO OBLIGATION ON DRESDNER BANK AG LONDON BRANCH OR ANY AGENT OF IT TO DO THIS. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD. SUCH STABILISING SHALL BE IN COMPLIANCE WITH ALL APPLICABLE LAWS, REGULATIONS AND RULES.

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FORWARD-LOOKING STATEMENTS

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

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

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

ENFORCEABILITY OF JUDGMENTS

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

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

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

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

In September 2002, the new *arbitrazh* procedural code of the Russian Federation (the “**Arbitrazh Procedural Code**”) entered into force. The Arbitrazh Procedural Code sets out the procedure for the recognition and enforcement of foreign arbitral awards by Russian courts. The Arbitrazh Procedure Code also contains an exhaustive list of grounds for the refusal of recognition and enforcement of foreign arbitral awards by Russian courts, which grounds are broadly similar to those provided by the New York Convention.

The Arbitrazh Procedural Code and other Russian procedural legislation could change and other grounds for Russian courts to refuse the recognition and enforcement of foreign courts' judgments and foreign arbitral awards could arise in the future. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in the Russian Federation.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

Unless otherwise indicated, the financial information set out herein has been derived from the audited financial statements of Sibacadembank as of and for the years ended 31 December 2004, 2003 and 2002 that are set out on pages F-1 to F-47 of this Offering Circular (the “**Financial Statements**”). These Financial Statements have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”). Sibacadembank does not publish any consolidated financial statements.

Auditors

ZAO KPMG, independent auditors, having their registered address at 11 Gogolevsky Boulevard, Moscow 119019, Russian Federation, have audited the financial statements of Sibacadembank as of and for the year ended 31 December 2004 and KPMG Limited, independent auditors, having their registered address at 11 Gogolevsky Boulevard, Moscow 119019, Russian Federation, have audited the financial statements of Sibacadembank as of and for the year ended 31 December 2003 included in this Offering Circular and have expressed an unqualified opinion on these financial statements, as stated in their reports appearing herein.

Currency

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

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

Effective 1 January 2003, the Russian economy ceased to be considered hyperinflationary. Sibacadembank considers the Russian rouble to be its functional currency because the majority of balances and operations of Sibacadembank are either priced, incurred, payable or otherwise measured in Russian rouble. Sibacadembank prepares its financial statements in Russian roubles in accordance with the requirements of Russian statutory accounting and tax legislation.

Exchange Rates

The following table sets out, for the periods indicated, the high, low, average and period-end inter-bank exchange rates, in each case for the purchase of roubles, all expressed in roubles per U.S. dollar.

	<u>High</u>	<u>Low</u>	<u>Average</u>	<u>Period end</u>
		<i>(roubles per U.S. dollar)</i>		
2005 (up to and including 30 April 2005)	28.19	27.46	27.84	27.77
2004	29.45	28.15	28.81	27.75
2003	31.89	29.25	30.68	29.45
2002	31.86	30.14	31.35	31.78
2001	30.30	28.16	29.18	30.14

Source: Central Bank of the Russian Federation

As of 12 May 2005, the official exchange rate quoted by the CBR was RUR 27.82 to U.S.\$1.00.

Rounding

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

Sibacadembank Market Share Information

Sibacadembank has calculated its market share information set out in this Offering Circular on the basis of market data regularly published by the CBR.

SUMMARY

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

Business Overview

Established in 1990, Sibacadembank is a rapidly growing full-service bank occupying a leading position in its regional banking market. Sibacadembank is headquartered in Novosibirsk and has the second largest network of branches of any bank in the Siberian Federal District after Sberbank. The SFD comprises 16 regions, accounts for approximately 30 per cent. of the Russian territory and is inhabited by 20.5 million people (14.3 per cent. of Russia's total population). According to the CBR, Sibacadembank is the largest bank headquartered in the SFD in terms of net assets. According to the CBR, Sibacadembank was the 70th largest bank in Russia in terms of total assets, the 21st in terms of retail deposits and the 19th largest in terms of its outstanding consumer loan portfolio as of 1 February 2005.

Sibacadembank has prepared its financial statements in accordance with IFRS since 2000. Sibacadembank's net income amounted to RUR 199,140,000 for the year ended 31 December 2004 and, based on unaudited management accounts, RUR 53,143,000 for the three months ended 31 March 2005. Sibacadembank's assets amounted to RUR 10,356,953,000 as of 31 December 2004 and, based on unaudited management accounts, RUR 11,332,638,000 as of 31 March 2005.

Sibacadembank offers both retail and corporate services. Sibacadembank offers its retail clients a wide range of term, savings and current deposits in addition to credit card and consumer lending products. Sibacadembank's corporate banking activities include lending, deposit taking and trade finance as well as settlement operations, payroll services and corporate bankcards, foreign exchange, leasing and other corporate banking services. Sibacadembank also conducts financial markets operations.

In March 2005, Moody's Investors Service, Inc. ("**Moody's**") issued Sibacadembank a "B1" long term foreign currency rating, a "not prime" (NP) short term foreign currency deposit rating and an "E+" financial strength rating with a stable outlook. In May 2005, Fitch Rating Ltd ("**Fitch**") issued Sibacadembank a "B-" international long term credit rating, a "B" international short term credit rating, a "D" individual rating and a "5" support rating.

Strategy

Sibacadembank's strategy is to continue its development into a full-service bank offering corporate and retail services in Siberia and the Far East of Russia. Sibacadembank aims to increase its share of both the corporate and retail market in each of the regions in which it currently operates and plans to subsequently expand into new regions where management believes Sibacadembank can operate profitably. Sibacadembank actively seeks to expand its corporate and retail product portfolio as part of its growth strategy. In the longer term, Sibacadembank will also evaluate opportunities to expand in Russia through potential acquisitions, mergers or other forms of strategic alliances.

Recent Investment by the EBRD

In December 2004, the European Bank for Reconstruction and Development (the "**EBRD**") acquired a 25 per cent. plus one share interest in Sibacadembank for RUR 285 million pursuant to a subscription agreement between the EBRD and Sibacadembank. In connection with the acquisition of shares, EBRD entered into a shareholders agreement with the other principal shareholders of Sibacadembank, Messrs. Igor Kim, Andrei Bekarev and Alexander Taranov (the "**Other Principal Shareholders**"). The shareholders agreement provides, among other things, that the EBRD shall have the right to nominate one board member to Sibacadembank's board, which may consist of a maximum of seven members. In addition, the shareholders' agreement provides that no resolution of the shareholders or the board of directors to amend Sibacadembank's charter or to increase Sibacadembank's share capital shall become effective without the affirmative vote of the EBRD. Finally, the EBRD and the Other Principal Shareholders entered into a put and call option agreement which gives the Other Principal Shareholders the right to purchase the shares of Sibacadembank acquired by the EBRD pursuant to the

subscription agreement and certain shares of Sibacadembank subsequently acquired by the EBRD pursuant to, among other things, the exercise of pre-emptive rights, during a two-year period commencing on December 2009. The put and call option agreement also gives EBRD the right to put its Sibacadembank shares to the Other Principal Shareholders in certain events, including breaches of the representations, warranties or covenants of Sibacadembank in the subscription agreement or of the Other Principal Shareholders in the shareholders agreement or the put and call option agreement or the insolvency of Sibacadembank.

The Offering

Issuer/Lender:	Dresdner Bank Aktiengesellschaft
Borrower:	Joint Stock Company “Sibacadembank”
Issue Amount:	U.S.\$100,000,000
Issue Price:	100 per cent. of the principal amount of the Notes
Maturity Date:	19 May 2008
Trustee:	J.P. Morgan Corporate Trustee Services Limited
Principal Paying Agent and Transfer Agent:	JPMorgan Chase Bank, N.A., London
Registrar, Paying Agent and Transfer Agent:	J.P. Morgan Bank Luxembourg S.A.
Interest:	On each Interest Payment Date (being 19 May and 19 November in each year commencing on 19 November 2005) the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement, which interest under the Loan is equivalent to 9.75 per cent. per annum (as set out in Clause 4 of the Loan Agreement).
Limited Recourse:	The Notes will constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for the purpose of financing the Loan to Sibacadembank pursuant to the terms of the Loan Agreement. The Issuer will only account to the Noteholders for all amounts equivalent to those (if any) received from Sibacadembank under the Loan Agreement less amounts in respect of the Reserved Rights (as defined in the “Terms and Conditions of the Notes”), all as more fully described under “Terms and Conditions of the Notes”.
Security:	The Notes are secured by a first fixed charge in favour of the Trustee for the benefit of the Noteholders of (i) certain of the Issuer’s rights, interests and benefits as lender under the Loan Agreement, and (ii) the Issuer’s rights, title and interest in and to all sums held on deposit in the Account (as defined in the Loan Agreement) (in each case, other than the Reserved Rights), all as more fully described under “Terms and Conditions of the Notes”. In addition, the Issuer with full title guarantee will assign absolutely certain of its rights under the Loan Agreement (save for the rights charged or excluded as described above) to the Trustee for the benefit of the Noteholders.
Form:	The Notes will be issued in registered form. The Notes will be in denominations of U.S.\$2,000 and integral multiples thereof and will be represented by the Global Certificate. The Global Certificate will only be exchangeable for Definitive Certificates in the limited circumstances described under “Summary of Provisions Relating to the Notes in Global Form”.

Redemption at the Option of the Holders Upon a Change of Control:

A holder of any Note may elect to cause the Issuer to redeem its Note if any person that as of the date of the Loan Agreement owns or controls (directly or indirectly) 25 per cent. plus one share or more of the issued and outstanding voting share capital of Sibacadembank ceases to own or control (directly or indirectly) at least 25 per cent. plus one share of the issued and outstanding voting share capital of Sibacadembank. See Condition 6 (*Redemption*) of the Terms and Conditions of the Notes.

Early Redemption at the Option of the Issuer:

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

Amendments, Modifications and Waivers:

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

Negative Pledge and Other Covenants:

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

Relevant Event/Event of Default:

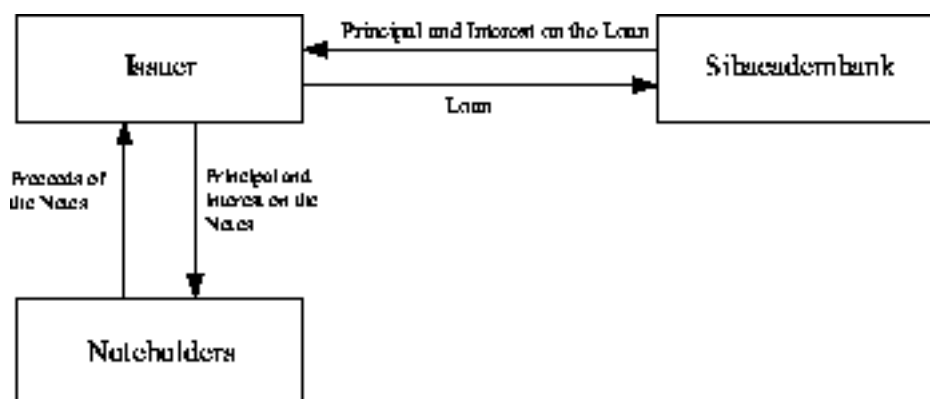
In the case of a Relevant Event (as defined in the Trust Deed) the Trustee may, subject to the provisions of the Trust Deed, enforce the security created in the Trust Deed in favour of the Noteholders.

In the case of an Event of Default (as defined in the Loan Agreement) the Trustee may, subject to the provisions of the Trust Deed, declare all amounts payable by Sibacadembank under the Loan Agreement to be due and payable. Upon repayment of the Loan following an Event of Default, the Notes will be redeemed or repaid at their principal amount, together with interest accrued to the date fixed for redemption and any additional amounts then due (if any), and thereupon shall cease to be outstanding.

Withholding Tax:	<p>All payments in respect of the Notes will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of the Federal Republic of Germany save as required by law. If any such taxes, duties, assessments or governmental charges are payable, the Issuer shall (subject to certain exceptions) pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received had no such deduction or withholding been required. The sole obligation of the Issuer in this respect will be to account to the Noteholders for the sums equivalent to sums received from Sibacadembank. See “Terms and Conditions of the Notes”. In such circumstances, Sibacadembank will be required to increase the sum payable under the Loan Agreement to the extent necessary to ensure that the Issuer receives a net sum sufficient to pay to the Noteholders such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received had no such deduction or withholding been made or required to be made.</p>
Use of Proceeds:	<p>The net proceeds from the issue of the Notes will be used by the Issuer for the sole purpose of financing the Loan to Sibacadembank. Sibacadembank intends to use the net proceeds from the Loan to fund its lending activities and for general banking purposes. See “Use of Proceeds”.</p>
Listing:	<p>Application has been made to list the Notes on the Luxembourg Stock Exchange.</p>
Selling Restrictions:	<p>The Notes have not been, and will not be, registered under the Securities Act, and may not be offered or sold within the United States or to or for the account or benefit of U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meaning ascribed to them by Regulation S under the Securities Act.</p> <p>The Notes may be sold in other jurisdictions (including the United Kingdom, the Russian Federation, the Federal Republic of Germany and the Republic of Italy) only in compliance with applicable laws and regulations. See “Subscription and Sale”.</p>
Governing Law:	<p>The Notes, the Loan Agreement and the Trust Deed will be governed by English law.</p>
Risk Factors:	<p>An investment in the Notes involves a high degree of risk. See “Certain Risk Factors”.</p>
Security Codes:	<p>ISIN: XS0219905238 Common Code: 021990523</p>

DESCRIPTION OF THE TRANSACTION

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



The transaction will be structured as a loan to Sibacadembank by the Issuer. The Issuer will issue the Notes, which will be limited recourse loan participation notes issued for the sole purpose of funding the Loan to Sibacadembank. The Notes will be constituted by, subject to, and have the benefit of, the Trust Deed. The obligations of the Issuer to make payments under the Notes shall constitute an obligation only to account to the Noteholders for an amount equal to the sums of principal, interest and/or additional amounts (if any) the Issuer actually receives from Sibacadembank pursuant to the Loan Agreement less any amounts in respect of the Reserved Rights.

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

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

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

Payments in respect of the Notes will be made without any deduction or withholding for, or on account of, taxes of the Federal Republic of Germany except as required by law. See Condition 8 (*Taxation*) of the Terms and Conditions of the Notes.

In that event, the Issuer will only be required to pay an additional amount to the extent it receives corresponding amounts from Sibacadembank under the Loan Agreement. The Loan Agreement provides for Sibacadembank to pay such corresponding amounts in these circumstances. In addition, payments under the Loan Agreement will be made without any deduction or withholding for, or on account of, any taxes in the Russian Federation or any jurisdiction from, or through, which any payments are made,

except as required by law, in which event Sibacadembank will be obliged to increase the amounts payable under the Loan Agreement. See “Certain Risk Factors—Risks Relating to the Notes and the Trading Market—Taxation of the Notes”.

In certain circumstances, Sibacadembank may at its option prepay the Loan at its principal amount, together with accrued interest and additional amounts (if any), in the event that Sibacadembank is required to increase the amount payable or to pay additional amounts on account of taxes of the Russian Federation or the Federal Republic of Germany or required to pay additional amounts on account of certain increased costs. The Issuer may (in its own discretion) require Sibacadembank to prepay the Loan if it becomes unlawful for the Issuer to fund the Loan or to allow the Loan or the Notes to remain outstanding, as set out in the Loan Agreement. In each case (to the extent that the Issuer has actually received the relevant funds from Sibacadembank), the Issuer will prepay the Notes together with accrued interest and additional amounts (if any) to the Noteholders. See “Terms of the Loan Agreement—Repayment and Prepayment—Prepayment in the Event of Taxes or Increased Costs”; “Terms of the Loan Agreement—Repayment and Prepayment—Illegality”; “Terms of the Loan Agreement—Change in Law or Banking Practices; Increase in Cost” and Condition 6 (*Redemption*) of the Terms and Conditions of the Notes.

CERTAIN RISK FACTORS

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

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

Risks Related to Investments in Emerging Markets

Investors in emerging markets such as the Russian Federation should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging economies such as the economy of the Russian Federation are subject to rapid change and that the information set out herein may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved, and investors are urged to consult with their own legal and financial advisors before making an investment in the Notes.

Risks Related to Sibacadembank's Business and the Banking Sector

Loan and Deposit Concentration

Sibacadembank's corporate loan portfolio has relatively high individual borrower concentration. As of 1 January 2005, the largest twenty of Sibacadembank's borrowers collectively accounted for over 23% of Sibacadembank's total loan portfolio (gross of allowance for loan losses). An impairment in the ability of one or more of these borrowers to service or repay their loans could have a material adverse effect on Sibacadembank's financial condition and results of operations.

The CBR imposes a limit on a bank's exposure to a single borrower or group of related borrowers. This limit is set at 25 per cent. of a bank's regulatory capital and it must be observed by Sibacadembank on a daily basis. See "Appendix Overview of the Banking Sector and Banking Regulation in the Russian Federation—Regulation—Mandatory Economic Ratios". Sibacadembank's ratio continues to be in compliance with the CBR's limit. However, if Sibacadembank's ratio were to rise above this limit, either due to a change in the composition of Sibacadembank's loan portfolio, a change in the CBR's limit or a change in how the CBR's limit is interpreted or applied with respect to a single borrower or group of related borrowers, this may result in a violation of the CBR's limit by Sibacadembank. The sanctions for failure to comply with this requirement could include fines, temporary administration of Sibacadembank by the CBR or revocation of Sibacadembank's banking license. If Sibacadembank were to be in violation of this ratio and the CBR were to take such steps, Sibacadembank's business, financial condition or results of operations could be materially adversely affected.

Any economic difficulties that affect the ability of Sibacadembank's depositors to meet liquidity needs could cause such customers to withdraw their funds from Sibacadembank. If such withdrawals were to occur within a relatively short period of time, they could cause liquidity difficulties for Sibacadembank together with the loss of a significant source of funding, which could have a material adverse effect on Sibacadembank's financial condition and results of operations.

See Note 8 and 15 to the audited financial statements as of and for the years ended 31 December 2004 and 2003 for further details regarding the concentration of Sibacadembank's loans and deposits.

Exposure to Credit Risk of Russian Corporations and Individuals

The Russian economy has been generally liberalising only since 1991 and as a result many businesses in the Russian Federation have limited experience in operating in competitive market conditions as

compared to their Western counterparts. In addition, the Russian economy has experienced significant volatility since 1991. Accordingly, the financial performance of Russian corporations is generally more volatile, and the credit quality of Russian corporates on average is less predictable, than that of similar companies doing business in more mature markets and economies. An accurate assessment of default risk on loans provided to corporate clients may be difficult for Sibacadembank to make due to the unpredictability of economic conditions in the Russian Federation and abroad. Even though Sibacadembank requires regular disclosure of its corporate clients' financial statements, such financial statements may not always present a complete and accurate picture of each client's financial condition. Furthermore, Sibacadembank's corporate clients do not typically have extensive or externally verified credit histories. Therefore, in spite of Sibacadembank's credit risk evaluation procedures, it may be unable to correctly evaluate the current financial condition of each prospective corporate borrower and to accurately determine the ability of such corporate borrower to repay. Furthermore, the retail lending market in Russia is relatively undeveloped and limited resources are available to Russian banks to ascertain the credit history of individual borrowers. As a result, the financial condition of private individuals transacting business with Sibacadembank is difficult to assess and predict.

If a significant number of Sibacadembank's corporate or individual borrowers and/or guarantors experience poor financial performance due to a general Russian or regional economic downturn or volatility in certain sectors of the Russian or regional economy, or if their financial condition deteriorates significantly for any reason, Sibacadembank could suffer material adverse consequences to its financial performance and results of operations.

Instability of the Russian Banking System

From May to July 2004, the Russian banking sector experienced its first serious turmoil since the financial crisis of August 1998. In May 2004, the CBR announced that it would suspend the banking license of Sodbusinessbank, a medium-size institution that had been accused of serious breaches of the Russian money laundering laws. Fears that the CBR was set to adopt a tougher line of enforcement caused a dramatic loss of confidence within the banking system and a disruption of the interbank market. By the end of May, depositors began en masse to withdraw their money from certain banks. As a result of the circulation of various market rumours and, in some cases, certain regulatory and liquidity problems, several Russian privately-owned banks collapsed, ceased to trade or significantly limited their operations. A number of Russian banks experienced liquidity problems and were unable to attract funds on the interbank market or from their client base. Simultaneously, they were facing large withdrawals of deposits by both retail and corporate customers. In response to these events, the CBR enacted regulations in July 2004 providing government insurance for deposits of up to 100,000 roubles and lowering reserve requirements. Most analysts believe that the situation stabilized by July 2004. While Sibacadembank was relatively unaffected by the recent turmoil, any similar events in the future could have a material adverse effect on Sibacadembank's ability to develop its retail banking division and on Sibacadembank's business, financial condition or results of operations.

Interest Rate Sensitivity

Sibacadembank is exposed to interest rate risk principally as a result of lending and making advances to customers and other banks at fixed interest rates and in amounts and for periods which may differ from Sibacadembank's funding sources (customer deposits, bank borrowings and securities offerings). While Sibacadembank monitors interest rates with respect to its assets and liabilities and seeks to match its interest rate positions, interest rate movements may adversely affect Sibacadembank's business, financial condition and results of operations.

Increasing Competition

The Russian market for financial services is becoming highly competitive. According to the CBR, as of 1 April 2005, 1,289 banks and non-banking credit organisations were operating in the Russian Federation. Sibacadembank currently engages principally in the retail and corporate banking business in the SFD and the Russia Far East. In the retail banking market, in common with other Russian retail banks, Sibacadembank principally competes with Sberbank, the former monopoly retail bank of the Soviet Union which has significantly greater resources than Sibacadembank. Sberbank held approximately 61 per cent. of total retail deposits (compared to approximately 2.5 per cent. for the next largest competitor) as of 31 December 2004, according to the CBR, and is the only major bank to have a government guarantee for its retail deposits. Sibacadembank also faces a certain degree of competition in

the retail sector from smaller banks in each region in which Sibacadembank operates. In addition, Sibacadembank believes that some foreign banks that already operate branches in Russia, such as Raiffeisenbank Austria, are planning to expand into the Siberian retail banking market, which would further increase the competition faced by Sibacadembank.

In the corporate banking market, Sibacadembank principally competes with a number of other national and regional banks, some of which have a broader geographic reach, more branches and greater capital resources than Sibacadembank. Sibacadembank expects the Russian banking market to become increasingly competitive as a result of the deregulation of the banking industry. Sibacadembank expects this trend to contribute to increased competition in both deposit-taking and lending activities, which could narrow spreads between deposit and loan rates, which could have an adverse impact on Sibacadembank's profitability.

If Sibacadembank is unable to continue to compete successfully in the corporate banking or retail banking sector, it could have a material adverse effect on Sibacadembank's business and results of operations.

Risks of Retail Loans and Deposits

Sibacadembank's strategic focus has historically been on retail banking services. Although lending to retail customers helps to ensure that Sibacadembank's single-party exposure remains low, it may also increase the credit risk exposure in the loan portfolio. Retail customers typically have less financial strength, and negative developments in the Russian economy could affect such borrowers more significantly than large corporate borrowers. In addition, the limited number of high credit quality corporate customers in Russia to which Sibacadembank may lend or otherwise provide banking services may significantly inhibit Sibacadembank's ability to achieve its growth objectives while maintaining an acceptable level of credit risk. Furthermore, retail deposits, even if term deposits, can be withdrawn at any time under Russian law at the request of the respective depositors. As a result, all such deposits are effectively short term deposits, which potentially exposes the Bank to liquidity problems if large amounts of deposits are withdrawn by retail clients. See "—Instability of the Russian Banking System".

Risks Related to Growth Strategy

Sibacadembank has experienced significant growth in recent years, particularly in the size of its overall loan portfolio, which increased by over 266 per cent. (gross of allowance for loan losses) from 31 December 2002 to 31 March 2005, and in the size of its sales network. Sibacadembank intends to continue to concentrate on expanding its loan portfolio as part of its strategic objectives.

The ability of Sibacadembank to grow its customer base and expand its loan portfolio will depend on, amongst other things, successful implementation of its credit policies and provisioning procedures, as well as promotion of capital growth in order to maintain its capital adequacy requirements. If Sibacadembank accepts a higher degree of credit risk to achieve growth in the future, it could suffer material adverse consequences to its financial performance and results of operations.

The expansion of Sibacadembank's network entails investment and increased operating costs. There can be no assurance that Sibacadembank will achieve positive returns on any investment that it makes in the development of its network. Overall growth of Sibacadembank's business also requires greater allocation of management resources away from daily operations. In addition, the management of such growth will require, among other things, continued development of Sibacadembank's financial and information management control systems, the ability to integrate new branches or newly acquired financial services businesses with existing operations, the ability to attract and retain sufficient numbers of qualified management and other personnel, the continued training of such personnel, the presence of adequate supervision and the maintenance of consistency of customer services. If Sibacadembank fails to properly manage its growth, such failure may have a material adverse effect on its business, financial condition, results of operations or prospects.

As part of its growth strategy, the Bank may also seek to participate in the ongoing consolidation of the Russian banking industry through acquisitions or other business combinations. To implement this strategy, the Bank expects to review acquisition prospects, as well as proposals for business combinations that may complement the Bank's existing business. Sibacadembank may not, however, be able to successfully integrate and manage any bank that Sibacadembank acquires or combines with. In addition, there is the risk that any potential acquisition or business combination will fail to achieve the synergies sought and that management's attention will be diverted away from other ongoing business concerns.

Risks Related to Regional Focus of Operations

Sibacadembank is likely to continue to operate primarily within the Siberian Federal District boundaries, where the economy is growing very fast, but where the gross regional product and real disposable income per capita are still lower than the country averages. Since Sibacadembank has not significantly expanded its business and its retail and corporate loan portfolio beyond its home region, its business is particularly sensitive to the health of the SFD regional economy. If the economic growth of the region slows, such decrease will have a material adverse effect on its business, financial condition, results of operations or prospects.

Legislative and Regulatory Reforms Having an Effect on the Russian Banking Sector

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

The Russian government has also recently announced plans to reform the state pension system. If successfully implemented, this reform is expected (i) to create a long-term rouble funds market, (ii) to provide an opportunity for Russian banks to provide asset management services in relation to a certain portion of pension funds and (iii) to allow Russian banks (in addition to Sberbank) to service the payment of pensions to individuals.

The Federal Law "On Insuring Individuals' Deposits in the Banks of the Russian Federation" No. 177-FZ passed by the State Duma on 23 December 2003 (the "**Deposits Insurance Law**") introduced rules regulating the insurance of individuals' deposits placed with Russian banks. Russian retail banks are now required to satisfy certain qualification tests to be able to participate in the deposits insurance system and, more generally, to attract individuals' deposits. On 21 September 2004, Sibacadembank's application to participate in the deposits insurance system was approved by the CBR. Should Sibacadembank fail to comply with all of the requirements (including liquidity and financial reporting requirements) of the deposits insurance system for a period of three consecutive months, it would cease to be eligible to participate in the system and would as a result be precluded by the CBR from attracting deposits from, and opening accounts for, individuals. See "Appendix Overview of the Banking Sector and Banking Regulation in the Russian Federation—Regulation".

Although the foregoing changes affecting the Russian banking sector are generally viewed as beneficial reforms to the Russian banking system, any delay in the implementation of, or failure to implement, such reforms may adversely impact Russian banks, including Sibacadembank, and in particular may inhibit such banks from expanding their businesses. In addition, although the implementation of a mandatory system of insuring deposits of individual customers may have the benefit of giving depositors more comfort that their monies will be protected against default or a further banking crisis, the deposits insurance premiums may (depending on their level) negatively impact net interest margins if the volume of additional deposits gained does not offset the additional expense of such premiums which Russian banks will be required to incur.

See "—Risks Related to the Russian Federation—Exchange Rates and Currency Regulation" for a description of uncertainties regarding the new currency regime in the Russian Federation.

Relationship with Sibacadembank's Shareholders

Mr. Igor Kim is the largest shareholder of Sibacadembank and owns shares in at least three other small to mid-sized Russian banks in Moscow, the Urals and the Russian Far East. Circumstances may arise in which the interests of Mr. Kim and other large shareholders of Sibacadembank and the interests of the Noteholders may differ, especially with regard to potential transactions involving Sibacadembank and other banks with which Mr. Kim and such other shareholders may have an interest, and the Noteholders may be disadvantaged by the ability of the large shareholders to take actions contrary to the Noteholder's interests.

Dependence on Key Management

Sibacadembank is dependent on its senior management, including its CEO, Mr. Kirill Brel, for the implementation of its strategy and the operation of its day to day activities. In addition, certain business

relationships of members of senior management may be important to the conduct of Sibacadembank's business. There can be no assurance that key members of senior management will remain at Sibacadembank or that such business relationships will continue.

Dependence on Key Personnel

Sibacadembank depends on high-quality personnel to fill key positions which are essential to its banking operations. Given the competition for such personnel, Sibacadembank's key staff may leave the company, which could disrupt Sibacadembank's ability to achieve its goals. There is an increasing demand for such personnel and such competition, combined with the regional locations of Sibacadembank's headquarters and branches which such personnel may not find suitable in comparison to other opportunities, makes it difficult for Sibacadembank to hire and retain such personnel. Under these circumstances, Sibacadembank may not be able carry out its banking operations in an optimal manner.

Enforcement of Security Under Russian Law

Sibacadembank takes pledges over goods and securities in the context of its corporate lending procedures. See "Lending Policies and Procedures—Collateral". Under Russian law, pledges are considered secondary obligations which automatically terminate if the secured obligation becomes void. Furthermore, enforcement of a pledge under Russian law generally requires a court order and a public sale of the relevant collateral. A court may in its discretion delay such public sale for a period of up to one year upon a pledgor's application. Russian law has no pledge perfection system for collateral other than mortgages, which may contribute to the incidence of unexpected and/or conflicting claims of secured creditors upon the pledged property. Therefore, Sibacadembank may have difficulty enforcing pledges when clients default on their loans.

Licence Risks

All banking and various related operations in the Russian Federation require licences from the CBR. Sibacadembank has obtained the licences required for its banking operations. Although Sibacadembank has been successful in obtaining CBR licences, there is no assurance that it will be able to obtain or (as applicable) maintain such licences in the future. The CBR may, in its discretion, impose additional requirements or deny any request by Sibacadembank for licences, which could adversely affect its business, financial condition, results of operations or prospects. See "—Risks Related to the Russian Federation—Compliance with Applicable Laws, Decrees and Regulations" and "Appendix: Overview of the Banking Sector and Banking Regulation in the Russian Federation—Regulation—Bankruptcy (Insolvency) and Other Related Issues" for grounds on which a CBR licence may be revoked. The loss of a CBR licence, a breach of the terms of a CBR licence by Sibacadembank or its failure to obtain CBR licences in the future could result in Sibacadembank being unable to continue some or all of its banking activities and in penalties such as fines imposed by the CBR on Sibacadembank. Any such failures could, in turn, affect Sibacadembank's ability to fulfill payment obligations, either generally or under the Loan Agreement, and could have a material adverse effect on Sibacadembank's business, financial condition, results of operations or prospects.

Exposure to Information Technology

Sibacadembank's financial performance and its ability to meet its strategic objectives will depend to a significant extent upon the functionality of its information technology ("IT") and its ability to increase systems capacity. However, there can be no assurance that a disruption (even short term) to the functionality of Sibacadembank's IT systems, or delays in increasing the capacity of the IT systems, will not have a material adverse effect on the business, financial condition, results of operations or prospects of Sibacadembank.

Sibacadembank's Previous Reorganisations Could Be Challenged.

In 1998 and 2001, Sibacadembank underwent two reorganisations that resulted from the accessions of two Russian banks, Russian People's Bank Ltd. and Kuzbass Transport Bank Ltd. into Sibacadembank. Under Russian law, the reorganisation of a legal entity is a complex process that requires compliance with numerous laws, regulations and administrative requirements and involves corporate as well as civil law aspects, administrative acts and numerous mandatory requirements. Non-compliance with any applicable required legal procedure in the course of reorganisation may impair the validity of that reorganisation or

make corporate decisions or administrative acts related thereto subject to legal challenge by interested parties. Furthermore, creditors and shareholders of companies being reorganised enjoy special rights aimed at protecting their material interests (such as the right of creditors to accelerate payment of liabilities owed to them and the right of shareholders to claim redemption of their shares). Creditors and shareholders deprived of such rights may be allowed to pursue claims against the applicable reorganised company. There can be no assurance that Sibacadembank complied fully with all applicable legal and administrative requirements in connection with its corporate reorganisations in the past. While the risk of any claims relating to Sibacadembank's reorganisations appears to be low, due to, among other things, the lapse of applicable statute of limitations periods, potential claims against Sibacadembank relating to alleged violations committed during the course of the reorganisations could have a material adverse effect on Sibacadembank.

Non-Compliance With Applicable Legal Requirements

Sibacadembank has taken, at different times, a variety of actions relating to share issuances, acquisitions and share disposals, valuations of property, interested party transactions, major transactions and antimonopoly issues that, if successfully challenged on the basis of non-compliance with applicable legal requirements by competent state authorities, counterparties in such transactions or Sibacadembank's shareholders, could result in the invalidation of such transactions or the imposition of other liabilities. Because, for example, applicable provisions of Russian law are subject to many different interpretations, there can be no assurance that Sibacadembank would be able to successfully defend itself against any challenge brought against such transactions, and the invalidation of any such transaction or the imposition of any such liability may, individually or in the aggregate, have a material adverse effect on Sibacadembank's business, financial condition and results of operations. See also “—Risks Related to the Russian Federation—Legal and Regulatory Risks” and “—Risks Related to the Russian Federation—Compliance with Applicable Laws, Decrees and Regulations”.

Risks Related to the Russian Federation

Sibacadembank is a Russian bank and the majority of its assets are located in the Russian Federation. There are certain risks associated with an investment in the Russian Federation. The following are some non-exhaustive examples:

Political Risks

Russia is a federation of 89 sub-federal units comprising republics, territories, regions, districts, cities of federal importance and autonomous areas. The delineation of authority among Russia's constituent entities as well as among the branches of government is often uncertain and at times contested. The Russian political system has in the past been vulnerable to tension and conflict between federal, regional and local authorities over various issues, including tax revenues, authority for regulatory matters and regional autonomy. In an attempt to streamline coordination between different levels of government, a new law was passed in December 2004 whereby executives of sub-federal political units are no longer directly elected by the local population but are instead to be nominated by the President of Russia and approved by the legislature of the relevant sub-federal political unit. This is likely to increase federal government control over regional and local authorities.

Moreover, political conditions in the Russian Federation were highly volatile in the 1990s, as evidenced by the frequent conflicts amongst executive, legislative and judicial authorities which negatively impacted Russia's business and investment climate. While Russia's current President, Vladimir Putin, re-elected for a second presidential term in March 2004, has maintained overall political stability in the Russian Federation and introduced policies generally oriented towards the continuation of economic reforms, the encouragement of foreign investment and the reduction of governmental intervention into the economy, the government of the Russian Federation (the “**Government**”) may not always support such policies. The Russian federal parliament (which consists of two chambers, the State Duma and the Federation Council) is largely dominated by proponents of President Putin's policy. Elections to the State Duma held in December 2003 resulted in the pro-presidential “United Russia” party and its allies gaining a constitutional majority (over 66 per cent.) in that chamber. Members of the Federation Council appointed by regional governments and legislatures are also primarily pro-presidential. Due to the heavy centralisation of the decision-making process, there can be no assurances that there will be no material changes to Government policies or to economic or regulatory reforms. If political instability recurs or if reform policies are reversed or become ineffective, Sibacadembank's business, financial condition, results of operations or prospects could be materially affected.

In addition, lack of consensus often results in the enactment of conflicting legislation at various levels, and may result in political instability. This lack of consensus creates uncertainties in the operating environment in Russia, which may prevent Sibacadembank from carrying out its business strategy effectively and efficiently.

Furthermore, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict. Russian military and paramilitary forces were engaged in Chechnya in 1994 to 1996 and since 1999 continue to maintain a presence there. Violence and attacks relating to this conflict have spread to other parts of Russia, including Moscow. In 2004, Russia suffered a number of terrorist attacks. The spread of violence and terrorism, or its intensification, could have significant political and economic consequences including the imposition of a state of emergency in some parts or throughout Russia. These events could materially adversely affect the value of investments in Russia, including the value of the Notes.

Unlawful or Arbitrary Government Actions

Governmental authorities have a high degree of discretion in Russia and at times exercise their discretion arbitrarily, without conducting a hearing or giving prior notice, and sometimes in a manner that is contrary to law. Moreover, the state also has the power in certain circumstances, by regulation or act, to interfere with the performance of, nullify or terminate contracts. Arbitrary Government actions have included withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities have also used common defects in matters surrounding documentation of financing activities as pretexts for court claims and other demands to invalidate such activities and/or to void transactions, often for political purposes. Unlawful or arbitrary Government action, if directed at Sibacadembank, could have a material adverse effect on its business, financial condition, results of operations or prospects.

Expropriation and Nationalisation

The Government has enacted legislation to protect property against expropriation and nationalisation. Furthermore, in the event that Sibacadembank's property is expropriated or nationalised, legislation provides for fair compensation to be paid to Sibacadembank. However, there can be no certainty that such protections will be enforced. This uncertainty is due to several factors, including the lack of state budgetary resources, the lack of an independent judicial system and sufficient mechanisms to enforce judgments and corruption among Russian state officials. The expropriation or nationalisation of any of Sibacadembank's or its subsidiaries' assets without fair compensation may amount to an Event of Default under the Loan Agreement and may have a material adverse effect on Sibacadembank's business, financial condition, results of operations or prospects.

Economic Risks

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

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high levels of state debt relative to gross domestic product;
- a weak banking system providing limited liquidity to Russian enterprises;
- high levels of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- widespread use of barter transactions and/or promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of a black and grey market economy;
- pervasive capital flight;

- high levels of corruption and the penetration of organised crime into the economy;
- significant increases in unemployment; and
- the impoverishment of a large portion of the Russian population.

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

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

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

Impact of Fluctuations in the Global or Russian Economies

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

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

Exchange Rates and Currency Regulation

There was significant instability in the rouble exchange rate following the financial crisis of August 1998, although the rouble has appreciated against the U.S. dollar in real terms during the period from 2002 through the beginning of 2005.

The ability of the Government and the CBR to limit any further volatility of the rouble will depend on many political and economic factors, including the Government's ability to control inflation and the availability of foreign currency. According to Government estimates, inflation in the Russian Federation was 19 per cent. in 2001, 15 per cent. in 2002, 12 per cent. in 2003 and 11.7 per cent. in 2004. Although the rate of inflation has been declining, any return to heavy and sustained inflation could lead to market instability, new financial crises, reductions in consumer purchasing power and erosion of consumer confidence. Any one of these events could lead to decreased demand for Sibacadembank's products and services.

The rouble is generally not convertible outside of the Russian Federation. A market exists within the Russian Federation for the conversion of roubles into other currencies, but it is limited in size and is

subject to rules limiting such conversion. While as of April 2005 the CBR had amassed in excess of 130 billion U.S. dollars worth of gold and currency reserves, widely held to be sufficient to sustain the domestic currency market in the short-term, there can be no assurance that a relatively stable market will continue indefinitely, and a lack of growth of this currency market may hamper the development of Sibacadembank's business and the businesses of its clients.

Federal Law No. 173-FZ "On Currency Regulation and Currency Control" published on 17 December 2003 (the "**New Currency Law**") introduced a new currency control regime which came into force on 18 June 2004. Under the New Currency Law, only a limited number of restrictions can be imposed in respect of currency operations (such as, for instance, reserve requirements or requirements to effect relevant operations through special-purpose accounts). However, the New Currency Law provides that most of the current restrictions will continue to be effective until 1 January 2007. The CBR has enacted a number of regulations in implementation of the New Currency Law, mainly concerning technical issues of the new currency control regime. In addition, the CBR has introduced special account and reserve requirements with respect to certain operations of Russian corporates. To date, no such restrictions have been introduced with respect to Russian banks. Russian banks are required to monitor their clients' compliance with the New Currency Law and failure to do so will result in sanctions and penalties. It is expected that the CBR and the Government will enact further regulations under the New Currency Law. Until all of the regulations for the effective implementation of the New Currency Law are published and implemented, it will not be possible fully to assess the effect of the currency control regime introduced by the New Currency Law and there may be uncertainties and disputes in the interpretation of the New Currency Law. Accordingly, there can be no assurance that the New Currency Law and the related regulations will not have a material adverse effect on Sibacadembank's business, financial condition, results of operations or prospects.

Lack of Reliable Official Data

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

Physical Infrastructure

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

Social Risks

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

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

Social instability in the Russian Federation, coupled with difficult economic conditions, the failure of the state and main private enterprises to make full and timely payment of salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest and increased support for a renewal of centralised authority, increased nationalism, restrictions on foreign involvement in the economy, and increased violence. Any of these threats could restrict Sibacadembank's operations and lead to a loss of revenue.

Legal and Regulatory Risks

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

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

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

The current status of the Russian legal system makes it uncertain whether Sibacadembank would be able to enforce its rights in disputes with any of its contractual counterparties. Sibacadembank's ability to operate in the Russian Federation could be adversely affected by difficulties in protecting and enforcing its rights and by future changes to local laws and regulations.

Compliance with Applicable Laws, Decrees and Regulations

The application of the laws of any particular country is not always clear or consistent. This is particularly true for Russia where the pace of legislative drafting has not always kept pace with the demands of the marketplace. Russian commercial practices and legal and regulatory frameworks differ significantly from practices in other jurisdictions. As a result, it is often difficult to ensure compliance with changing regulatory requirements.

Sibacadembank's operations are subject to regulation by various government authorities, in connection with obtaining and renewing various licences and permits, as well as with ongoing compliance with existing laws and regulations. Regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of licences and permits and in monitoring licensees' compliance with the terms thereof. Russian authorities have the right to, and do, conduct periodic inspections of Sibacadembank's operations throughout the year. Any such future inspections may result in conclusions that Sibacadembank has violated laws, decrees or regulations, and Sibacadembank may be unable to refute such conclusions or remedy the violations. Sibacadembank's failure to comply with existing laws and regulations or the findings of Government inspections could result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of Sibacadembank's licences or in requirements that Sibacadembank cease certain of its business activities, or in criminal and administrative penalties applicable to its officers. Any such decisions, requirements or sanctions, or any increase in governmental regulation of Sibacadembank's operations, could increase costs or materially adversely affect Sibacadembank's business, financial condition, results of operations or prospects.

Disclosure and Reporting Requirements

The rights of Sibacadembank's shareholders, Sibacadembank's public reporting requirements as well as regulations to which Sibacadembank is subject differ significantly from those applicable to comparable financial institutions in other jurisdictions. A principal objective of the securities laws of the United States, the United Kingdom and other countries is to promote full and fair disclosure of all material corporate information to the public. Sibacadembank is subject to Russian law requirements, which oblige it to publish, among other things, annual financial statements, quarterly disclosure reports as a securities issuer, reports on affiliated entities and information on material events relating to the relevant company (such as major acquisitions and increases in charter capital). However, there is less publicly available information concerning Sibacadembank and its subsidiaries than there is for listed companies in the United States, the United Kingdom or certain other jurisdictions.

Sibacadembank's charter and internal regulations, the regulations governing Russian banks and the laws governing companies incorporated in the Russian Federation collectively regulate Sibacadembank's corporate affairs. See "Appendix: Overview of the Banking Sector and Banking Regulation in the Russian Federation". The rights of shareholders and the responsibilities of members of Sibacadembank's Board of Directors and Sibacadembank's Management Board under Russian law are different from, and may be subject to, certain requirements not generally applicable to corporations organised in other jurisdictions. See "Management".

In accordance with Russian legislation applicable to securities issuers, Sibacadembank is required to file quarterly reports with the federal governmental authority responsible for supervision of the securities market of the Russian Federation. These reports include certain information about Sibacadembank, its management, affiliates and selected financial and business information (such as events of litigation and quarterly statutory accounting reports prepared in accordance with Russian Accounting Standards ("RAS")). Despite recent initiatives to improve corporate transparency in the Russian Federation, there is less publicly available information about Sibacadembank than there is for comparable companies in certain other jurisdictions.

Accounting and reporting requirements in Russia are not closely comparable to those in other (especially Western) jurisdictions. The Russian accounting legislation continues to develop and has been subject to change on a regular basis in recent years. As of 1 January 2004, all credit organisations in the Russian Federation must prepare statutory accounting reports according to RAS as well as financial statements according to IFRS. According to an official statement issued by the CBR on 2 June 2003, the obligation of Russian banks to prepare and submit RAS statutory accounting reports is expected to cease by 1 January 2006.

Underdevelopment of the Russian Taxation System

The Russian Government has initiated reforms of the tax system that have resulted in some improvement in the tax climate. The cornerstone of this reform was a complete redrafting of the Russian Tax Code; this included a reduction of the corporate profits tax rate from 35% for most companies and 43% for financial institutions, insurance and intermediary companies to 24% for all companies from 1 January 2002 and also allowed for a broader range of deductible expenses. Payroll-related taxes have been reduced substantially and for individuals who are tax resident in Russia the current personal income tax rate is 13%. The general rate of VAT has been reduced to 18%, and certain minor taxes have been abolished – such as road users' tax (abolished from 1 January 2003) and sales tax (abolished from 1 January 2004).

Russian tax laws, regulations and court practice are subject to frequent change, varying interpretations and inconsistent and selective enforcement. For example, there is a possibility that the current three year statute of limitations for the assessment of taxes pursuant to a tax audit could be significantly extended.

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

In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions. This uncertainty could possibly expose Sibacadembank to significant fines and penalties and to potentially severe enforcement measures despite its best efforts at compliance, and could result in a greater than expected tax burden.

Transfer pricing legislation became effective in the Russian Federation on 1 January 1999. This legislation allows the tax authorities to make transfer pricing adjustment and impose additional tax liabilities in respect of all "controlled" transactions, provided that the transaction price differs from the market price by more than 20 per cent. "Controlled" transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties with significant price fluctuations (i.e., if the price of such transactions differs from the prices on similar transactions by more than 20 per cent. within a short period of time). Transfer pricing adjustments are also applicable to the trading of securities and derivatives. There has been no formal guidance (although some court practice is available) as to how these rules will be applied. Moreover, the Ministry of Finance of the Russian Federation is in the process of drafting proposed amendments to the transfer pricing legislation, which may come into force in 2006. Such amendments, if adopted, are expected to result in stricter transfer pricing rules. If the tax authorities were to impose significant additional tax liabilities as a result of transfer pricing adjustments, it could have a material adverse impact on Sibacadembank's business, financial condition, results of operations or prospects.

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

Risks Related to the Notes and the Trading Market

Limited Recourse to the Issuer

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

No Direct Recourse to Sibacadembank

Except as otherwise disclosed in the Terms and Conditions of the Notes and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan exists for the

benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions of the Loan Agreement or have direct recourse to Sibacadembank, except through action by the Trustee under the Security Interests (as defined in “Terms and Conditions of the Notes”). Neither the Issuer nor the Trustee pursuant to the Assigned Rights (as defined in the Loan Agreement) shall be required to enter into proceedings to enforce payment under the Loan Agreement, unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses that may be incurred by it in connection therewith.

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

Prepayment of the Loan

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

Lack of Public Market for the Notes

Prior to their issue, there was no existing market for the Notes. The Issuer has applied for the Notes to be admitted to listing on the Luxembourg Stock Exchange. However, an active trading market in the Notes may not develop or be maintained after listing. If an active trading market does not develop or cannot be maintained, this could have a material adverse effect on the liquidity and the trading price of the Notes. In addition, stock markets in recent years and, in particular, in recent months, have experienced significant price fluctuations. These fluctuations were often unrelated to the operating performance of the companies whose securities were traded on such stock markets. Market fluctuations as well as adverse economic conditions have negatively affected the market price of many securities and may affect the market price of the Notes.

Taxation of the Notes

In general, interest payments on borrowed funds made by a Russian legal entity to a non-resident are subject to Russian withholding tax at a rate of 20 per cent., unless such withholding is reduced or eliminated pursuant to the terms of an applicable tax treaty. Based on professional advice, Sibacadembank believes that interest payments on the Loan made to the Issuer should not be subject to withholding tax under the terms of the applicable double tax treaty between the Russian Federation and the Federal Republic of Germany. However, there can be no assurance that such double tax treaty relief will be available.

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

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

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

If, during the life of the Notes, the Issuer ceases to be resident for tax purposes in the Federal Republic of Germany and becomes resident for tax purposes in another jurisdiction, in the event that such jurisdiction requires the Issuer to effect deduction for or on account of any taxes (other than taxes of the Federal Republic of Germany) in respect of payments which the Issuer is obliged to make under or in respect of the Notes, under the terms of the Loan Agreement Sibacadembank will be under no obligation to increase payments to the Issuer under the Loan Agreement in respect of such withholding or deduction for or on account of any taxes (other than taxes of the Federal Republic of Germany). In such circumstances, the Noteholders will receive payments under the Notes net of such withholding or deduction and will have no right to require that their Notes be repaid.

Disposals of the Notes in the Russian Federation

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

Russian Bankruptcy Law

Russian bankruptcy laws are relatively new and are subject to varying interpretations. The Law on Insolvency (Bankruptcy) came into force in late 2002 and the Law on Insolvency (Bankruptcy) of Credit Organisations was significantly revised in 2004. As a result of limited court practice it is not possible to predict with certainty how claims of the Issuer and/or the Trustee under the Loan Agreement against Sibacadembank would be resolved in case of Sibacadembank’s bankruptcy. Under the new Law on Insolvency (Bankruptcy) and Law on Insolvency (Bankruptcy) of Credit Organisations, unsecured creditors’ claims are generally subordinated to current liabilities (i.e., claims that arose after the initiation of bankruptcy proceedings and costs related to bankruptcy litigation) and are also subordinated to the following claims (“**Priority Claims**”): (i) claims by individual clients arising out of deposit and bank account agreements; (ii) workplace injury and moral damages obligations; and (iii) severance pay, employment-related obligations and royalties.

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

The new amendments to the Civil Code and the Law on Insolvency (Bankruptcy) of Credit Organisations introduced the following new Priority Claims: 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 claims of the CBR transferred to it pursuant to applicable legislation, in the event that the CBR was required to repay amounts of deposits placed by individuals with banks that went into bankruptcy.

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

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

German Insolvency Code

Clause 4 of the Trust Deed provides for, among other things, an English law charge in favour of the Trustee for the benefit of the Noteholders of certain amounts as well as certain claims and other rights of the Issuer under the Loan. Section 166(2) of the German Insolvency Code (*Insolvenzordnung*) (the “**Insolvency Code**”) provides that receivables assigned under German law for security purposes may, after the opening of insolvency proceedings involving the assignor, only be enforced by the assignee if the insolvency administrator (*Insolvenzverwalter*) does not exercise its power of discretion to enforce the receivables. If the insolvency administrator does exercise its discretion, it will be entitled to withhold from the enforcement proceeds a at-rate fee for the establishment and enforcement of the receivables of a total of 9 per cent. in favour of the bankruptcy estate, subject to adjustment in the case of higher or lower actual costs of enforcement, in each case plus value added tax (if any) thereon, pursuant to Sections 170(1) and 171 of the Insolvency Code. If the insolvency administrator allows the assignee to enforce the receivables, the assignee will be obliged to pay a at-rate fee of 4 per cent. plus value added tax (if any) thereon, to the bankruptcy estate pursuant to Sections 170(2) and 171(1) of the Insolvency Code. Section 166(2) of the Insolvency Code may affect the security given under the Trust Deed, since Sibacadembank cannot guarantee that a German court would hold that an English law charge should not be subject to such Section 166(2).

According to Section 103 of the Insolvency Code, the insolvency administrator of a German company that is subject to German insolvency proceedings generally has the right to choose or reject performance of mutual contracts (*gegenseitige Verträge*) of the insolvent company that have not been fully performed by either the insolvent company or the counterparty (so-called “executory contracts”). A typical example of an executory contract is a purchase agreement for goods under which the seller has not yet delivered the goods and the purchaser has not yet paid the purchase price. Pursuant to the prevailing view in legal writings, Section 103 of the Insolvency Code does not apply to fully disbursed loans in the insolvency of the lender or the borrower, on the ground that the lender has fully performed its obligations under the loan agreement by having disbursed the loan. A few authors have, however, argued that this provision should apply to loans because, even after full disbursement of a loan, the lender has the continuing obligation under the loan agreement to let the borrower use the proceeds of the loan during the term of the loan. Since the German Federal Court in Civil Matters (*Bundesgerichtshof*) has not yet ruled on this issue, it is not possible to exclude the risk that the insolvency administrator would be entitled to choose either to terminate or to perform a fully disbursed loan in the Issuer's insolvency. If the insolvency administrator had such a choice in the Issuer's insolvency and elected performance of the Loan Agreement, there would be a risk that the insolvency administrator could successfully take the position that any amounts to be paid by Sibacadembank under the Loan Agreement after the opening of the insolvency proceedings would be owed to the insolvency estate of the Issuer and would not be subject to the charge, based upon the argument that such election resulted in an automatic novation of the claims under the Loan.

USE OF PROCEEDS

The proceeds from the Loan (expected to be U.S.\$100,000,000 before taking account of fees, commissions and expenses), which is being funded in full by the issue of the Notes, will be used by Sibacadembank for the purpose of funding its lending activities and for general banking purposes. The fees, commissions and expenses relating to the offering of the Notes that the Lender is entitled to deduct from a single advance under the Loan Agreement are expected to be approximately U.S.\$1,260,000. The net proceeds of the Loan pertaining to Sibacadembank are expected to be approximately U.S.\$98,740,000.

CAPITALISATION AND INDEBTEDNESS

The following table sets out (i) Sibacadembank's capitalisation and indebtedness as of 31 December 2004 and (ii) such capitalisation and indebtedness as adjusted to reflect Sibacadembank's borrowing under the Loan Agreement. Prospective investors should read this information in conjunction with "Use of Proceeds", "Business—Financial Review" and the Financial Statements included elsewhere in this Offering Circular.

	As of 31 December 2004	
	Actual	As adjusted
	<i>(Amounts in thousands of Roubles)</i>	
Liabilities		
Due to other banks	368,647	368,647
Customer accounts	8,277,865	8,277,865
Certificates of deposit and promissory notes	491,317	491,317
Other liabilities	55,450	55,450
Loan Agreement	—	2,781,600
Total liabilities	<u>9,193,279</u>	<u>11,974,879</u>
Shareholders' Equity		
Share capital	756,491	756,491
Share premium	289,180	289,180
Retained earnings/(accumulated losses)	118,003	118,003
Total shareholders' equity	<u>1,163,674</u>	<u>1,163,674</u>
Total capitalisation and indebtedness	<u>10,356,953</u>	<u>13,138,553</u>

There has been no material change in Sibacadembank's capitalisation and indebtedness since 31 December 2004.

SELECTED FINANCIAL AND OPERATING INFORMATION

The following tables present selected financial information which has been extracted without material adjustment from, and should be read in conjunction with, the Financial Statements as of and for the years ended 31 December 2004, 2003 and 2002, prepared in accordance with IFRS, and the notes thereto included elsewhere in this Offering Circular as well as the sections entitled “Capitalisation and Indebtedness” and “Business—Financial Review”. The following tables also present selected financial information as of and for the three months ended 31 March 2005 that have been derived from the unaudited management accounts prepared by Sibacadembank. Such data derived from management accounts have not been prepared on a basis fully consistent with the Bank’s audited financial statements prepared in accordance with IFRS.

Income Statement Data

	Year ended 31 December			Three months ended 31 March
	2002	2003	2004	2005
	(Audited)			(Unaudited)
	<i>(Amounts in thousands of Roubles)</i>			
Interest income	319,694	511,742	1,237,761	379,400
Interest expense	(155,354)	(252,833)	(514,272)	(182,083)
Net interest income before provision for loan impairment	164,340	258,909	723,489	197,317
(Provision for)/recovery of impairment	(27,768)	15,616	(145,465)	(12,166)
Net interest income after provision for loan impairment	136,572	274,525	578,024	185,151
Gains less losses arising from trading securities..	14,580	17,397	11,518	(7,973)
Gains less losses arising from foreign exchange..	49,180	45,895	48,743	6,840
Fee and commission income	232,819	294,794	469,578	140,998
Fee and commission expense	(23,116)	(12,778)	(17,462)	(4,054)
Provision for losses on credit related commitments	—	—	(7,353)	(10,364)
Other operating income	15,879	30,759	23,839	5,529
Operating income	425,914	650,592	1,106,887	316,127
Operating expenses	(241,058)	(284,197)	(450,301)	(125,966)
Staff costs	(199,847)	(241,102)	(382,312)	(136,043)
Monetary loss	(243)	—	—	—
Profit before taxation	(15,234)	125,293	274,274	54,118
Income tax expense	5,026	(40,824)	(75,134)	(975)
Net profit	(10,208)	84,469	199,140	53,143

Balance Sheet Data

	31 December			31 March
	2002	2003	2004	2005
	(Audited)			(Unaudited)
	<i>(Amounts in thousands of Roubles)</i>			
ASSETS				
Cash and cash equivalents	536,613	1,533,457	2,013,097	966,242
Mandatory cash balances with the Central Bank of the Russian Federation	195,570	311,068	209,279	252,619
Trading securities	76,993	203,234	748,732	1,345,927
Due from other banks	32,144	248,907	467,906	920,861
Loans to customers	1,837,746	3,242,699	5,949,349	6,434,971
Investment securities available for sale	9,407	7,845	178,060	550,427
Investment in associates and unconsolidated subsidiary	11,119	19,596	34,867	34,867
Other assets	88,924	40,040	58,082	137,343
Deferred tax asset	32,333	25,891	19,169	44,120
Premises and equipment	437,997	459,674	678,412	645,261
Total assets	<u>3,258,846</u>	<u>6,092,411</u>	<u>10,356,953</u>	<u>11,332,638</u>
LIABILITIES AND EQUITY				
Liabilities				
Due to other banks	211,255	390,619	368,647	553,620
Customer accounts	2,363,455	4,686,541	8,277,865	8,914,399
Certificates of deposit and promissory notes	318,413	454,004	491,317	551,795
Other liabilities	16,508	81,578	55,450	96,006
Total liabilities	<u>2,909,631</u>	<u>5,612,742</u>	<u>9,193,279</u>	<u>10,115,820</u>
Shareholders' Equity				
Share capital	514,791	537,791	756,491	756,491
Share premium	—	23,000	289,180	289,180
Retained earnings/(accumulated losses)	(165,576)	(81,122)	118,003	171,147
Total shareholders' equity	<u>349,215</u>	<u>479,669</u>	<u>1,163,674</u>	<u>1,216,818</u>
Total liabilities and shareholders' equity	<u>3,258,846</u>	<u>6,092,411</u>	<u>10,356,953</u>	<u>11,332,638</u>

Financial Ratios

	Year ended 31 December			
	2001	2002	2003	2004
	(Audited)			
	(per cent.)			
Performance Ratios:				
Net interest margin (before provisions) ⁽¹⁾⁽⁷⁾	15	8	9	13
Net interest revenue (before provisions) to total assets	7	5	4	7
Non-interest income to net income ⁽²⁾	54	66	61	44
Cost income ratio ⁽³⁾	72	97	83	66
Return on average assets (ROAA) ⁽⁴⁾⁽⁷⁾	17	13	14	13
Return on average equity (ROAE) ⁽⁵⁾⁽⁷⁾	239	141	157	135
Balance Sheet Ratios (at period end):				
Customer accounts to customer loans	133	129	145	139
Customer loans to total assets	56	56	53	57
Shareholders' equity to total assets	8	11	8	11
Shareholders' equity to customer Loans (gross) .	15	19	15	20
Tier I capital adequacy ratio ⁽⁶⁾	9.8	13.5	11.5	15.2
Total capital adequacy ratio ⁽⁶⁾	10.0	13.3	11.5	15.4
Asset Quality (at period end):				
Overdue customer loans to total customer loans (gross)	2	1	1	1
Provisions to total loans (gross)	8	8	4	4
Overdue loans to provisions ⁽⁷⁾	27	12	16	33
Funding (at period end):				
Retail deposits/total liabilities	26	33	48	53

⁽¹⁾ Net interest income (before provision for loan losses) divided by average interest-earning assets as at the end of the year or period, as the case may be.

⁽²⁾ Net non-interest income (before provision for loan losses) divided by net revenues.

⁽³⁾ Operating expenses divided by Operating income (before provision for loan losses).

⁽⁴⁾ Operating income divided by average total assets.

⁽⁵⁾ Operating income divided by average equity.

⁽⁶⁾ Calculated in accordance with Basel Capital Accord standards.

⁽⁷⁾ Calculated, with respect to its income statement component, on an annualised basis for the three months ended 31 March 2005 and 2004.

BUSINESS

OVERVIEW

Established in 1990, Sibacadembank is a rapidly growing full-service bank occupying a leading position in its regional banking market. Sibacadembank is headquartered in Novosibirsk and has the second largest network of branches of any bank in the Siberian Federal District after Sberbank. The SFD comprises 16 regions, accounts for approximately 30 per cent. of the Russian territory and is inhabited by 20.5 million people (14.3 per cent. of Russia's total population). According to the CBR, Sibacadembank is the largest bank headquartered in the SFD in terms of net assets. According to the CBR, Sibacadembank was the 70th largest bank in Russia in terms of total assets, the 21st in terms of retail deposits and the 19th largest in terms of its outstanding consumer loan portfolio as of 1 February 2005.

Sibacadembank has prepared its financial statements in accordance with IFRS since 2000. Sibacadembank's net income amounted to RUR 199,140,000 for the year ended 31 December 2004 and, based on unaudited management accounts, RUR 53,143,000 for the three months ended 31 March 2005. Sibacadembank's assets amounted to RUR 10,356,953,000 as of 31 December 2004 and, based on unaudited management accounts, RUR 11,332,638,000 as of 31 March 2005.

Sibacadembank offers both retail and corporate services. Sibacadembank offers its retail clients a wide range of term, savings and current deposits in addition to credit card and consumer lending products. Sibacadembank's corporate banking activities include lending, deposit taking and trade finance as well as settlement operations, payroll services and corporate bankcards, foreign exchange, leasing and other corporate banking services. Sibacadembank also conducts financial markets operations.

Sibacadembank aims to become one of Russia's top 30 national banks in terms of total assets while maintaining its principal focus on the SFD and the Russian Far East. The Bank's medium-term strategy is to attain a 20 per cent. market share in each region in which it operates within the SFD and the Russian Far East and to continue to expand its network. As a universal bank, Sibacadembank plans to focus on building both its retail and corporate lines of business. In the near term, Sibacadembank expects that retail deposits will remain its major source of funding although the Bank plans to increase its stable long-term sources of funding including international financing and domestic Russian bonds.

In December 2004, the EBRD acquired a minority stake (25 per cent. plus one share) in Sibacadembank for RUR 285 million. Upon the completion of the acquisition, the EBRD stated publicly that its "participation in the capital of Sibacadembank aims to set high standards for corporate governance and show other regional banks that a well-managed independent bank can compete successfully with nationwide banks in its niche market". Under EBRD's Russia Small Business Fund ("RSBF") program, Sibacadembank actively markets and extends loans of up to U.S.\$125,000 with final maturities of up to three years. Sibacadembank is a participating issuing bank in the EBRD's Trade Facilitation Program, under which Sibacadembank's documentary credits may be eligible to be guaranteed by the EBRD for up to two years.

In March 2005, Moody's issued Sibacadembank a "B1" long term foreign currency rating, a "not prime" (NP) short term foreign currency deposit rating and an "E+" financial strength rating with a stable outlook. In May 2005, Fitch issued Sibacadembank a "B-" international long term credit rating, a "B" international short term credit rating, a "D" individual rating and a "5" support rating.

Sibacadembank is organised as an open joint stock company under the laws of the Russian Federation with its registered office and its head office at 18 Lenina Street, Novosibirsk 630004, Russian Federation. Sibacadembank possesses General License No. 523 of the Central Bank of the Russian Federation dated 16 October 1997 and Banking License No. 323 of 21 February 2000 (relating to deposit taking, precious metal deposition and other transactions). Sibacadembank is licensed (No. 054-06513-001000 of 10 October 2003) by the Federal Service on Financial Markets of the Russian Federation to act as a broker, dealer, portfolio manager and custodian in the Russian securities market. Sibacadembank is recorded in the Unified Registry of Legal Entities with the Ministry of Taxes and Levies of the Russian Federation under registration number 2225031749.

Sibacadembank is authorised in accordance with article 3 of its charter, among other things, to take deposits from individuals and corporations, invest deposited funds, open and maintain bank accounts for individuals and corporations, effect settlement operations, provide cash services, buy and sell foreign currency, carry out operations with precious metals, issue guarantees and perform banking transfers.

Sibacadembank has traditionally provided financial services to a number of large organisations located in Siberia including the Siberian Branch of the Russian Academy of Sciences and the West

Siberian Railway (a subsidiary of the Russian Railways OJSC). The Bank is a member of a variety of banking/financial associations, including the Rossiya Association of Regional Banks, the Moscow Interbank Currency Exchange, the St. Petersburg Interbank Currency Exchange, the Asian Pacific Interbank Currency Exchange, the Siberian Interbank Currency Exchange, the Siberian Stock Exchange, SWIFT, the North Western Bank Cards Association, the Golden Crown Payment System, the Siberian Finance and Banking Institute and the Credit Bureau Non Profit Partnership.

HISTORY AND DEVELOPMENT

Sibacadembank was established as a commercial bank and registered with the Central Bank of Russia (“**CBR**”) in 1990. Russkiy Narodniy Bank (Russian People’s Bank Ltd.) and Kuzbass Transport Bank Ltd. acceded to Sibacadembank in 1998 and 2001 respectively. In 2001, the Bank acquired a controlling interest in Dalvneshortorgbank in the Russian Far East which it subsequently disposed of in 2004. In 2003, Sibacadembank acquired 100 automated teller machines (“**ATM**”) from Wincor Nixdorf International GMBH, Germany. In 2003, Sibacadembank also acquired a 57.8 per cent. interest in the Western-Siberian Insurance Company “**ZHASO**” for RUR 33.8 million, which the Bank holds principally as a financial investment and with which Sibacadembank has a non-exclusive business relationship.

Sibacadembank has been actively expanding its network of branches across the region since 1998. Sibacadembank currently runs the largest private banking network in the SFD and the Russian Far East with eight regional headquarters, 120 branches and 155 ATMs. Sibacadembank has two representative offices outside of the SFD in the cities of Moscow and Blagoveshensk.

In addition to commercial banks, certain large International Financial Institutions (“**IFIs**”) have recently begun to work with Sibacadembank. In 2003, the EBRD provided a U.S.\$3 million loan to Sibacadembank to onlend to micro and small-enterprises. In 2004, the EBRD increased this loan to U.S.\$13 million in the aggregate and provided a separate U.S.\$3 million trade finance facility to the Bank. In 2004, Sibacadembank entered into a five year U.S.\$7 million loan agreement with the International Finance Corporation (“**IFC**”) and in January 2005 Kreditanstalt für Wiederaufbau (“**KfW**”) extended a seven year U.S.\$6.1 million credit facility to Sibacadembank for on-lending to small and medium sized enterprises.

In December 2004, the EBRD acquired a 25 per cent. plus one share interest in Sibacadembank for RUR 285 million pursuant to a subscription agreement between the EBRD and Sibacadembank. In connection with the acquisition of shares, EBRD entered into a shareholders agreement with the other principal shareholders of Sibacadembank, Messrs. Igor Kim, Andrei Bekarev and Alexander Taranov (the “**Other Principal Shareholders**”). The shareholders agreement provides, among other things, that the EBRD shall have the right to nominate one board member to Sibacadembank’s board, which may consist of a maximum of seven members. In addition, the shareholders’ agreement provides that no resolution of the shareholders or the board of directors to amend Sibacadembank’s charter or to increase Sibacadembank’s share capital shall become effective without the affirmative vote of the EBRD. Finally, the EBRD and the Other Principal Shareholders entered into a put and call option agreement which gives the Other Principal Shareholders the right to purchase the shares of Sibacadembank acquired by the EBRD pursuant to the subscription agreement and certain shares of Sibacadembank subsequently acquired by the EBRD pursuant to, among other things, the exercise of pre-emptive rights, during a two-year period commencing on December 2009. The put and call option agreement also gives EBRD the right to put its Sibacadembank shares to the Other Principal Shareholders in certain events, including breaches of the representations, warranties or covenants of Sibacadembank in the subscription agreement or of the Other Principal Shareholders in the shareholders agreement or the put and call option agreement or the insolvency of Sibacadembank.

MAJOR SHAREHOLDERS

The principal shareholders of Sibacadembank are Mr. Igor Kim, who holds a 33.6 per cent. interest, the EBRD, which holds a 25 per cent. plus one share interest, Mr. Andrei A. Bekarev, who holds a 16.8 per cent. interest and Mr. Alexander Taranov, who holds a 16.8 per cent. interest. In addition, the Russian Fund of Federal Property holds a 4.4 per cent. interest in Sibacadembank. Sibacadembank does not belong to any financial industrial group.

The shareholders in the Bank as of the date of this Offering Circular are indicated in the table below:

Shareholder	<i>Percentage of Shares</i>
Mr. Igor Kim ⁽¹⁾	33.6
European Bank for Reconstruction and Development.	25.0
Mr. Andrey A. Bekarev	16.8
Mr. Alexander Taranov ⁽²⁾	16.8
Russian Fund of Federal Property ⁽³⁾	4.4
Other shareholders	3.4
Total.	100.0

⁽¹⁾ Mr. Kim holds a 2.4 per cent. interest in Sibacadembank through ZAO Intorgkomplekt, a company which is wholly owned by Mr. Kim.

⁽²⁾ Mr. Taranov holds a 1.4 per cent. interest in Sibacadembank through OOO Dinasty 01, a company which is wholly owned by Mr. Taranov.

⁽³⁾ The Russian Fund of Federal Property is a specialized institution of the government of the Russian Federation.

Mr. Kim is the currently the Chairman of the Board of Directors of Sibacadembank. Mr. Igor Kim has previously served as a Chairman of the Board of Directors and as the General Director and as the Chairman of the Management Board of the Bank. Mr. Kim is a significant shareholder in three other Russian banks. In particular, Mr. Kim holds an approximate 46 per cent. interest in Uralvneshtorgbank, one of the largest financial institutions in the Ural region, which had total assets of approximately RUR 8.3 billion as of 31 December 2004. See “Management”.

The EBRD is a multinational financial organisation that invests in a large number of institutions and projects in Central Europe and Central Asia. The EBRD is rated AAA from Standard & Poor’s Rating Services, Aaa from Moody’s and AAA from Fitch. Sibacadembank believes that EBRD’s participation as a major shareholder of the bank reflects positively on the Bank’s corporate governance.

Mr. Bekarev is a member of the Board of Directors of Sibacadembank. He previously served as the Bank’s General Director and as the Chairman of the Management Board of the Bank. Mr. Bekarev currently serves as a member of the Board of Directors of an insurance company. See “Management”.

Mr. Taranov is a member of the Board of Directors of Sibacadembank. He previously served as a First Deputy General Director and as a member of the Management Board of the Bank. Mr. Taranov currently serves as a Chairman of the Board of Directors of Mezhtorgbank (JSC). See “Management”.

ORGANISATIONAL STRUCTURE

Sibacadembank conducts its banking operations through its network of branches in the SFD and the Russia Far East as well as through bank representatives providing point-of-sale financing at locations throughout the SFD and the Russia Far East. Sibacadembank’s day-to-day activities are exercised by the Management Board and Chairman of the Management Board under the supervision of the Board of Directors. See “Management”. The principal operational committees within Sibacadembank are the Credit Committee and the Financial Committee which are supported by the Legal Department, the Security Department, the Planning and Analysis Department and the Control Department. Sibacadembank’s principal business units are the Corporate Banking Department, the Retail Banking Department, the Treasury, the Regional Development Department and the International Relations Department.

STRATEGY

Sibacadembank’s strategy is to continue its development into a full-service bank offering corporate and retail services in Siberia and the Far East of Russia. Sibacadembank aims to increase its share of both the corporate and retail market in each of the regions in which it currently operates and plans to subsequently expand into new regions where management believes Sibacadembank can operate profitably. Sibacadembank actively seeks to expand its corporate and retail product portfolio as part of its growth strategy. In the longer term, Sibacadembank will also evaluate opportunities to expand in Russia through potential acquisitions, mergers or other forms of strategic alliances.

Retail Banking

Sibacadembank plans to continue to focus closely on retail banking. Sibacadembank considers retail banking to be more profitable than corporate banking due to the increasing demand for banking services

by consumers in the Russian Federation and the higher margins of lending to individuals as compared with lending to corporate customers. The Bank intends to increase its presence in the retail market by increasing the number and improving the quality of products and services offered to retail clients. Sibacadembank considers improvement in the quality of its retail banking services to be a priority, especially in light of increasing competition in the retail banking market and rising consumer demand for banking products. By the end of 2005, Sibacadembank aims to increase its retail lending portfolio from RUR 3 billion to RUR 8 billion.

As Sibacadembank has expanded, it has added new retail products such as overdrafts, consumer loans, car loans and mortgages to its product portfolio. Sibacadembank expects a continued increase in the demand for technologically enhanced retail banking products. Sibacadembank is therefore actively planning to promote electronic banking products such as Internet banking, payroll cards and credit cards that can be offered to a wide range of customers.

Sibacadembank is also developing other products designed to attract a large number of customers such as its automobile financing products and credit facilities for plastic card holders. In addition, Sibacadembank is actively developing its mortgage lending program through product offerings such as youth mortgage loans for customers who need assistance funding down payments on new homes. In developing its mortgage lending business, Sibacadembank plans to take advantage of its leading regional presence as Sibacadembank is often the only bank offering mortgage loans in a particular region or locale.

Corporate Banking

As part of Sibacadembank's strategy to develop into a full-service bank, it is seeking to diversify its banking services and funding sources and increase the number of and develop long term relationships with corporate clients. Sibacadembank plans to use corporate lending strategically to cross sell its fee based corporate banking products such as certificates of deposit, remote access systems, trade finance, foreign exchange and cash management services to its corporate clients.

In this market segment Sibacadembank is targeting both larger companies and micro and small enterprises ("MSEs"). Sibacadembank is currently expanding its product offerings for large corporate clients, including clients in the metals and coal sectors. Sibacadembank plans to significantly expand its trade finance related products and increase its use of export credit agency guarantees. Sibacadembank also plans to continue to aggressively promote MSE lending under the auspices of the EBRD's RSBF program, in which Sibacadembank is a partner bank. Sibacadembank has considerable expertise in MSE lending and plans to take advantage of the relatively low risk associated with this form of lending. By the end of 2005, Sibacadembank aims to have a corporate loan portfolio amounting to RUR 10 billion, with approximately RUR 2-3 billion in loans to MSEs and RUR 7-8 billion in loans to other corporate clients.

Sibacadembank believes that the EBRD's investment in the Bank will be attractive to potential corporate clients as the Bank believes this demonstrates that it is able to attract longer-term equity and debt capital and thus enhance its asset base and lending capabilities.

BANKING SERVICES AND ACTIVITIES

Overview

Sibacadembank's two main business lines are retail banking and corporate banking. Retail banking currently accounts for the major share of Sibacadembank's net interest income and for most of Sibacadembank's loans and deposits. However, in line with its strategy, Sibacadembank plans to increase its corporate banking operations in line with its retail operations. Sibacadembank also conducts financial markets operations principally for its own liquidity purposes.

As of 31 December 2004, Sibacadembank had outstanding a total of (gross of allowance for loan losses) RUR 6,223,652,000 in total loans to customers. As of 31 December 2004, Sibacadembank had a total of RUR 8,277,865,000 in deposits from customers.

Business Areas

Retail Banking

Development of retail banking is a key focus of Sibacadembank. In recent years, Sibacadembank has actively pursued retail customers through the significant expansion of its branch network and by

broadening its range of products. As a result, deposits from retail customers grew to RUR 5,870,447,000, or by over 353 per cent., as of 31 December 2004 from RUR 1,296,744,000 as of 31 December 2002. Currently Sibacadembank offers its clients a wide range of term, savings and current deposits in addition to credit card and consumer lending products.

Sibacadembank plans to distribute its products through its distribution network and Internet banking and is also developing other remote banking services such as mobile phone banking. See “—Strategy—Retail Banking”.

Consumer loans. Sibacadembank offers consumer loans at competitive rates based on a simplified approval procedure. Total loans to retail customers (gross of provisions for loan losses and excluding accrued interest) amounted to RUR 3,226,476,000 as of 31 December 2004, representing 52 per cent. of Sibacadembank’s total loans to customers (gross of provisions for loan losses and excluding accrued interest). At present, Sibacadembank offers overdraft facilities to holders of payroll cards, personal loans to finance purchases of consumer goods and services and car finance loans.

Sibacadembank is also actively developing its mortgage lending program through product offerings such as youth mortgage loans for customers who need assistance funding down payments on new homes. In developing its mortgage lending business, Sibacadembank plans to take advantage of its leading regional presence as Sibacadembank is often the only bank offering mortgage loans in a particular region or locale. Sibacadembank’s ability to expand its mortgage business is, however, largely dependent on its ability to obtain access to longer-term funding.

As part of its consumer finance activities, Sibacadembank also has bank representatives at over 230 locations throughout the SFD where its employees offer consumer financing at the point-of-sale for approximately 1,200 participating companies comprised primarily of retailers.

Current accounts and deposits. Sibacadembank offers retail customers a wide range of term, savings and current deposits. As of 31 December 2004, deposits from retail customers amounted to RUR 5,870,447,000, representing 70.9 per cent. of Sibacadembank’s total deposits from customers as of that date.

Payroll cards. At present, Sibacadembank’s most widespread retail product is payroll cards. As of 31 March 2005, Sibacadembank had issued over 373,228 payroll cards. These payroll cards allow access to the Zolotaya Korona (“**Golden Crown**”) network and are only accepted within the Russian Federation. The Bank also issues co-branded MasterCard and Golden Crown cards which can be used internationally through the MasterCard international payment system. The Bank offers one-month overdraft credit to certain payroll card holders. This credit is secured by the individual’s future payroll deposits. As of 31 March 2005, Sibacadembank had issued 240,000 payroll cards with the overdraft credit feature. In 2004, Sibacadembank began offering cardholders mobile telephone banking services. Cardholders can receive information on their current account balances and withdrawal limits by mobile phone.

International bankcards. Sibacadembank offers retail customers VISA and MasterCard credit and debit cards which are accepted for payment worldwide. Customers can use their bankcards to purchase merchandise using credit and to withdraw cash at any branch, mini branch or ATM of Sibacadembank. As of 31 March 2005, Sibacadembank had 2,598 MasterCard International cards and 1,394 VISA International cards in issue to retail customers compared with 1,694 and zero, respectively, as of 31 December 2004.

Corporate Banking

Sibacadembank’s corporate banking activities include lending, deposit taking and trade finance as well as settlement operations, payroll services and corporate cards, leasing operations, foreign exchange and other corporate banking services.

As of 31 March 2005, Sibacadembank had over 15,000 corporate customers. Sibacadembank’s domestic corporate customer base includes wholesale and retail companies, institutions of higher education, the Russian national railway and companies in the manufacturing, machine building, mining, telecommunications, food processing, finance and insurance, export, mechanical engineering, tourism and trade sectors.

Lending. As of 31 December 2004, total loans to corporate customers (gross of allowance for loan losses and excluding accrued interest) amounted to RUR 2,997,176,000, representing 48 per cent. of total loans to customers (gross of allowance for loan losses and excluding accrued interest). Sibacadembank offers a wide range of corporate loans in roubles and foreign currency, including short-term loans for

working capital purposes, medium-term loans for purchasing stock, raw materials and vehicles and longer-term loans to finance investment projects. Sibacadembank also offers its corporate clients other types of corporate lending services, principally:

- loans and credit lines to open letters of credit;
- overdraft facilities;
- purchasing and guaranteeing promissory notes;
- debt factoring;
- issuing guarantees; and
- financial leasing of equipment and vehicles.

The terms of Sibacadembank's loans extend up to three years, with an average term of approximately one year. In almost all instances, Sibacadembank requires collateral to support the loan.

Russia Small Business Fund. The RSBF was established by the EBRD in 1994 to provide financial support to the Russian small business sector. The main goals of the RSBF are to finance MSEs, which often find it difficult to obtain loans through other means, and to strengthen the MSE lending capacity of Russian banking institutions in order to create sustainable long-term access to financing for MSEs. The EBRD provides funds directly to Russian partner banks, such as Sibacadembank, which in turn make loans to MSEs. There are three types of loans which are offered under the RSBF program: express-micro, micro and small loans.

Express-micro loans are for amounts of up to U.S.\$5,000 for a term of up to three years at a fixed interest rate to businesses involved in trade, services and production employing not more than 30 people. This product is designed to provide expedited cash disbursement within two working days from application. Micro loans are for amounts of up to U.S.\$10,000 for a term of up to three years at a fixed interest rate to sole proprietors and legal entities involved in trade, services and production which employ less than 30 people. Micro loans may be used for replenishment of working capital, purchase of trade and production equipment, renovation of business premises, acquisition of immovable property and transport. Small loans range from U.S.\$10,000 to U.S.\$125,000 for a term of up to three years at a fixed interest rate to sole proprietors and legal entities who employ not more than 150 people and are involved in trade, services and production. The loans may finance fixed assets and working capital and, in the case of trading companies, finance only fixed assets. Small loans may be used for financing projects involving investments into fixed assets such as the acquisition of equipment, renovation of premises, and purchase of real estate. Loans offered under the RSBF programme must be made in strict compliance with the terms of the EBRD's policy statement for micro loans and small loans.

EBRD has issued a four-year term U.S.\$13 million loan to Sibacadembank to onlend to MSEs. As of 31 March 2005, Sibacadembank had U.S.\$14.1 million in loans outstanding under the RSBF program which represents approximately ten per cent. of its corporate loan portfolio.

Deposit taking. Sibacadembank offers promissory notes (both interest bearing and discounted), term deposits, deposit certificates and minimum deposit (limited withdrawal) bank accounts. Sibacadembank updates its interest rates regularly. As of 31 December 2004, Sibacadembank had RUR 2,407,418,000 in deposits from corporate customers, representing 29 per cent. of total deposits from customers.

Leasing. Sibacadembank plans to significantly increase its leasing business in which the Bank provides financing to a leasing company for the purpose of expanding its inventory of leasable goods or facilitating sale-lease back arrangements between the leasing company and its customer. Sibacadembank currently works with a number of leasing companies and plans to form its own leasing company in 2006.

Trade finance. Sibacadembank has expanded the range of its trade finance products, which include the provision of pre-export financing, import financing, issuing and confirming letters of credit and the provision of guarantees. Sibacadembank advises customers on payments under import-export contracts, international loans, rouble-denominated payments by non-residents and participation in international tenders for domestic goods. Sibacadembank has established relationships with foreign export agencies such as Hermes Kreditversicherungs-Aktiengesellschaft, Hungarian Export-Import Bank Ltd. and Atradius, foreign commercial banks such as Dresdner Bank Aktiengesellschaft, American Express Bank and Commerzbank Aktiengesellschaft and clearing banks within the Russian Federation and abroad to facilitate the transfer of funds.

As part of its efforts to expand its trade finance activities, Sibacadembank entered into a US\$ 3 million trade finance facility with the EBRD in December 2004 pursuant to which the EBRD may

issue guarantees to other banks in support of Sibacadembank's obligations arising out of letters of credit issued by the Bank and certain other of the Bank's trade finance activities.

Settlement operations. Sibacadembank offers rouble and foreign currency settlement operations to its customers through the CBR's clearing system, its own branch network and network of correspondence banks and provides specially designed systems that enable its major customers to identify the sources of fund transfers. Sibacadembank also offers a cash delivery service and the ability for corporate customers to manage their accounts remotely. In 2005, the American Express Bank (New York) gave a "Payment Quality" award to Sibacadembank in recognition of the high quality of its international payments.

Payroll services and corporate cards. Sibacadembank offers payroll and remittance services to over 1,800 companies as of 31 March 2005. Payroll services enable employers to reduce the costs of paying salaries to their employees, who are able to withdraw cash using plastic payroll cards at each of Sibacadembank's branches, mini branches or ATMs. As of 31 March 2005, Sibacadembank had installed 155 ATMs specifically to service its corporate payroll customers. In addition, Sibacadembank provides corporate customers corporate credit and debit cards using the MasterCard International, American Express and VISA International systems for employees' business travel and related expenses, although the number of cards in issue is not currently significant.

Foreign exchange. Sibacadembank buys foreign currency from and sells it to its corporate customers, including effecting the mandatory purchase of Russian exporters' foreign currency proceeds from its customers.

Other corporate banking services. Sibacadembank also provides brokerage services and depositary services to its corporate customers.

Financial Markets Operations

Sibacadembank trades corporate and government securities for its own account on major stock exchanges and the over-the-counter market. Sibacadembank actively manages its liquidity position on a day-to-day basis by acting for its own account on the Russian debt, corporate and government securities markets. As of 31 December 2004, Sibacadembank's trading securities portfolio amounted to RUR 748,732,000. The majority of Sibacadembank's securities portfolio consists of liquid promissory notes of large domestic issuers, fixed income government bonds and corporate bonds. Sibacadembank also carries out a range of money market operations, including conversion operations and foreign exchange sales and purchases principally for its corporate clients.

For the year ended 31 December 2004, Sibacadembank recorded a gain from trading securities of RUR 11,518,000 (excluding interest income), compared with a gain of RUR 17,397,000 for the year ended 31 December 2003.

The following table summarises Sibacadembank's portfolio of trading securities as of 31 December 2004.

	31 December 2004	
	Position size (in thousands of Roubles)	per cent. of total
Russian Federal loan bonds (OFZ)	677,790	90.53
Moscow government bonds	42,101	5.62
Corporate promissory notes	16,350	2.18
Corporate deposit certificates	—	0
Corporate bonds	12,491	1.67
Total	<u>748,732</u>	<u>100.0</u>

The following table sets out details of Sibacadembank's gains and losses in respect of its trading securities and foreign exchange operations.

	Year ended 31 December		
	2002	2003	2004
	<i>(Amounts in thousands of Roubles)</i>		
Gains less losses arising from trading securities	14,580	17,397	11,518
Gains less losses arising from foreign exchange	49,180	45,895	48,743
Total	<u>63,760</u>	<u>63,292</u>	<u>60,261</u>

FUNDING

Sibacadembank's principal sources of funding are demand and term deposits from individuals and corporate clients, which, as of 31 December 2004, amounted to RUR 8,277,865,000, the issuance of securities and interbank borrowing. As of 31 December 2004, deposits from banks amounted to RUR 368,647,000 and debt securities issued amounted to RUR 491,317,000.

IFIs are also an important source of funding to Sibacadembank. The EBRD has provided loans to Sibacadembank in the amount of U.S.\$13 million to on-lend to micro and small-enterprises. The IFC has entered into a five-year U.S.\$7 million loan agreement with Sibacadembank to provide financing for small and medium-sized enterprises. In addition, KfW has extended a seven-year U.S.\$6.1 million credit facility to Sibacadembank for small and medium-sized enterprises.

The following provides a brief description of Sibacadembank's principal loan facilities with IFIs.

- *Loans from the EBRD.* In February 2003, EBRD provided a U.S.\$3 million loan (the "**First Loan**") to Sibacadembank. In October 2004, EBRD increased this loan by U.S.\$10 million (the "**Additional Loan**"). The First Loan consists of two tranches of equal principal amount and the Additional Loan consists of two tranches of equal principal amount. Sibacadembank onlends the EBRD loans to MSEs under the RSBF program (see "Business—Banking Services and Activities—Business Areas—Corporate Banking—Russia Small Business Fund").

As of May 2005, the EBRD loan facilities were utilized in full. Interest on each of the loans is paid semi-annually at a rate equal to LIBOR plus a spread of 3 per cent. per annum.

Tranche A of the First Loan must be repaid three years from the date of the first disbursement thereunder, and tranche B must be repaid on the earlier of three years from the date of the first disbursement under tranche B or four years from the first disbursement under tranche A. For each of tranches A and B of the Additional Loan, 50 per cent. must be repaid on the first semiannual interest payment date following the second anniversary of the first disbursement of the respective tranche and the remaining 50 per cent. must be repaid on the next such interest payment date.

The EBRD loans are subject to covenants relating to on-lending obligations and financing requirements as well as certain financial covenants relating to, among others, capital adequacy, liquidity ratios, overdue loan ratios, operating expense ratios, compliance with CBR ratios, as well as covenants restricting the creation of security interests and unsecured indebtedness.

- *IFC loan.* In November 2004, the IFC entered into a U.S.\$7 million loan agreement with Sibacadembank to provide financing for privately owned small and medium enterprises ("**SMEs**"). The IFC loan consists of two tranches: a Regular Tranche of U.S.\$3 million and a Stand-by Tranche of U.S.\$4 million, which is subject to disbursement only once the Regular Tranche is fully disbursed. As of May 2005, a total amount of U.S.\$3 million was utilized under the IFC loan. IFC may suspend future disbursements if, among other things, the Regular Tranche has not been disbursed in full by November 2005 or if the Stand-by Tranche has not been disbursed in full by November 2006.

Interest on the loans is paid semi-annually. Interest on the Regular Tranche is payable on the outstanding amount at an annum rate of 3.65 per cent. plus LIBOR and interest on the Stand-by Tranche is payable on the outstanding amount at an annum rate of a firm spread for variable rate loans plus LIBOR.

The Regular Tranche shall be repaid in equal semi-annual installments commencing after 11 November 2006 and the Stand-by Tranche shall be repaid in equal semi-annual installments on or after 24 months from the provision of the Stand-by Tranche to Sibacadembank.

The IFC loan is subject to certain financial covenants relating to, among others, risk weighted capital adequacy, client exposure ratios and fixed assets and equity participations ratio, as well as covenants restricting the creation of security interests and unsecured indebtedness.

- *KfW credit facility.* In January 2005, KfW extended a U.S.\$6.1 million credit facility to Sibacadembank for the purpose of onlending to SMEs. As of May 2005 the KfW credit facility was utilised in full. Sibacadembank may choose between paying a fixed interest for each disbursement or a variable interest rate with an option to convert to a fixed interest rate. The fixed interest rate is determined by KfW on the date of the disbursement on the basis of KfW's applicable funding costs plus a margin of 5.5 per cent. The variable interest rate shall be the sum of Euro Inter-Bank Offered Rate and a margin of 5.5 per cent. per annum.

The loan shall be repaid in equal semi-annual installments, the first becoming due on the third anniversary of the first disbursement made under the loan agreement.

On April 8, 2005, Sibacadembank issued its first rouble-denominated bonds. Sibacadembank raised an aggregate of RUR 470 million in connection with the bond offering. The bonds have a maturity of 728 days but are callable at the election of investors after one year and pay quarterly interest at the rate of 10.59 per cent per annum.

Sibacadembank's funding strategy is to increase its rouble and foreign currency deposit base through the expansion of its network and its retail and corporate customer base. Sibacadembank intends to continue to obtain short and medium term financing in the rouble bond market through the issue of rouble bonds and promissory notes and it also intends to continue to obtain medium term financing through its correspondent banking relationships and through financings in the international markets (including in the syndicated loan and capital markets).

The following table sets forth an analysis of Sibacadembank's liabilities as of the dates listed.

	Year ended 31 December		
	2002	2003	2004
	<i>(Amounts in thousands of Roubles)</i>		
Due to Banks			
Term placements of other banks	50,809	132,426	303,660
Correspondent accounts of other banks	<u>160,446</u>	<u>258,193</u>	<u>64,987</u>
Total due to banks	<u>211,255</u>	<u>390,619</u>	<u>368,647</u>
Customer Accounts			
Individual			
Term deposits	968,121	2,714,086	4,886,322
Current/demand accounts	328,623	643,598	984,125
Corporate Customers			
Term deposits	366,441	483,328	1,413,705
Current/settlement accounts	<u>700,720</u>	<u>845,829</u>	<u>993,713</u>
Total customer accounts	<u>2,363,455</u>	<u>4,686,541</u>	<u>8,277,865</u>
Certificates of deposit and promissory notes	<u>318,413</u>	<u>454,004</u>	<u>491,317</u>
Other liabilities	<u>16,508</u>	<u>81,578</u>	<u>55,450</u>
Total liabilities	<u>2,909,631</u>	<u>5,612,742</u>	<u>9,193,279</u>

As of 31 December 2004, current/settlement accounts of individuals and current/settlement accounts of companies, represented 11.9 per cent. and 12.0 per cent. of total deposits, respectively, while term deposits of individuals and term deposits of companies, represented 59.0 per cent. and 17.1 per cent. of total deposits, respectively. As of 31 December 2004, current accounts and deposits from customers represented approximately 90.0 per cent. of Sibacadembank's total liabilities, with interbank deposits representing 4.0 per cent. of its total liabilities.

Sibacadembank accepts deposits in roubles and foreign currencies. As of 31 December 2004, approximately 10 per cent. of Sibacadembank's total current accounts and deposits from customers and banks were in foreign currencies, principally in U.S. dollars, with the remainder being in roubles.

Interest is paid on balances at rates determined by Sibacadembank from time to time. Banks in Russia are free to set interest rates paid on deposits without restriction by the CBR or any other

government agency. During the year ended 31 December 2004, the rates of interest on the majority of such accounts ranged from 0 per cent. per annum (on current accounts) to 12.0 per cent. per annum (on time deposits) in roubles and from 0 per cent. (on current accounts) to 7.5 per cent. per annum (on time deposits) in foreign currencies.

Interbank Deposits

Sibacadembank lends to and borrows from the interbank money market in Russia, usually on an overnight basis based on Sibacadembank's liquidity management requirements. Although Sibacadembank uses the interbank money market in Russia for the purposes of managing its liquidity position, its general policy is that interbank financing should not constitute a significant part of its general funding. Sibacadembank has also arranged for an additional interest-bearing credit line to be made available to it by the CBR which Sibacadembank can use for liquidity management purposes.

CAPITAL ADEQUACY

Sibacadembank is required to comply with capital adequacy guidelines promulgated by the CBR. These guidelines require a bank to maintain an adequate level of regulatory capital against risk-weighted assets and off balance sheet exposures. Sibacadembank's capital ratios comply with the requirements established by the CBR. However, Sibacadembank plans to further improve its capital ratios and increase its shareholders' equity by attracting capital from third party investors. The EBRD has indicated that it intends to retain 25 per cent. plus one share interest in Sibacadembank, and would therefore be expected to participate in any capital increase of the Bank on a pro rata basis.

The following table sets forth Sibacadembank's regulatory capital amounts and capital adequacy ratios as of the dates presented, based on Sibacadembank's Russian statutory accounts.

	Year ended 31 December		
	2002	2003	2004
	<i>(Amounts in thousands of Roubles)</i>		
Regulatory (statutory) capital	416,992	549,271	1,202,892
Capital adequacy ratio.....	14.3	11.3	15.3

Sibacadembank also complies with the Basel Capital Accord standards established by the Bank for International Settlements ("BIS"). In accordance with the Basel Capital Accord standards, Sibacadembank must maintain a total capital ratio in excess of eight per cent. Sibacadembank's medium-term minimum target BIS capital adequacy ratio is 12 per cent.

The following table sets forth an analysis of Sibacadembank's capital base, based on Basel Capital Accord Standards, as of the dates indicated.

	Year ended 31 December		
	2002	2003	2004
	<i>(Amounts in thousands of Roubles, except ratios)</i>		
Stock ⁽¹⁾	514,791	537,791	756,491
Additional paid in capital.....	0	23,000	289,180
Accumulated deficit.....	(169,496)	(81,122)	118,003
Tier I capital	345,295	479,669	1,163,674
Tier II capital.....	3,920	0	5,950
Total capital	349,215	479,669	1,169,624
Risk-weighted assets.....	2,564,272	4,157,540	7,611,851
 Tier I ratio ⁽²⁾	 13.5%	 11.5%	 15.3%
Total capital ratio ⁽³⁾	13.6%	11.5%	15.4%

⁽¹⁾ Comprising common stock and preference stock, if applicable, as of each of the dates indicated.

⁽²⁾ Tier I capital divided by risk-weighted assets.

⁽³⁾ Net total capital divided by risk-weighted assets.

FINANCIAL REVIEW

The following table summarizes Sibacadembank's financial performance for the periods indicated.

	Year ended 31 December		
	2002	2003	2004
	(Audited)		
	<i>(Amounts in thousands of Roubles)</i>		
Interest income	319,694	511,742	1,237,761
Interest expense	(155,354)	(252,833)	(514,272)
Net interest income before provision for loan losses	164,340	258,909	723,489
Recovery of/(provision for) loan impairment	(27,768)	15,616	(145,465)
Net interest income	136,572	274,525	578,024
Net gain on trading securities	14,580	17,397	11,518
Net gain on foreign exchange	49,180	45,895	48,743
Fee and commission income	232,819	294,794	469,578
Fee and commission expense	(23,116)	(12,778)	(17,462)
Provision for losses on credit related commitments	—	—	(7,353)
Other operating income	15,879	30,759	23,839
Operating income	425,914	650,592	1,106,887
Operating expenses	(241,058)	(284,197)	(450,301)
Staff costs	(199,847)	(241,102)	(382,312)
Monetary loss	(243)	—	—
Profit/(loss) before taxation	(15,234)	125,293	274,274
Income tax expense	5,026	(40,824)	(75,134)
Net profit/(loss)	(10,208)	84,469	199,140

The following table summarizes Sibacadembank's total assets as of the dates indicated.

	Year ended 31 December		
	2002	2003	2004
	<i>(Amounts in thousands of Roubles)</i>		
Total assets	3,258,846	6,092,411	10,356,953

Year ended 31 December 2004 compared to year ended 31 December 2003

Net interest income

For the year ended 31 December 2004, Sibacadembank's interest income was RUR 1,237,761,000 an increase of 141.9 per cent. compared with interest income of RUR 511,742,000 in 2003. This increase was primarily attributable to the growth of Sibacadembank's loan portfolio. As of 31 December 2004, loans to customers amounted to RUR 5,949,349,000 as compared to RUR 3,242,699,000 as of 31 December 2003.

For the year ended 31 December 2004, Sibacadembank's recorded interest expense of RUR 514,272,000 an increase of 103.4 per cent. compared with interest expense of RUR 252,833,000 for the year ended 31 December 2003. This increase was primarily attributable to growth in the Bank's deposit base.

In addition, the Bank recorded a provision for loan impairment of RUR 145,465,000 for the year ended 31 December 2004 as compared to recovery of provision for loan impairment of RUR 15,616,000 for the year ended 31 December 2003.

As a result of the foregoing, for the year ended 31 December 2004, Sibacadembank's net interest income after provision for loan impairment was RUR 578,024,000 compared with net interest income of RUR 274,525,000 in the year ended 31 December 2003.

Non-interest income

Non interest income comprises fees and commissions income, net gain on trading securities, net gain on foreign exchange and other operating income. For the year ended 31 December 2004, Sibacadembank's total non-interest income was RUR 553,678,000 compared with total non-interest income of RUR 388,845,000 in 2003. This increase in non-interest income was primarily due to an increase in net fee and commission income as a result of an increase in the Bank's customer base.

Sibacadembank generates fee and commission income principally from settlement transactions. Sibacadembank's fees and commissions income was RUR 469,578,000 in 2004, an increase of 59.3 per cent., compared with fees and commissions income of RUR 294,794,000 in 2003. Sibacadembank's net gain on trading securities was RUR 11,518,000 in 2004, a decrease of 33.8 per cent., compared with net gain on trading securities of RUR 17,397,000 in 2003. Net gain on foreign exchange was RUR 48,743,000 in 2004 as compared with RUR 45,895,000 in 2003.

Operating expenses and staff costs

Operating expenses increased to RUR 450,301,000 for the year ended 31 December 2004 from RUR 284,197,000 for the year ended 31 December 2003, which increase was principally due to the Bank's expansion of its branch network and overall operations.

Staff costs increased to RUR 382,312,000 for the year ended 31 December 2004 from RUR 241,102,000 for the year ended 31 December 2003, which increase was principally due to an increase in the average number of employees to 1,523 during 2004 from 1,148 in 2003.

Net profit

In 2004, Sibacadembank's net income increased to RUR 199,140,000 from RUR 84,469,000 in 2003. The increase was due primarily to an increase in lending and fee generating activity.

Total assets

Sibacadembank's total assets increased to RUR 10,356,953,000 as of 31 December 2004 from RUR 6,092,411,000 as of 31 December 2003.

Year ended 31 December 2003 compared to year ended 31 December 2002

Net interest income

For the year ended 31 December 2003, interest income was RUR 511,742,000 for 2003 an increase of 60.1 per cent. compared to RUR 319,694,000 for 2002. This increase was primarily attributable to growth in Sibacadembank's loan portfolio. As of 31 December 2003, loans to customers amounted to RUR 3,242,699,000 as compared to RUR 1,837,746,000 as of 31 December 2002.

For the year ended 31 December 2003, Sibacadembank's interest expense was RUR 252,833,000 an increase of 62.7 per cent. compared with interest expense of RUR 155,354,000 for the year ended 31 December 2002. This increase was primarily attributable to growth in the Bank's deposit base.

In addition, the Bank recorded a recovery of provision for loan impairment of RUR 15,616,000 for the year ended 31 December 2003 as compared to a provision for loan impairment of RUR 27,768,000 for the year ended 31 December 2002.

As a result of foregoing, for the year ended 31 December 2003, Sibacadembank's net interest income after provision for loan impairment was RUR 274,525,000 compared with net interest income of RUR 136,572,000 for the year ended 2002.

Non-interest income

Non-interest income amounted to approximately RUR 388,845,000 in 2003, compared to RUR 312,458,000 in 2002. The increase in non-interest income was primarily due to an increase in net fee and commission income as a result of an increase in the Bank's customer base.

Sibacadembank's fees and commissions income was RUR 294,794,000 in 2003 compared with fees and commissions income of RUR 232,819,000 in 2002. Sibacadembank's net gain on trading securities was RUR 17,397,000 in 2003 compared with net gain on trading securities of RUR 14,580,000 in 2002. Net gain on foreign exchange was RUR 45,895,000 in 2003 as compared with RUR 49,180,000 in 2002.

Operating expenses and staff costs

Operating expenses increased to RUR 284,197,000 for the year ended 31 December 2003 from RUR 241,058,000 for the year ended 31 December 2002, which increase was principally due to the Bank's expansion of its branch network and overall operations.

Staff costs increased to RUR 241,102,000 for the year ended 31 December 2003 from RUR 199,847,000 for the year ended 31 December 2002, which increase was principally due to an increase in the average number of employees to 1,148 during 2003 from 976 in 2002.

Net profit

In 2003, Sibacadembank's net profit increased to RUR 84,469,000 from a net loss of RUR 10,208,000 in 2002. The increase was due to increases in lending and fee generating activity.

Total assets

Sibacadembank's total assets increased to RUR 6,092,411,000 as of 31 December 2003 from RUR 3,258,846,000 as of 31 December 2002.

CAPITAL EXPENDITURES

The Bank recorded capital expenditures of RUR 197 million in 2002, RUR 178 million in 2003 and RUR 186 million in 2004, including expenditures relating to IT equipment, buildings, automobiles, ATMs and other items. The Bank finances essentially all of its capital expenditures from internally generated funds. In 2005, the Bank expects to have capital expenditures of approximately RUR 200 million, the majority of which will comprise spending on IT equipment and buildings.

BRANCH NETWORK

Sibacadembank has succeeded in building up the largest private branch network in the SFD covering all major geographical areas, and expects to open additional outlets in the future. As of 31 March 2005, Sibacadembank had eight regional headquarters, a total of 120 branches and 155 ATMs.

MARKET POSITION AND COMPETITIVE ADVANTAGES

The banking sector in Russia is highly fragmented and very competitive. There were 1,289 banks and non-banking credit organisations operating in Russia as of 1 April 2005. However, a small number of Moscow-based banks dominate the national Russian banking industry and foremost among them is the CBR controlled Sberbank. As of 31 December 2004, five banks accounted for 39.4 per cent. of the total value of bank assets in Russia. Sibacadembank is the largest bank headquartered in the SFD in terms of net assets. Based on CBR figures, as of 1 February 2005, nationally, Sibacadembank ranked 70th in terms of total assets, 21st in terms of retail deposits and 19th in terms of its outstanding consumer loan portfolio.

Over the medium term, Sibacadembank's management believes that Sibacadembank has a competitive advantage over large Moscow-based banks due to its familiarity with the local SFD market and experience with MSE lending. Sibacadembank has considerable expertise in MSE lending as a partner bank in the EBRD's RSBF program. Sibacadembank management believes that the SFD is relatively under-banked and that the personal loan market is quickly expanding. Consumer lending, a segment of the retail banking market in which Sibacadembank is competitive, experienced significant growth in 2000-2004. According to CBR statistics, between 1 January 2000 and 1 October 2004, the volume of consumer loans in Russia grew at an average annual rate of 85 per cent. reaching a total volume U.S.\$17.7 billion.

Sibacadembank believes that it enjoys a strong position in the Russian banking market and has a number of competitive advantages over other banks, in particular its independence from Russian financial industrial groups and its established relationship with IFIs.

- Independence from Russian Financial Industrial Groups. Sibacadembank is not controlled by or affiliated with any Russian financial industrial group. As a result, Sibacadembank has greater ability to engage in lending to sectors that are commercially attractive and does not have high concentrations of related-party lending.
- Established Relationship with IFIs. Sibacadembank has established strong relationships with important international banks, including the EBRD, the IFC and KfW. Such banks provide

Sibacadembank with a source of long-term international capital. The EBRD, as an owner of a 25 per cent. plus one share interest in Sibacadembank has also helped enhance Sibacadembank's international reputation and has taken steps to improve the Bank's corporate governance and financial reporting systems.

EMPLOYEES

As of 31 March 2005, Sibacadembank employed 2,263 people of whom 539 were employed at Sibacadembank's head office and the remainder at its branches.

The following table sets forth the average number of Sibacadembank's employees in 2002, 2003 and 2004, including staff employed by Sibacadembank's regional branches.

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Average Number of Employees	976	1,148	1,523
Percentage Change	24	17.6	32.7

Sibacadembank views the training and professional development of its staff as a priority. For personnel training purposes, Sibacadembank runs a number of internal courses and provides opportunities for its management and staff to study at institutes of higher education or attend courses organised by the EBRD. Sibacadembank seeks to promote staff and enable them to develop their careers within the Bank where possible. Approximately 60 per cent. of Sibacadembank's employees have university diplomas.

Sibacadembank considers its relationship with its employees to be good and none of its employees is a member of a trade union or labour collective.

INFORMATION TECHNOLOGY

Sibacadembank sees technical support of its operations as a priority. Sibacadembank looks for reliability, safety, quality and efficiency in its information and computer systems. All major computer systems used by Sibacadembank have back up resources. Sibacadembank has modernised its core IT system over the past three years in order to increase its capacity, improve fault tolerance and reduce downtime.

Sibacadembank employed 53 staff in its IT department as of 31 December 2004 and may hire additional staff as its business grows.

For the year ended 31 December 2004, Sibacadembank recorded capital expenditure of RUR 3.9 million for telecommunications, RUR 48.6 million for computer hardware and RUR 20.8 million for computer software.

PROPERTY

Sibacadembank's principal fixed assets include its head office building located in Novosibirsk and several of its branch buildings which had a net book value of RUR 357 million as of 31 December 2004.

LITIGATION

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

RISK MANAGEMENT

Overview

Risk management is fundamental to the banking business and is an essential element of Sibacadembank's operations. Sibacadembank's risk management and control system addresses the following types of banking risks:

- credit risk;
- liquidity risk;
- operational risk; and
- market risk (including foreign exchange risk and interest rate risk).

Sibacadembank's risk management policies and procedures in respect of the above risks are designed to identify and analyse those risks, prescribe appropriate limits to various risk areas and to monitor the level and incidence of such risks on an on-going basis.

One of the key risk management tools in Sibacadembank is the system of limits on risks, based on the CBR prudential requirements.

Sibacadembank regularly reviews its risk analysis procedures in order to adapt to the growth of its business and the varying nature of the risks which Sibacadembank faces in its day-to-day business.

Organisation

Sibacadembank's risk management is based on the system of managerial reporting. The Sibacadembank divisions which are responsible for the risk management activities prepare reports as specified in Sibacadembank's internal documents on risk management. Sibacadembank's primary internal document on risk management is the Risk Management Policy. The Risk Management Policy is approved by the Management Board and sets out Sibacadembank's risk management goals and methodologies.

The responsibility for Sibacadembank's risk management activities is divided among the following units: Risk Management Department, Asset and Liabilities Committee (ALCO), Credit Committees (at the level of Sibacadembank and each of its branches), Treasury Department and Internal Audit Service.

Risk Management Department. The Risk Management Department is responsible for:

- preparing internal documents on Sibacadembank's risk management procedures, including the identification, evaluation and control of risks;
- independently analysing and evaluating all types of risk to which Sibacadembank is exposed, including risks associated with its credit products;
- independently monitoring the financial and business situation of Sibacadembank's clients (corporates and financial institutions);
- evaluating and monitoring collateral; and
- monitoring the repayment of problem loans.

The composition of the Risk Management Department is approved by the General Director of Sibacadembank. The Risk Management Department is staffed by 24 professionals and is headed by Ms. Tatyana Cherepanova.

ALCO. The ALCO is responsible for the implementation of Sibacadembank's risk management policy, including:

- managing the structure of assets and liabilities;
- approving the interest rate policy;
- setting limits for the balance sheet structure and for interest rates on deposits and loans;
- approving internal documents on risk identification, evaluation and management; and
- approving the policy on the management of middle-term and long-term liquidity.

The composition of the ALCO is approved by the General Director of Sibacadembank. The ALCO is currently staffed by eight professionals and is headed by Ms. Elena Elchyinskaya.

Credit Committees. The system of Sibacadembank's credit committees (the "**Credit Committees**") includes the Credit Committee of Sibacadembank (the "**Credit Committee**") and Credit Committees of Sibacadembank's branches (the "**Branch Credit Committees**"). The distribution of responsibilities between the Credit Committees is set out in Sibacadembank's internal documents. The Branch Credit Committees take credit decisions on the basis of the powers conferred to them by the Credit Committee or the General Director for the term of up to twelve months. Within such powers, the Branch Credit Committees are free to act independently subject to various limits established in relation to their credit decisions (such as the maximum exposure, tenor or interest rate under a credit facility, etc.). The Branch Credit Committees report to the Credit Committee and the Credit Committee reports to the General Director.

The Credit Committees are responsible for the management of Sibacadembank's credit risks, including:

- determining and approving the terms of credit products;
- determining categories of credit risks;
- setting requirements for collateral; and
- considering issues related to problem loans.

The composition of the Credit Committee is approved by the General Director and includes senior managers whose activities involve risk assessment (e.g., specialists of the Risk Management Department. The Credit Committee is usually chaired by the Deputy Head of the Risk Management Department. The composition of the Branch Credit Committees is considered by the Credit Committee upon the recommendation of the head of the respective branch and is subject to final approval by the General Director. The Branch Credit Committees are usually chaired by the Head (Deputy Head) of the relevant branch.

The Credit Committee is staffed by nine professionals and is headed by Ms. Tatyana Cherepanova, the Deputy Head of the Risk Management Department.

The Treasury Department. The Treasury Department is primarily responsible for managing Sibacadembank's short-term and current liquidity and its currency position within the applicable requirements and limits. The Treasury Department is staffed by 14 professionals and is headed by Mr. Marat Avleev.

The Internal Audit Service. The Internal Audit Service reports to the Board of Directors, which appoints the head of the Internal Audit Service (currently, Mr. Boris Semenchuk). The Internal Audit Service is responsible for Sibacadembank's compliance with all applicable legislation and internal regulations and resolutions. The Internal Audit Service is staffed by 11 professionals, who may not occupy any other positions in Sibacadembank. The activities of the Internal Audit Service are governed by Sibacadembank's charter and the relevant internal regulations.

Credit Risk

As with any other bank, Sibacadembank is exposed to credit risk, which is the risk that a borrower or a counterparty will be unable to pay amounts in full when due. Sibacadembank aims to diversify its credit portfolio in order to avoid credit risk over-concentration. According to Sibacadembank's Credit Policy, its exposure to a single borrower should not exceed 25 per cent. of Sibacadembank's regulatory capital, which is in line with the mandatory requirements of the CBR.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to individual borrower or groups of borrowers, and economic sectors. Limits on the level of credit risk by borrower (or group of borrowers) and economic sectors are approved by the Bank's Credit Committee on a regular basis.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

The Bank's maximum exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same procedures and methodologies, as defined by its credit policy, for approving credit related commitments (credit lines, letters of credit and guarantees) as it does for on balance sheet credit obligations (loans).

Sibacadembank assesses risk associated with a particular counterparty pursuant to its risk rating system (see “Lending Policies and Procedures—Risk Rating System”).

Liquidity Risk

As with any other bank, Sibacadembank is exposed to liquidity risk, arising out of mismatches between the maturities of its assets and liabilities.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

The following table shows the gap between the contractual maturities of assets and liabilities of the Bank as of 31 December 2004.

Liquidity gap as of 31 December 2004	<u>Demand and less than 1 month</u>	<u>From 1 to 6 months</u>	<u>From 6 to 12 months</u>	<u>More than 1 year</u>	<u>No stated maturity</u>
Assets	3,139,723	2,755,675	1,910, 352	1,768,198	783,005
Liabilities .	<u>3,141,664</u>	<u>1,928,698</u>	<u>2,913,205</u>	<u>1,195,106</u>	<u>14,606</u>
Liquidity gap	<u>(1,941)</u>	<u>826,977</u>	<u>(1,002,853)</u>	<u>573,092</u>	<u>768,399</u>
Cumulative gap	(1,941)	825,036	(177,817)	395,275	1,163,674

The following table shows the assets and liabilities of the Bank by contractual maturity as of 31 December 2004.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents.	2,013,097	—	—	—	—	2,013,097
Mandatory cash balances with the Central Bank of the Russian Federation.	69,559	43,628	69,694	26,398	—	209,297
Trading securities. .	8,394	10,054	65	730,219	—	748,732
Due from other banks	316,580	67,500	72,081	11,745	—	467,906
Loans to customers .	695,844	2,549,499	1,766,736	904,257	33,013	5,949,349
Investment securities available for sale . . .	—	81,554	—	95,019	1,487	178,060
Investment in unconsolidated subsidiary .	—	—	—	—	34,867	34,867
Other assets .	36,249	3,440	1,776	560	16,057	58,082
Deferred tax asset.	—	—	—	—	19,169	19,169
Premises and equipment.	—	—	—	—	678,412	678,432
Total assets. .	<u>3,139,723</u>	<u>2,755,675</u>	<u>1,910,352</u>	<u>1,768,198</u>	<u>783,005</u>	<u>10,356,953</u>
Liabilities. . .						
Due to other banks	128,885	17,193	72,081	150,488	—	368,647
Customer accounts . .	2,751,350	1,725,683	2,756,676	1,044,156	—	8,277,865
Certificates of deposit and promissory notes	246,522	159,932	84,401	462	—	491,317
Other liabilities . .	<u>14,907</u>	<u>25,890</u>	<u>47</u>	<u>—</u>	<u>14,606</u>	<u>55,540</u>
Total Liabilities .	<u>3,141,664</u>	<u>1,928,698</u>	<u>2,913,205</u>	<u>1,195,106</u>	<u>14,606</u>	<u>9,193,279</u>
Net liquidity gap.	(1,941)	(826,977)	(1,002,853)	573,092	768,399	1,163,674
Cumulative liquidity gap as at 31 December 2004	(1,941)	825,036	(177,817)	395,275	1,163,674	

Operational Risk

In line with the proposed Basel II banking regulatory reforms, Sibacadembank regards operational risk as the risk of loss resulting from inadequate or ineffective internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Examples of events that are included under this definition of operational risk are losses from fraud, computer system failures, settlement errors, model errors or natural disasters. An effective monitoring process is essential for adequately managing operational risk. Regular monitoring activities can offer the

advantage of quickly detecting and correcting deficiencies in the policies, processes and procedures for managing operational risk. Promptly detecting and addressing these deficiencies can substantially reduce the potential frequency and/or severity of a loss event. Sibacadembank is focused on the implementation of a process to regularly monitor its operational risk profiles and material exposures to operational losses. Sibacadembank's systems calling for the regular reporting of information to senior management and the Board of Directors will also support the proactive management of operational risk, which the Basel Committee has required in its "sound practices" paper.

In April 2005, the Bank obtained a comprehensive banking risk insurance policy from OAO ROSNO, a Russian insurance company. This insurance policy mainly covers criminal activity relating to property damage, document forgery, personnel disloyalty, theft, etc. It does not cover though losses occurring as a result of electronic or computer crimes. The amount of total insurance indemnity under this policy is limited to U.S.\$ 500,000.

Market Risk

Sibacadembank is exposed to market risks (including foreign exchange risk and interest rate risk) which arise from losses caused by fluctuations in the market price of financial instruments. To manage market risks, the Bank implements stress-testing, which is carried out at least quarterly. The stress-testing technique is based on a scenario analysis involving a forecast of the Bank's financial performance as affected by various negative factors. One of the stress-testing techniques – the "worst-case scenario" – is based on an analysis of the impact of a combination of the most negative factors. The parameters of the scenario analysis are suggested by the risk division within the Treasury (the "**Treasury Risk Division**"). Such parameters should contain quantitative standards for analyzing the ratios generated by the forecast. Depending on the purpose of the stress-testing, up to three scenarios may be analysed at a time.

Foreign exchange risk. Foreign exchange risk is the risk of losses caused by fluctuations of foreign currencies rates in relation to the Russian rouble. To manage foreign exchange risks, Sibacadembank sets a separate risk limit for each foreign currency and an aggregate foreign exchange risk limit in relation to the Bank's capital. The Treasury Risk Division calculates foreign exchanges risks and makes recommendations in relation to their amount. In order to determine prevailing market trends and assess the market stability, the Treasury Risk Division regularly monitors foreign exchange risks. To assess the market stability, they use the ratio of the standard deviation of the foreign exchange rate from the average value over a certain period of time.

The following table sets out Sibacadembank's currency exposure by currency as of 31 December 2004.

Currency mismatch as of 31 December 2004	RUR	U.S.	Other
	<i>(Amounts in thousands of Roubles)</i>		
Assets	9,216,075	700,954	439,924
Liabilities	8,017,828	732,254	443,197
Currency exposure	1,198,247	(31,300)	(3,273)

Interest rate risk. The Bank is exposed to interest rate risk as a result of lending to clients and other banks at fixed interest rates in amounts and for periods which differ from those of term deposits and other borrowed funds at fixed interest rates. Due to future changes in interest rates, the Bank's liabilities may have disproportionately high interest rates compared to those of its assets and vice versa. Interest margins on assets and liabilities having different maturities may increase as a result of changes in market interest rates.

The Bank evaluates its interest rate risk based on internal analytical models to measure the sensitivity of financial results to changes in key financial market indicators, stress testing and scenario analysis, which takes into account possible changes in the structure of the Bank's assets and liabilities. The results of interest rate risk analyses are used in the preparation of long and short-term business plans and for establishing the Bank's interest rates and the structure of its assets and liabilities. For purposes of assessing interest rate risk, assets and liabilities are classified by maturity, currency and by fixed or floating interest rates. The Bank conducts a sensitivity analysis to determine the impact of interest rate movements on the Bank's portfolio of assets and liabilities within the following year.

In the Bank's view, the use of interest rate hedging instruments to mitigate interest rate risk are not widely used in Russia and there are a limited set of interest rate management tools at its disposal. The

Bank attempts to mitigate interest rate risk by setting medium term criteria with respect to the maturities and types of funds which can be accessed by the Bank, by resetting fixed short-term interest rates on both assets and liabilities (other than retail customer deposits) to reflect current market conditions, by setting limits on the degree of potential interest rate changes in negotiated contracts, and by managing treasury and investment portfolios.

CORPORATE LENDING POLICIES AND PROCEDURES

Sibacadembank specialises in lending to small and medium-sized privately-owned companies. The lending activities of Sibacadembank generally focus on the regions where it is represented via its branches. While Sibacadembank does not show preference to borrowers in any particular industry, it generally grants loans to those companies which add value to their respective industries, including manufacturers, service providers and large wholesalers/distributors selling exclusive products.

Sibacadembank has established procedures for approving loans and monitoring loan quality and for extensions and refinancing of existing loans, which comply with Russian law, the CBR requirements and agreements reached between Sibacadembank and its international partners. These procedures are set out in the Credit Policy approved by the Management Board. The Credit Policy sets forth the following goals for Sibacadembank's lending business:

- effective utilization of Sibacadembank's resources, i.e., creation of a higher quality and profitable loan portfolio in the short-term and long-term;
- creation of the credit culture conforming to international standards; and
- creation of a diversified loan portfolio based on individual limits to companies or groups of companies, and industry, collateral and currency considerations.

The loan approval process involves the following officers/divisions of Sibacadembank.

- Loan officers within the Retail and Corporate Lending Departments whose primary responsibilities include business development and management of the loan portfolio;
- Risk analysts within the Risk Management Department whose primary responsibilities include financial analysis and loan monitoring;
- Appraisal Department whose primary responsibilities include independent collateral appraisal and certification, as well as management and quality control of independent appraisers;
- Security Department whose primary responsibilities include background checks of the potential borrowers and their managers/owners;
- Legal Department whose primary responsibilities include the review of corporate documentation, confirmation of authorisations, capacities, ownership rights and validity of collateral; and
- Problem Loan Department whose primary responsibilities include the management of problem loans.

Credit decisions in Sibacadembank may be taken either collectively (involving the above divisions of Sibacadembank) or individually (the General Director and persons authorised to do so by the relevant internal order of the General Director).

Risk Rating System

Sibacadembank implements a system of risk ratings for its corporate borrowers. Such risk rating system serves the following purposes:

- creation of a uniform approach to evaluating credit risks;
- improvement of the loan portfolio management;
- creation of a high-standard credit culture;
- motivation of personnel involved in the loan extension process; and
- maintenance of loan loss reserves in accordance with IFRS.

The risk ratings are assigned to companies in connection with a limited number of credit products, namely loans, leases, bank guarantees and letters of credit.

To ensure an unbiased approach and to avoid the conflict of interests in the process of the evaluation of credit risks and the assignment of risk ratings, Sibacadembank has separated the functions of credit managers (responsible for the development of new business) and risk analysts (responsible for the evaluation of risks).

The process of risk rating involves the following officers/divisions:

- credit managers;
- risk analysts;
- credit committees;
- the Problem Loan Department; and
- the Internal Audit Service.

Each of the credit managers and risk analysts assign their preliminary risk ratings to a borrower and submit these for the approval of the relevant credit committee. The relevant credit committee considers the preliminary risk ratings proposed by the credit manager and the risk analyst and assigns its initial rating. The Internal Audit Service reviews a random sample of the initial ratings. The judgment of the Internal Audit Service on a risk rating is considered to be final. Frequent discrepancies between the risk ratings assigned by the Internal Audit Service and those assigned by a credit officer/risk analyst may affect the evaluation of the performance of the relevant officer.

The system of risk management does not envisage any fixed set of criteria for the assignment of risk ratings, but allows for a flexible approach towards each borrower. When assigning risk ratings, Sibacadembank's professionals are generally expected to exercise their professional judgment and rely on their experience. They are also expected to take into account, among other things, the following: the borrower's credit history, financial standing and turnover, quality of the borrower's management collateral provided and the relationship between the borrower and Sibacadembank.

The system of risk ratings envisages the following three groups of risk categories: low-risk group (risk categories from 1 to 4), average-risk group (risk categories from 5 to 6) and high-risk group (risk categories from 7 to 9). Loans falling into the low-risk and average-risk groups are regarded as standard loans and are monitored by risk analysts on a quarterly (risk categories 1-5) and monthly basis (risk category 6). Loans falling into the high-risk group are regarded as non-standard loans and are monitored by the Problem Loan Department on a monthly basis. Based on this monitoring, the relevant risk analyst / the Problem Loan Department, as the case may be, prepares a report for the Chief Credit Officer on a monthly basis, as the case may be.

Collateral

In general, Sibacadembank requires credit support or collateral as security for the loans and credit facilities that it grants to corporate customers. The main forms of credit support and collateral are real estate, equipment, vehicles, inventory, pledges, marketable securities, and other types of collateral that Sibacadembank deems appropriate. A discount may be applied to the market value of the collateral. Sibacadembank may require that the life of a borrower's managers and/or the pledged property are insured. Under Sibacadembank's internal guidelines, collateral should be provided (where it is required) to cover outstanding liabilities during the duration of a transaction. As of 31 March 2005, approximately 98 per cent. of Sibacadembank's corporate loan portfolio was collateralised.

SELECTED STATISTICAL AND OTHER INFORMATION

Certain information included in this section has been extracted or derived from Sibacadembank's financial statements as of and for the years ended 31 December 2004, 2003 and 2002, prepared in accordance with IFRS. Prospective investors should read this information in conjunction with "Business—Financial Review" and the Financial Statements included elsewhere in this Offering Circular.

Weighted Average Interest Rates

The following table shows the weighted average interest rates on Sibacadembank's rouble denominated loans to customers and rouble denominated deposits (by type) for each of the periods indicated.

	<u>2002</u>		<u>2003</u>		<u>2004</u>	
	<u>Roubles</u>	<u>Foreign Currency</u>	<u>Roubles</u>	<u>Foreign Currency</u>	<u>Roubles</u>	<u>Foreign Currency</u>
	<i>(per cent.)</i>					
Assets						
Trading securities	17	—	14	—	8	—
Investment securities available for sale	—	—	—	—	8	—
Due from other banks	19	3	3	6	4	0
Loans to customers	21	11	25	12	22	13
Liabilities						
Due to other banks	11	6	11	4	2	5
Customer accounts	14	6	11	4	9	5
Certificates of deposit and promissory notes.	8	6	9	9	4	8

Deposits and Other Liabilities by Maturity

The following table sets forth an analysis of Sibacadembank's total due to other banks, customer accounts, certificates of deposit and promissory notes and other liabilities by contractual maturity as of the dates indicated:

	<u>As of 31 December</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
	<i>(Amounts in thousands of Roubles)</i>		
Demand and less than 1 month	1,885,712	2,510,922	3,141,664
From 1 to 6 months	879,257	2,120,544	1,928,698
From 6 to 12 months	85,489	758,704	2,913,205
More than 1 year	59,173	222,572	1,195,106
No stated maturity	0	0	14,606
Total deposits from banks, customer accounts, debt securities issued and other liabilities	2,909,631	5,612,742	9,193,279

Deposits and Other Liabilities by Currency

The following tables set out Sibacadembank's due to other banks, customer accounts, certificates of deposit and promissory notes, other liabilities and total liabilities by roubles and foreign currency.

	As of 31 December		
	2002	2003	2004
	<i>(Amounts in thousands of Roubles)</i>		
Due to other banks and customer accounts			
Roubles.....	1,962,066	4,246,334	7,483,913
Foreign currency.....	<u>600,095</u>	<u>830,826</u>	<u>1,162,599</u>
Total due to other banks and customer accounts	<u>2,562,161</u>	<u>5,077,160</u>	<u>8,646,512</u>
Certificates of deposit and promissory notes			
Roubles.....	303,399	437,887	479,425
Foreign currency.....	<u>12,418</u>	<u>16,117</u>	<u>11,892</u>
Total certificates of deposit and promissory notes	<u>315,817</u>	<u>454,004</u>	<u>491,317</u>
Other liabilities			
Roubles	21,952	78,323	54,490
Foreign currency	<u>9,701</u>	<u>3,255</u>	<u>960</u>
Total other liabilities	<u>31,653</u>	<u>81,578</u>	<u>55,450</u>
Roubles	2,287,417	4,762,544	8,017,828
Foreign currency.....	<u>622,214</u>	<u>850,198</u>	<u>1,175,451</u>
Total liabilities	<u>2,909,631</u>	<u>5,612,742</u>	<u>9,193,279</u>

	As of 31 December		
	2002	2003	2004
	<i>(Per cent.)</i>		
Roubles.....	79	85	87
Foreign currency.....	<u>21</u>	<u>15</u>	<u>13</u>
Total liabilities	<u>100</u>	<u>100</u>	<u>100</u>

Loan Portfolio

As of 31 December 2004, Sibacadembank had outstanding a total of RUR 5,949,349,000 in loans to customers (gross of allowance for loan losses). Sibacadembank's corporate lending products include loans and credit lines denominated in roubles and foreign currency (principally U.S. dollars).

Loans by type

The following table sets out details of Sibacadembank's loans by type, as at the dates indicated.

	As of 31 December					
	2002		2003		2004	
	<i>(Amounts in thousands of Roubles, except percentages)</i>					
	Amount	per cent. of loan portfolio	Amount	per cent. of loan portfolio	Amount	per cent. of loan portfolio
Individual loans	44,299	2.42	1,611,960	49.71	3,159,036	46.9
Corporate loans	1,784,418	97.58	1,772,905	50.29	2,790,312	53.1
Total Loans	1,828,717	100.0	3,384,865	100.0	5,949,349	100.0

Credit related commitments

Sibacadembank has commitments in respect of, inter alia, guarantees and letters of credit on behalf of its customers. These instruments bear a credit risk similar to that of loans granted to customers. The

following table sets out the details of Sibacadembank's commitments on guarantees, letters of credit and other transaction-related contingent obligations and commitments on loans and unused lines of credit, as of the dates indicated, and are shown based on the contractual maturity of the instrument (being the latest date Sibacadembank may be called to honour its obligation under the relevant instrument).

	As of 31 December		
	2002	2003	2004
<i>(Nominal amounts in thousands of Roubles)</i>			
Guarantees issued and similar commitments	22,687	35,172	99,897
Letters of credit and other transaction-related contingent obligations	13,948	46,544	86,581
Commitments on loans and unused lines of credit ⁽¹⁾	<u>330,181</u>	<u>215,707</u>	<u>595,292</u>
Total	<u>366,816</u>	<u>297,423</u>	<u>781,770</u>

⁽¹⁾ Commitments on loans and unused lines of credit refers to agreements to grant loans to clients subject to meeting certain conditions.

The outstanding contractual amount of any guarantee or letter of credit does not necessarily represent future cash requirements, as many of these commitments may expire or terminate without needing to be funded.

Loans by currency

The following table sets out an analysis of the exposure by currency of Sibacadembank's customer loan portfolio (gross of allowance for loan losses), as of the dates indicated.

	As of 31 December					
	2002		2003		2004	
	<u>Amount</u>	<u>Per cent.</u>	<u>Amount</u>	<u>per cent.</u>	<u>Amount</u>	<u>per cent.</u>
<i>(Amounts in thousands of Roubles, except percentages)</i>						
Roubles	1,484,862	81	2,973,443	92	5,423,571	91
U.S. dollars	343,855	19	207,913	6	423,412	7
Other Currency (including allowance for losses	0	0	61,343	2	102,366	2
Total	<u>1,828,717</u>	<u>100</u>	<u>3,242,699</u>	<u>100</u>	<u>5,949,349</u>	<u>100</u>

Loans by maturity

In common with most other Russian banks, Sibacadembank's loan portfolio is predominantly short-term. The following table sets out the contractual maturity structure of Sibacadembank's loans to customers (gross of allowance for loan losses), as of the dates indicated.

	As of 31 December					
	2002		2003		2004	
	Amount	per cent.	Amount	per cent.	Amount	per cent.
<i>(Amounts in thousands of Roubles, except percentages)</i>						
Demand and less than 1 month .	575,230	31	668,212	21	695,844	12
From 1 to 6 months	868,185	48	1,564,013	47	2,549,499	42
From 6 to 12 months	313,563	17	929,181	29	1,766,736	30
More than 1 year	71,739	4	81,293	3	904,257	15
No stated maturity	0	0	0	0	33,013	1
Total	<u>1,828,717</u>	<u>100</u>	<u>3,242,699</u>	<u>100</u>	<u>5,949,349</u>	<u>100</u>

Geographical concentration of loans

Sibacadembank has a significant geographical concentration of loans issued to borrowers in one geographical region, Sibacadembank's loans to customers in Novosibirsk and the Novosibirsk region represented approximately 47 per cent. of the total loan portfolio as of 31 December 2004 (as compared to 44 per cent. of the total loan portfolio as of 31 December 2003).

Loans by amount and number of borrowers

As of 31 December 2004, Sibacadembank's top ten borrowers collectively accounted for a total gross exposure of Sibacadembank of RUR931.0 million, comprising loans totalling RUR931.0 million (representing 15.0 per cent. of Sibacadembank's total gross loan portfolio). See "Certain Risk Factors—Risks Related to Sibacadembank's Business and the Banking Sector—Loan and Deposit Concentration".

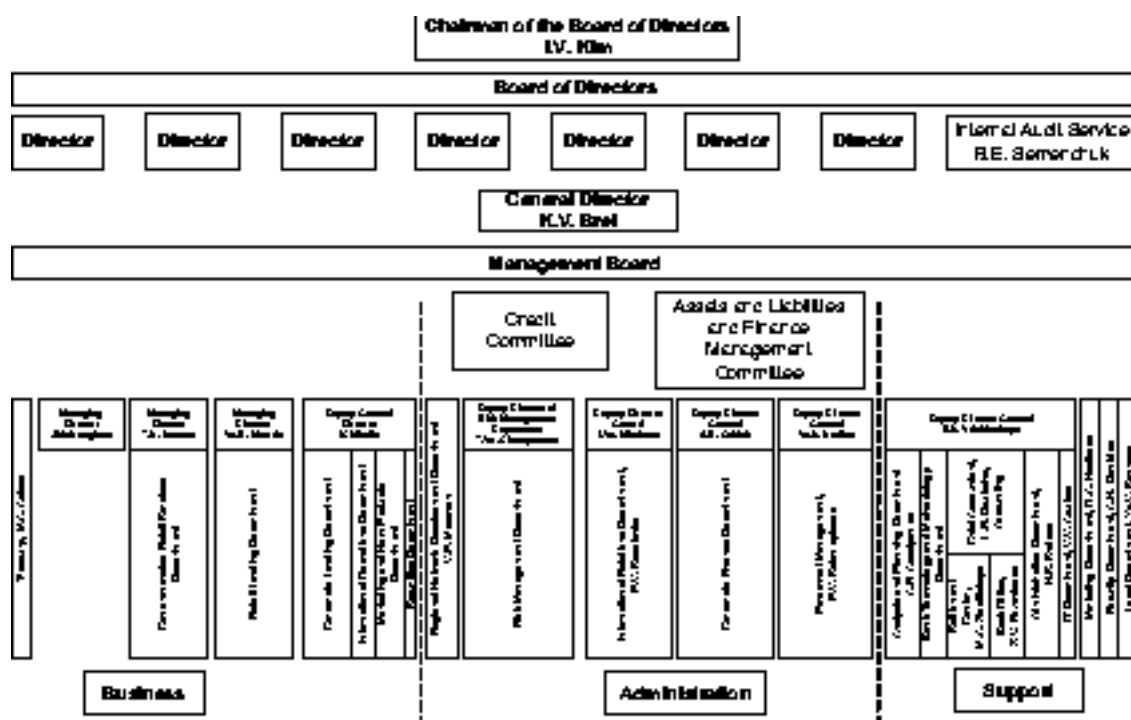
The following table represents a list of Sibacadembank's ten largest borrowers by industry as of 31 December 2004.

Rank by loan size	Exposure size (in millions of Roubles)	Industry in which borrower operates
1	143.00	Manufacturing
2	121.00	Retail / Wholesale Trade
3	118.00	Retail / Wholesale Trade
4	114.79	Real Estate Development
5	85.00	Government
6	76.26	Financial Services
7	75.00	Retail / Wholesale Trade
8	70.00	Chemical
9	67.96	Mining
10	60.00	Retail / Wholesale Trade

MANAGEMENT

Management Structure

In line with other Russian banks, the Bank is managed through a multi-tier system of governing bodies comprised of the General Shareholders' Meeting, the Board of Directors, the Management Board and the General Director (Chairman of the Management Board).



The following table sets out Sibacadembank's management and internal business divisions, as of 1 January 2005:

The General Shareholders' Meeting is the supreme governing body of the Bank. The General Shareholders' Meeting elects the Board of Directors, which is responsible for the general management of the bank, including coordination of its overall strategy and general supervision, and also appoints the General Director, who acts as the chief executive officer of the Bank. The Board of Directors appoints the members of the Management Board, which is the collective executive body of the bank. Day-to-day activities of the Bank are overseen by the General Director and the Management Board. Certain powers are delegated by the General Director to his or her deputies, members of the Management Board, department heads and various committees. A brief description of each of the General Shareholders' Meeting, the Board of Directors, the Management Board and the General Director is set out below.

General Shareholders' Meeting

The General Shareholders' Meeting is the supreme governing body of the Bank. The powers of the General Shareholders' meeting are set forth in the Joint Stock Companies Law, the Bank's charter and the Regulations on the General Shareholders' Meeting. General Shareholders' Meetings are convened at least once a year pursuant to the Joint Stock Companies Law and the Bank's charter. Among issues that the shareholders have the power to decide are as follows:

- amendments to the Bank's charter;
- reorganisation or liquidation of the Bank, appointment of a commission to liquidate the Bank and approval of preliminary and final liquidation balances;
- determination of the number of members of the Board of Directors, election and removal of members of the Board of Directors;
- determination of the number, the nominal value and the class/type of authorised shares and the rights granted by such shares;
- changes in the Bank's share capital (other than those changes specifically enumerated as powers of the Board of Directors);

- appointment and removal of the General Director;
- appointment and removal of the members of the Bank's audit commission;
- approval of the Bank's external auditor;
- approval of the Bank's annual reports and financial statements;
- approval of certain interested party transactions and large-scale transactions;
- distribution of profits;
- split or consolidation of the Bank's shares;
- redemption by the Bank of issued shares in cases envisaged by the Joint Stock Companies Law;
- approval of the Bank's participation in holding companies, financial and industrial groups, associations and other groups of commercial organizations;
- approval of certain internal documents of the Bank's governing bodies; and
- other issues, as provided for by the Joint Stock Companies Law.

Decisions of the General Shareholders' Meeting are generally adopted by a simple majority of voting shareholders who are present at the meeting (subject to a minimum quorum requirement of 50 per cent. of the voting shareholders). However, pursuant to the Joint Stock Companies Law, the following decisions must be approved by a three-quarters majority vote of the voting shares present at the General Shareholders' meeting of the Bank:

- amendments to the Bank's charter;
- reorganisation or liquidation of the Bank, appointment of a commission to liquidate the Bank and approval of preliminary and final liquidation balances;
- large transactions involving assets in excess of 50 per cent. of the balance sheet value of the assets of the Bank;
- determination of the number, the nominal value and the class/type of authorised shares and the rights granted by such shares;
- repurchase by the Bank of its issued shares;
- any issuance of shares or securities convertible into ordinary shares by closed subscription; and
- issuance by open subscription of ordinary shares or securities convertible into ordinary shares, in each case, constituting 25 per cent. or more of the number of issued ordinary shares.

The annual General Shareholders' Meeting must be convened by the Board of Directors between 1 March and 30 June of each year, and its agenda must include the following items:

- determination of the number of and the election of the members of the Board of Directors;
- approval of the annual report and the annual financial statements, including the balance sheet and the profit and loss statement of the Bank;
- approval of the distribution of profits, including approval of annual dividends, if any;
- approval of an external auditor; and
- appointment of the members of the Bank's audit commission.

Board of Directors

The Board of Directors is responsible for matters of general management, with the exception of those matters which are within exclusive authority of the General Shareholders' Meeting. The activities of the Board of Directors should be carried out in accordance with the Bank's charter, Regulations on the Board of Directors and applicable law. The Board of Directors meets as often as necessary and exercises exclusive authority over certain matters. Such matters include:

- determination of the Bank's business priorities;
- convening of annual and extraordinary General Shareholders' Meetings, except in certain circumstances specified in the Joint Stock Companies Law;

- approval of the agenda of a General Shareholders' Meeting, determination of the record date for shareholders entitled to participate in a shareholders' meeting and other issues in connection with, preparation for, and holding of General Shareholders' Meetings;
- adoption of a decision to increase the Bank's share capital by the issuance of additional shares to the extent permitted by the Bank's charter;
- placement of the Bank's bonds and other securities in circumstances specified in the Joint Stock Companies Law; adoption of any decision on the placement of shares by way of an open subscription of securities convertible into ordinary shares which constitute less than 25 per cent. of previously issued and placed ordinary shares;
- determination of the price of the Bank's property (for the purposes of approving large-scale and/or interested party transactions) and of its securities to be placed or repurchased, as provided for by the Joint Stock Companies Law;
- repurchase of the Bank's shares, bonds and other securities in certain circumstances provided for by the Joint Stock Companies Law;
- determination of the number of members of the Management Board, election and removal of members of the Management Board;
- recommendations on the amount of remuneration to be paid to members of its audit commission and on the fees payable for the services of an external auditor;
- recommendations on the amount of the dividends on shares and the payment procedure thereof;
- the use of the Bank's reserve fund and other funds;
- approval of the Bank's internal documents, except for those documents whose approval falls within the competence of its shareholders or executive bodies;
- the establishment of branches and representative offices;
- approval of large-scale and interested party transactions in the circumstances envisaged by the Joint Stock Companies Law;
- approval of transactions having the value of more than 10 per cent. of the balance sheet value of the Bank's assets (as determined under Russian accounting standards), except for transactions concluded by the Bank in its ordinary course of business;
- appointment of the Bank's share registrar, approval of the terms of the agreement with the registrar and termination of the agreement with the registrar;
- approval of decisions on share issuances and reports on the results of such share issuances;
- approval of the annual financial and economic plan of the Bank; and
- other issues, as provided for by the Joint Stock Companies Law and the Bank's charter.

According to the Joint Stock Companies Law, the election of its entire Board of Directors at the General Shareholders' Meeting should be conducted through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of shares held by such shareholder multiplied by the number of members on the Bank's Board of Directors, and the shareholder may give all such votes to one candidate or spread them between two or more candidates. Before the expiration of their term, the directors may be removed as a group at any time without cause by a majority vote of the General Shareholders' Meeting.

Members of the Management Board may not comprise more than a quarter of the members of the Board of Directors.

The Bank's charter provides that its Board of Directors should consist of not less than five (5) members. Currently, there are seven (7) members on the Bank's Board of Directors. The name, position and certain other information for each member of the Board of Directors of the Bank are set out below.

Andrey Bekarev has served as a member of the Board of Directors since July 1997 and as an adviser to the General Director of the Bank since February 2005. Mr. Bekarev graduated from the Novosibirsk State University in 1993. From July 1998 to April 2003, Mr. Bekarev served as the Bank's First Deputy General Director and as a member of the Management Board. From April 2002 to January 2005, he held a post of the General Director (Chairman of the Management Board) of the Bank. From 2001 to 2003,

Mr. Bekarev served as a member of the Board of Directors in CB Mezhtorgbank (JSC). Currently, Mr. Bekarev serves as a member of the Board of Directors in CJSC Western-Siberia Insurance Agency ZHASO and as a member of the Council of the Association of Russian Regional Banks.

Alexander Borodach has served as a member of the Board of Directors since April 2004. Mr. Borodach graduated from the Novosibirsk Institute for Railway Transportation Engineers in 1973. In January and February of 1999, Mr. Borodach served as an acting First Deputy of Western-Siberia Railway and since February 1999 as the First Deputy of Western-Siberia Railway. Currently, Mr. Borodach also serves as the Chairman of the Board of Directors in CJSC Western-Siberia Insurance Agency ZHASO.

Kirill Brel has served as a member of the Board of Directors and as a General Director of the Bank since February 2005. Mr. Brel graduated from the Kemerovo State University in 1993 and in 1998, he received a second higher education degree in finance and credit. From September 1999 to January 2005, Mr. Brel held various positions in the Bank, such as Director of the Bank's Kuzbass branch and a Deputy General Director of the Bank.

Igor Kim has served as a Chairman of the Board of Directors and as an Adviser to the General Director of the Bank since April 2004. Mr. Kim graduated from the Novosibirsk State University in 1990. From November 1998 to April 2004 Mr. Kim served as the General Director and as the Chairman of the Management Board of the Bank. From May 2000 to December 2003, he held various positions in Mezhtorgbank (JSC). From 2002 to 2004 Mr. Kim served as a Chairman of the Management Board and as a member and a Chairman of the Board of Directors in Bank Caspian. From 2001 to 2003, he also served as a member of the Council of the Association of Russian Regional Banks. Currently, Mr. Kim serves as a member of the supervisory council in JSC Uralvneshtorgbank.

Gennady Kulipanov has served as a member of the Board of Directors of the Bank since April 2001. Mr. Kulipanov graduated from the Novosibirsk Electrotechnical Institute in 1963. Since 1999 Mr. Kulipanov has served as the Deputy Chairman in the Presidium of the Siberian division of the Russian Academy of Science and also as a Deputy Director in the Institute for the Nuclear Physics in the Siberian division of the Russian Academy of Science.

Alexander Taranov has served as a member of the Board of Directors of the Bank since July 1997 and as an Adviser to the General Director of the Bank since January 2002. Mr. Taranov graduated from the Novosibirsk State University in 1984. From November 1998 until January 2003, Mr. Taranov served as a member of the Management Board and as a First Deputy General Director of the Bank. From May 2002 until February 2005, he was a member of the Board of Directors of Mezhtorgbank (JSC). Currently, Mr. Taranov serves as a Chairman of the Board of Directors in CB Mezhtorgbank (JSC).

Nicholas Tesseyman has served as a member of the Board of Directors of the Bank since February 2005. Mr. Tesseyman graduated from Oxford University in 1990. Since 1990, Mr. Tesseyman has been employed by the EBRD and is currently a Senior Banker based in Moscow and responsible for all of the EBRD's activities in the financial sector in Russia. Mr. Tesseyman also serves as a member of the Board of Directors of JSC NBD-Bank and Bank Turan Alem.

Management Board and General Director

The day-to-day management of the Bank is carried out by the General Director and the Management Board of the Bank.

The General Director is the Chairman of the Management Board and is the Chief Executive Officer of the Bank. Together with the Management Board, the General Director is responsible for implementing decisions of the General Shareholders' Meeting and the Board of Directors. The General Director is authorised, among other things, to act on behalf of the Bank without any express grant of authority, to dispose the Bank's property in accordance with the Bank's charter, to determine the guidelines of the internal audit and control systems in the Bank, and to issue internal orders concerning the Bank's day-to-day operations. The General Director is elected by the General Shareholders' Meeting for the period of four (4) years. On 31 January 2005, the General Shareholders' Meeting elected Mr. Kirill Brel as the General Director (Chairman of the Management Board) of the Bank.

The Management Board is the Bank's collective executive body. Its members are appointed by the Board of Directors for the period of two (2) years. Together with the General Director, the Management Board is responsible for the Bank's day-to-day management and administration. Its activities are coordinated by the General Director (Chairman of the Management Board) and are regulated by applicable Russian law, the Bank's charter and Regulations on the Management Board. The Management Board meets as often as necessary and makes its decisions by a simple majority vote (subject to a 50 per cent. quorum requirement).

Functions that are not allocated to the General Shareholders' Meeting, the Board of Directors or the General Director (Chairman of the Management Board) remain within the purview of the Management Board. In particular, the Management Board is charged, inter alia, with the following functions:

- developing principles of the Bank's management;
- implementing strategies determined by the Bank's shareholders and the Board of Directors;
- preparing and submitting reports on the Bank's activities to the General Shareholders' Meeting, the Board of Directors and to the Central Bank of the Russian Federation;
- submitting proposals on amendments and alterations to the Bank's charter;
- considering the results of operations of the Bank's divisions for the relevant reporting period;
- approving instructions, rules, regulations and other internal documents, including without limitation, credit, accounting, marketing, labor, financing and other policies except for those that are within the responsibility of other governing bodies of the Bank; and
- functions that are delegated to the Management Board by the Board of Directors or the Chairman of the Management Board.

The Bank's charter provides that its Management Board should consist of not less than five (5) members. Currently, the Management Board consists of six (6) members. The name, position and certain other information for each member of the Management Board are set out below. The Bank's charter prohibits the members of the Management Board from holding positions in other banks or insurance companies, companies licenced as professional participants in the Russian securities market, as well as in leasing companies or affiliates of the Bank.

Kirill Brel has served as a member of the Management Board since April 2004 and as a member of the Board of Directors and as a General Director of the Bank since February 2005. See "Board of Directors" for additional biographical information regarding Mr. Brel.

Yuri Vavilov has served as a member of the Management Board since February 2005 and as a Deputy General Director since April 2001. Mr. Vavilov graduated from the Novosibirsk Institute for the National Economy with a degree in finance and credit in 1985. From 1999 to 2001, he served as an Adviser to the General Director of the Bank and as a Chairman of the Management Board of Kuzbasstransbank LLC. Currently, Mr. Vavilov holds positions of the Director of the Bank's representative office in the Far East and a Chairman of the Board of Directors in Dalvneshstorgbank, JSC.

Elena Elchyinskaya has served as a member of the Management Board since February 2005 and as a Deputy General Director of the Bank since August 2004. Ms. El'chinskaya graduated from the Moscow Institute for the Railway Transportation Engineering with a degree in automated control systems in 1984. Prior to joining the Bank, Ms. El'chinskaya held various accounting positions in Bank Caspian, including Deputy Chief Accountant and as Chief Accountant. From May 2004 to August 2004, she served as the head of the Corporate Development Division of the Bank.

Svetlana Lapina has been a member of the Management Board since April 2004 and a Deputy General Director since February 2005. She graduated from the Altai Agricultural Institute with a degree in the accounting and analysis of the agricultural activity in 1987. From November 1999 to January 2005, Ms. Lapina held various positions in the Bank, including without limitation the head of supervision over the branches and representative offices of the Bank and the head of the Corporate Clients Relations Department.

Ilya Mitelman has been a member of the Management Board of the Bank since February 2005. Mr. Mitelman graduated from the Kemerovo State University with a degree in jurisprudence in 1995. Mr. Mitelman has previously worked as the head of the Internal Audit Service of the Bank and as a Deputy General Director of the bank (compliance controller). Since April 2001, Mr. Mitelman has served as a Deputy General Director of the Bank.

Kirill Nikulin has been a member of the Management Board of the Bank and a Deputy General Director since February 2005. Mr. Nikulin graduated from the Urals State Forest and Technical Academy with a degree in machinery and forest complex equipment in 1994. Prior to joining the Bank, Mr. Nikulin held various positions in JSC Uralvneshstorgbank, including without limitation deputy head of the credit and investment department and the head of the international relations department. From December 2004 to January 2005, Mr. Nikulin served as a Managing Director of the Bank.

SHAREHOLDERS

As of date of the Offering Circular, the share capital of Sibacadembank was RUR 474,700,000 comprised of 474,550,000 ordinary registered shares with a nominal value of RUR 1 each and 150,000 preference shares with a nominal value of RUR 1 each.

The following table sets forth the shareholders beneficially owning more than one per cent. of Sibacadembank's shares as of the date of the Offering Circular.

Beneficial shareholder	<u>Number of ordinary shares</u>	<u>per cent. of share capital</u>
Igor Kim	159,565,794	33.614
EBRD	118,675,001	25.000
Andrey Bekarev	79,782,800	16.807
Alexander Taranov	79,782,800	16.807
Russian Fund for Federal Property	20,819,159	4.386
Others (each holding under one per cent.)	<u>16,074,446</u>	<u>3.386</u>
Total	<u>474,700,000</u>	<u>100.0</u>

Rights of Sibacadembank's shareholders

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

- participate in and vote at General Shareholders' Meetings on all matters which fall within its competence;
- receive dividends;
- receive a share in the proceeds upon Sibacadembank's liquidation;
- have access to information and documents relating to Sibacadembank's activities and financial condition;
- elect members of and be elected to Sibacadembank's management bodies;
- demand that part or all of their shares be bought back by Sibacadembank in cases stipulated by the Russian law and Sibacadembank's charter; and
- exercise other rights provided by Russian law and Sibacadembank's charter.

RELATED PARTY TRANSACTIONS

Related parties, as defined by IFRS, are those counterparties that represent:

- (a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise (this includes holding companies, subsidiaries and fellow subsidiaries);
- (b) associates – enterprises in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank, and anyone expected to influence, or be influenced by, that person in their dealings with the Bank;
- (d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals; and
- (e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. As of 31 December 2004 and 31 December 2003, the Bank had the following transactions outstanding with related parties. These transactions comprise:

	<u>2004</u>	<u>2003</u>
Cash and cash equivalents		
Correspondent accounts and overnight placements with other banks at the year end	96,402	403,643
Due from other banks		
Term placements at the year end	197,663	94,764
Interest income for the year	11,078	20,380
Loans to customers		
Loans at the year end	40,985	1,590
Provision for loan impairment at the year end	(708)	(16)
Interest income for the year	3,829	11
Due to other banks		
Correspondent accounts of other banks at the year end	38,711	214,964
Term deposits	138,744	—
Interest expense for the year	(939)	(1,952)
Customer accounts		
Current/settlement accounts at the year end	36,536	31,511
Term deposits outstanding at the year end	160,400	46,616
Interest expense for the year	(7,107)	(4,695)
Promissory notes issued		
Outstanding balances at the year end	3,480	57,000
Fee and commission income		
Fee and commission income for the year	8,440	—
Other income and expense for the year		
Other income for the year	3,627	7,034
Other expenses for the year	(13,107)	(7,706)
Guarantees issued to the Bank at the year end	70,702	20,937

In addition, as at 31 December 2004, the Bank had loans to individuals of RUR 1,622,521,000 and interest on these loans are covered by guarantees issued by credit agencies that were related parties,

including principally ООО Tairis (“**Tairis**”). During 2004, a total amount of RUR 890,350,000 was paid by these credit agencies to the Bank in respect of these guarantees.

Until the end of 2004, Sibacadembank was a party to agency and risk sharing agreements with Tairis and other related party credit agencies through which Tairis and such other parties participated in certain of Sibacadembank’s consumer finance lending operations. As part of such operations, Tairis and such other related party credit agencies cooperated in marketing Sibacadembank’s consumer lending services to potential consumer finance customers and shared in certain of the financial risks and rewards of any loans generated through such cooperation. In December 2004, at the request of the EBRD, Sibacadembank severed its relations with Tairis and such other related party credit agencies, terminating such agency and risk sharing agreements. In addition, the principal shareholders of Sibacadembank who were also shareholders in Tairis and such other credit agencies disposed of their interests in Tairis and such other agencies. As part of this severance arrangement, Tairis acquired five lending offices that were previously jointly operated by Sibacadembank and Tairis. Sibacadembank’s management believes that ceasing its relationship with Tairis or such other credit agencies will not have an adverse effect on the Bank, and will, in fact, improve the Bank’s flexibility to interact with its consumer finance customers directly.

THE ISSUER

Dresdner Bank Aktiengesellschaft (“**Dresdner Bank**”) emerged in 1957 from the reunification of the independent banks which had been formed in 1952 as successor companies of Dresdner Bank, Berlin, which was founded in 1872 in Dresden.

Dresdner Bank is incorporated under German law as a joint stock company (*Aktiengesellschaft*) for an unlimited period of time. Its registered office is in Frankfurt am Main. Dresdner Bank has been entered in the register of companies of the District Court in Frankfurt am Main under registration number HRB 14000. The office address is Jürgen-Ponto-Platz 1, D-60301 Frankfurt am Main (Germany).

Dresdner Bank’s entire share capital is owned by the Allianz Group (Allianz AG, together with its subsidiaries, “**Allianz Group**”).

Objectives of the Bank

The objects of Dresdner Bank, as laid down in clause 2 of its Articles of Association, are the transaction of banking business of all kinds and the provision of financial, advisory and similar services.

Subject to, and in accordance with German legal regulations, Dresdner Bank may carry on all business that is conducive to meeting the objectives, including the purchase, management and disposal of property, the acquisition of interests in other companies as well as the formation and purchase of such companies and the establishment of branches in Germany and abroad.

Dresdner Bank is authorised to carry on its business activities through subsidiaries, affiliates or jointly-held companies and to engage in joint venture and cooperation agreements with other companies.

Activities

Dresdner Bank, together with its subsidiaries (the “**Dresdner Bank Group**”), is represented in many countries around the world. The Dresdner Bank Group’s business activities have been concentrated within the strategic divisions of Personal Banking, Private & Business Banking, Corporate Banking as well as Investment Banking (branded “Dresdner Kleinwort Wasserstein” or “DrKW”). The Institutional Restructuring Unit (IRU) handles business outside Dresdner Bank’s strategic focus.

TERMS OF THE LOAN AGREEMENT

The following is the text of the Loan Agreement, save for the signature page and the Schedule, which have been excluded.

This Loan Agreement is made on 16th May 2005 between:

- (1) **JOINT STOCK COMPANY “SIBACADEMBANK”** (the “**Borrower**”); and
- (2) **DRESDNER BANK AKTIENGESELLSCHAFT** (the “**Lender**”).

Whereas:

- (A) The Lender has at the request of the Borrower agreed to make available to the Borrower a loan facility in the amount of U.S.\$100,000,000 on the terms and subject to the conditions of this Agreement.
- (B) It is intended that the Lender will issue loan participation notes for the sole purpose of financing the loan facility.

Now it is hereby agreed as follows:

1 DEFINITIONS AND INTERPRETATION

1.1 Definitions

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

“**Account**” means the account in the name of the Lender with the Principal Paying Agent, account number 22020712 (or such other account as may from time to time be agreed between the Lender and the Trustee pursuant to the Trust Deed and notified to the Borrower in writing at least five Business Days in advance of such change);

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

“**Affiliate**” of any specified Person means (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person or (ii) any other Person who is a director or officer (a) of such specified Person or (b) of any Person described in (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;

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

“**Agency Agreement**” means the agency agreement relating to the Notes dated the date hereof between the Lender, the Trustee, the Principal Paying Agent and the other agents named therein, together with any agreement for the time being in force amending or modifying with the prior written approval of the Trustee the aforesaid agreement;

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

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

“**Auditors**” means the auditors of the Borrower’s IFRS financial statements (consolidated if the same are then prepared) for the time being or, if they are unable or unwilling to carry out any action requested of them under this Agreement, such other internationally recognised firm of accountants as may be nominated by the Borrower and approved in writing by the Lender for this purpose;

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

“**BIS Guidelines**” means the guidelines on capital adequacy standards (including the constituents

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

“Business Day” means a day on which (a) the London Interbank Market is open for dealings between banks generally, and (b) if on that day a payment is to be made hereunder, commercial banks generally are open for business in Frankfurt am Main, New York City, Moscow, London and in the city where the Specified Office (as defined in the Agency Agreement) of the Principal Paying Agent is located;

“Capital” means the Borrower’s Capital as such term is defined in the BIS Guidelines;

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

“Central Bank” means the Central Bank of the Russian Federation;

“Change of Control” means any Person that as of the date hereof owns or controls (directly or indirectly) 25 per cent. plus one share or more of the issued and outstanding voting share capital of the Borrower ceasing to own or control (directly or indirectly) at least 25 per cent. plus one share of the issued and outstanding voting share capital of the Borrower;

“Change of Control Payment Date” means the Business Day falling 90 days after the Borrower gives notice to the Lender of a Change of Control pursuant to Clause 5.4;

“Closing Date” means 19th May 2005 (or such later date not later than 2nd June 2005 as may be agreed between the Lender and the Borrower);

“Conditions” has the meaning ascribed to it in the Trust Deed;

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

“Double Tax Treaty” means the agreement between the Federal Republic of Germany and the Russian Federation for the Avoidance of Double Taxation with respect to Taxes on Income and Capital signed on 29 May 1996;

“Event of Default” has the meaning assigned to such term in Clause 11.1;

“Facility” means the U.S.\$100,000,000 term loan facility granted by the Lender to the Borrower hereunder as specified in Clause 2;

“Fiscal Period” means any fiscal period for which the Borrower or the Group (if consolidated accounts are then prepared) has produced financial statements in accordance with IFRS which have either been audited or reviewed by the Auditors;

“Fitch” means Fitch Ratings Ltd.;

“Group” means the Borrower and its Subsidiaries taken as a whole at any given time;

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

“IFRS” means International Financial Reporting Standards (formerly International Accounting

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

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

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

“**Independent Appraiser**” means any expert in the matter to be determined of international standing appointed by the Borrower pursuant to Clause 10.3 and in consultation with the Trustee, provided, however, that such Independent Appraiser is not an Affiliate of the Borrower;

“**Interest Payment Date**” means 19th May and 19th November of each year in which the Facility remains outstanding;

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

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

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

“**Material Adverse Effect**” means a material adverse effect on (a) the business, condition (financial or otherwise) or results of operations of the Borrower or the Group; (b) the Borrower’s ability to perform or comply with its obligations under this Agreement; or (c) the validity or enforceability of this Agreement or the rights or remedies of the Lender hereunder;

“**Material Subsidiary**” means (i) any Affiliate of the Borrower which would be consolidated in the Borrower’s consolidated financial statements under IFRS; or (ii) at any given time, a Subsidiary of the Borrower which:

- (a) has gross income representing 5 per cent. or more of the consolidated gross income of the Group for the most recent Fiscal Period; or
- (b) has total assets representing 5 per cent. or more of the consolidated total assets of the Group,

in the case of each of (a) and (b) calculated on a consolidated basis in accordance with IFRS, as consistently applied.

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

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

“**Noteholder**” means, in relation to a Note, the Person in whose name such Note is for the time being registered in the register of the Noteholders (or, in the case of a joint holding, the first named holder thereof);

“**Notes**” means the U.S.\$100,000,000 9.75 per cent. loan participation notes due 2008 proposed to be issued by the Lender pursuant to the Trust Deed for the purpose of financing the Loan;

“**Offering Circular**” means the offering circular dated 16th May, 2005 relating to the issue of the Notes;

“**Officers’ Certificate**” means a certificate signed on behalf of the Borrower by two officers of the Borrower at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Borrower, substantially in the form set out in Schedule 1;

“**Permitted Liens**” means

- (a) any Lien over or affecting any asset acquired by a member of the Group after the date hereof and subject to which such asset is acquired, if:
 - (i) such Lien was not created in contemplation of the acquisition of such asset by a member of the Group; and
 - (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.
- (b) any Lien over or affecting any asset of any company which becomes a member of the Group after the date hereof, where such Lien is created prior to the date on which such company becomes a member of the Group, if:
 - (i) such Lien was not created in contemplation of the acquisition of such company; and
 - (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such company.
- (c) any netting or set-off arrangement entered into by any member of the Group in the normal course of its banking arrangements for the purpose of netting debit and credit balances;
- (d) any Lien created in respect of or in connection with a Securitisation Transaction;
- (e) any Lien arising by operation of law and in the normal course of business;
- (f) any Lien in existence on the date of this Agreement;
- (g) any Lien granted by a Subsidiary of the Borrower in favour of the Borrower;
- (h) Liens incurred, or pledges and deposits in connection with workers’ compensation, unemployment insurance and other social security benefits, and leases, appeal bonds and other obligations of like nature in the ordinary course of business;
- (i) Liens for *ad valorem*, income or property Taxes or assessments and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which the Borrower has set aside on its books reserves to the extent required by IFRS, as consistently applied;
- (j) easements, rights of way, restrictions (including zoning restrictions), reservations, permits, servitudes, minor defects or irregularities in title and other similar charges or encumbrances, and Liens arising under leases or subleases granted to others, in each case not interfering in any material respect with the business of the Borrower and its Subsidiaries taken as a whole;
- (k) (i) bankers’ Liens in respect of deposit accounts, (ii) statutory landlords’ Liens, (iii) deposits to secure the performance of bids, trade contracts, government contracts, leases, statutory obligations, surety and appeal bonds, performance and return-of-money bonds or liabilities to insurance carriers under insurance or self-insurance arrangements and other obligations of like nature (so long as, in each case with respect to items described in (i), (ii) and (iii) above of this paragraph (l), such Liens (X) do not secure obligations constituting Indebtedness for borrowed money and (Y) are incurred in the ordinary course of business), and (iv) Liens arising from any judgment, decree or other order which does not constitute an Event of Default;
- (l) Liens arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market in connection with:

- (i) the Borrower's foreign exchange dealings or other proprietary trading activities, including, without limitation, "Lombard" credits extended by the Central Bank and Repo transactions;
- (ii) insurance deposits placed by the Borrower securing the guarantees issued in respect of the export-import operations of the Borrower's clients;
- (iii) the establishment of margin deposits and similar arrangements in connection with interest rate and foreign currency hedging operations and trading in government securities; and
- (iv) any other derivative transaction entered into by the Borrower in connection with protection against or benefit from fluctuation in any rate or price;
- (m) Liens arising pursuant to any title transfer or retention of title arrangement entered into by a member of the Group in the normal course of its business activities on the counterparty's standard or usual terms; and
- (n) any other Lien where the aggregate value of the assets or revenues subject to such Lien does not exceed U.S.\$20,000,000.

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

"Put Option" means the put option granted to the Noteholders pursuant to the Conditions;

"Qualifying Jurisdiction" means any jurisdiction which has a double taxation treaty with the Russian Federation under which the payment of interest by Russian companies is not generally taxable in Russia (upon completion of any necessary formalities required in relation thereto);

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

"Repayment Date" means 19th May 2008;

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

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

"Risk Weighted Assets" means the aggregate of the Borrower's or, if consolidated financial statements are prepared, the Group's consolidated balance sheet assets and off-balance sheet engagements, weighted for credit and market risk in accordance with the BIS Guidelines;

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

"Same-Day Funds" means Dollar funds settled through the New York Clearing House Interbank Payments System or such other funds for payment in Dollars as the Lender may at any time reasonably determine to be customary for the settlement of international transactions in New York City of the type contemplated hereby;

"Securitisation Transaction" means (i) any transaction by which an entity acquires or provides finance against the security of assets (financial or otherwise) or any rights arising from or by reference to such assets from the Borrower or any of its Subsidiaries and that entity funds such acquisition or financing from external funding sources (including, but not limited to, debt securities or banking facilities) on terms that such funding will be repaid primarily from the cashflows and/or values and/or rights attributable to such assets, or (ii) any asset-backed financing, receivables financing or comparable secured loan financing or similar arrangement pursuant to which, at any time, the aggregate principle amount of the funding raised does not at the initial funding thereof exceed 10 per cent. of the consolidated total assets of the Borrower as determined at any time by reference to the most recent consolidated balance sheet of the Borrower prepared in accordance with IFRS;

"Standard & Poor's" means Standard & Poor's Ratings Services, a Division of the McGraw Hill Companies Inc.;

“Subscription Agreement” means the subscription agreement relating to the Notes dated the date hereof between the Lender, the Borrower, Dresdner Bank AG London Branch as Lead Manager;

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

“Taxes” means any present or future taxes, levies, duties, assessments or other governmental charges of whatever nature, including, without limitation, within the meaning of section 3 of the German Tax Code (including interest and penalties or addition thereon), no matter how they are levied or determined;

“Taxing Authority” means any body having authority to levy Taxes;

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

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

“US dollars”, “Dollars” and “U.S.\$” mean the lawful currency of the United States of America; and

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

1.2 Other Definitions

Unless the context otherwise requires, terms used in this Agreement which (i) are not defined in this Agreement but which are defined in, or (ii) are defined by cross-reference to definitions in or other provisions of, the Trust Deed, the Notes (including the Conditions), the Agency Agreement or the Subscription Agreement shall have the meanings assigned to such terms therein, **provided that** in the case of terms defined or references herein to documents to which the Borrower is not a party, the Borrower has received an up-to-date copy of such documents (including any amendments thereto that may affect the meaning or interpretation of any such term or reference).

1.3 Interpretation

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

- (a) all references to “Clause” or “sub-Clause” are references to a Clause or sub-Clause of this Agreement;
- (b) the terms “hereof”, “herein” and “hereunder” and other words of similar import shall mean this Agreement as a whole and not any particular part hereof;
- (c) words importing the singular number include the plural and vice versa; and
- (d) the table of contents and the headings are for convenience only and shall not affect the construction hereof.

2 FACILITY

2.1 Facility

On the terms and subject to the conditions set forth herein, the Lender hereby agrees to lend to the Borrower and the Borrower hereby agrees to borrow from the Lender an amount of U.S.\$100,000,000.

2.2 Purpose

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

2.3 Arrangement Fee and other Fees and Expenses

The Borrower shall pay (a) a fee to the Lender in connection with the arrangement of the Facility (the "**Arrangement Fee**") and (b) certain costs and expenses as set out in a side letter between the Lender, the Borrower and the other parties thereto dated on or about the date thereof (the "**Fees and Expenses Side Letter**").

3 DRAWDOWN

3.1 Drawdown

On the terms and subject to the conditions of this Agreement, on the Closing Date the Lender shall make the Advance to the Borrower and the Borrower shall make a single drawing in the full amount of the Facility.

3.2 Arrangement Fee

The Borrower agrees that an amount equal to the Arrangement Fee and certain other amounts specified in the Fees and Expenses Side Letter shall be deducted from the amount of the Advance. For the avoidance of doubt, any reference in this Agreement to the Advance shall be to the full amount of such Advance (being at the date of this Agreement U.S.\$100,000,000) notwithstanding any deductions of amounts pursuant to this clause 3.2.

3.3 Disbursement

Subject to the conditions set forth herein, on the Closing Date the Lender shall transfer the amount of the Advance to the Borrower's account no. 00743450 with American Express Bank in New York, NY, United States, Swift Code AEIBUS33, in Same-Day Funds.

4 INTEREST

4.1 Rate of Interest

The Borrower will pay interest in Dollars to the Lender on the outstanding principal amount of the Loan from time to time at the rate of 9.75 per cent. per annum (the "**Rate of Interest**").

4.2 Payment

Interest at the Rate of Interest shall accrue from day to day, starting from (and including) the Closing Date and shall be paid in arrear not later than 10.00 a.m. (New York City time) one Business Day prior to each Interest Payment Date. Interest on the Loan will cease to accrue from the due date for repayment thereof unless payment of principal due on such date is withheld or refused, in which event interest will continue to accrue (before or after any judgment) at the Rate of Interest to, but excluding, the date on which payment in full of the principal thereof is made. The amount of interest payable in respect of the Loan for any Interest Period shall be calculated by applying the Rate of Interest to the Loan, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If Interest is required to be calculated for any other period, it will be calculated on the basis of the number of days elapsed in the relevant Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-days months unless the last day of a Calculation Period is the 31st of a month but the first day of the Calculation Period is a day other than the 30th or the 31st of a month, in which case the month that includes that last day shall not be considered to be a 30-day month but be calculated by using the actual number of days of that month).

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

"**Calculation Period**" means any period for which Interest is to be calculated, whether or not constituting an Interest Period.

5 REPAYMENT AND PREPAYMENT

5.1 Repayment

Except as otherwise provided herein, the Borrower shall repay in full the outstanding principal amount of the Loan and, to the extent not already paid in accordance with Clause 4.2, pay all interest accrued in respect of the last Interest Period (calculated to the last day of the last Interest Period) not later than 10.00 a.m. (New York City time) one Business Day prior to the Repayment Date.

5.2 Prepayment in the event of Taxes or Increased Costs

If, as a result of the application of any amendments or clarification to, or change (including a change in interpretation or application) in, or determination under, the Double Tax Treaty or the laws or regulations of the Russian Federation or the Federal Republic of Germany or of any political sub-division thereof or any Taxing Authority therein (the “**Taxing Jurisdiction**”) or the enforcement of the security provided for in the Trust Deed, (i) the Borrower would thereby be required to increase the payment of principal or interest or any other payment due hereunder as provided in Clause 6.2 or 6.3 or (ii) if (for whatever reason) the Borrower would have to or has been required to pay additional amounts pursuant to Clause 8, and in any such case such obligation cannot be avoided by the Borrower taking reasonable measures available to it, then the Borrower may (without premium or penalty), upon not less than 30 days’ notice to the Lender (which notice shall be irrevocable), prepay the Loan in whole (but not in part) at any time.

No such notice of prepayment shall be given earlier than 90 days prior to the earliest date on which the Borrower would be obliged to pay such additional amounts or increase such payment if a payment in respect of the Loan were then due.

Prior to giving any such notice in the event of an increase in payment pursuant to Clause 6.2, the Borrower shall deliver to the Lender an Officers’ Certificate confirming that the Borrower would be required to increase the amount payable and that the obligation to make such payment cannot be avoided by the Borrower taking reasonable measures available to it, supported by an opinion of an independent tax adviser addressed to the Lender.

5.3 Illegality

If, at any time after the date of this Agreement, it is unlawful for the Lender to make, fund or allow to remain outstanding the Loan made or to be made by it hereunder and/or to maintain the Notes and/or to charge or receive or be paid interest at the rate then applicable to the Loan, then the Lender shall, after becoming aware of the same, deliver to the Borrower a written notice, setting out in reasonable detail the nature and extent of the relevant circumstances, to that effect and:

- (a) if the Loan has not then been made, the Lender shall not thereafter be obliged to make the Loan; and
- (b) if the Loan is then outstanding, then upon notice by the Lender to the Borrower in writing, the Borrower and the Lender shall, to the extent reasonably practicable under the circumstances, consult in good faith as to a basis that eliminates the application of such illegality. If a basis has not been agreed between the Borrower and the Lender by the earlier of the latest date permitted by the relevant law or 30 days after the date on which the Lender notified the Borrower of such illegality, the Borrower shall repay the whole (but not part only) of the outstanding principal amount of the Loan together with accrued interest thereon (up to but excluding the date of such payment) and all other amounts owing to the Lender hereunder.

5.4 Prepayment in the Event of Change of Control

- (a) If, following a Change of Control, any Noteholder has exercised its Put Option, the Borrower shall on the Change of Control Payment Date, prepay the principal amount of the Loan in an amount which corresponds to the aggregate principal amount of the Notes in relation to which the Put Option has been duly exercised in accordance with the Conditions.
- (b) Promptly, and in any event within 10 days after the date of any Change of Control, the Borrower shall deliver to the Lender and the Trustee a written notice in the form of an

Officer's Certificate, which notice shall be irrevocable, stating that a Change of Control has occurred and stating the circumstances and relevant facts giving rise to such Change of Control.

- (c) The Lender shall notify the Borrower (with a copy to the Trustee) not more than three Business Days after receipt of notice thereof from the Paying Agent, the amount of the Loan to be prepaid as a consequence of the exercise of the Put Option by any Noteholder.

5.5 Reduction of Loan upon Cancellation of Notes

The Borrower may from time to time purchase Notes in the open market or otherwise. Any Notes so purchased, having an aggregate principal value of at least U.S.\$1,000,000, may be delivered to the Lender (as issuer of the Notes) together with a request for the Lender to present such Notes to the Registrar for cancellation. Upon any cancellation of the Notes by or on behalf of the Registrar in accordance with the Conditions, the principal amount of the Loan corresponding to the principal amount of such Notes shall be extinguished for all purposes as of the date of such cancellation.

5.6 Payment of Other Amounts

If the Loan is to be prepaid by the Borrower pursuant to any of the provisions of Clause 5.2, 5.3 or 5.4, the Borrower shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to the date of actual payment and all other sums payable by the Borrower pursuant to this Agreement in relation to the prepaid amount. For the avoidance of doubt, if the principal amount of the Loan is reduced pursuant to the provisions of Clause 5.5, then no interest shall accrue or be payable during the Interest Period in which such reduction takes place in respect of the amount by which the Loan is so reduced and the Borrower shall not be entitled to any interest in respect of the cancelled Notes. The Borrower shall indemnify the Lender on demand against any costs and expenses reasonably incurred and properly documented by the Lender on account of any prepayment made in accordance with this Clause 5.

5.7 Provisions Exclusive

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

6 PAYMENTS

6.1 Making of Payments

All payments of principal and interest to be made by the Borrower under this Agreement shall be made unconditionally by credit transfer to the Lender not later than 10.00 a.m. (New York City time) one Business Day prior to each Interest Payment Date or the Repayment Date (as the case may be) (and, in the case of any payments made pursuant to Clauses 5.2, 5.3 or 5.4, one Business Day prior to the date on which the relevant prepayment is made) in Same-Day Funds to the Account, or as the Trustee may otherwise direct following the occurrence of a Relevant Event.

The Lender agrees with the Borrower that it will not deposit any other moneys into the Account and that no withdrawals shall be made from the Account other than as provided for and in accordance with the Trust Deed and the Agency Agreement.

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

All payments to be made by the Borrower under this Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any Taxes imposed by any Taxing Authority. If the Borrower shall be required by applicable law to make any deduction or withholding from any payment under this Agreement for or on account of any such Taxes, it shall promptly notify the Lender and on the due date for such payment, increase the payment of principal or interest or any other payment due hereunder to such additional amount as may be necessary to ensure that the Lender receives (free from liability in respect of such withholding) a net amount in Dollars equal to the full amount which it would have received had payment not been made subject to such Taxes, and shall promptly account to the relevant authorities for the relevant amount of such Taxes so withheld or deducted and shall deliver to the Lender without undue delay evidence satisfactory to the

Lender of such deduction or withholding and of the accounting therefor to the relevant Taxing Authority. If the Lender (or, following the assignment of the Assigned Rights, the Trustee) pays any amount in respect of such Taxes, the Borrower shall reimburse the Lender (or the Trustee, as the case may be) in Dollars for such payment on demand.

6.3 Withholding on Notes

Without prejudice to the provisions of Clause 6.2, if the Lender notifies the Borrower that it has become obliged to make any withholding or deduction for or on account of any Taxes imposed, levied, collected, withheld or assessed by or on behalf of the Russian Federation, the Federal Republic of Germany or any political subdivision or any authority thereof or therein having the power to tax from any payment which it is obliged to make under or in respect of the Notes, the Borrower agrees to pay into the Account, no later than one Business Day prior to the date on which payment is due to the Noteholders, such additional amounts as are equal to the additional amounts which the Lender would be required to pay in order that the net amounts received by the Noteholders, after such withholding or deduction, will equal the respective amounts which would have been received by the Noteholders in the absence of such withholding or deduction; provided, however, that the Lender shall immediately upon receipt from any Paying Agent of any reimbursement of the sums paid pursuant to this provision, to the extent that the Noteholders, as the case may be, are not entitled to such additional amounts pursuant to the Conditions, pay such additional amounts to the Borrower (it being understood that neither the Lender, the Principal Paying Agent or any Paying Agent shall have any obligations to determine whether any Noteholder is entitled to any such additional amount).

If the Lender intends to make a claim for any amount under this Clause 6.3, it shall, as soon as reasonably practicable after the Lender becomes aware of any obligation to make any such withholding or deduction, notify the Borrower thereof. As soon as reasonably practicable following a request by the Borrower, the Lender shall provide the Borrower with reasonable detail in writing as to the reasons for such withholding or deduction; provided that nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its or any other Person's affairs.

6.4 Reimbursement

- (a) To the extent that the Lender subsequently obtains or uses any Tax credit or allowance or other reimbursements (including any payment to the Lender from the Trustee pursuant to Clause 8.1 of the Trust Deed) relating to a deduction or withholding with respect to which the Borrower has made a payment pursuant to this Clause 6, it shall pay to the Borrower so much of the benefit it received as will leave the Lender in substantially the same position as it would have been in had no additional amount been required to be paid by the Borrower pursuant to this Clause 6; provided, however, that the question of whether any such benefit has been received, and accordingly, whether any payment should be made to the Borrower, the amount of any such payment and the timing of any such payment, shall be determined solely by the Lender, provided that the Lender shall notify the Borrower promptly upon determination that it has received any such benefit. The Lender shall have the absolute discretion whether, and in what order and manner, it claims any credits or refunds available to it, and the Lender shall in no circumstances be obliged to disclose to the Borrower any information regarding its tax affairs or computations.
- (b) If as a result of a failure to obtain relief from deduction or withholding of any Taxes referred to in Clause 6.2 imposed by any Taxing Authority (i) such Taxes are deducted or withheld by the Borrower and pursuant to Clause 6.2 an increased amount is paid by the Borrower to the Lender in respect of such deduction or withholding, and (ii) following the deduction or withholding of Taxes as referred to above, the Borrower applies, after consultation with the Lender, to the competent Taxing Authority for a Tax refund and such Tax is refunded or repaid by the relevant Taxing Authority to the Lender, the Lender shall as soon as reasonably practicable notify the Borrower of the receipt of such Tax refund and promptly transfer the amount of the Tax refund actually received in the currency actually received and less any applicable cost to a bank account of the Borrower specified for that purpose by the Borrower if and to the extent that the Lender determines in its reasonable opinion that to do so will leave it (after the payment and after the deduction of costs and expenses incurred in relation to the refund) in no

worse an after-Tax position than it would have been in had there been no failure to obtain relief from such withholding or deduction and if and to the extent the Lender is able to make such transfer under applicable laws and regulations.

6.5 Representations of the Lender

The Lender represents that (a) it is a bank which at the date hereof is resident in a Qualifying Jurisdiction (a “**Qualifying Lender**”) and (b) at the date thereof it does not have a permanent establishment in Russia for purposes of the Double Tax Treaty.

The Lender shall make reasonable and timely efforts to assist the Borrower to obtain relief from withholding of Russian income tax pursuant to the Double Tax Treaty, including, without limitation, its obligations under Clauses 6.6 and 6.9. The Lender makes no representation as to the application or interpretation of the Double Tax Treaty except for those set out in this Clause 6.5.

The Borrower and the Lender will inform each other, in a reasonable and timely manner, on the status of the procedure and the steps necessary to be taken in this regard.

6.6 Notification

- (a) The Lender agrees, upon becoming aware of such, promptly to notify the Borrower if it ceases to be a Qualifying Lender.
- (b) If the Lender ceases, as a result of the Lender’s actions, to be tax resident in a Qualifying Jurisdiction, and such cessation results in the Borrower being required to make payments pursuant to Clause 6.2, then, except in circumstances where the Lender has ceased to be tax resident in a Qualifying Jurisdiction by reason of any change of law (as described in Clause 5.2) (including, without limitation, change in a double taxation treaty or in such law or treaty’s application or interpretation), the Borrower may require the Lender to seek the substitution of the Lender as Issuer of the Notes and as lender under this Loan Agreement pursuant to and in accordance with the provisions of Clause 12.4 of the Trust Deed. The Borrower shall bear all costs and expenses relating to or arising out of such substitution.

6.7 Evidence of Debt

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

6.8 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of the Borrower to make any deduction, withholding or payment as described in Clause 6.2 or 6.3 then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or the Borrower’s obligations under any of the above mentioned provisions, such party shall, upon becoming aware of the same, notify the other party thereof and, in consultation with the Borrower and to the extent it can lawfully do so and without prejudice to its own position, the Lender shall take all reasonable steps to remove such circumstances or mitigate the effects of such circumstances; provided that the Lender shall be under no obligation to take any such action if, in its reasonable opinion, to do so might reasonably be expected to have any adverse effect upon its business, operations or financial condition or might be in breach of any provision of the Trust Deed, the Agency Agreement or the Notes.

6.9 Tax Treaty Relief

The Lender shall, provided that in each case a corresponding written request from the Borrower is received by the Lender no earlier than 65 Business Days but no later than 30 Business Days prior to an Interest Payment Date in each calendar year, and at the Borrower’s cost, to the extent it is able to do so under applicable law, including, without limitation, Russian laws, use commercially reasonable efforts to provide to the Borrower no later than 10 Business Days before such Interest Payment Date a certificate issued and certified (as applicable) by the competent Taxing Authority in the Federal Republic of Germany confirming that the Lender is a tax resident in the Federal Republic of Germany in the calendar year of such Interest Payment

Date and such other information or forms (including application forms) as may need to be duly completed and delivered by the Lender under the Double Tax Treaty and applicable Russian legislation and regulations to enable the Borrower to apply to obtain relief from deduction or withholding of Russian Taxes after date of this Agreement or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian taxes has not been obtained.

The certificate or such other information or forms referred to in this Clause 6.9 shall be duly signed by the Lender (if applicable), stamped or otherwise approved by the competent Taxing Authority in the Federal Republic of Germany and apostilled or legalised (as applicable) with a notarised Russian translation attached thereto (“**Authenticated Certificate**”).

The Lender shall not be responsible for any failure to provide, or any delays in providing an Authenticated Certificate as a result of any action or inaction of any authority of the Federal Republic of Germany provided that the Lender uses commercially reasonable efforts to obtain such Authenticated Certificate. The Lender shall in no circumstances be obliged to disclose to the Borrower any information regarding its tax affairs or computations.

7 CONDITIONS PRECEDENT

7.1 Documents to be Delivered

The obligation of the Lender to make the Advance shall be subject to the receipt by the Lender on or prior to the Closing Date of an executed copy of each of the following documents, each (other than sub-Clause (d)) dated the Closing Date, in form and substance satisfactory to the Lender:

- (a) an opinion of Allen & Overy LLP regarding issues of English and Russian law;
- (b) an opinion of White & Case LLC regarding issues of English and Russian law;
- (c) an opinion of Lovells regarding issues of German law; and
- (d) written evidence that the Persons mentioned in Clause 17.7 have agreed to receive process in the manner specified herein.

7.2 Further Conditions

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

8 CHANGE IN LAW OR BANKING PRACTICES; INCREASE IN COST

8.1 Compensation

In the event that after the date of this Agreement there is any change in or introduction of any tax, law, regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) or in the interpretation or application thereof by any Person charged with the administration thereof and/or any compliance by the Lender in respect of the Loan or the Facility with any request, policy or guideline (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) from or of any central bank or other fiscal, monetary or other authority, agency or any official of any such authority (including, for the avoidance of doubt, but not limited to, any recommendations regarding capital adequacy standards published by the Basel Committee on Banking Regulations and Supervisory Practices at the Bank for International Settlements), which:

- (a) subjects or will subject the Lender to any Taxes with respect to payments of principal of or interest on the Loan or any other amount payable under this Agreement, (other than any Taxes referred to in Clause 6.2, or any Taxes referred to in Clause 6.3); or
 - (b) increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on the Loan or any other amount payable under this Agreement (other than any such increase or change which arises as a result of any Taxes referred to in Clause 6.2 or any Taxes referred to in Clause 6.3); or
 - (c) imposes, modifies, or deems applicable any capital adequacy, reserve or deposit requirements attributable to this Agreement or to a class of business or transaction which, in the reasonable opinion of the Lender, includes this Agreement, against assets held by, or deposits in or for the amount of, or credit extended by an office of the Lender; or
 - (d) imposes or will impose on the Lender any other condition affecting this Agreement, the Facility or the Loan,
- and if as a result of any of the foregoing:
- (i) the cost to the Lender of making, funding or maintaining the Loan or the Facility is increased; or
 - (ii) the amount of principal, interest or other amount payable to or received by the Lender hereunder is reduced; or
 - (iii) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from the Borrower hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of the Loan,

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

- (A) the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to the Borrower together with a certificate describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and demonstrating the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone and setting out in reasonable detail the basis on which such amount has been calculated, and shall provide the Borrower with copies of all relevant supporting documents evidencing the matters set out in such certificates; provided that nothing herein shall require the Lender to disclose any confidential information relating to the organisation of its or any other Person's affairs; and
- (B) the Borrower, in the case of sub-Clauses (i) and (iii) above, shall, on demand, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost and, in the case of sub-Clause (ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or forgone interest or other return; provided, however, that the amount of such increased cost, reduced amount or payment made or foregone shall be deemed not to exceed an amount equal to the proportion which is directly attributable to this Agreement; provided that the Lender will not be entitled to such additional amount where such reduction, payment or foregone interest or other return arises as a result of the gross negligence or wilful default of the Lender.

8.2 Mitigation

In the event that the Lender becomes entitled to make a claim pursuant to Clause 8.1, then, without in any way limiting, reducing or otherwise qualifying the rights of the Lender or the Borrower's obligations under the above mentioned provision, the Lender shall, upon becoming aware of the same, notify the Borrower thereof and, in consultation with the Borrower and to the extent it can lawfully do so and without prejudice to its own position, and subject to the Borrower reimbursing it for its full costs and expenses in relation thereto, take all reasonable steps to remove such circumstances or mitigate the effects of such circumstances; provided that the

Lender shall be under no obligation to take any such action if, in its reasonable opinion, to do so might be expected to have any adverse effect upon its business, operations or financial condition or might be in breach of provision of the Trust Deed, the Agency Agreement or the Notes.

9 REPRESENTATIONS AND WARRANTIES

9.1 Borrower's Representations and Warranties

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

- (a) it is duly organised and incorporated and validly existing under the laws of the Russian Federation, is not in liquidation or receivership and has the power and legal right to own its properties, to conduct its business as currently conducted and to enter into and to perform its obligations under this Agreement and to borrow the Advance; that it has taken all necessary corporate, legal and other action required to authorise the borrowing of the Advance on the terms and subject to the conditions of this Agreement and to authorise the execution of this Agreement and all other documents to be executed and/or delivered by it in connection with this Agreement, and the performance of this Agreement in accordance with its terms;
- (b) this Agreement has been duly executed and delivered by and constitutes a legal, valid and binding obligation of the Borrower enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, (i) to general principles of equity, (ii) to the fact that the gross-up provisions contained in Clause 6.2 or 6.3 may be declared unenforceable by a Russian court and (iii) with respect to the enforceability of a judgment, to the laws of the relevant jurisdiction where such judgment must be enforced and whether there is a treaty in force relating to the mutual recognition of foreign judgments;
- (c) the execution and performance of this Agreement by the Borrower will not conflict with or result in any breach or violation of (i) any law or regulation or any order of any governmental, judicial, arbitral or public body or authority in the Russian Federation, (ii) the constitutive documents, rules and regulations of the Borrower or the terms of the general banking licence granted to the Borrower by the Central Bank or (iii) any agreement or other undertaking or instrument to which the Borrower is a party or which is binding upon the Borrower or any of its assets nor result in the creation or imposition of any Liens on any of its assets pursuant to the provisions of any such agreement or other undertaking or instrument except for Liens that would not have a Material Adverse Effect;
- (d) all consents, licences, notifications, authorisations or approvals of, or filings with, any governmental, judicial and public bodies and authorities of Russia (including, without limitation, the Central Bank), if any, required in order to ensure (i) the due execution, delivery and performance by the Borrower of this Agreement and (ii) the validity or enforceability against the Borrower of this Agreement, have been obtained or effected and are and shall remain in full force and effect, other than, in each case, any such consent, licence, notification, authorisation, approval or filing required in relation to exchange control regulations which may only be obtained after the date of this Agreement;
- (e) no event has occurred that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, an Event of Default or a default under any agreement or instrument evidencing any Indebtedness of the Borrower, and no such event will occur upon the making of the Advance;
- (f) there are no judicial, arbitral or administrative actions, proceedings or claims (including, but without limitation to, with respect to Taxes) which have been commenced or are pending or, to the knowledge of the Borrower, threatened, against the Borrower or any of its Subsidiaries, the adverse determination of which would have a Material Adverse Effect;

- (g) except for Liens of the types referred to in the definition of Permitted Liens in Clause 1.1, the Borrower has good title to its property free and clear of all Liens, except where the failure to do so would not individually or in the aggregate have a Material Adverse Effect, and the Borrower's obligations under the Loan rank at least pari passu with all its other unsecured and unsubordinated Indebtedness except as otherwise provided by mandatory provisions of applicable law;
- (h) the audited financial statements of the Borrower as at and for the year ended 31 December 2004:
 - (i) were prepared in accordance with IFRS, as consistently applied;
 - (ii) unless not required by IFRS, as consistently applied, disclose all liabilities (contingent or otherwise) and all unrealised or anticipated losses of the Borrower; and
 - (iii) save as disclosed therein, present fairly, in all material respects, the financial position of the Borrower as at that date and the results of operations of the Borrower during the relevant financial year;
- (i) the unaudited financial statements of the Borrower for the three months ended 31 March 2005:
 - (i) were prepared in accordance with IFRS, as consistently applied;
 - (ii) unless not required by IFRS, as consistently applied, disclose all liabilities (contingent or otherwise) and all unrealised or anticipated losses of the Borrower; and
 - (iii) save as disclosed therein, present fairly, in all material respects, the financial position of the Borrower as at that date and the results of operations of the Borrower during the relevant period;
- (j) there has been no material adverse change since 31 December 2004 in the business, condition (financial or otherwise), results of operations or immediate prospects of the Borrower or in the Borrower's ability to perform its obligations under this Agreement;
- (k) the execution and enforceability of this Agreement is not subject to any tax, duty, fee or other charge, including, but without limitation to, any registration or transfer tax, stamp duty or similar levy, imposed by or within the Russian Federation or any political subdivision or taxing authority thereof or therein;
- (l) neither the Borrower nor its property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to this Agreement;
- (m) the Borrower and its Subsidiaries are in compliance in all respects with all applicable provisions of law, except where the failure to be so in compliance would not have a Material Adverse Effect;
- (n) the Borrower is in compliance in all material respects with the mandatory ratio of the Central Bank with respect to a bank's exposure to a single borrower or group of related borrowers;
- (o) there are no strikes or other employment disputes against the Borrower which have been started or are pending or, to its knowledge, threatened, which would have a Material Adverse Effect;
- (p) save as disclosed in the Offering Circular, in any proceedings taken in the Russian Federation in relation to this Agreement, the choice of English law as the governing law of this Agreement and any arbitration award obtained in England in relation thereto will be recognised and enforced in the Russian Federation after compliance with the applicable procedures and rules and all other legal requirements in Russia;
- (q) subject to the performance by the relevant parties of the relevant established procedures in connection with the obtaining of an applicable withholding tax exemption for payments hereunder, no withholding in respect of any Taxes in any of the United Kingdom, Federal Republic of Germany or Russian Federation are required to be made from any payment by the Borrower to the Lender under this Agreement;

- (r) all licences, consents, examinations, clearances, filings, registrations and authorisations which are or may be necessary to enable the Borrower to own its assets and carry on its business are in full force and effect, except as would not have a Material Adverse Effect, and the Borrower is conducting such business in accordance with such licences, consents, examinations, clearances, filings registrations and authorisations, except where the failure to do so would not have a Material Adverse Effect;
- (s) with respect to the offer and sale of the Notes pursuant to the Subscription Agreement, neither it nor any of its Affiliates nor any Person acting on its or their behalf (i) has engaged or will engage in any directed selling efforts (as defined in Regulation S under the U.S. Securities Act of 1933 (“**Regulation S**”)) and (ii) the Borrower, its Affiliates and any Persons acting on its or their behalf have complied and will comply with the offering restrictions requirement of Regulation S;
- (t) it is subject, without reservation, to civil and commercial law with respect to its obligations under this Agreement, and its execution of this Agreement constitutes, and its exercise of its rights and performance of its obligations hereunder will constitute, private and commercial acts done and performed for private and commercial purposes; and
- (u) the Borrower has no overdue tax liabilities other than those that would not have a Material Adverse Effect.

9.2 Lender’s Representations and Warranties

The Lender represents and warrants to the Borrower as follows:

- (a) the Lender is duly incorporated under the laws of and resident for German taxation purposes in the Federal Republic of Germany and has full power and capacity to execute this Agreement and to undertake and perform the obligations expressed to be assumed by it herein and the Lender has taken all necessary action to approve and authorise the same;
- (b) the execution of this Agreement and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein will not conflict with, or result in a breach of or default under, the laws of the Federal Republic of Germany or any agreement or instrument to which it is a party or by which it is bound or in respect of indebtedness in relation to which it is a surety;
- (c) this Agreement has been duly executed by and constitutes legal, valid, binding and enforceable obligations of the Lender subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors’ rights generally, and subject, as to enforceability, to general principles of equity; and
- (d) all authorisations, consents and approvals required by the Lender for or in connection with the execution of this Agreement and the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect.

10 COVENANTS

So long as any amount remains outstanding hereunder:

10.1 Negative Pledge

The Borrower shall not, and shall not permit any of its Material Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Liens, other than Permitted Liens, on any of its assets, now owned or hereafter acquired, or any income or profits therefrom, securing any Indebtedness, unless, at the same time or prior thereto, the Loan (i) is secured equally and rateably with such other Indebtedness or (ii) has the benefit of such other security or other arrangement which is equivalent in all material respects to any such Lien and which is approved by the Lender (such approval not to be unreasonably withheld).

10.2 Mergers

(i) The Borrower shall not enter into any merger, accession, division, separation or transformation (as such terms are construed by applicable Russian legislation) or any other reorganisation under

Russian law, but excluding, for the avoidance of doubt, a change in the shareholdings in the Borrower alone (each, a “**Reorganisation Event**”), and (ii) the Borrower shall ensure that, without the prior written consent of the Lender, no Material Subsidiary (A) enters into any Reorganisation Event, or (B) in the case of a Material Subsidiary incorporated in a jurisdiction other than Russia, participates in any event analogous under the legislation of the relevant jurisdiction to a Reorganisation Event, if (in the case of either (i) or (ii) above) any such reorganisation or other type of corporate reconstruction would have a Material Adverse Effect. For the avoidance of doubt, a Reorganisation Event will not be considered to be capable of having a Material Adverse Effect for the purposes of this Clause in the event that it does not lead to a downgrading of the senior unsecured issuer rating given to the Borrower by Fitch or Moody’s or, in the circumstances under (i) above where the Borrower is not the surviving entity following the Reorganisation Event, the ratings granted to such surviving entity immediately following the Reorganisation Event by Moody’s and Fitch are no less than the ratings granted to the Borrower by each of Moody’s and Fitch immediately prior to the Reorganisation Event.

10.3 Disposals

The Borrower shall not and shall ensure that its Material Subsidiaries do not (in each case disregarding any sale, lease, transfer or disposal (a) made in the ordinary course of banking business of the Borrower on an arm’s length basis, (b) of assets in exchange for other assets comparable or superior as to type, value and quality or, (c) made in connection with a Securitisation Transaction) sell, lease, transfer or otherwise dispose of, by one or more transactions or series of transactions (whether related or not), the whole or any part (the book value of which is 10 per cent. or more of the book value of the whole) of its assets unless, without prejudice to Clause 10.12, such transaction(s) is/are (a) on an arm’s length basis and on commercially reasonable terms and (b) has/have been approved by a resolution of the appropriate decision making body of the Borrower or the relevant Material Subsidiary, as the case may be, resolving that the transaction complies with the requirements of this Clause 10.3 and such resolution has been adopted by a majority of the members of such appropriate decision making body disinterested with respect to such transaction or series of transactions or, if there are insufficient disinterested members, by an Independent Appraiser.

10.4 Transactions with Affiliates

The Borrower shall not and shall ensure that none of its Subsidiaries shall, directly or indirectly, conduct any business, enter into or permit to exist any transaction or series of related transactions (including, without limitation, the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an “**Affiliate Transaction**”) including, without limitation, intercompany loans unless (a) the terms of such Affiliate Transaction are no less favourable to the Borrower or such Subsidiary, as the case may be, than those that could be obtained in a comparable arm’s length transaction with a Person that is not an Affiliate of the Borrower or such Subsidiary; or (b) such Affiliate Transaction is made pursuant to a contract existing on the Closing Date (excluding any amendments or modifications thereof).

With respect to an Affiliate Transaction (except for transactions in the ordinary course of the Borrower’s banking business other than loans) involving aggregate payments or value in excess of U.S.\$25,000,000 (or its equivalent in other currencies), the Borrower shall deliver to the Lender and the Trustee a written opinion from an Independent Appraiser to the effect that such Affiliate Transaction is fair, from a financial point of view, to the Borrower or the relevant Subsidiary, as the case may be.

This Clause 10.4 does not apply to (a) compensation or employee benefit arrangements with any officer or director of the Borrower or a Subsidiary, as the case may be, arising as a result of their employment contract, (b) any Affiliate Transaction between the Borrower and any of its Subsidiaries or between any Subsidiaries of the Borrower or (c) any transaction or series of related transactions in the ordinary course of business consistent with past practice (which, for the avoidance of doubt, shall include transactions described under Note 28 to the Borrower’s financial statements as of and for the year ended 31 December 2004).

10.5 Maintenance of Authorisations

The Borrower shall, and shall procure that each of its Material Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things reasonably necessary, in the

opinion of the Borrower or the relevant Material Subsidiary, to ensure the continuance of its corporate existence, its business and intellectual property relating to its business, and the Borrower shall take all necessary action to obtain, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Russian Federation for the execution, delivery or performance of this Agreement or for the validity or enforceability thereof; provided that, if, in any case, the Borrower and/or the relevant Material Subsidiary, as the case may be, can remedy any failure to comply with this Clause 10.5 within 90 days of such failure or the occurrence of such event, then this covenant shall be deemed not to have been breached.

10.6 Maintenance of Property

The Borrower shall, and shall ensure that its Material Subsidiaries will, cause all property used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as, in the reasonable judgment of the Borrower or any Material Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times, provided that if the Borrower or any such Material Subsidiary can remedy any failure to comply with the above within 90 days or any failure relates to property with a value not exceeding U.S.\$5,000,000 (or its equivalent in other currencies), this covenant shall be deemed not to have been breached.

10.7 Payment of Taxes and Other Claims

The Borrower shall, and shall ensure that its Material Subsidiaries will, pay or discharge or cause to be paid or discharged, before the same shall become overdue and without incurring penalties, (a) all Taxes levied or imposed upon, the income, profits or property of, the Borrower and its Material Subsidiaries and (b) all lawful claims for labour, materials and supplies which, if unpaid, would by law become a Lien (other than a Permitted Lien) upon the property of the Borrower or any of its Material Subsidiaries; provided, however, that none of the Borrower nor any Material Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (a) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS, as consistently applied, or other appropriate provision has been made or (b) whose amount, together with all such other unpaid or undischarged Taxes, assessments, charges and claims, does not in the aggregate exceed U.S.\$5,000,000 (or its equivalent in other currencies).

10.8 Withholding Tax Exemption

The Borrower shall give to the Lender all the assistance it reasonably requires to ensure that, prior to the first interest payment and at the beginning of each calendar year the Lender can provide the Borrower with the documents required under Russian law for the relief of the Lender from Russian withholding tax in respect of payments hereunder.

10.9 Maintenance of Insurance

So long as any amount remains outstanding under this Agreement, the Borrower shall, and shall ensure that each of its Material Subsidiaries will, keep those of its properties which are of an insurable nature insured with insurers of good standing against loss or damage to the extent that property of similar character is usually so insured by corporations in the same jurisdictions similarly situated and owning like properties in the same jurisdictions.

10.10 Financial Information

- (a) The Borrower shall as soon as the same become available, but in any event within 150 days after the end of each of its financial years, deliver to the Lender and the Trustee the Borrower's unconsolidated financial statements and (if prepared) the Group's consolidated financial statements for such financial year, in each case audited by the Auditors.
- (b) The Borrower shall as soon as the same become available, but in any event within 90 days after the end of each half of each of its financial years, deliver to the Lender and the Trustee its unconsolidated unaudited financial statements for such period and (if prepared) the Group's consolidated unaudited financial statements for such period.

- (c) The Borrower shall, so long as the Advance or any other sum owing under this Agreement remains outstanding, deliver to the Lender and the Trustee, without undue delay, such additional information regarding the financial position or the business of the Borrower and its Subsidiaries as the Lender or the Trustee may reasonably request including providing certification to the Trustee pursuant to the Trust Deed.
- (d) The Borrower shall ensure that each set of unconsolidated and (if prepared) consolidated financial statements delivered by it pursuant to this Clause 10.10 is:
 - (i) prepared in accordance with IFRS consistently applied; and
 - (ii) in the case of the statements provided pursuant to sub-Clause (b), certified by an Authorised Signatory of the Borrower as giving a true and fair view, in all material respects, of its unconsolidated and (if prepared) the Group's consolidated financial condition as at the end of the period to which those unconsolidated and (if prepared) consolidated financial statements relate and of the results of its and (if consolidated financial statements are prepared) the Group's operations during such period.

10.11 Financial Covenants

The Borrower shall (except as otherwise specifically provided or agreed by the Lender) at all times (save in respect of sub-Clause (b) below, which will apply in respect of the time periods set out therein) maintain:

- (a) compliance in all material respects with mandatory ratios (normatives) and other requirements of the Central Bank applicable to banks; and
- (b) a ratio of Capital to Risk Weighted Assets:
 - (i) at any time that (a) the long-term foreign currency rating given to the Borrower is below BB (in the case of Fitch or Standard & Poor's, if a rating from Standard & Poor's is applied for and obtained) and the long-term bank deposits - foreign currency rating is below Ba2 (in the case of Moody's) or (b) neither Moody's nor Fitch is rating the Borrower, of not less than 12 per cent.; or
 - (ii) at any time that the long-term foreign currency rating given to the Borrower is at BB or above (in the case of Fitch or Standard & Poor's, if a rating from Standard & Poor's is applied for and obtained) and the long-term bank deposits - foreign currency rating is at Ba2 or above (in the case of Moody's), of not less than 10 per cent.

10.12 Change of Business

The Borrower shall procure that no material change is made to the general nature of its business from that carried on at the date of this Agreement, being the banking business.

10.13 Ranking of Claims

Subject to the Loan being secured in accordance with Clause 10.1, the Borrower shall ensure that at all times the claims of the Lender against it under this Agreement rank at least pari passu with the claims of all its other unsecured creditors save those unsecured creditors whose claims are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application.

10.14 Restricted Payments

- (a) Subject to sub-Clause (b) below, the Borrower shall not, and shall not permit any of its Material Subsidiaries to, directly or indirectly:
 - (i) declare or pay dividends, in cash or otherwise, or make any other distributions (whether by way of redemption, acquisition or otherwise) in respect of its share capital, other than dividends or distributions payable to the Borrower or any of its Material Subsidiaries; or
 - (ii) voluntarily purchase, redeem or otherwise retire for value any Capital Stock of the Borrower or, prior to scheduled maturity or scheduled repayment, subordinated debt of the Borrower or any Material Subsidiary of the Borrower (except for the repayment of inter-company debt owed by any member of the Group to any other member of the Group from time to time),

any such action being referred to herein as a “**Restricted Payment**”.

- (b) The Borrower and any of its Material Subsidiaries may make a Restricted Payment if at the time of such payment no Event of Default has occurred and is continuing or would result therefrom and the aggregate amount of all Restricted Payments of the Group for the most recent Fiscal Period does not exceed 50 per cent. of the Borrower's net profit or, if consolidated financial statements are produced at the relevant time, consolidated net profit (in each case calculated in accordance with IFRS) for such period.

10.15 Officers' Certificates

On each Interest Payment Date (other than the final Interest Payment Date that falls on the Repayment Date) or promptly upon request by the Lender or the Trustee (and in any event within 10 Business Days after such request), the Borrower shall deliver to the Lender (and, following the assignment of the Assigned Rights, the Trustee), written notice in the form of an Officers' Certificate stating whether any Default or Event of Default has occurred and, if it has occurred, what action the Borrower is taking or proposes to take with respect thereto.

On each Interest Payment Date (other than the final Interest Payment Date that falls on the Repayment Date) or promptly upon request by the Lender (and in any event within 10 Business Days after such request), the Borrower shall deliver to the Lender written notice in the form of an Officers' Certificate listing its Material Subsidiaries, accompanied by a report by the Auditors addressed to the directors of the Borrower as to the proper extraction of the figures used in the Officers' Certificate, as described in the definition of “Officers' Certificate” in Clause 1.1.

10.16 Notes Held by the Borrower

Upon being so requested in writing by the Lender or the Trustee, the Borrower shall deliver to the Lender (and, following the assignment of the Assigned Rights, the Trustee) an Officers' Certificate of the Borrower setting out the total number of Notes which, at the date of such certificate, are held by the Borrower (or any Subsidiary of the Borrower) and have not been cancelled and are retained by it for its own account or for the account of any other company.

11 EVENTS OF DEFAULT

11.1 Events of Default

If one or more of the following events of default (each, an “**Event of Default**”) shall occur, the Lender shall be entitled to the remedies set forth in Clause 11.3.

- (a) The Borrower fails to pay any amount payable hereunder as and when such amount becomes payable in the currency and in the manner specified herein provided such failure to pay continues for more than five Business Days.
- (b) The Borrower fails to perform or observe any covenant or agreement contained herein to be performed or observed by it, provided such failure continues for more than 30 days.
- (c) Any representation or warranty of the Borrower or any statement deemed to be made by the Borrower in this Agreement or any other document, certificate or notice delivered by the Borrower in connection with this Agreement, the Subscription Agreement, the Trust Deed or the Agency Agreement or the issue of Notes proves to have been inaccurate, incomplete or misleading in any material respect in the opinion of the Lender at the time it was made or repeated or deemed to have been made or repeated.
- (d)
 - (i) Any Indebtedness of the Borrower or any of its Material Subsidiaries is not paid when due (after the expiry of any applicable grace period); or
 - (ii) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Borrower or (as the case may be) the relevant Material Subsidiary or (provided that no event of default, howsoever described, has occurred) any Person entitled to such Indebtedness,provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above, individually or in the aggregate, exceeds U.S.\$10,000,000 (or its equivalent in any other currency or currencies).
- (e) The occurrence of any of the following events: (i) the Borrower or any of its Material Subsidiaries seeking or consenting to the introduction of proceedings for its liquidation

or the appointment of a liquidation commission (*likvidatsionnaya komissiya*) or a similar officer of any of the Borrower or any of its Material Subsidiaries; (ii) the presentation or filing of a petition in respect of any of the Borrower or its Material Subsidiaries in any court, arbitration court or before any agency alleging, or for, the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceedings) of any of the Borrower or its Material Subsidiaries, unless such petition is demonstrated to the reasonable satisfaction of the Lender to be vexatious or frivolous; (iii) the institution of the supervision (*nablyudeniye*), external management (*vneshneye upravleniye*), bankruptcy management (*konkursnoye proizvodstvo*) over the Borrower or any of its Material Subsidiaries, (iv) the entry by the Borrower or any of its Material Subsidiaries into, or the agreeing by the Borrower or any of its Material Subsidiaries to enter into, amicable settlement (*mirovoye soglaseniye*) with its creditors, as such terms are defined in the Federal Law of Russia No. 127-FZ “On Insolvency (Bankruptcy)” dated 26 October, 2002 (as amended or replaced from time to time); (v) the institution, at the request of the Central Bank, of financial rehabilitation (*finansovoye ozdorovleniye*), temporary administration (*vremennoye upravleniye*) or reorganisation (*reorganizatsiya*) with respect to the Borrower or any of its Material Subsidiaries as such terms are defined in the Federal Law of the Russian Federation No- 40-FZ “On Insolvency (Bankruptcy) of Credit Organisations” dated 25 February, 1999 (as amended or restated from time to time); and/or (vi) any judicial liquidation, dissolution, liquidation or winding up in respect of the Borrower or any of its Material Subsidiaries.

- (f) The Borrower or any of its Material Subsidiaries is unable or admits its inability to pay its debts as they fall due, generally suspends making payments on its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling a material portion of its Indebtedness; the value of the assets of any of the Borrower or its Material Subsidiaries is less than its liabilities; and/or a moratorium is declared in respect of any Indebtedness of any of the Borrower or a material portion of its Material Subsidiaries.
- (g) Any expropriation, attachment, sequestration, execution or distress is levied against, or an encumbrancer takes possession of or sells, the whole or any material part of, the property, undertaking, revenues or assets of the Borrower or any of its Material Subsidiaries.
- (h) Any governmental authorisation necessary for the performance of any obligation of the Borrower under this Agreement fails to be in full force and effect if such failure is not remedied within 30 days after its occurrence.
- (i) Any government, Agency or court takes any action that has a Material Adverse Effect on the Borrower or any of its Material Subsidiaries, including, without prejudice to the foregoing, (i) the management of the Borrower or any of its Material Subsidiaries is wholly or substantially displaced or the authority of any member of the Group in the conduct of its business is wholly or substantially curtailed; (ii) all or a majority of the issued shares of the Borrower or any of its Material Subsidiaries or the whole or any part (the book value of which is 20 per cent. or more of the book value of the whole) of its revenues or assets is seized, nationalised, expropriated or compulsorily acquired; or (iii) the Borrower’s general banking licence is revoked or the Borrower is prohibited from conducting any substantial part of its banking operations envisaged in its banking license.
- (j) The aggregate amount of unsatisfied judgments, decrees or orders of courts or other appropriate law-enforcement bodies for the payment of money against the Borrower and other Material Subsidiaries in the aggregate exceeds U.S.\$5,000,000, or the equivalent thereof in any other currency or currencies and there is a period of 60 days following the entry thereof during which such judgment, decree or order is not appealed, discharged, waived or the execution thereof stayed and such default continues for 10 Business days after the notice specified in Clause 11.2.
- (k) At any time it is or becomes unlawful for the Borrower to perform or comply with any or all of its obligations under this Agreement or any of such obligations (subject as provided in sub-Clause 9.1(b)) are not, or cease to be, legal, valid, binding and enforceable and such unlawfulness or cessation has a Material Adverse Effect.

- (l) The Borrower or any of its Material Subsidiaries ceases to carry on the principal business carried on by the Borrower at the date hereof, being the banking business.
- (m) The Borrower repudiates this Agreement or the Subscription Agreement or evidences in writing an intention to repudiate this Agreement or the Subscription Agreement.
- (n) Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing sub-Clauses.

11.2 Notice of Default

The Borrower shall deliver to the Lender and the Trustee within (i) 10 days of any written request by the Lender or (ii) within 30 days after the occurrence thereof, written notice in the form of an Officers' Certificate stating whether any Default or Event of Default has occurred, its status and what action the Borrower is taking or proposes to take with respect thereto.

11.3 Default Remedies

If any Event of Default shall occur and be continuing, the Lender may, by notice in writing to the Borrower, (a) declare the obligations of the Lender hereunder to be terminated, whereupon such obligations shall terminate, and (b) declare all amounts payable hereunder by the Borrower that would otherwise be due after the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Borrower; provided, however, that if any event of any kind referred to in sub-Clause 11.1(e) or 11.1(f), occurs, the obligations of the Lender hereunder shall immediately terminate, and all amounts payable hereunder by the Borrower that would otherwise be due after the occurrence of such event shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Borrower.

11.4 Right of Set-off

If any amount payable by the Borrower hereunder is not paid as and when due, the Borrower authorises the Lender to proceed, to the fullest extent permitted by applicable law, without prior notice, by right of set-off, banker's lien, counterclaim or otherwise, against any assets of the Borrower in any currency that may at any time be in the possession of the Lender, at any branch or office, to the full extent of all amounts payable to the Lender hereunder.

11.5 Rights Not Exclusive

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

12 INDEMNITY

12.1 Indemnification

The Borrower undertakes to the Lender, that if the Lender or any of its Affiliates, each director, officer, employee or agent of the Lender and each Person controlling the Lender within the meaning of the United States securities laws (each an "**indemnified party**") incurs any loss, liability, cost, claim, charge, expense (including without limitation Taxes, legal fees, costs and expenses), demand or damage (a "**Loss**") as a result of or in connection with the Loan, this Agreement (or enforcement thereof), and/or the issue, constitution, sale, listing and/or enforcement of the Notes and/or the Notes being outstanding, the Borrower shall pay to the Lender on demand an amount equal to such Loss, subject to the receipt of a certificate from the Lender as prescribed in clause 12.3, and all duly documented costs, charges and expenses which it or any indemnified party may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, charges and expenses are incurred unless such Loss was either caused by such indemnified party's negligence or wilful misconduct or arises out of a breach of the representations and warranties of the Lender contained in the Schedule to the Subscription Agreement. The Lender shall not have any duty or obligation whether as fiduciary or trustee for any indemnified party or otherwise, to recover any such payment or to account to any other Person for any amounts paid to it under this Clause.

12.2 Independent Obligation

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

12.3 Evidence of Loss

A certificate of the Lender setting forth the amount of losses, expenses and liabilities described in Clause 12.1 and specifying in full detail the basis therefor shall, in the absence of manifest error, be prima facie evidence of the amount of such losses, expenses and liabilities.

12.4 Currency Indemnity

To the fullest extent permitted by law, the obligation of the Borrower in respect of any amount due in Dollars under this Agreement shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in Dollars that the party entitled to receive such payment may, acting reasonably in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any premium and costs of exchange) on the Business Day immediately following the day on which such party receives such payment. If the amount in Dollars that may be so purchased for any reason falls short of the amount originally due, the Borrower hereby agrees to indemnify the Lender against any such deficiency in Dollars. Any obligation of the Borrower not discharged by payment in Dollars shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided herein, shall continue in full force and effect.

13 SURVIVAL

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

14 GENERAL

14.1 Stamp Duties

- (a) The Borrower shall pay all stamp, registration, documentary and similar Taxes (if any) in the United Kingdom, the Russian Federation or the Federal Republic of Germany which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and shall indemnify the Lender against any and all duly documented costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure to pay such Taxes.
- (b) The Borrower agrees that if the Lender incurs a liability to pay any stamp, registration, documentary and similar Taxes (if any) in the United Kingdom, the Russian Federation or the Federal Republic of Germany which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement, the Borrower shall reimburse the Lender on demand an amount equal to such Taxes and shall indemnify on demand the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to procure the payment of such Taxes or similar charges.

14.2 Waivers

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

14.3 Prescription

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

15 NOTICES

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

(a) If to the Borrower:

Joint Stock Company "Sibacadembank"
Ulitsa Serebrennikovskaya 31/1
Novosibirsk, Russian Federation 630099
Fax: +7 3832 222470
Attention: Yana Konnova

(b) If to the Lender:

Dresdner Bank Aktiengesellschaft
Jürgen-Ponto-Platz 1
D-60301 Frankfurt am Main
Federal Republic of Germany
Fax: +49 69 713 25001
Attention: Flow Business Debt

(c) If to the Trustee:

J.P. Morgan Corporate Trustee Services Limited
Trinity Tower
9 Thomas More Street
London E1W 1YT
England
Fax: +44 20 7777 5420
Attention: ITS-GD, Trust Administration

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

16 ASSIGNMENT

16.1 General

This Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under this Agreement. Any reference in this Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender, following notification to the Borrower of the assignment referred to in Clause 16.3, shall be references to the exercise of such rights or discretions by the Trustee (as Trustee). Notwithstanding the foregoing, the Trustee shall not be entitled to participate in any discussions between the Lender and the Borrower or any agreements of the Lender or the Borrower, pursuant to Clauses 6.4, 6.8 and 8 unless specifically required by the terms of this Agreement.

16.2 By the Borrower

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

16.3 By the Lender

Subject to the provisions of Clause 12.4 of the Trust Deed, the Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement other than the Reserved Rights except (i) the charge by way of first fixed charge granted by the Lender in favour of the Trustee (as Trustee) of certain of the Lender's rights and benefits under this Agreement and (ii) the absolute assignment by the Lender to the Trustee of certain rights, interests and benefits under this Agreement, in each case, pursuant to Clause 4 of the Trust Deed. For the avoidance of doubt, the foregoing shall not prevent any reorganisation of the Lender pursuant to the German Transformation Act (*Umwandlungsgesetz*) pursuant to which another entity succeeds to the rights and obligations of the Lender under this Agreement.

17 LAW AND JURISDICTION

17.1 Choice of Law

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

17.2 Jurisdiction

Each of the Borrower and the Lender hereby irrevocably agrees that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with this Agreement (respectively, “**Proceedings**” and “**Disputes**”) and, for such purposes, irrevocably submits to the jurisdiction of such courts.

17.3 Appropriate Forum

Each of the parties to this Agreement irrevocably waives any objection which it may now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agrees not to claim that any such court is not a convenient or appropriate forum and further irrevocably agrees that a final and conclusive judgment in any Proceedings brought in the English courts with competent jurisdiction shall be conclusive and binding and, subject to the existence of a treaty relating to the mutual recognition of foreign judgments, may be enforced in the courts of any other jurisdiction.

17.4 Non-exclusivity

The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of the Lender to take Proceedings against the Borrower in any other court of competent jurisdiction to the extent permitted by any applicable law, nor shall the taking of Proceedings in connection with this Agreement in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) or in any other court of competent jurisdiction to the extent permitted by any applicable law.

17.5 Waiver of Immunity

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

17.6 Consent to Enforcement etc.

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

17.7 Borrower's Process Agent

The Borrower agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to Law Debenture Corporate Services Limited at 5th Floor, 100 Wood Street, London EC2V 7EX, England, or, if different, its registered office for the time being or at any address of the Borrower in England at which process may be served on it in accordance with Part XXIII of the Companies Act 1985 (as modified or re-enacted from time to time). If such

Person is not or ceases to be effectively appointed to accept service of process on the Borrower's behalf, the Borrower shall, on the written demand of the Lender, appoint a further Person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Lender shall be entitled to appoint such a Person by written notice to the Borrower. Nothing in this Clause shall affect the right of the Lender to serve process in any other manner permitted by law.

17.8 Lender's process agent

The Lender agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to the attention of Dresdner Bank AG London Branch, 2 Swan Lane, London EC4R 3UX, England or, if different, its registered office for the time being or at any address of the Lender in England at which process may be served on it in accordance with Part XXIII of the Companies Act 1985 (as modified or re-enacted from time to time). If such Person is not or ceases to be effectively appointed to accept service of process on the Lender's behalf, the Lender shall, on the written demand of the Borrower appoint a further Person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Borrower shall be entitled to appoint such a Person by written notice to the Lender. Nothing in this Clause shall affect the right of the Borrower to serve process in any other manner permitted by law.

18 ARBITRATION

18.1 Procedure

The Borrower hereby agrees that, at the option of the Lender, any controversy, claim or cause of action brought by any party against another party or arising out of or relating to this Agreement may be settled by arbitration in London, England conducted in English by three arbitrators pursuant to the rules of the International Chamber of Commerce ("ICC"), save that, unless the parties agree otherwise:

- (a) the third arbitrator, who shall act as chairman of the tribunal, shall be chosen by the two arbitrators appointed by or on behalf of the parties. If he is not chosen and nominated to the ICC for appointment within 30 days of the date of confirmation by the ICC of the later of the two party-appointed arbitrators to be confirmed, he shall be chosen by the ICC;
- (b) no arbitrator shall be of the same nationality as any party; and
- (c) the tribunal shall draw up, and submit to the parties for signature, the Terms of Reference (as defined in the Rules of Arbitration of the ICC) within 21 days of receiving the file.

In no circumstances shall the Lender be liable for any consequential, special or punitive damages in connection with its obligations hereunder.

18.2 Fees

Fees of the arbitration (excluding each party's preparation, travel, attorneys' fees and similar costs) shall be borne in accordance with the decision of the arbitrators. The decision of the arbitrators shall be final, binding and enforceable upon the parties and judgment upon any award rendered by the arbitrators may be entered in any court having jurisdiction thereover. In the event that the failure of a party to comply with the decision of the arbitrators requires any other party to apply to any court for enforcement of such award, the non-complying party shall be liable to the other for all costs of such litigation, including, without limitation, reasonable attorneys' fees.

19 SEVERABILITY

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

20 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

A Person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

21 LANGUAGE

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

22 AMENDMENTS

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

23 COUNTERPARTS

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

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes that will be endorsed on each Note in definitive form (if any).

The U.S.\$100,000,000 9.75 per cent. Loan Participation Notes due 2008 (the “**Notes**”, which expression includes any further Notes issued pursuant to Condition 15 (*Further Issues*) and forming a single series therewith) of Dresdner Bank Aktiengesellschaft (the “**Lender**”) are constituted by, are subject to, and have the benefit of, a trust deed (the “**Trust Deed**”, which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) dated 19 May 2005 and made between the Lender and J.P. Morgan Corporate Trustee Services Limited (the “**Trustee**”, which expression includes any trustee or trustees for the time being of the Trust Deed) as trustee for the Noteholders (as defined below).

The Lender has authorised the creation, issue and sale of the Notes for the sole purpose of financing a U.S.\$100,000,000 loan (the “**Loan**”) to Joint Stock Company “Sibacadembank” (the “**Borrower**”). The terms of the Loan are recorded in a loan agreement (the “**Loan Agreement**”) dated 16 May 2005 between the Lender and the Borrower.

In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligations of the Lender to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, the amounts of principal, interest and additional amounts (if any) corresponding to such principal, interest and additional amounts (if any) in respect of the Notes actually received by, or for the account of, the Lender pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights (as defined below). Noteholders must therefore rely solely and exclusively on the covenant to pay under the Loan Agreement, the benefit of the Security Interests and the credit and financial standing of the Borrower. Noteholders shall have no recourse (direct or indirect) to any other asset of the Lender.

The Lender has charged by way of first fixed charge in favour of the Trustee for the benefit of itself and the Noteholders, inter alia, certain of its rights and interests as lender under the Loan Agreement as security for its payment obligations in respect of the Notes and under the Trust Deed (the “**Charge**”) and has assigned absolutely certain other rights under the Loan Agreement to the Trustee (the “**Assigned Rights**” and, together with the Charge, the “**Security Interests**”) in each case excluding the Reserved Rights. “Reserved Rights” are those rights that are excluded from the Charge and the Assigned Rights, being all and any rights, interests and benefits of the Lender in respect of the obligations of the Borrower under Clauses 5.3 (*Illegality*) (other than the right to receive any amount payable under such Clause), 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) (to the extent that the Borrower shall reimburse the Lender on demand for any amount paid by the Lender in respect of taxes, penalties or interest), 6.3 (*Withholding on Notes*) (to the extent that the Lender has received amounts to which the Noteholders are not entitled), 6.4 (*Reimbursement*), 6.6 (*Notification*), 6.8 (*Mitigation*), 8 (*Change in Law or Banking Practices; Increase in Cost*), 10.8 (*Withholding Tax Exemption*), 12 (*Indemnity*), 13 (*Survival*) and 14.1 (*Stamp Duties*) of the Loan Agreement.

In certain circumstances, the Trustee can (subject to it being indemnified and/or secured to its satisfaction) be required by Noteholders holding at least one quarter of the principal amount of the Notes outstanding (as defined in the Trust Deed) or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Security Interests).

Payments in respect of the Notes will be made (subject to the receipt of the relevant funds from the Borrower) in accordance with an agency agreement (such agreement as modified and/or restated and/or supplemented from time to time, the “**Agency Agreement**”) dated 19 May 2005 and made between the Lender, J.P. Morgan Bank Luxembourg S.A. as the registrar (the “**Registrar**”, which expression includes any successors), JPMorgan Chase Bank, N.A., London, as the principal paying agent (the “**Principal Paying Agent**”, which expression includes any successors), the transfer agents and paying agents named therein (the “**Transfer Agents**” and “**Paying Agents**”, respectively, which expressions shall include any successors) and the Trustee.

Copies of the Trust Deed, the Loan Agreement and the Agency Agreement are available for inspection by Noteholders during normal business hours at the registered office of the Trustee being, at

the date hereof, Trinity Tower, 9 Thomas More Street, London E1W 1YT, at the specified office of the Principal Paying Agent and at the specified office of the Paying Agent in Luxembourg, the initial specified offices of which are set out below.

Certain provisions of these terms and conditions (the “**Conditions**”) are summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Loan Agreement and the Agency Agreement. 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 the Agency Agreement and are deemed to have notice of all the provisions of the Loan Agreement that are applicable to them.

1. STATUS AND LIMITED RECOURSE

The sole purpose of the issue of the Notes is to provide the funds for the Lender to finance the Loan. The Notes constitute the obligations of the Lender to apply an amount equal to the gross proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by, or for the account of, the Lender pursuant to the Loan Agreement, less any amount in respect of the Reserved Rights.

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

It is a Condition of the Notes that:

- (a) neither the Lender nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, (in the case only of the Lender) save as otherwise expressly provided in the Trust Deed, liability or obligation in respect of the performance and observance by the Borrower of its obligations under the Loan Agreement or the recoverability of any sum of principal or interest or any additional amounts due or to become due from the Borrower under the Loan Agreement;
- (b) neither the Lender nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial or otherwise), creditworthiness, affairs, status, nature or prospects of the Borrower;
- (c) neither the Lender nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of the Borrower under or in respect of the Loan Agreement;
- (d) the financial servicing of the terms of the Notes depends solely and exclusively upon the performance by the Borrower of its obligations under the Loan Agreement and its covenant to pay under the Loan Agreement and its credit and financial standing;
- (e) the Lender and the Trustee shall be entitled to rely on certificates of the Borrower (and, where applicable, certification by third parties) as a means of monitoring whether the Borrower is complying with its obligations under the Loan Agreement and shall not otherwise be responsible for investigating any aspect of the Borrower's performance in relation thereto and, subject as further provided in the Trust Deed, neither the Lender as lender under the Loan Agreement nor the Trustee will be liable for any failure to make the usual or any investigations which might be made by a lender or a security holder (as applicable) in relation to the property which is the subject of the Trust Deed and held by way of security for the Notes, and the Trustee shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Lender to the property which is subject to the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security; the Trustee has no responsibility for the value of such security; and

- (f) neither the Lender nor the Trustee shall at any time be required to expend or risk its own funds or otherwise incur any financial liability in the performance of its obligations or duties or the exercise of any right, power, authority or discretion pursuant to these Conditions and/or the Trust Deed until it has received from the Borrower the funds that are necessary to cover the costs, expenses and all other liabilities in connection with such performance or exercise, or has been (in its sole discretion) sufficiently assured that it will receive such funds.

Under the Trust Deed, the obligations of the Lender in respect of the Notes constitute secured and limited recourse obligations of the Lender. The Notes are secured in the manner described above and shall at all times rank *pari passu* and rateably without any preference among themselves.

In the event that the payments under the Loan Agreement are made by the Borrower to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent, they will *pro tanto* satisfy the obligations of the Lender in respect of the Notes, subject as provided in the Trust Deed.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Lender's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Loan Agreement or direct recourse to the Borrower except through action by the Trustee pursuant to the Charge and the assignment of the Assigned Rights granted to the Trustee in the Trust Deed. Neither the Lender nor, following the enforcement of the Security Interests created in the Trust Deed, the Trustee shall be required to take proceedings or any other action to enforce payment under the Loan Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction. The Trustee shall not be required to take proceedings or any other action in respect of the Notes, these Conditions or the Trust Deed unless indemnified and/or secured to its satisfaction.

2. FORM AND DENOMINATION

The Notes are issued in registered form in the denomination of U.S.\$2,000. Notes may be held in holdings in an aggregate principal amount of U.S.\$2,000 and integral multiples thereof (each an "**Authorised Holding**").

3. REGISTER, TITLE AND TRANSFERS

3.1 Register

The Lender will procure that the Registrar shall maintain a register outside the United Kingdom (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions the "**holder**" or "**Noteholder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each a "**Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Certificate will be serially numbered with an identifying number which will be recorded in the Register.

3.2 Title

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

3.3 Transfers

Subject to Conditions 3.6 (*Closed Periods*) and 3.7 (*Regulations concerning Transfers and Registration*), a Note may be transferred upon surrender of the relevant Certificate, with the endorsed form of transfer duly completed, at the specified office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or the Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer provided, however, that a Note may not be transferred unless the aggregate principal amount of Notes

transferred and (where not all of the Notes held by a holder are being transferred) the aggregate principal amount of the balance of Notes not transferred are Authorised Holdings. Where not all the Notes represented by the surrendered Certificate are the subject of the transfer, a new Certificate in respect of the balance of the Notes will be issued to the transferor.

3.4 Registration and Delivery of Certificates

Within five business days of the surrender of a Certificate in accordance with Condition 3.3 (*Transfers*), the Registrar will register the transfer in question and deliver a new Certificate of a like principal amount to the Notes transferred (and, if applicable, a new Certificate in respect of the balance of Notes not so transferred) to each relevant holder for collection at its specified office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, “business day” means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar or the relevant Transfer Agent has its specified office.

3.5 No Charge

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

3.6 Closed Periods

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

3.7 Regulations concerning Transfers and Registration

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

4. RESTRICTIVE COVENANT

As provided in the Trust Deed, so long as any of the Notes remains outstanding, the Lender will not, without the prior written consent of the Trustee, agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement and will act in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Lender to the Noteholders in accordance with Condition 14 (*Notices*).

5. INTEREST

Interest on the Notes will accrue from 19 May 2005 at the rate of 9.75 per cent. per annum. On each Interest Payment Date, or as soon thereafter as the same is received, the Lender shall account to the Noteholders for an amount equivalent to amounts of interest actually received by, or for the account of, the Lender pursuant to the Loan Agreement as set out in Clause 4 (*Interest*) of the Loan Agreement, which interest under the Loan is payable at the rate of 9.75 per cent. per annum (as set out in Clause 4 (*Interest*) of the Loan Agreement). The first payment (amounting to U.S.\$97.50 per U.S.\$2,000 principal amount of the Notes) shall be made on 19 November, 2005.

Each Note will cease to bear interest from and including the due date for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of the payment, in which case interest will continue to accrue as provided in the Trust Deed.

If interest is required to be calculated otherwise than in respect of a full interest period, it will be calculated on the basis of the number of days elapsed in the relevant Calculation Period divided by 360

(the number of days to be calculated on the basis of a year of 360 days with 12 30-days months unless the last day of a Calculation Period is the 31st of a month but the first day of the Calculation Period is a day other than the 30th or the 31st of a month, in which case the month that includes that last day shall not be considered to be a 30-day month but be calculated by using the actual number of days of that month).

In this Condition 5, “**Interest Payment Date**” means 19 May and 19 November of each year and “**Calculation Period**” means any period for which interest is to be calculated, whether or not constituting an Interest Period (as defined in the Loan Agreement).

In the event that, and to the extent that, the Lender actually receives any amount in respect of interest on unpaid sums from the Borrower under the Loan Agreement, the Lender shall account to the Noteholders for an amount equivalent to such amount. Any payment made by the Lender under this paragraph will be made on the next following business day after the day on which the Lender receives such amount from the Borrower. In this Condition, “**business day**” has the meaning set forth in Condition 7.4 (*Payments on Business Days*).

6. REDEMPTION

6.1 Scheduled Redemption

Unless previously prepaid or repaid, the Borrower will be required to repay the Loan one business day prior to 19 May 2008 and, subject to such repayment, as set forth in the Loan Agreement, all Notes outstanding will be redeemed on 19 May 2008 by the Lender at their principal amount. In this Condition, “business day” has the meaning set forth in Condition 7.4 (*Payments on Business Days*).

6.2 Mandatory Redemption

If the Loan should become repayable (and be repaid) pursuant to the Loan Agreement prior to the business day prior to 19 May 2008, as set forth in the Loan Agreement, all Notes then remaining outstanding will thereupon become due and repayable at their principal amount together with accrued interest (subject to the Loan being repaid together with accrued interest) and shall be redeemed by the Lender forthwith giving not less than twenty-five days’ notice thereof to the Trustee and the Noteholders in accordance with Condition 14 (*Notices*) (which notice shall be irrevocable and shall specify a date for redemption).

6.3 Redemption at Option of the Noteholder

If a Put Event (as defined below) shall occur while any Note is outstanding, the holder of each such Note will have the option (unless, prior to giving the Put Option Notice referred to below, the Loan becomes repayable under Condition 6.2 (*Mandatory Redemption*)) to require the Lender to redeem that Note on the Put Settlement Date (as defined below) at par together with accrued interest (if any) to the Put Settlement Date.

Promptly upon the Lender becoming aware that a Put Event has occurred, the Lender shall give notice (a “**Put Event Notice**”) to the Trustee and the Noteholders in accordance with Condition 14 (*Notices*) specifying the details relating to the occurrence of the Put Event and the procedure for exercising the option contained in this Condition 6.3.

In order to exercise the option contained in this Condition 6.3, the holder of a Note must deliver, no later than 30 days after the Put Event Notice is given (the “**Put Period**”), to the specified office of any Paying Agent evidence satisfactory to the Paying Agent of such holder’s entitlement to such Note and a duly completed put option notice (a “**Put Option Notice**”) specifying the principal amount of the Notes in respect of which such option is exercised, in the form obtainable from any Paying Agent, together with the relevant Certificate. The Paying Agent will provide any such Noteholder with a receipt. The Lender will then (subject as provided in Condition 7 (*Payments*)) redeem such Note on the date falling five business days after the expiration of the Put Period (the “**Put Settlement Date**”). No Put Option Notice, once delivered in accordance with this Condition 6.3, may be withdrawn except where, prior to the due date of redemption, an Event of Default or a Relevant Event has occurred.

For the purposes of these Conditions, a “Put Event” shall occur when any Person (as defined in the Loan Agreement) that as of the date of the Loan Agreement owns or controls (directly or indirectly) 25 per cent. plus one share or more of the Borrower’s issued and outstanding voting share capital ceases to own or control (directly or indirectly) at least 25 per cent. plus one share of the issued and outstanding voting share capital of the Borrower.

6.4 Cancellation

The Loan Agreement provides that the Borrower may, among other things, from time to time deliver to the Lender Notes having an aggregate principal value of at least U.S.\$1,000,000 together with a request for the Lender to present such Notes to the Registrar for cancellation, whereupon pursuant to the Agency Agreement, the Registrar shall cancel such Notes. Upon any such cancellation by or on behalf of the Registrar, the principal amount of the Loan corresponding to the principal amount of such Notes surrendered for cancellation shall be extinguished as of the date of such cancellation and no further payment shall be made or required to be made by the Lender in respect of such Notes.

6.5 Purchase of Notes

The Lender or any of its subsidiaries or the Borrower or any of its subsidiaries may at any time purchase Notes in the open market or otherwise and at any price. Any Notes so purchased, whilst held by or on behalf of the Lender or the Borrower or, in either case, any of its subsidiaries shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding, including, without limitation, for the purpose of calculating quorums at meetings.

7. PAYMENTS

7.1 Principal

Payments of principal shall be made by U.S. dollar cheque drawn on, or, upon application by a holder of a Note to the specified office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City upon surrender (or, in the case of part payment only, endorsement) of the relevant Certificates at the specified office of any Paying Agent.

7.2 Interest

Payments of interest shall be made by U.S. dollar cheque drawn on, or upon application by a holder of a Note to the specified office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Certificates at the specified office of any Paying Agent.

7.3 Payments subject to Fiscal Laws

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

7.4 Payments on Business Days

If the due date for payment of interest or principal is not a business day, the holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition, “**business day**” means a day on which (a) the London Interbank Market is open for dealings between banks generally, and (b) if on that day a payment is to be made hereunder, commercial banks generally are open for business in Frankfurt am Main, New York City, Moscow, London and in the city where the specified office of the relevant Paying Agent is located.

7.5 Record Date

Each payment in respect of a Note will be made to the person shown as the holder in the Register at the opening of business (in the place of the Registrar’s specified office) on the fifteenth day before the due date for such payment (the “**Record Date**”), whether or not a business day. Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the holder in the Register at the opening of business on the relevant Record Date.

7.6 Accrued Interest

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the date of

issuance of the Notes, shall be payable only as and when actually received by, or for the account of, the Lender pursuant to the Loan Agreement.

7.7 Payments by Borrower

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

7.8 Currency other than U.S. Dollars

In respect of the Lender's obligations under Conditions 5 (*Interest*), 6 (*Redemption*), 7 (*Payments*) and 8 (*Taxation*), and subject to the following sentence, if the Lender receives any amount under the Loan Agreement in a currency other than U.S. dollars and if the Lender is able to convert such sum into U.S. dollars in accordance with customary banking practice in the spot market on the business day immediately following the day on which such sum is received by the Lender, the Lender's obligation under the relevant Condition shall be fully satisfied by paying such sum as the Lender receives after conversion (after deducting any premium and costs of exchange). If the Lender receives any payment from the Borrower pursuant to Clause 12.4 (*Currency Indemnity*) of the Loan Agreement with respect to amounts due under the Notes, the Lender shall pay such sum to the Noteholders in accordance with Condition 7. For the avoidance of doubt, the Lender shall have no obligation under these Conditions to pay to the Noteholders or the Trustee any amount received under the Loan Agreement which is not convertible into U.S. dollars in accordance with customary banking practice.

8. TAXATION

All payments in respect of the Notes by or on behalf of the Lender shall be made free and clear of, and without deduction or withholding for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Federal Republic of Germany or any political subdivision or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes or duties is required by law.

In such event, the Lender shall make such additional payments as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required. However, the Lender shall make such additional payments only to the extent and at such time as it shall receive equivalent sums from the Borrower under the Loan Agreement. To the extent that the Lender does not receive such equivalent sum in full, the Lender shall account to each Noteholder in discharge of its obligation to pay such relevant additional payment a pro rata proportion of such equivalent sums (if any) as are actually received by, or for the account of, the Lender pursuant to the provisions of the Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Lender, provided that no such additional amount will be payable:

- (a) to a Noteholder who (i) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (ii) is liable for such taxes or duties by reason of his having some connection with the Federal Republic of Germany other than the mere holding of Notes or the receipt of payments in respect thereof (including being a citizen, resident or national of, or carrying on a business or maintaining a permanent establishment in, or being physically present in, the Federal Republic of Germany); or
- (b) in respect of a Certificate presented for payment more than 30 days after the Relevant Date except to the extent that such additional payment would have been payable if such Certificate had been presented for payment on such thirtieth day; or
- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November

2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

- (d) in respect of a Note held by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another Paying Agent in a Member State of the European Union; or
- (e) where such withholding is imposed or levied by or on behalf of the Federal Republic of Germany or any political subdivision or taxing authority thereof and withheld as *Zinsabschlagsteuer* by the Lender either in its capacity as Disbursing Agent (as defined in “Tax Considerations—Federal Republic of Germany—Tax Residents” set out in the Offering Circular dated 16 May 2005 in relation to the Notes) or upon interest payments made upon the physical presentation of the Notes to the Lender in the Federal Republic of Germany.

As used herein, “**Relevant Date**” means the later of (i) the date on which the payment first becomes due and (ii) if the full amount payable by the Borrower corresponding to such payment has not been received by, or for the account of, the Lender pursuant to the Loan Agreement on or prior to such date, the date on which such full amount shall have been so received and notice to that effect shall have been duly given to the Noteholders in accordance with Condition 14 by or on behalf of the Lender.

Any reference herein or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with this Condition 8 or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

9. ENFORCEMENT

The Trust Deed provides that only the Trustee may pursue the remedies under general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails or neglects to do so within a reasonable period and such failure or neglect is continuing.

The Trust Deed also provides that, in the case of an Event of Default (as defined in the Loan Agreement) or of a Relevant Event (as defined in the Trust Deed), the Trustee may, and shall, if requested to do so in writing by Noteholders whose Notes constitute at least one quarter of the principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified to its satisfaction, (i) declare all amounts payable under the Loan Agreement by the Borrower and all amounts payable under the Notes by the Lender to be immediately due and payable (in the case of an Event of Default), or (ii) enforce the security created in the Trust Deed in favour of the Trustee (in the case of a Relevant Event). Upon repayment of the Loan following an Event of Default and a declaration as provided in paragraph (i) above, the Notes will be redeemed at their principal amount together with accrued interest thereon and thereupon shall cease to be outstanding.

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

10.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes, the Trust Deed or, the Loan Agreement. Upon a poll being called, Noteholders will vote pro rata according to the principal amount of their Notes. The Trust Deed provides that special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, inter alia, the amount payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Loan Agreement. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

10.2 Modification and Waiver

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes, the Agency Agreement, the Trust Deed or the Loan Agreement which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the interests of the Noteholders and is not a Reserved Matter. The Trustee may also

waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Lender of the Conditions, the Notes, the Agency Agreement or the Trust Deed or by the Borrower of the terms of the Loan Agreement, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement and/or the Notes shall not be treated as such, if in the sole opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders, provided always that the Trustee may not exercise such power of waiver in contravention of a written request given by the holders of one quarter in aggregate principal amount of the Notes then outstanding or of any express direction by an Extraordinary Resolution of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 14 (*Notices*).

10.3 Substitution

The Trust Deed contains provisions to the effect that the Lender may, having obtained the consent of the Borrower and the Trustee (which latter consent may be given without the consent of the Noteholders, provided that the Trustee is satisfied that the interests of the Noteholders will not be materially prejudiced thereby) and subject to having complied with certain requirements as set out therein (including the substitute obligor's rights under the Loan Agreement being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes), substitute any entity (a "substitute obligor") in place of the Lender as creditor under the Loan Agreement, as issuer and principal obligor in respect of the Notes and as obligor under the Trust Deed. Not later than 14 days after compliance with the aforementioned requirements, notice thereof shall be given by the Lender to the Noteholders in accordance with Condition 14 (*Notices*).

11. PRESCRIPTION

Notes will become void unless presented for payment within ten years (in the case of principal) or five years (in the case of interest) from the Relevant Date (as defined in Condition 8).

12. TRUSTEE AND AGENTS

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking proceedings to enforce payment unless indemnified or secured to its satisfaction, and to be paid its costs and expenses in priority to the claims of Noteholders. Nothing in the Trust Deed or these Conditions shall require the Trustee to do anything which would cause it to expend or risk its own funds. In addition, the Trustee is entitled to enter into business transactions with the Lender and the Borrower and any entity relating to the Lender and the Borrower without accounting for any profit or any other amount or benefit received thereby in connection therewith.

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

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Lender, the Borrower or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent provided for in Condition 8.

The power of appointing new trustees shall be vested in the Lender but a trustee so appointed must in the first place be approved by an Extraordinary Resolution of the Noteholders. A trust corporation may be appointed sole trustee but subject thereto there shall be at least two trustees one at least of which shall be a trust corporation. Any appointment of a new trustee shall as soon as practicable thereafter be notified by the Lender to the Principal Paying Agent and the other Agents and to the Noteholders. The Noteholders shall together have the power, exercisable by Extraordinary Resolution, to remove any trustee or trustees for the time being. The removal of any trustee shall not become effective unless there remains a trustee (being a trust corporation) in office after such removal.

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

The initial Agents and their initial specified offices are listed below. The Lender reserves the right (with the prior written approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent or registrar and additional or successor paying agents and transfer agents; provided, however, that the Lender shall at all times maintain (a) a principal paying agent and a registrar, (b) a paying agent and transfer agent having specified offices in at least two major European cities approved by the Trustee (including Luxembourg, so long as the Notes are listed on the Luxembourg Stock Exchange), and (c), a paying agent in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced to conform to, such Directive.

Notice of any change in any of the Agents or in their specified offices shall promptly be given to the Noteholders in accordance with Condition 14.

13. REPLACEMENT OF CERTIFICATES

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

14. NOTICES

Notices to the Noteholders will be valid if sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. So long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require notices will be published in a leading newspaper in Luxembourg (which is expected to be the *d'Wort*) or, if in the opinion of the Trustee such publication shall not be practicable, in an English language newspaper of general circulation in Europe in compliance with the rules of any exchange on which the Notes are listed. Any such notice shall be deemed to have been given on the fourth day after the date of mailing or on the date of publication or, if published more than once or on different dates, on the date of first publication.

Notices to be given by any Noteholder shall be in writing and may be given by lodging the same with any Paying Agent or, if the Notes are held in a clearing system, through the clearing system in accordance with its standard rules and procedures. In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above, then such notification to such holders as shall be given with the approval of the Trustee in accordance with the rules of the Stock Exchange shall constitute sufficient notice to such holders for every purpose hereunder.

15. FURTHER ISSUES

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

16. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

17. GOVERNING LAW

The Notes and the Trust Deed are governed by and shall be construed in accordance with, English law. The Lender has irrevocably agreed for the benefit of the Noteholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes and accordingly has submitted to the exclusive jurisdiction of the English courts. The Lender has waived any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Lender hereby irrevocably and unconditionally appoints Dresdner Bank AG London Branch at its registered office for the time being or at any address of the Lender in England at which process may be served on it in accordance with Part XXIII of the Companies Act 1985 (as modified or re-enacted from time to time) and undertakes that in the event of such agent ceasing so to act it will appoint another person as its agent for that purpose.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

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

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

Accountholders

For so long as any of the Notes are represented by the Global Certificate, each person (other than another clearing system) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a particular aggregate principal amount of such Notes (each an “**Accountholder**”) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg (as the case may be) as to the aggregate principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Notes (and the expression “Noteholders” and references to “holding of Notes” and to “holder of Notes” shall be construed accordingly) for all purposes other than with respect to payments on such Notes, the right to which shall be vested, as against the Lender, solely in the nominee for the common depositary of the relevant clearing system (the “**Relevant Nominee**”) in accordance with and subject to the terms of the Global Certificate. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Relevant Nominee.

Cancellation

Cancellation of any Note following its redemption or purchase by the Lender, the Borrower or, in either case, any of its subsidiaries will be effected by reduction in the aggregate principal amount of the Notes in the register of Noteholders and by the annotation of the appropriate schedule to the Global Certificate.

Payments

Payments of principal and interest in respect of Notes represented by the Global Certificate will be made upon presentation or, if no further payment falls to be made in respect of the Notes, against presentation and surrender of the Global Certificate to or to the order of the Principal Paying Agent or such other Agent as shall have been notified to the holders of the Global Certificate for such purpose.

Distributions of amounts with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Principal Paying Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

A record of each payment made will be endorsed on the appropriate schedule to the Global Certificate by or on behalf of the Principal Paying Agent and shall be prima facie evidence that payment has been made.

Exchange of interests in the Global Certificate for Definitive Certificates

The Global Certificate will become exchangeable in whole but not in part (free of charge to the holder) for Definitive Certificates if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so or (b) the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change since 19 May 2005 in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 (*Taxation*) of the Terms and Conditions of the Notes which would not be suffered were the Notes in the form of Definitive Certificates.

Whenever the Global Certificate is to be exchanged for Definitive Certificates, such Definitive Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Certificate following delivery, by or on behalf of the registered holder of the Global Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as may be required to complete and deliver such Definitive Certificates (including, but without limitation to, the names and addresses of

the persons in whose names the Definitive Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Certificate at the specified office of the Registrar or a Transfer Agent. Such exchange will be effected in accordance with the provisions of the Agency Agreement, the Trust Deed and the Global Certificate.

Notices

Notwithstanding Condition 14 (*Notices*) of the Terms and Conditions of the Notes, so long as the Global Certificate is held by or on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders represented by the Global Certificate may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg, provided that for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, notices will also be published in a leading newspaper in Luxembourg (which is expected to be the *d'Wort*). Any such notice shall be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

Put Option

For so long as all of the Notes are represented by the Global Certificate and such Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, the option of the Noteholders provided for in Condition 6.3 may be exercised by the Accountholders giving in accordance with the standard procedures of Euroclear or, as the case may be, Clearstream, Luxembourg (which may include the notice being given on the instruction of the Accountholder by the relevant clearing system or any common depositary therefor to the Principal Paying Agent by electronic means) a duly completed redemption notice, in the form obtainable from any of the Paying Agents, to the Principal Paying Agent of the aggregate principal amount of the Notes in respect of which such option is exercised and at the same time presenting or procuring the presentation of the Global Certificate to or to the order of the Principle Paying Agent for notation within the time limits set forth in that Condition.

Euroclear and Clearstream, Luxembourg

References in the Global Certificate to Euroclear and Clearstream, Luxembourg shall be deemed to include any other clearing system approved in writing by the Trustee through which the Notes are at the time held.

TAXATION

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

Russian Federation

Taxation of the Notes

General

The following is a general summary of certain Russian tax considerations relevant to the purchase, ownership and disposition of the Notes, as well as the taxation of interest on the Loan. The summary is based on the laws of Russia, in effect on the date of this Offering Circular, which are subject to change (possibly with retroactive effect). The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal authorities of Russia. Nor does the summary 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 provisions of the Russian Tax Code applicable to holders of, and transactions with, the Notes are uncertain and lack interpretive guidance. Both the substantive provisions of the Russian Tax Code and the interpretation and application of those provision by the Russian tax authorities applicable to financial instruments may be subject to more rapid and unpredictable change and inconsistency than in jurisdictions with more developed capital 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 constitute the imposition of conditions, requirements and restrictions not stated by the law. Similarly, in the absence of binding precedents, court rulings on tax or related matters by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

For the purposes of this summary, a “non-resident holder” means (1) an individual actually present in Russia for an aggregate period of less than 183 days in a given calendar year (excluding days of arrival into Russia but including days of departure from Russia) or (2) a legal person or organisation in each case not organised under Russian law which holds and disposes of the Notes otherwise than through a permanent establishment in Russia.

The Russian tax treatment of interest payments made by Sibacadembank under the Loan Agreement may affect the holders of the Notes. See “—Taxation of Interest on the Loan” below.

Non-resident Holders

A non-resident holder of the Notes will not be subject to any Russian taxes on receipt from the Issuer of amounts payable in respect of principal, premium or interest on the Notes subject to the conditions described under “—Taxation of Interest on the Loan” below.

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.

In the event that proceeds from a sale, redemption or disposal of Notes are received from a source within Russia, a non-resident holder that is a legal entity or organisation should not be subject to Russian tax in respect of such proceeds, provided that no portion thereof is attributable to accrued interest. Any

portion of such sales proceeds attributable to accrued interest may be subject to Russian withholding tax on income at the rate of 20 per cent, subject to any available double tax treaty relief, even if the disposal itself results in a capital loss. In order to enjoy the benefits of an applicable double tax treaty, documentary evidence is required prior to payment being made to confirm the applicability of the double tax treaty under which benefits are claimed. Non-resident holders that are legal entities and organisations should consult their own tax advisors with respect to this possibility.

If proceeds from a disposal of the Notes are received from a source within Russia, a non-resident holder who is an individual will generally be subject to tax at a rate of 30 per cent, subject to any available double tax treaty relief, in respect of gross proceeds from such disposal less any available cost deduction (which includes the purchase price of the Notes) and in respect of interest income. In this regard, if the Notes are disposed of in Russia, for Russian personal income tax purposes, the proceeds of such disposition are likely to be regarded as received from a Russian source. In certain circumstances, if the disposal proceeds are payable by a Russian legal entity, individual entrepreneur or a Russian permanent establishment of a foreign organisation, the payer may be required to withhold this tax or the non-resident individual may be liable to pay the tax. In such a situation there is a risk that the taxable base may be affected by changes in the exchange rates between the currency of acquisition of the Notes, the currency of sale of the Notes and roubles. Non-resident holders who are individuals should consult their own tax advisers with respect to these possibilities.

Where proceeds from the disposition of notes are received from a Russian source, in order for the non-resident holder whether an individual, legal entity or organisation, to enjoy the benefits of an applicable double tax treaty, documentary evidence is required to confirm the applicability of the double tax treaty for which benefits are claimed.

Resident Holders

Noteholders who are individual residents or a legal persons in Russia for tax purposes are subject to all applicable Russian taxes including any documentation requirements that may be required by law or practice in respect of gains from disposal of the Notes, and interest received on the Notes. Resident Noteholders should consult their own advisers with respect to their tax position regarding the Notes.

Taxation of Interest on the Loan

In general, payments of interest on borrowed funds by a Russian entity to a non-resident legal person are subject to Russian withholding tax at a rate of 20 per cent., subject to reduction or elimination pursuant to the terms of an applicable double tax treaty. Based on professional advice it has received, Sibacadembank believes that payments of interest on the Loan should not be subject to withholding under the terms of the double taxation treaty between the Russian Federation and the Federal Republic of Germany, provided the Russian tax documentation requirements (annual advance confirmation of the Lender's tax residency) are satisfied. However, there can be no assurance that such double tax treaty relief will be available. In addition, Sibacadembank cannot assure prospective investors that they will obtain such exemption from withholding tax under the treaty in case of the enforcement of the security. If, as a result of the Trustee's enforcement of the security that the Issuer grants by way of the security interests in the Trust Deed, interest under the Loan becomes payable to the Trustee, the benefit of the double tax treaty between the Russian Federation and the Federal Republic of Germany would cease and payments of interest may be subject to Russian withholding tax.

If the payments under the Loan are subject to any withholding taxes for any reason (as a result of which the Issuer would reduce payments under the Notes in the amount of such withholding taxes), Sibacadembank is obliged to increase payments as may be necessary so that the Issuer receives the net amount equal to the full amount it would have received in the absence of such withholding. It should be noted, however, that gross-up provisions in contracts may not be enforceable under Russian law. In the event that Sibacadembank fails to increase the payments, such failure would constitute an Event of Default under the Loan Agreement. If Sibacadembank is obliged to increase payments, it may prepay the Loan in full. In such case, all outstanding Notes would be redeemable at par with accrued interest.

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

Federal Republic of Germany

The following is a general discussion of certain German income tax (*Einkommensteuer*) consequences of the acquisition, ownership and disposal (sale/redemption) of Notes to the purchasers of the Notes. This summary is based on the laws currently in force and as applied in practice on the date of this Offering Circular, which are subject to change, possibly with retroactive effect.

Tax Residents

Under German law, as currently in effect, payments of interest on the Notes (and accrued interest received and invoiced separately upon sale of the Notes (*Stückzinsen*)) to persons who are residents of Germany (that is, persons whose residence, customary place of abode, seat or effective place of management is located in Germany) are subject to German personal or corporate income tax and a solidarity surcharge (*Solidaritätszuschlag*) of 5.5 per cent. on such taxes. In cases where the Notes are part of a German trade or business, interest may be also subject to trade tax.

If the Notes are kept or administered in a domestic securities deposit account by a German credit or financial services institution, which term includes a German branch of a credit or foreign financial services institution but excludes a foreign branch of a German credit or financial services institution, interest payments in respect of such Notes will be subject to a 30 per cent. advance interest income tax (*Zinsabschlagsteuer*) and a 5.5 per cent. solidarity surcharge on such tax. As a result, such payments will be subject to a total withholding tax charge of 31.65 per cent. If interest is paid by a disbursing agent upon physical presentation of the Notes (a so-called “over-the-counter” transaction (*Tafelgeschäft*)), the withholding tax rate is 35 per cent., plus 5.5 per cent. solidarity surcharge thereon, leading to a total tax charge of 36.925 per cent. The advance interest income tax and solidarity surcharge withheld from such payments are later credited as prepayments against the German personal or corporate income tax and the respective solidarity surcharge of the recipient.

If the holder sells a Note during a current interest period, the accrued interest received and invoiced separately will also be subject to the 30 per cent. advance interest income tax and 5.5 per cent. solidarity surcharge thereon. As explained above, the advance interest income tax and the solidarity surcharge are creditable against the personal or corporate income tax and the respective solidarity surcharge thereon. Accrued interest paid by a holder upon the purchase of a Note reduces the personal or corporate income tax base and, under certain circumstances, the taxable base for the advance interest income tax and solidarity surcharge.

Capital gains/losses realised by an individual tax resident of Germany upon the sale or other disposition of Notes (held as private assets) within one year after the acquisition of such Notes are subject to German personal income tax (short-term capital gains). Such gains are calculated as the difference between the sales or repayment proceeds and the acquisition costs. Any accrued interest invoiced plus withholding tax thereon, which is taxable as interest income, does not form part of the capital gain.

Alternatively, it may be the case that the Notes are considered financial innovations (*Finanzinnovationen*) within the meaning of the German Income Tax Act (e.g., if traded flat, i.e., no accrued interest invoiced). In this case, a gain derived from the sale or other disposition of the Notes would qualify as interest income being taxable for the German resident individual investor regardless of a holding period. The amount qualified as interest income is usually calculated as the difference between the sales or repayment proceeds and the acquisition costs, i.e., the market yield (*Marktrendite*). Because the Notes are denominated in U.S. dollars the market yield has to be determined in U.S. dollars and will then be converted into euros. As an exception to the market yield concept, the private investor can prove the issue yield (*Emissionsrendite*), if available, which is defined as the guaranteed interest payable on the Notes at the time of its issuance. The private investor is taxed on the pro rata temporis issue yield (*besitzzeit-anteilige Emissionsrendite*), based on the period the private investor has held the Notes. To the extent that a capital gain/loss from the disposal (sale/redemption) of the Notes by the private investor does not qualify as interest income (e.g., foreign currency gains/losses) and if realised within one year after the acquisition, the capital gain/loss is taxable for the individual investor. Outside the one year holding period, the capital gain/loss that does not qualify as interest income is tax free for private investors.

Capital gains/losses realised upon the disposition of Notes by corporate taxpayers, or in cases where the Notes are part of a German trade or business of an individual or a partnership, who are tax residents of Germany are subject to corporate or personal income tax, the solidarity surcharge thereon and possibly trade tax, irrespective of any holding period.

In case of a financial innovation, the amount of the advance interest income tax and the solidarity surcharge thereon (if the Notes are kept or administered in a domestic securities deposit account – see above) is always calculated on the basis of the market yield, irrespective of the fact that the private investor has proven the pro rata temporis issue yield. As explained above, the advance interest income tax and the solidarity surcharge are creditable against the personal income tax liability and the solidarity surcharge thereon.

If the German credit institution or financial services institution has held the Notes in custody for the investor from the acquisition to the sale or repayment, the withholding tax is levied on an amount equal to the market yield. As an exception, if the Notes have not been so held, the withholding tax will be levied on an amount equal to 30 per cent. of the proceeds from the sale or repayment of the Notes.

Non Tax Residents

Payments of interest, including accrued interest, to Noteholders who are not tax residents of Germany and where the income from the Notes is not considered as income from German sources are in general not subject to the advance interest income tax and solidarity surcharge. An exemption applies if either the Notes form part of a German permanent establishment or the interest payments, including accrued interest, are made through an “over-the-counter” transaction.

If the interest from a Note that is kept or administered in a domestic securities deposit account by a German credit institution or financial services institution (which term includes a German branch of a foreign credit institution or financial services institution, but excludes a foreign branch of a German financial institution) is received by persons who are not tax residents of Germany and who are taxable in Germany only with respect to German source income, and if, according to German tax law, such interest falls into a category of taxable income from German sources (e.g., income effectively connected with a German trade or business), the 30 per cent. advance interest income tax and the 5.5 per cent. solidarity surcharge are applicable (35 per cent. advance interest income tax and the 5.5 per cent. solidarity surcharge thereon in the event of an “over-the-counter” transaction). In the event that the Notes form part of a German permanent establishment and an assessment is being made in Germany, the withholding tax may be credited against the German personal or corporate income tax liability of such non-residents.

Capital gains/losses realised by Noteholders who are not tax residents of Germany from the sale or other disposition of Notes and where the income from the Notes is not considered as income from German sources will not be subject to tax in Germany. German source income will be presumed if, for example, the Notes are held as part of a permanent establishment in Germany.

Interest and capital gains by non-residents might be taxable in Germany if effected in Germany through an “over-the-counter” transaction.

Other Taxes

No stamp, issue, registration, or similar taxes or duties will be payable in Germany in connection with the issuance, delivery or execution of the Notes.

EU Directive on the Taxation of Savings Income

The European Union has adopted a Directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that member states will be required from a date not earlier than 1 July 2005 to provide to the tax authorities of other member states details of payments of interest and other similar income paid by a person to an individual in another member state, except that Belgium, Luxembourg and Austria will instead impose a withholding system for a transitional period unless during such period they elect otherwise. Germany has implemented the Directive into German law with a decree (*Zinsinformationsverordnung*) which governs details of the intended exchange of information.

SUBSCRIPTION AND SALE

Dresdner Bank AG London Branch (the “**Lead Manager**”) has, in a subscription agreement dated 16 May 2005 (the “**Subscription Agreement**”) and made between the Issuer, Sibacadembank and the Lead Manager upon the terms and subject to the conditions contained therein, agreed to subscribe and pay for the Notes at their issue price of 100 per cent. of their principal amount. The Lead Manager is entitled to commission and reimbursement of expenses pursuant to the Subscription Agreement and a fees and expenses side agreement between, inter alia, the Lead Manager and the Issuer. The Lead Manager is entitled in certain circumstances to be released and discharged from its obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

United States of America

The Notes and the Loan have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Lead Manager has represented, warranted and undertaken that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (a) as part of its distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration to which it sells Notes during the distribution compliance period a confirmation or notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

The Lead Manager has represented, warranted and undertaken that:

1. No offer to public

It has not offered or sold and will during the period up to but excluding the date on which Directive 2003/71/EC is incorporated in the United Kingdom not offer or sell any Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

2. Financial promotion

It has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (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 would not, if the Issuer was not an authorised person, apply to the Issuer; and

3. General compliance

It has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Federal Republic of Germany

The Lead Manager has acknowledged that no sales prospectus (*Verkaufsprospekt*) under the German Securities Sales Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*) has been, or will be, prepared by the Issuer or Sibacadembank in connection with the offering of the Notes. The Lead Manager has represented, warranted and undertaken that it has offered, sold, publicly promoted and advertised and will offer, sell, publicly promote and advertise the Notes only in full accordance with the German Securities Sales Prospectus Act.

Russian Federation

The Lead Manager has represented, warranted and undertaken that it has not offered or sold or otherwise transferred and will not offer or sell or otherwise transfer as part of its initial distribution or at

any time thereafter any Notes to or for the benefit of any person (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation, unless and to the extent permitted under Russian law.

Republic of Italy

The offering of the Notes in the Republic of Italy (“**Italy**”) has not been authorised by the *Commissione Nazionale per le Società e la Borsa* (“**CONSOB**”) pursuant to the Italian securities legislation and, accordingly: (i) the Notes cannot be offered, sold or delivered in Italy in an investment solicitation (“*sollecitazione all’investimento*”) within the meaning of Article 1, paragraph 1, letter (t) of Legislative Decree no. 58 of 24 February 1998, as amended (“**Decree 58/98**”), (ii) the Notes cannot be offered, sold and/or delivered, nor copies of the Offering Circular or any other document relating to the Notes can be distributed, either in the primary or secondary market, to individuals resident in Italy, and (iii) any offer, sale and/or delivery of the Notes and distribution of copies of the Offering Circular or of any other document relating to the Notes in Italy will only be:

- (a) made to Italian institutional investors (“*investitori istituzionali*”), as defined in Article 100 of Decree 58/98 by reference to Article 31.2 of CONSOB Regulation no. 11522 of 1 July 1998, as amended (“**Regulation 11522/98**”);
- (b) made in compliance with Article 129 of the Legislative Decree no. 385 of 1 September 1993, as amended (“**Decree 385/93**”), and the implementing instructions of the Bank of Italy, if applicable, pursuant to which the issue or placement of securities in Italy is subject to prior 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;
- (c) made in compliance with Article 115 of Decree 385/93, as implemented by the regulations issued, from time to time, by the Bank of Italy and/or the *Comitato Interministeriale per il Credito e il Risparmio*;
- (d) made in compliance with any other Italian securities, tax and exchange control and other applicable laws and regulations and any other applicable requirement or limitation which may be imposed by CONSOB, the Bank of Italy or any other competent Italian authority; and
- (e) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with Decree 58/98, Decree 385/93, Regulation 11522/98 and any other applicable laws and regulations.

General

The Lead Manager has undertaken that it will, to the best of its knowledge and belief, comply with applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes offering material relating to the Notes.

Sibacadembank is a party to the Subscription Agreement and has given certain representations and warranties, covenants and indemnities to the Lead Manager and the Issuer therein.

Other than the application made to list the Notes on the Luxembourg Stock Exchange, no action has been or will be taken in any jurisdiction by the Issuer, Sibacadembank or the Lead Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Issuer, Sibacadembank and the Lead Manager to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

- (1) The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS0219905238 and the Common Code is 021990523.
- (2) In connection with the application for the Notes to be listed on the Luxembourg Stock Exchange, copies of the charter of Sibacadembank and the articles of association of the Issuer (together with an English translation thereof) and a legal notice relating to the issuer of the Notes will be registered prior to listing with the Registre de Commerce et des Sociétés à Luxembourg, where they may be inspected and copies obtained upon request.
- (3) Sibacadembank and the Issuer have obtained all necessary consents, approvals and authorisations in Russia and Germany in connection with the Loan and the issue of the Notes. The Loan was authorised by Sibacadembank's Board of Directors resolution dated 12 April 2005.
- (4) No consents, approvals or orders of any regulatory authorities are required by the Issuer under the laws of the Federal Republic of Germany (other than the Issuer's banking licence) for the maintenance of the Loan and for the issue of the Notes.
- (5) Save as disclosed in this Offering Circular, since the last day of the financial period in respect of which the most recent consolidated audited financial statements of Sibacadembank have been prepared (that date being 31 December 2004), there has been no material adverse change, or any development reasonably likely to involve a material adverse change, in the condition (financial or otherwise), prospects, results of operations or general affairs of Sibacadembank.
- (6) There are no legal or arbitration proceedings (including any proceedings which are pending or threatened of which Sibacadembank is aware), which may have or have had during the 12 months prior to the date of this Offering Circular a significant effect on the consolidated financial position of Sibacadembank.
- (7) ZAO KPMG has audited, and rendered unqualified audit reports on, the financial statements of Sibacadembank for the year ended 31 December 2004. KPMG Limited has audited, and rendered unqualified audit reports on, the financial statements of Sibacadembank for the year ended 31 December 2003. The financial statements of Sibacadembank for the year ended 31 December 2002 were audited by other auditors who rendered unqualified audit report on such financial statements.
- (8) Copies (and certified English translations where documents at issue are not in English) of the following documents may be inspected at, and are available free of charge from, the offices of the Paying Agent in Luxembourg during usual business hours on any weekday (Saturdays and public holidays excepted):
 - (a) the Charter of Sibacadembank;
 - (b) the audited financial statements of Sibacadembank as of and for the years ended 31 December 2004, 2003 and 2002;
 - (c) the Subscription Agreement; and
 - (d) the Trust Deed, which will constitute the Notes and the Agency Agreement.
- (9) J.P. Morgan Bank Luxembourg S.A. will act as Registrar in relation to the Notes.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Sibacadembank

We have audited the accompanying balance sheet of Sibacadembank (the "Bank") as at 31 December 2004 and the related statements of income, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG
11 March 2005

SIBACADEMBANK
BALANCE SHEET AS AT 31 DECEMBER 2004
(expressed in thousands of Russian Roubles – refer to Note 3)

	Note	2004	2003
ASSETS			
Cash and cash equivalents	5	2,013,097	1,533,457
Mandatory cash balances with the Central Bank of the Russian Federation		209,279	311,068
Trading securities	6	748,732	203,234
Due from other banks	7	467,906	248,907
Loans to customers	8	5,949,349	3,242,699
Investment securities available for sale	9	178,060	7,845
Investment in unconsolidated subsidiary	10	34,867	19,596
Other assets	11	58,082	40,040
Deferred tax asset	12	19,169	25,891
Premises and equipment	13	678,412	459,674
TOTAL ASSETS		<u>10,356,953</u>	<u>6,092,411</u>
LIABILITIES			
Due to other banks	14	368,647	390,619
Customer accounts	15	8,277,865	4,686,541
Certificates of deposit and promissory notes		491,317	454,004
Other liabilities	16	55,450	81,578
Total liabilities		<u>9,193,279</u>	<u>5,612,742</u>
SHAREHOLDERS' EQUITY			
Share capital	17	756,491	537,791
Share premium	17	289,180	23,000
Retained earnings/(accumulated losses)	18	118,003	(81,122)
Total shareholders' equity		<u>1,163,674</u>	<u>479,669</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY ...		<u>10,356,953</u>	<u>6,092,411</u>

Approved for issue by the Board of Directors and signed on its behalf on 11 March 2005.

K.V. Brel	L.R. Duvina
General Director	Chief Accountant

The notes set out on pages F-7 to F-29 form an integral part of these financial statements

SIBACADEMBANK
INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004
(expressed in thousands of Russian Roubles – refer to Note 3)

	<u>Note</u>	<u>2004</u>	<u>2003</u>
Interest income	19	1,237,761	511,742
Interest expense	19	<u>(514,272)</u>	<u>(252,833)</u>
NET INTEREST INCOME		723,489	258,909
(Provision for)/recovery of loan impairment	8	<u>(145,465)</u>	<u>15,616</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN IMPAIRMENT		578,024	274,525
Gains less losses arising from trading securities		11,518	17,397
Gains less losses arising from foreign exchange		48,743	45,895
Fee and commission income	20	469,578	294,794
Fee and commission expense	20	<u>(17,462)</u>	<u>(12,778)</u>
Provision for losses on credit related commitments	25	<u>(7,353)</u>	—
Other operating income		<u>23,839</u>	<u>30,759</u>
OPERATING INCOME		1,106,887	650,592
Operating expenses	21	<u>(450,301)</u>	<u>(284,197)</u>
Staff costs		<u>(382,312)</u>	<u>(241,102)</u>
PROFIT BEFORE TAXATION		274,274	125,293
Income tax expense	22	<u>(75,134)</u>	<u>(40,824)</u>
NET PROFIT		199,140	84,469

The notes set out on pages F-7 to F-25 form an integral part of these financial statements

SIBACADEMBANK**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2004***(expressed in thousands of Russian Roubles – refer to Note 3)*

	Note	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		1,208,587	493,060
Interest paid		(500,612)	(228,807)
Net income received from trading securities		909	17,397
Net income received from foreign exchange		46,698	46,360
Fees and commissions received		469,578	294,794
Fees and commissions paid		(17,462)	(12,778)
Other operating income received		23,839	27,916
Staff costs paid		(382,312)	(241,102)
Operating expenses paid		(398,471)	(250,514)
Income tax paid		(48,248)	(25,949)
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES ...		402,506	120,377
Changes in operating assets and liabilities			
Net (increase)/decrease in mandatory cash balances with the Central Bank of the Russian Federation		101,789	(115,498)
Net increase in trading securities		(540,053)	(125,642)
Net increase in due from other banks		(107,931)	(216,411)
Net increase in loans to customers		(2,802,504)	(1,371,558)
Net (increase)/decrease in other assets		(18,617)	48,300
Net (decrease)/increase in due to other banks		(167,247)	178,511
Net increase in customer accounts		3,575,572	2,303,832
Net increase in certificates of deposit and promissory notes .		40,313	131,672
Net (decrease)/increase in other liabilities		(53,656)	56,637
Net cash from operating activities		<u>430,172</u>	<u>1,010,220</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net purchase of premises and equipment		(269,994)	(51,933)
Net purchase of investment securities and investment in unconsolidated subsidiary		(167,460)	(6,963)
Net cash used in investing activities		<u>(437,454)</u>	<u>(58,896)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of ordinary shares	17	484,880	46,000
Dividends paid	23	(3)	(15)
Net cash from financing activities		<u>484,877</u>	<u>45,985</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		2,045	(465)
NET INCREASE IN CASH AND CASH EQUIVALENTS		479,640	996,844
Cash and cash equivalents at the beginning of the year		<u>1,533,457</u>	<u>536,613</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5	<u>2,013,097</u>	<u>1,533,457</u>

The notes set out on pages F-7 to F-25 form an integral part of these financial statements

SIBACADEMBANK
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED
31 DECEMBER 2004
(expressed in thousands of Russian Roubles – refer to Note 3)

	Share capital	Share premium	Retained earnings/ (accumulated losses)	Total shareholders' equity
Balance at 1 January 2003	514,791	—	(165,576)	349,215
Shares issued	23,000	23,000	—	46,000
Net profit for the year	—	—	84,469	84,469
Dividends declared on preference shares (Note 23).....	—	—	(15)	(15)
Balance at 31 December 2003	537,791	23,000	(81,122)	479,669
Shares issued (Note 17)	218,700	266,180	—	484,880
Net profit for the year	—	—	199,140	199,140
Dividends declared on preference shares (Note 23).....	—	—	(15)	(15)
Balance at 31 December 2004	<u>756,491</u>	<u>289,180</u>	<u>118,003</u>	<u>1,163,674</u>

The notes set out on pages F-7 to F-25 form an integral part of these financial statements

1 PRINCIPAL ACTIVITIES

Sibacadembank (the “Bank”) was established in the Russian Federation as an Open Joint-Stock Company and was granted its general banking license in 1990. The Bank’s principal business activity is commercial and retail banking operations within the Russian Federation, mainly in the regions of Western and Eastern Siberia. The activities of the Bank are regulated by the Central Bank of the Russian Federation (the “CBRF”). The Bank has seven branches from which it conducts business throughout the Russian Federation. The average number of persons employed by the Bank during the year 2004 was 1 523 (2003: 1 148).

The Bank’s registered office is: 18 Lenina Street, Novosibirsk, 630004, Russia Federation.

2 RUSSIAN BUSINESS ENVIRONMENT

The Russian Federation has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks, which do not typically exist in other markets. The accompanying financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Bank. The future business environment may differ from management’s assessment.

3 BASIS OF PREPARATION

Statement of compliance. The Bank maintains its accounting records in accordance with the legislative requirements of the Russian Federation. The accompanying financial statements have been prepared from those accounting records and adjusted as necessary to comply with the requirements of International Financial Reporting Standards (“IFRS”) promulgated by the International Accounting Standards Board (“IASB”).

Measurement and presentation currency. The national currency of the Russian Federation is the Russian Rouble (“RUR”). Management have determined the Bank’s measurement currency to be the RUR as it reflects the economic substance of the underlying events and circumstances of the Bank. The RUR is also the Bank’s presentation currency for the purposes of these financial statements.

Financial information presented in RUR has been rounded to the nearest thousand.

Going concern. The accompanying financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Bank’s assets, as well as the future operation of the Bank, may be significantly affected by the current and future economic environment (refer to Note 2). The accompanying financial statements do not include any adjustments should the Bank be unable to continue as a going concern.

4 SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied.

Foreign currency transactions. Transactions in foreign currencies are translated to the appropriate measurement currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the measurement currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the measurement currency at the foreign exchange rate ruling at the date of the transaction.

Inflation accounting. The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation have been made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of the Bank’s assets, liabilities and equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

Cash and cash equivalents. Cash and cash equivalents are items, which can be converted into cash within a day. All short-term interbank placements, excluding overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Mandatory cash balances with the CBRF. Mandatory cash balances with the CBRF represent mandatory reserve deposits which are not available to finance the Bank's day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the cash flow statement.

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists.

Trading securities are initially recognised at cost (which includes transaction costs) and subsequently remeasured at fair value based on quoted bid prices, except that any security that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All related realized and unrealized gains and losses are recorded within gains less losses arising from trading securities in the income statement in the period in which the change occurs. Interest earned on trading securities is reflected in the income statement as interest income. Dividends received are included in dividend income within other operating income.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised at trade date, which is the date that the Bank commits to purchase or sell the asset. All other purchases and sales are recognised as derivative forward transactions until settlement.

Originated loans and provision for loan impairment. Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent at draw down, other than those that are originated with the intent of being sold immediately or in the short-term which are recorded as trading assets, are categorised as originated loans.

Originated loans are recognised when cash is advanced to borrowers. Initially, originated loans are recorded at cost, which is the fair value of the consideration given, and subsequently are carried at amortised cost less provision for loan impairment. Amortised cost is based on the fair value of cash consideration given to originate those loans determinable by reference to market prices at origination date.

Loans originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar loans. The difference between the fair value and the nominal value at origination is credited or charged as gains on origination of assets at rates above market or losses on origination of assets at rates below market to the income statement or to the equity statement depending on the substance of the transaction. Subsequently, the carrying amount of such loans is adjusted for amortization of the gains/losses on origination and the related income/expense is recorded as interest income/expense within the income statement using the effective yield method.

A credit risk provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect the amounts due according to original contractual terms. The amount of the provision is the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the instrument's original effective interest rate.

The provision for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings assigned to the borrowers and reflect the current economic environment in which the borrowers operate.

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the income statement.

SIBACADEMBANK
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004
(expressed in thousands of Russian Roubles – refer to Note 3)

If the amount of the provision for loan impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for loan impairment in the income statement.

Other credit related commitments. In the normal course of business, the Bank enters into other credit related commitments including credit lines, letters of credit and guarantees. Specific provisions are recorded against other credit related commitments when losses are considered probable.

Promissory notes purchased. Promissory notes purchased are included in trading securities, or in due from other banks, or in loans to customers, depending on their substance and are recognised and subsequently remeasured and accounted in accordance with the accounting policies for these categories of assets.

Investment securities available for sale. Investment securities available for sale are securities which Management intends to hold for an indefinite period of time, that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Management determines the appropriate classification of its investment securities at the time of purchase.

Investment securities available for sale are initially recognised at cost (which includes transaction costs) and subsequently remeasured to fair value based on quoted bid prices, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses. Realised and unrealised gains and losses arising from changes in the fair value of investment securities available for sale are included in the income statement in the period in which they arise. Interest earned on investment securities available for sale is reflected in the income statement as interest income. Dividends received are included in dividend income within the income statement.

All regular way purchases and sales of investment securities available for sale are recognised at trade date, which is the date that the Bank commits to purchase or sell the asset. All other purchases and sales are recognised as derivative forward transactions until settlement.

Investments in associates and subsidiaries. Associates are those enterprises in which the Bank has significant influence, but not control, over the financial and operating policies. The financial statements include the Bank's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases.

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included into those of the Bank, if the effect on the Bank's financial statements is material, from the date that control effectively commences until the date that control effectively ceases.

Premises and equipment. Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the income statement. The estimated recoverable amount is the higher of an asset's net selling price and its value in use.

Construction in progress is carried at cost less provision for impairment, where required. Upon completion, assets are transferred to premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and are taken into account in determining profit/(loss). Repairs and maintenance are charged to the income statement when the expenditure is incurred.

Depreciation. Depreciation is applied on a straight-line basis over the estimated useful lives of the assets using the following rates:

Premises 2% per annum;

Equipment 20%-30% per annum.

Leased assets. Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment, where required.

Operating leases, under the terms of which the Bank does not assume substantially all the risks and rewards of ownership, are expensed.

Certificates of deposit and promissory notes issued. Certificates of deposit and promissory notes issued are recognised initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, certificates of deposit and promissory notes are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the security issue using the effective yield method.

If the Bank purchases its own debt securities in issue, they are removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

Preference shares. Preference shares that are not redeemable are classified as equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends declared after the balance sheet date are disclosed as subsequent events. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations.

Income taxes. Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Income and expense recognition. Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupon earned on fixed income securities and accrued discounts and premiums on promissory notes and other discounted instruments. When loans become doubtful of collection, they are written down to the present value of expected future loan collections, discounted at the original loan interest rate. Interest income is thereafter recognised on the accrual basis using the original loan interest rate. Fee and commission income is recognised when the corresponding service is provided.

Derivative financial instruments. Derivative financial instruments including foreign exchange contracts and other derivative financial instruments are initially recorded in the balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models, options pricing models or using the spot rate at the year end as the basis as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

SIBACADEMBANK
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004
(expressed in thousands of Russian Roubles – refer to Note 3)

Changes in the fair value of derivatives are included in gains less losses arising from foreign exchange and gains less losses arising from trading securities depending on the related contracts.

The Bank does not enter into derivative instruments for hedging purposes.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Provisions. A provision is recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Payments to funds. The Bank contributes to the Russian Federation state pension schemes, social insurance and employment funds in respect of its employees. The contributions to these funds are expensed as incurred and included under staff costs.

Comparative information. There have been minor reclassifications to the comparative information to conform the changes in presentation in the current year.

5 CASH AND CASH EQUIVALENTS

	2004	2003
Cash on hand	753,442	505,905
Cash balances with the CBRF (other than mandatory reserve deposits)	661,193	297,790
Correspondent accounts and overnight placements with other banks	598,462	729,762
Total cash and cash equivalents	<u>2,013,097</u>	<u>1,533,457</u>

Currency analysis of cash and cash equivalents is detailed in Note 24. Information on related party balances is disclosed in Note 28.

6 TRADING SECURITIES

	2004	2003
Government bonds		
Federal loan bonds (OFZ)	677,790	71,565
Moscow government bonds	42,101	—
Corporate debt securities		
Promissory notes	16,350	75,354
Deposit certificates	—	46,335
Corporate bonds	12,491	9,980
Total trading securities	<u>748,732</u>	<u>203,234</u>

Currency analysis, effective interest rate and maturity structure of trading securities are disclosed in Note 24.

7 DUE FROM OTHER BANKS

	2004	2003
Term placements with other banks	467,906	248,907
Total due from other banks	<u>467,906</u>	<u>248,907</u>

As at 31 December 2004 the Bank had three counterparties (2003: nil), whose aggregated balances exceeded more than 10% of due from other banks. The total amount of these balances as at 31 December 2004 was RUR 397 663 thousand (2003: nil).

SIBACADEMBANK
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004
(expressed in thousands of Russian Roubles – refer to Note 3)

Currency analysis, effective interest rate and maturity structure of due from other banks are disclosed in Note 24. Information on related party balances is disclosed in Note 28.

8 LOANS TO CUSTOMERS

	<u>2004</u>	<u>2003</u>
Loans to corporate entities		
Current loans to corporate entities.....	2,918,431	1,710,432
Overdue loans to corporate entities.....	78,745	22,279
Loans to individuals		
Consumer finance loans to individuals.....	2,923,014	1,383,365
Other loans to individuals.....	290,977	268,789
Overdue loans to individuals.....	12,485	—
Gross loans to customers	6,223,652	3,384,865
Less: provision for loan impairment.....	(274,303)	(142,166)
Net loans to customers	<u>5,949,349</u>	<u>3,242,699</u>

Movements in the provision for loan impairment are as follows:

	<u>2004</u>	<u>2003</u>
Provision for loan impairment as at 1 January	142,166	159,019
Loans written off during the year as uncollectible.....	(13,328)	(1,237)
(Recovery of)/provision for loan impairment for the year.....	145,465	(15,616)
Provision for loan impairment as at 31 December	<u>274,303</u>	<u>142,166</u>

As at 31 December 2004, loans to individuals of RUR 1 622 521 thousand and interest on these loans are covered by guarantees issued by credit agencies – related parties (2003: RUR 1,383,365 thousand) (refer to Note 28).

Economic sector risk concentrations within the customer loan portfolio are as follows:

	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Individuals.....	3,226,476	52	1,652,154	49
Trade.....	1,159,911	19	900,992	27
Production.....	561,449	9	215,073	6
Finance.....	230,816	4	47,952	1
Construction.....	159,440	3	97,321	3
Transport.....	133,798	2	20,121	1
Chemical industry.....	123,111	2	65,548	2
Government bodies.....	85,000	1	85,730	3
Mining.....	75,561	1	85,934	3
Service sector.....	68,111	1	11,097	—
Other.....	399,979	6	202,943	5
Total loans to customers (gross of provisions)	<u>6,223,652</u>	<u>100</u>	<u>3,384,865</u>	<u>100</u>

Currency analysis, effective interest rate and maturity structure of loans to customers are disclosed in Note 24. Information on related party balances is disclosed in Note 28.

9 INVESTMENT SECURITIES AVAILABLE FOR SALE

	<u>2004</u>	<u>2003</u>
Corporate bonds	95,019	—
Deposit certificates	81,554	—
Shares of “Dalvneshstorgbank”	—	5,977
Other	1,487	1,868
Total investment securities available for sale	<u>178,060</u>	<u>7,845</u>

10 INVESTMENT IN UNCONSOLIDATED SUBSIDIARY

	<u>2004</u>	<u>2003</u>
Investment in unconsolidated subsidiary	34,867	19,596
Total investment in unconsolidated subsidiary	<u>34,867</u>	<u>19,596</u>

As at 31 December 2004, the Bank owned 57.8% (2003: 57.8%) of the share capital of Closed Joint-Stock Company “Zapadno-Sibirskoye Strakhovoye Agentstvo Zhaso”. The subsidiary’s principal business activity is insurance services within the regions of Western and Eastern Siberia.

The financial statements of the subsidiary company have not been consolidated into those of the Bank, as the effect on the Bank’s financial statements would not be material.

11 OTHER ASSETS

	<u>2004</u>	<u>2003</u>
Settlement transactions with customers	53,634	32,810
Prepaid taxes	1,081	6,343
Other	3,367	887
Total other assets	<u>58,082</u>	<u>40,040</u>

Currency analysis and maturity structure of other assets are disclosed in Note 24.

12 DEFERRED TAX ASSET

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2004 and 2003. Deferred tax assets and liabilities are attributable to the following items:

	<u>Assets</u>		<u>Liabilities</u>		<u>Net</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Trading securities	6,541	4,382	(12,043)	(4,175)	(5,502)	207
Loans to customers	19,690	25,286	—	—	19,690	25,286
Investment in unconsolidated subsidiary ...	511	—	(6,023)	(1,464)	(5,512)	(1,464)
Premises and equipment	11,158	10,217	(12,395)	(22,236)	(1,237)	(12,019)
Certificates of deposit and promissory notes	—	1,564	(309)	(444)	(309)	1,120
Other	12,677	12,761	(638)	—	12,039	12,761
Net deferred tax assets/(liabilities)	<u>50,577</u>	<u>54,210</u>	<u>(31,408)</u>	<u>(28,319)</u>	<u>19,169</u>	<u>25,891</u>

The rate of tax applicable for deferred taxes was 24% (2003: 24%).

SIBACADEMBANK
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004
(expressed in thousands of Russian Roubles – refer to Note 3)

Movements in temporary differences during the year are as follows:

	<u>2003</u>	<u>Recognised in income</u>	<u>2004</u>
Trading securities.....	207	(5,709)	(5,502)
Loans to customers.....	25,286	(5,596)	19,690
Investment in unconsolidated subsidiary.....	(1,464)	(4,048)	(5,512)
Premises and equipment.....	(12,019)	10,782	(1,237)
Certificates of deposit and promissory notes	1,120	(1,429)	(309)
Other	<u>12,761</u>	<u>(722)</u>	<u>12,039</u>
Total deferred tax asset	<u>25,891</u>	<u>(6,722)</u>	<u>19,169</u>

13 PREMISES AND EQUIPMENT

	<u>Note</u>	<u>Premises</u>	<u>Office and computer equipment</u>	<u>Construction in progress</u>	<u>Total</u>
Net book amount as at 31 December 2003.		351,857	102,516	5,301	459,674
Book amount at cost.....					
Opening balance.....		358,838	207,850	5,301	571,989
Additions.....		16,070	178,073	108,081	302,224
Disposals.....		(3,434)	(54,984)	(1,121)	(59,539)
Closing balance.....		371,474	330,939	112,261	814,674
Accumulated depreciation					
Opening balance.....		(6,981)	(105,334)	—	(112,315)
Depreciation charge.....	21	(7,218)	(44,038)	—	(51,256)
Disposals.....		20	27,289	—	27,309
Closing balance.....		(14,179)	(122,083)	—	(136,262)
Net book amount as at 31 December 2004.		357,295	208,856	112,261	678,412

Included in office and computer equipment as at 31 December 2004 is office and computer equipment with a net book amount of RUR 22 533 thousand (2003: 45 161) received by the Bank under finance lease arrangements.

14 DUE TO OTHER BANKS

	<u>2004</u>	<u>2003</u>
Term placements of other banks.....	303,660	132,426
Correspondent accounts of other banks.....	64,987	258,193
Total due to other banks.....	368,647	390,619

As at 31 December 2004 and 2003 the Bank had two and three counterparties, respectively, whose aggregated balances exceeded more than 10% of due to other banks. The total amount of these balances as at 31 December 2004 and 2003 was RUR 252 005 thousand and RUR 303 071 thousand respectively.

Currency analysis, effective interest rate and maturity structure of due to other banks are disclosed in Note 24. Information on related party balances is disclosed in Note 28.

15 CUSTOMER ACCOUNTS

	<u>2004</u>	<u>2003</u>
Individuals		
Term deposits.....	4,886,322	2,714,086
Current/demand accounts.....	984,125	643,598
Corporate customers		
Term deposits.....	1,413,705	483,328
Current/settlement accounts.....	993,713	845,529
Total customer accounts.....	8,277,865	4,686,541

As at 31 December 2003, the Bank had deposits held as collateral for irrevocable commitments under import letters of credit of RUR 613 thousand (2004: nil).

Currency analysis, effective interest rate and maturity structure of customer accounts are disclosed in Note 24. Information on related party balances is disclosed in Note 28.

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16 Other Liabilities

		2004	2003
Taxation payable		31,134	10,970
Trade creditors		9,534	35,786
Provision for losses on credit related commitments.	25	7,353	—
Finance lease liabilities		7,253	34,694
Other		176	128
Total other liabilities		<u>55,450</u>	<u>81,578</u>

Currency analysis and maturity structure of other liabilities are disclosed in Note 24.

17 Share Capital

Authorised, issued and fully paid share capital of the Bank comprises:

	2004			2003		
	Number of shares	Nominal amount	Carrying amount	Number of share	Nominal amount	Carrying amount
Ordinary shares	474,550,000	474,550	748,424	255,850,000	255,850	529,724
Preference shares	150,000	150	8,067	150,000	150	8,067
Total share capital.	<u>474,700,000</u>	<u>474,700</u>	<u>756,491</u>	<u>256,000,000</u>	<u>256,000</u>	<u>537,791</u>

All ordinary shares have a nominal value of RUR 1 per share. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

The preference shares have a nominal value of RUR 1 and carry no voting rights but rank ahead of the ordinary shares in the event of liquidation of the Bank. They carry a minimum annual dividend of 10% of their nominal value. These shares are not redeemable.

In 2004 the Bank issued 100 000 000 ordinary shares with a nominal value of RUR 1 per share at the price of RUR 2 per share and 118 700 000 ordinary shares at a nominal value of RUR 1 and at the price of RUR 2.4 per share, resulting in total proceeds of RUR 484,880 thousand, including share premium of RUR 266 180 thousand.

18 Retained earnings/(accumulated losses)

In accordance with Russian Law on Banks and Banking Activity, the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules as at 31 December 2004 were RUR 795 753 thousand (2003: RUR 314 746 thousand).

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19 Interest Income and Expense

	<u>2004</u>	<u>2003</u>
Interest income		
Loans to customers	1,150,260	470,313
Due from other banks	19,170	28,277
Debt trading securities	68,331	13,152
Total interest income	<u>1,237,761</u>	<u>511,742</u>
Interest expense		
Due to other banks	(11,679)	(8,350)
Customer accounts	(471,748)	(216,762)
Certificates of deposit and promissory notes issued	(30,845)	(27,721)
Total interest expense	<u>(514,272)</u>	<u>(252,833)</u>
Net interest income	<u>723,489</u>	<u>258,909</u>

20 Fee and Commission Income and Expense

	<u>2004</u>	<u>2003</u>
Fee and commission income		
Commission on settlement transactions	376,370	207,162
Commission on cash transactions	79,518	73,681
Other	13,690	13,951
Total fee and commission income	<u>469,578</u>	<u>294,794</u>
Fee and commission expense		
Commission on settlement transactions	(8,717)	(9,453)
Commission on cash transactions	(6,845)	(3,002)
Other	(1,900)	(323)
Total fee and commission expense	<u>(17,462)</u>	<u>(12,778)</u>
Net fee and commission income	<u>452,116</u>	<u>282,016</u>

21 Operating Expenses

	<u>Note</u>	<u>2004</u>	<u>2003</u>
Rental expenses		102,786	29,897
Other expenses related to premises and equipment		66,115	33,813
Depreciation of premises and equipment	13	51,256	33,099
Professional services		42,696	26,077
Advertising and marketing		32,449	15,975
Low value items written off		26,886	9,897
Security		25,594	20,049
Taxes other than on income		22,281	34,940
Business trips and representation expenses		11,353	6,491
Other expenses		68,885	73,959
Total operating expenses		<u>450,301</u>	<u>284,197</u>

22 Income Taxes

Income tax expense comprises the following:

	<u>2004</u>	<u>2003</u>
Current tax expense	68,412	34,382
Deferred tax expense	6,722	6,442
Income tax expense for the year.....	<u>75,134</u>	<u>40,824</u>

The Bank's applicable tax rate for current and deferred tax was 24% (2003: 24%).

Reconciliation of effective tax rate:

	<u>2004</u>	<u>%</u>	<u>2003</u>	<u>%</u>
Profit before tax	274,274		125,293	
Income tax expense using the applicable tax rate	65,826	24%	30,070	24%
Non-deductible expenses.....	9,308	3%	10,754	9%
Income tax expense for the year.....	<u>75,134</u>	<u>27%</u>	<u>40,824</u>	<u>33%</u>

23 Dividends

	<u>2004</u>	<u>2003</u>
	<u>Preference shares</u>	<u>Preference shares</u>
Dividends payable at 1 January.....	<u>64</u>	<u>64</u>
Dividends declared during the year for previous financial year	15	15
Dividends paid during the year	<u>(3)</u>	<u>(15)</u>
Dividends payable at 31 December.....	<u>76</u>	<u>64</u>

All dividends are declared and paid in Russian Roubles. Dividends on ordinary shares have not been declared or paid by the Bank in respect of 2004.

24 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks (credit, market, interest rate, currency and liquidity), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimize operational and legal risks.

Credit risk – The Bank takes on exposure to credit risk which is the risk that a counterparty will not pay principal or interest amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to individual borrower or groups of borrowers, and economic sectors. Limits on the level of credit risk by borrower (or group of borrowers), and economic sectors are approved by Bank's Credit Committee on a regular basis.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

The Bank's maximum exposure to credit risk is primary reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the

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contract. The Bank uses the same procedures and methodologies, as defined by its credit policy, for approving credit related commitments (credit lines, letters of credit and guarantees) as it does for on balance sheet credit obligations (loans).

Market risk – The Bank takes on exposure to market risks. Market risks arise from open positions in fixed income and equity securities and currencies, which are exposed to general and specific market movements. The Board of Directors sets limits on the level of risk that may be accepted by the Bank. This is monitored on a daily basis.

Currency risk – Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. As at 31 December 2004, the Banks had the following positions in different currencies:

	<u>RUR</u>	<u>USD</u>	<u>Other currencies</u>	<u>Total</u>
Assets				
Cash and cash equivalents	1,516,989	268,446	227,662	2,013,097
Mandatory cash balances with the Central Bank of the Russian Federation	209,279	—	—	209,279
Trading securities	748,732	—	—	748,732
Due from other banks	355,200	2,810	109,896	467,906
Loans to customers	5,423,571	423,412	102,366	5,949,349
Investment securities available for sale	178,060	—	—	178,060
Investment in unconsolidated subsidiary	34,867	—	—	34,867
Other assets	51,796	6,286	—	58,082
Deferred tax asset	19,169	—	—	19,169
Premises and equipment	678,412	—	—	678,412
Total assets	<u>9,216,075</u>	<u>700,954</u>	<u>439,924</u>	<u>10,356,953</u>
Liabilities				
Due to other banks	29,967	179,424	159,256	368,647
Customer accounts	7,453,946	539,978	283,941	8,277,865
Certificates of deposit and promissory notes	479,425	11,892	—	491,317
Other liabilities	54,490	960	—	55,450
Total liabilities	<u>8,017,828</u>	<u>732,254</u>	<u>443,197</u>	<u>9,193,279</u>
Net balance sheet position	<u>1,198,247</u>	<u>(31,300)</u>	<u>(3,273)</u>	<u>1,163,674</u>
Credit related commitments	<u>590,887</u>	<u>96,220</u>	<u>94,663</u>	<u>781,770</u>

As at 31 December 2003, the Bank had the following positions in different currencies:

	<u>RUR</u>	<u>USD</u>	<u>Other currencies</u>	<u>Total</u>
Net balance sheet position	<u>466,139</u>	<u>24,872</u>	<u>(11,342)</u>	<u>479,669</u>
Credit related commitments	<u>217,258</u>	<u>5,906</u>	<u>74,259</u>	<u>297,423</u>

Liquidity risk – Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

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The table below shows assets and liabilities of the Bank by their remaining contractual maturity. Some of the assets, however, may be of a longer-term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer-term duration.

The contractual maturity of assets and liabilities of the Bank as at 31 December 2004 is set out below.

	<u>Demand and less than 1 month</u>	<u>From 1 to 6 months</u>	<u>From 6 to 12 months</u>	<u>More than 1 year</u>	<u>No stated maturity</u>	<u>Total</u>
Assets						
Cash and cash equivalents.	2,013,097	—	—	—	—	2,013,097
Mandatory cash balances with the Central Bank of the Russian Federation.	69,559	43,628	69,694	26,398	—	209,279
Trading securities	8,394	10,054	65	730,219	—	748,732
Due from other banks	316,580	67,500	72,081	11,745	—	467,906
Loans to customers.	695,844	2,549,499	1,766,736	904,257	33,013	5,949,349
Investment securities available for sale	—	81,554	—	95,019	1,487	178,060
Investment in unconsolidated subsidiary	—	—	—	—	34,867	34,867
Other assets	36,249	3,440	1,776	560	16,057	58,082
Deferred tax asset.	—	—	—	—	19,169	19,169
Premises and equipment	—	—	—	—	678,412	678,412
Total assets.	<u>3,139,723</u>	<u>2,755,675</u>	<u>1,910,352</u>	<u>1,768,198</u>	<u>783,005</u>	<u>10,356,953</u>
Liabilities						
Due to other banks	128,885	17,193	72,081	150,488	—	368,647
Customer accounts	2,751,350	1,725,683	2,756,676	1,044,156	—	8,277,865
Certificates of deposit and promissory notes.	246,522	159,932	84,401	462	—	491,317
Other liabilities	<u>14,907</u>	<u>25,890</u>	<u>47</u>	<u>—</u>	<u>14,606</u>	<u>55,450</u>
Total liabilities.	<u>3,141,664</u>	<u>1,928,698</u>	<u>2,913,205</u>	<u>1,195,106</u>	<u>14,606</u>	<u>9,193,279</u>
Net liquidity gap	<u>(1,941)</u>	<u>826,977</u>	<u>(1,002,853)</u>	<u>573,092</u>	<u>768,399</u>	<u>1,163,674</u>
	<u>Demand and less than 1 month</u>	<u>From 1 to 6 months</u>	<u>From 6 to 12 months</u>	<u>More than 1 year</u>	<u>No stated maturity</u>	
Cumulative liquidity gap as at 31 December 2004	<u>(1,941)</u>	<u>825,036,</u>	<u>(177,817)</u>	<u>395,275</u>	<u>1,163,674</u>	
Cumulative liquidity gap at 31 December 2003	<u>(80,604)</u>	<u>(344,565)</u>	<u>16,910</u>	<u>(33,337)</u>	<u>479,669</u>	

Management believes that in spite of a substantial portion of customers' accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customers' accounts provide a stable source of funding for the Bank.

Interest rate risk – The Bank is exposed to interest rate risk, principally as a result of lending to customers and other banks, at fixed interest rates, in amounts and for periods, which differ from those of term deposits at fixed interest rates.

In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

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The Board of Directors sets limits on the level of interest rate mismatch which may be undertaken.

The table below summarises the effective interest rate, by major currencies, for major monetary financial instruments. The analysis has been prepared on the basis of weighted average interest rates for the various financial instruments using period end effective interest rates.

	<u>2004</u>		<u>2003</u>	
	<u>Roubles</u>	<u>Foreign Currency</u>	<u>Roubles</u>	<u>Foreign Currency</u>
Assets				
Trading securities	8%	—	14%	—
Investment securities available for sale	8%	—	—	—
Due from other banks	4%	0%	3%	6%
Loans to customers	22%	13%	25%	12%
Liabilities				
Due to other banks	2%	5%	11%	4%
Customer accounts	9%	5%	11%	4%
Certificates of deposit and promissory notes	4%	8%	9%	9%

The sign “-” in the table above means that the Bank does not have assets or liabilities in that currency.

25 Contingencies, Commitments and Derivative Financial Instruments

Litigation – As at 31 December 2004, Management is unaware of any significant actual, pending or threatened claims against the Bank.

Taxation contingencies – The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Capital commitments – As at 31 December 2003, the Bank had capital commitments in respect of construction of branch premises of RUR 538 thousand (2004: nil).

Operating lease commitments – Where the Bank is the lessee, the future minimum lease payments under non cancellable operating leases are as follows:

	<u>2004</u>	<u>2003</u>
Not later than 1 year	—	423
Later than 1 year and not later than 5 years	—	103
Later than 5 years	—	—
Total operating lease commitments	—	526

Credit related commitments – Credit related commitments comprise undrawn credit lines, letters of credit and guarantees. The contractual amount of these commitments represents the value at risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless.

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Outstanding credit related commitments are as follows:

	<u>Note</u>	<u>2004</u>	<u>2003</u>
Undrawn credit lines		595,292	215,707
Import letters of credit		86,581	46,544
Guarantees issued		<u>99,897</u>	<u>35,172</u>
Total credit related commitments		<u>781,770</u>	<u>297,423</u>

The Management of the Bank has estimated a specific provision for impairment related to the credit commitments of RUR 7 353 thousand (2003: nil). A provision for credit commitments has been recorded within provision for losses on credit related commitments in other liabilities (refer to Note 16).

Derivative financial instruments – As at 31 December 2004, the Bank had no outstanding derivative financial instruments (2003: nil).

26 Fair Value of Financial Instruments

The Bank has performed an assessment of its financial instruments, as required by IAS 32 “Financial Instruments: Disclosure and Presentation”, to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability.

Based on this assessment the Bank has concluded that due to the lack of liquidity and published “indicator interest rates” in the Russian markets, and the fact that some of its transactions are with related parties, it is not possible to determine the fair value of the majority of its financial assets and financial liabilities.

The financial assets and financial liabilities that the Bank does believe it is able to estimate fair values for include cash and cash equivalents, trading securities, investment securities available for sale and non-related party amounts due from and due to other banks. The Bank estimates the fair value of these instruments to be not materially different from their carrying values.

This estimate of fair value is intended to approximate the amount at which the above listed assets could be exchanged in a current transaction between willing parties. However given the uncertainties and the use of subjective judgement, the fair value should not be interpreted as being realisable in an immediate sale of the assets settlement of liabilities.

27 Analysis by segment

Sibacadembank’s format for reporting segment information is by business segments.

Business Segments. Sibacadembank is organised into two main business segments:

- Commercial banking – includes corporate banking operations which include deposit taking and commercial lending, settlements and cash operations with corporate clients. Commercial banking services also include trade finance, debt and equity capital markets, brokerage and securities and foreign exchange services.
- Retail banking – includes retail banking operations which include deposit taking and lending, settlements, foreign exchange and cash operations with individuals.

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Segment breakdown of assets and liabilities of is set out below:

	<u>2004</u>	<u>2003</u>
Assets		
Commercial banking	5,300,944	3,165,121
Retail banking	3,432,348	1,792,827
Unallocated assets	<u>1,623,661</u>	<u>1,134,463</u>
Total assets	<u>10,356,953</u>	<u>6,092,411</u>
Liabilities		
Commercial banking	3,268,849	2,165,014
Retail banking	5,876,333	3,366,150
Unallocated liabilities	<u>48,097</u>	<u>81,578</u>
Total liabilities	<u>9,193,279</u>	<u>5,612,742</u>

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27. ANALYSIS BY SEGMENT (Continued)

Segment information for the main reportable business segments of Sibacadembank for the year ended 31 December 2004 is set out below:

	Commercial Banking	Retail banking	Unallocated	Total
External revenue	741,851	1,023,703	25,884	1,791,438
Provisions	(105,128)	(47,690)	—	(152,818)
Interest expense	(94,937)	(419,335)	—	(514,272)
Fee and commission expense	(17,462)	—	—	(17,462)
Staff costs and operating expenses	(405,099)	(427,513)	—	(832,612)
Segment result	119,225	129,165	25,884	274,274
Taxation				(75,134)
Net profit				199,140

Segment information for the main reportable business segments of Sibacadembank for the year ended 31 December 2003 is set out below:

	Commercial Banking	Retail banking	Unallocated	Total
External revenue	617,781	252,047	30,759	900,587
Provisions	30,929	(15,313)	—	15,616
Interest expense	(101,405)	(151,428)	—	(252,833)
Fee and commission expense	(12,778)	—	—	(12,778)
Staff costs and operating expenses	(443,850)	(81,449)	—	(525,299)
Segment result	90,677	3,857	30,759	125,293
Taxation				(40,824)
Net profit				84,469

28. RELATED PARTY TRANSACTIONS

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 “Related Party Disclosures”. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Banking transactions are entered into in the normal course of business with significant shareholders, directors, subsidiaries, associates, companies with which the Bank has significant shareholders in common and other related parties. These transactions include settlements, loans, deposit taking, guarantees, trade finance and foreign currency transactions.

28. RELATED PARTY TRANSACTIONS (Continued)

The outstanding balances at the year-end, income and expense items for 2004 and 2003 years are as follows:

	<u>2004</u>	<u>2003</u>
Cash and cash equivalents		
Correspondent accounts and overnight placements with other banks at the year end.....	96,402	403,643
Due from other banks		
Term placements at the year end.....	197,663	94,764
Interest income for the year.....	11,078	20,380
Loans to customers		
Loans at the year end.....	40,985	1,590
Provision for loan impairment at the year end.....	(708)	(16)
Interest income for the year.....	3,829	11
Due to other banks		
Correspondent accounts of other banks at the year end.....	38,711	214,964
Term deposits.....	138,744	—
Interest expense for the year.....	(939)	(1,952)
Customer accounts		
Current/settlement accounts at the year end.....	36,536	31,511
Term deposits outstanding at the year end.....	160,400	46,616
Interest expense for the year.....	(7,107)	(4,695)
Promissory notes issued		
Outstanding balances at the year end.....	3,480	57,000
Fee and commission income		
Fee and commission income for the year.....	8,440	—
Other income and expense for the year		
Other income for the year.....	3,627	7,034
Other expenses for the year.....	(13,107)	(7,706)
Guarantees issued to the Bank at the year end.....	70,702	20,937

Further to the table above, as at 31 December 2004, loans to individuals of RUR 1 622 521 thousand and interest on these loans are covered by guarantees issued by credit agencies – related parties (2003: RUR 1 383 365 thousand). When a loan becomes one day overdue the rights on outstanding loan are transferred to the credit agencies and the amount of principal and interest are paid to the Bank by these credit agencies. During 2004, a total amount of 890 350 thousand was paid by these credit agencies to the Bank in respect of these guarantees (2003: RUR 160 823 thousand). In the majority of such cases, such delays do not represent underlying impairment of the loans and the loans are subsequently collected by the credit agencies.

In 2004 the total remuneration of the directors and key management personnel, including state pension contributions, amounted to RUR 59 934 thousand (2003: RUR 35 920 thousand).



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Independent Auditors' Report

To the Shareholders of Sibacadembank

We have audited the accompanying balance sheet of Sibacadembank (the "Bank") as at 31 December 2003 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements, as set out on pages 1 to 23, are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Bank for the year ended 31 December 2002 were audited by another auditor whose report dated 5 June 2003 expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2003, and the results of its operations, changes in shareholders' equity and cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

KPMG Limited

KPMG Limited
Moscow, Russian Federation
31 March 2004

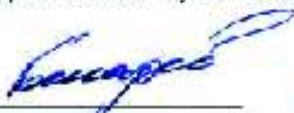
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Balance Sheet as at 31 December 2003

(expressed in thousands of Russian Rubles - refer to Note 5)

	Note	2003	2002
Assets			
Cash and cash equivalents	4	1 533 457	536 613
Mandatory cash balances with the Central Bank of the Russian Federation		311 068	195 570
Trading securities	6	203 234	76 993
Due from other banks	7	248 907	32 144
Loans to customers	8	1 242 599	1 837 746
Investment securities available for sale	9	7 843	9 407
Investments in associates and unconsolidated subsidiaries	10	19 596	11 119
Other assets	11	40 040	88 924
Deferred tax asset	12	25 891	32 333
Premises and equipment	13	459 674	437 907
Total assets		6 092 411	3 258 846
Liabilities			
Due to other banks	14	390 619	211 255
Customer accounts	15	4 686 541	2 262 455
Certificates of deposit and promissory notes		451 004	318 413
Other liabilities	16	81 378	16 508
Total liabilities		5 612 742	2 909 631
Shareholders' equity			
Share capital	17	537 791	514 791
Share premium	17	23 000	-
Accumulated deficit	18	(81 122)	(165 576)
Total shareholders' equity		479 669	349 215
Total liabilities and shareholders' equity		6 092 411	3 258 846

Approved for issue by the Board of Directors and signed on its behalf on 31 March 2004.



A. A. Bekasov
General Director





I. R. Daskvina
Chief Accountant

The notes set out on pages T-35 to T-53 form an integral part of these financial statements

SIBACADEMBANK
INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003
(expressed in thousands of Russian Roubles – refer to Note 3)

	<u>Note</u>	<u>2003</u>	<u>2002</u>
Interest income	19	511,742	319,694
Interest expense	19	(252,833)	(155,354)
NET INTEREST INCOME		258,909	164,340
Recovery of/(provision for) loan impairment	8	15,616	(27,768)
NET INTEREST INCOME AFTER PROVISION FOR LOAN IMPAIRMENT		274,525	136,572
Gains less losses arising from trading securities		17,397	14,580
Gains less losses arising from foreign exchange		45,895	49,180
Fee and commission income	20	294,794	232,819
Fee and commission expense	20	(12,778)	(23,116)
Other operating income		30,759	15,879
OPERATING INCOME		650,592	425,914
Operating expenses	21	(284,197)	(241,058)
Staff costs		(241,102)	(199,847)
Monetary loss		—	(243)
PROFIT/(LOSS) BEFORE TAXATION		125,293	(15,234)
Income tax (expense)/credit	22	(40,824)	5,026
Net profit/(loss)		84,469	(10,208)

The notes set out on pages F-31 to F-47 form an integral part of these financial statements

SIBACADEMBANK**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2003***(expressed in thousands of Russian Roubles – refer to Note 3)*

	Note	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		493,060	323,078
Interest paid		(228,807)	(160,215)
Net income received from trading securities		17,397	18,282
Net income received from foreign exchange		46,360	49,180
Fees and commissions received		294,794	232,819
Fees and commissions paid		(12,778)	(23,116)
Other operating income received		27,916	9,072
Staff costs paid		(241,102)	(199,847)
Operating expenses paid		(250,514)	(193,690)
Income tax paid		(25,949)	(21,346)
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES .		120,377	34,217
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(115,498)	(36,077)
Net increase in trading securities		(125,642)	(40,211)
Net (increase)/decrease in due from other banks		(216,411)	79,647
Net increase in loans to customers		(1,371,558)	(515,369)
Net decrease/(increase) in other assets		48,300	(56,539)
Net increase in due to other banks		178,511	48,212
Net increase in customer accounts		2,303,832	540,755
Net increase in certificates of deposit and promissory notes		131,672	105,210
Net increase/(decrease) in other liabilities		56,637	(6,168)
NET CASH FROM OPERATING ACTIVITIES		1,010,220	153,677
CASH FLOWS FROM INVESTING ACTIVITIES			
Disposal of subsidiaries		—	479
Purchase of premises and equipment	13	(104,786)	(164,805)
Proceeds from sale of premises and equipment		52,853	1,246
Net sale of investment securities available for sale		1,514	2,573
Net purchases of investments in associates and unconsolidated subsidiaries		(8,477)	—
Dividend income received		—	2,415
NET CASH USED IN INVESTING ACTIVITIES		(58,896)	(158,092)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of ordinary shares	17	46,000	590
Dividends paid	23	(15)	(4)
NET CASH FROM FINANCING ACTIVITIES		45,985	586
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(465)	(9,075)
EFFECT OF INFLATION ON CASH AND CASH EQUIVALENTS		—	(78,294)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		996,844	(91,198)
Cash and cash equivalents at the beginning of the year		536,613	627,811
Cash and cash equivalents at the end of the year	5	1,533,457	536,613

The notes set out on pages F-31 to F-47 form an integral part of these financial statements

SIBACADEMBANK
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED
31 DECEMBER 2003
(expressed in thousands of Russian Roubles – refer to Note 3)

	<u>Share capital</u>	<u>Share premium</u>	<u>Accumulated deficit</u>	<u>Total shareholders' equity</u>
BALANCE AT 1 JANUARY 2002	412,348	—	(155,353)	256,995
Shares issued	102,443	—	—	102,443
Net loss for the year	—	—	(10,208)	(10,208)
Dividends declared on preference shares (Note 23).....	—	—	(15)	(15)
BALANCE AT 31 DECEMBER 2002	514,791	—	(165,576)	349,215
Shares issued (Note 17)	23,000	23,000	—	46,000
Net profit for the year	—	—	84,469	84,469
Dividends declared on preference shares (Note 23).....	—	—	(15)	(15)
BALANCE AT 31 DECEMBER 2003	<u>537,791</u>	<u>23,000</u>	<u>(81,122)</u>	<u>479,669</u>

The notes set out on pages F-31 to F-47 form an integral part of these financial statements

1 Principal Activities

Sibacadembank (the “Bank”) was established in the Russian Federation as an Open Joint-Stock Company and was granted its general banking license in 1990. The Bank’s principal business activity is commercial and retail banking operations within the Russian Federation, mainly in the regions of Western and Eastern Siberia. The activities of the Bank are regulated by the Central Bank of the Russian Federation (the “CBRF”). The Bank has seven branches from which it conducts business throughout the Russian Federation. The average number of persons employed by the Bank during the year 2003 was 1 148 (2002: 976).

The Bank’s registered office is: 18 Lenina Street, Novosibirsk, 630004, Russia Federation.

As at 31 December 2003 three shareholders individuals owned 80% (2002: 80%) of the Bank’s outstanding shares.

2 Russian Business Environment

The Russian Federation has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks, which do not typically exist in other markets. The accompanying financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Bank. The future business environment may differ from management’s assessment.

3 Basis of Preparation

Statement of compliance. The Bank maintains its accounting records in accordance with the legislative requirements of the Russian Federation. The accompanying financial statements have been prepared from those accounting records and adjusted as necessary to comply with the requirements of International Financial Reporting Standards (“IFRS”) promulgated by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Reporting Interpretations Committee of the IASB.

Basis of measurement. The financial statements are prepared on a fair value basis for financial assets and liabilities held for trading and available-for-sale, and derivative financial instruments, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost.

Measurement and presentation currency. The national currency of the Russian Federation is the Russian Rouble (“RUR”). Management have determined the Bank’s measurement currency to be the RUR as it reflects the economic substance of the underlying events and circumstances of the Bank. The RUR is also the Bank’s presentation currency for the purposes of these financial statements.

Financial information presented in RUR has been rounded to the nearest thousand.

Going concern. The accompanying financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Bank’s assets, as well as the future operation of the Bank, may be significantly affected by the current and future economic environment (refer to Note 2). The accompanying financial statements do not include any adjustments should the Bank be unable to continue as a going concern.

4 Significant Accounting Policies

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied.

Foreign currency transactions. Transactions in foreign currencies are translated to the appropriate measurement currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the measurement currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities

SIBACADEMBANK
NOTES TO THE FINANCIAL STATEMENTS — 31 DECEMBER 2003
(expressed in thousands of Russian Roubles – refer to Note 3)

denominated in foreign currencies, which are stated at historical cost, are translated to the measurement currency at the foreign exchange rate ruling at the date of the transaction.

Inflation accounting. In the years prior to 1 January 2003, Russia was considered to be a hyperinflationary economy under IAS 29 “Financial Reporting in Hyperinflationary Economies”, which required that financial statements be expressed in terms of the measuring unit current as of the balance sheet date. Accordingly, amounts indicated in the Bank’s financial statements prior to 1 January 2003 have been restated to account for changes in the general purchasing power of the RUR. The restatement was based on relevant price indices at the balance sheet date. The indices were derived from the inflation rates which were issued by the State Statistical Committee of the Russian Federation (“Goskomstat”).

The indices used were as follows:

	<u>Indices</u>
31 December 1991	100
31 December 1992	2,642
31 December 1993	25,023
31 December 1994	78,470
31 December 1995	182,046
31 December 1996	221,597
31 December 1997	245,949
31 December 1998	453,704
31 December 1999	619,691
31 December 2000	744,425
31 December 2001	884,504
31 December 2002	1,018,277

As from 1 January 2003 the Russian Federation is no longer considered to be a hyperinflationary economy, and therefore from this date the financial statements have not been adjusted for inflation. The carrying amounts of the Bank’s assets, liabilities and equity items at 1 January 2003 form the basis for subsequent accounting.

Cash and cash equivalents. Cash and cash equivalents are items, which can be converted into cash within a day. All short-term interbank placements, excluding overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Mandatory cash balances with the CBRF. Mandatory cash balances with the CBRF represent mandatory reserve deposits which are not available to finance the Bank’s day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the cash flow statement.

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader’s margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Bank classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within 1 to 6 months.

Trading securities are initially recognised at cost (which includes transaction costs) and subsequently remeasured at fair value based on quoted bid prices, except that any security that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All related realized and unrealised gains and losses are recorded within gains less losses arising from trading securities in the income statement in the period in which the change occurs. Interest earned on trading securities is reflected in the income statement as interest income. Dividends received are included in dividend income within other operating income.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recognised at trade date, which is the date that the Bank commits to purchase or sell the asset. Otherwise such transactions are treated as derivatives until settlement occurs.

Originated loans and provision for loan impairment. Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent at draw down, other than those that are originated with the intent of being sold immediately or in the short-term which are recorded as trading assets, are categorised as originated loans.

Originated loans are recognised when cash is advanced to borrowers. Initially, originated loans are recorded at cost, which is the fair value of the consideration given, and subsequently are carried at amortised cost less provision for loan impairment. Amortised cost is based on the fair value of cash consideration given to originate those loans determinable by reference to market prices at origination date.

Loans originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar loans. The difference between the fair value and the nominal value at origination is credited or charged as gains on origination of assets at rates above market or losses on origination of assets at rates below market to the income statement or to the equity statement depending on the substance of the transaction. Subsequently, the carrying amount of such loans is adjusted for amortization of the gains/losses on origination and the related income is recorded as interest income within the income statement using the effective yield method.

A credit risk provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect the amounts due according to original contractual terms. The amount of the provision is the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the instrument's original effective interest rate.

The provision for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings assigned to the borrowers and reflect the current economic environment in which the borrowers operate.

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the income statement.

If the amount of the provision for loan impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for loan impairment in the income statement.

Other credit related commitments. In the normal course of business, the Bank enters into other credit related commitments including credit lines, letters of credit and guarantees. Specific provisions are recorded against other credit related commitments when losses are considered probable.

Promissory notes purchased. Promissory notes purchased are included in trading securities, or in due from other banks, or in loans to customers, depending on their substance and are recognised and subsequently remeasured and accounted in accordance with the accounting policies for these categories of assets.

Investment securities available for sale. Investment securities available for sale are securities which Management intends to hold for an indefinite period of time, that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Management determines the appropriate classification of its investment securities at the time of purchase.

Investment securities available for sale are initially recognised at cost (which includes transaction costs) and subsequently remeasured to fair value based on quoted bid prices, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses. Realised and unrealised gains and losses arising from changes in the fair value of investment securities available for sale are included in the income statement in the period in which they arise. Interest earned on investment securities available for sale is reflected in the income statement as interest income. Dividends received are included in dividend income within the income statement.

All regular way purchases and sales of investment securities available for sale are recognised at trade date, which is the date that the Bank commits to purchase or sell the asset. All other purchases and sales are recognised as derivative forward transactions until settlement.

Investments in associates and subsidiaries. Associates are those enterprises in which the Bank has significant influence, but not control, over the financial and operating policies. The financial statements include the Bank's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases.

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included into those of the Bank, if the effect on the Bank's financial statements is material, from the date that control effectively commences until the date that control effectively ceases.

Premises and equipment. Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the income statement. The estimated recoverable amount is the higher of an asset's net selling price and its value in use.

Construction in progress is carried at cost less provision for impairment, where required. Upon completion, assets are transferred to premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and are taken into account in determining profit/(loss). Repairs and maintenance are charged to the income statement when the expenditure is incurred.

Depreciation. Depreciation is applied on a straight-line basis over the estimated useful lives of the assets using the following rates:

Premises 2% per annum;

Equipment 20%-30% per annum.

Leased assets. Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment, where required.

Operating leases, under the terms of which the Bank does not assume substantially all the risks and rewards of ownership, are expensed.

Certificates of deposit and promissory notes issued. Certificates of deposit and promissory notes issues are recognised initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, certificates of deposit and promissory notes are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the security issue using the effective yield method.

If the Bank purchases its own debt securities in issue, they are removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

Preference shares. Preference shares that are not redeemable and upon which dividends are declared at the discretion of Management, are classified as equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends declared after the balance sheet date are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations.

Income taxes. Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Income and expense recognition. Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupon earned on fixed income securities and accrued discounts and premiums on promissory notes and other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. Fee and commission income is recognised when the corresponding service is provided.

Derivative financial instruments. Derivative financial instruments including foreign exchange contracts and other derivative financial instruments are initially recorded in the balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models, options pricing models or using the spot rate at the year end as the basis as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives are included in gains less losses arising from foreign exchange and gains less losses arising from trading securities depending on the related contracts.

The Bank does not enter into derivative instruments for hedging purposes.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Provisions. A provision is recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Payments to funds. The Bank contributes to the Russian Federation state pension schemes, social insurance and employment funds in respect of its employees. The contributions to these funds are expensed as incurred and included under staff costs.

Comparative information. Comparative information has been reclassified to conform to changes in presentation in the current year.

SIBACADEMBANK
NOTES TO THE FINANCIAL STATEMENTS — 31 DECEMBER 2003
(expressed in thousands of Russian Roubles – refer to Note 3)

5 Cash and Cash Equivalents

	<u>2003</u>	<u>2002</u>
Cash on hand	505,905	234,213
Cash balances with the CBRF (other than mandatory reserve deposits)	297,790	82,340
Correspondent accounts and overnight placements with other banks	729,762	220,060
Total cash and cash equivalents	<u>1,533,457</u>	<u>536,613</u>

Currency analysis of cash and cash equivalents is detailed in Note 24. Information on related party balances is disclosed in Note 27.

6 Trading Securities

	<u>2003</u>	<u>2002</u>
Government bonds		
Federal loan bonds (OFZ)	71,565	—
Corporate debt securities		
Promissory notes	75,354	76,993
Deposit certificates	46,335	—
Corporate bonds	9,980	—
Total trading securities	<u>203,234</u>	<u>76,993</u>

Federal loan bonds are Russian Rouble denominated government securities, issued by the Ministry of Finance of the Russian Federation. They have maturity dates from 15 November 2006 to 8 August 2012 and their yields to maturity range from 11% to 12 % per annum.

Promissory notes are Russian Rouble denominated interest-bearing securities, issued by large Russian companies and banks at a discount to face value, and are tradable on the Russian securities market. These securities have maturity dates from 5 January 2004 to 29 August 2004 and their yields to maturity range from 6% to 26% per annum.

Deposit certificates and corporate bonds are Russian Rouble denominated interest-bearing securities, issued by Russian banks and corporates, and are tradable on the Russian securities market. These securities have maturity dates from 20 January 2004 to 31 January 2006 and their yields to maturity range from 11.25% to 17.5% per annum.

Currency analysis, effective interest rate and maturity structure of trading securities are disclosed in Note 24.

7 Due from Other Banks

	<u>2003</u>	<u>2002</u>
Term placements with other banks	248,907	32,144
Total due from other banks	<u>248,907</u>	<u>32,144</u>

Currency analysis, effective interest rate and maturity structure of due from other banks are disclosed in Note 24. Information on related party balances is disclosed in Note 27.

SIBACADEMBANK
NOTES TO THE FINANCIAL STATEMENTS — 31 DECEMBER 2003
(expressed in thousands of Russian Roubles – refer to Note 3)

8 Loans to Customers

	<u>2003</u>	<u>2002</u>
Loans to corporate entities		
Current loans to corporate entities.....	1,710,432	1,784,589
Overdue loans to corporate entities.....	22,279	19,295
Loans to individuals		
Consumer finance loans to individuals.....	1,383,365	85,253
Other loans to individuals	268,789	107,628
Gross loans to customers	3,384,865	1,996,765
Less: provision for loan impairment.....	(142,166)	(159,019)
Net loans to customers	<u>3,242,699</u>	<u>1,837,746</u>

Movements in the provision for loan impairment are as follows:

	<u>2003</u>	<u>2002</u>
Provision for loan impairment as at 1 January	159,019	151,503
Loans written off during the year as uncollectible	(1,237)	(349)
(Recovery of)/provision for loan impairment for the year.....	(15,616)	27,768
Effect of inflation.....	—	(19,903)
Provision for loan impairment as at 31 December	<u>142,166</u>	<u>159,019</u>

Consumer finance loans to individuals are guaranteed by the Bank's related party. These guarantees cover principal and interest amounts on consumer finance loans to individuals issued in 2003 and outstanding as at 31 December 2003. During 2003, overdue consumer finance loans to individuals of RUR 160 823 thousand (including accrued interest) were repaid to the Bank by its related party under these guarantees (refer to Note 27).

Economic sector risk concentrations within the customer loan portfolio are as follows:

	<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Individuals	1,652,154	49	192,881	10
Trade.....	900,992	27	761,031	38
Production	215,073	6	236,258	12
Construction	97,321	3	171,222	9
Mining	85,934	3	134,129	7
Government bodies	85,730	3	76,345	4
Chemical industry.....	65,548	2	40,013	2
Finance.....	47,952	1	44,747	2
Transport	20,121	1	109,617	5
Service sector	11,097	—	80,192	4
Other	202,943	5	150,330	7
Total loans to customers (gross of provisions)	<u>3,384,865</u>	<u>100</u>	<u>1,996,765</u>	<u>100</u>

Currency analysis, effective interest rate and maturity structure of loans to customers are disclosed in Note 24. Information on related party balances is disclosed in Note 27.

SIBACADEMBANK
NOTES TO THE FINANCIAL STATEMENTS — 31 DECEMBER 2003
(expressed in thousands of Russian Roubles – refer to Note 3)

9 Investment Securities Available for Sale

	<u>2003</u>	<u>2002</u>
Equity securities – unlisted		
Open Joint-Stock Company Commercial Bank “Dalvneshorgbank”	5,977	5,977
Other	<u>1,868</u>	<u>3,430</u>
Total investment securities available for sale	<u>7,845</u>	<u>9,407</u>

External independent market quotations were not available for investment securities available for sale. Management believes that the fair value of the investment securities available for sale approximates their cost.

10 Investments in Associates and Unconsolidated Subsidiaries

	<u>2003</u>	<u>2002</u>
Investments in unconsolidated subsidiaries	19,596	—
Investments in associates	<u>—</u>	<u>11,119</u>
Total investments in associates and unconsolidated subsidiaries	<u>19,596</u>	<u>11,119</u>

As at 31 December 2003, the Bank owned 57.8% (2002: 41.7%) of the share capital of Closed Joint-Stock Company “Zapadno-Sibirskoye Strakhovoye Agentstvo Zhaso”. The subsidiary’s principal business activity is insurance services within the regions of Western and Eastern Siberia.

The financial statements of the subsidiary company have not been consolidated into those of the Bank, as the effect on the Bank’s financial statements would be immaterial.

11 Other Assets

	<u>2003</u>	<u>2002</u>
Settlement transactions with customers	32,810	76,218
Prepaid taxes	6,343	12,520
Other	<u>887</u>	<u>186</u>
Total other assets	<u>40,040</u>	<u>88,924</u>

Currency analysis and maturity structure of other assets are disclosed in Note 24.

12 Deferred Tax Asset

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2003 and 2002. Deferred tax assets and liabilities are attributable to the following items:

	<u>Assets</u>		<u>Liabilities</u>		<u>Net</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Trading securities	4,382	1,084	(4,175)	(1,665)	207	(581)
Loans to customers	25,286	33,334	—	—	25,286	33,334
Investments in associates and unconsolidated subsidiaries	—	—	(1,464)	(1,464)	(1,464)	(1,464)
Other assets	2,643	1,906	—	—	2,643	1,906
Premises and equipment	10,217	—	(22,236)	(862)	(12,019)	(862)
Certificates of deposit and promissory notes	1,564	—	(444)	—	1,120	—
Other liabilities	<u>10,118</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>10,118</u>	<u>—</u>
Net deferred tax assets/(liabilities)	<u>54,210</u>	<u>36,324</u>	<u>(28,319)</u>	<u>(3,991)</u>	<u>25,891</u>	<u>32,333</u>

The rate of tax applicable for deferred taxes was 24% (2002: 24%).

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Movements in temporary differences during the year are as follows:

	2002	Recognised in income	2003
Trading securities	(581)	788	207
Loans to customers	33,334	(8,048)	25,286
Investments in associates and unconsolidated subsidiaries	(1,464)	—	(1,464)
Other assets	1,906	737	2,643
Premises and equipment	(862)	(11,157)	(12,019)
Certificates of deposit and promissory notes	—	1,120	1,120
Other liabilities	—	10,118	10,118
Total deferred tax asset	<u>32,333</u>	<u>(6,442)</u>	<u>25,891</u>

13 Premises and Equipment

	Note	Premises	Office and computer equipment	Construction in progress	Total
Net book amount as at 31 December 2002		<u>269,699</u>	<u>67,648</u>	<u>100,650</u>	<u>437,997</u>
Book amount at cost					
Opening balance		273,087	164,950	100,650	538,687
Additions		4,900	67,860	32,026	104,786
Transfers		125,760	—	(125,760)	—
Disposals		(44,909)	(24,960)	(1,615)	(71,484)
Closing balance		<u>358,838</u>	<u>207,850</u>	<u>5,301</u>	<u>571,989</u>
Accumulated depreciation					
Opening balance		(3,388)	(97,302)	—	(100,690)
Depreciation charge	21	(5,012)	(28,087)	—	(33,099)
Disposals		1,419	20,055	—	21,474
Closing balance		<u>(6,981)</u>	<u>(105,334)</u>	<u>—</u>	<u>(112,315)</u>
Net book amount as at 31 December 2003		<u>351,857</u>	<u>102,516</u>	<u>5,301</u>	<u>459,674</u>

Included in the office and computer equipment as at 31 December 2003 is leased office and computer equipment with a net book amount of RUR 45 161 thousand (2002: nil) received by the Bank under finance lease arrangements.

14 Due to Other Banks

	2003	2002
Correspondent accounts of other banks	258,193	160,446
Term placements of other banks	132,426	50,809
Total due to other banks	<u>390,619</u>	<u>211,255</u>

As at 31 December 2003 and 2002 the Bank had three and two counterparties, respectively, whose aggregated balances exceeded more than 10% of due to other banks. The total amount of these balances as at 31 December 2003 and 2002 were RUR 303 071 thousand and RUR 116 329 thousand respectively.

Currency analysis, effective interest rate and maturity structure of due to other banks are disclosed in Note 24. Information on related party balances is disclosed in Note 27.

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15 Customer Accounts

	<u>2003</u>	<u>2002</u>
Individuals		
Term deposits.....	2,714,086	968,121
Current/demand accounts.....	643,598	328,623
Corporate customers		
Term deposits.....	483,328	366,441
Current/settlement accounts.....	845,529	700,270
Total customer accounts.....	<u>4,686,541</u>	<u>2,363,455</u>

Included in customer accounts are deposits of RUR 613 thousand (2002: RUR 526 thousand) held as collateral for irrevocable commitments under import letters of credit (refer to Note 25).

Currency analysis, effective interest rate and maturity structure of customer accounts are disclosed in Note 24. Information on related party balances is disclosed in Note 27.

16 Other Liabilities

	<u>2003</u>	<u>2002</u>
Trade creditors.....	35,786	13,823
Finance lease liabilities.....	34,694	—
Taxation payable.....	10,970	2,537
Other.....	128	148
Total other liabilities.....	<u>81,578</u>	<u>16,508</u>

Currency analysis and maturity structure of other liabilities are disclosed in Note 24.

17 Share Capital

Authorised, issued and fully paid share capital of the Bank comprises:

	<u>2003</u>			<u>2002</u>		
	<u>Number of shares</u>	<u>Nominal amount</u>	<u>Carrying amount</u>	<u>Number of share</u>	<u>Nominal amount</u>	<u>Carrying amount</u>
Ordinary shares.....	255,850,000	255,850	529,724	232,850,000	232,850	506,724
Preference shares.....	150,000	150	8,067	150,000	150	8,067
Total share capital.....	<u>256,000,000</u>	<u>256,000</u>	<u>537,791</u>	<u>233,000,000</u>	<u>233,000</u>	<u>514,791</u>

All ordinary shares have a nominal value of RUR 1 per share. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

The preference shares have a nominal value of RUR 1 and carry no voting rights but rank ahead of the ordinary shares in the event of liquidation of the Bank. They carry a minimum annual dividend of 10% of their nominal value. These shares are not redeemable.

In December 2003 the Bank issued additional share capital of RUR 23 000 thousand by placement of 23 000 ordinary shares with a nominal value of RUR 1 per share at the price of RUR 2 per share, resulting in share premium of RUR 23 000 thousand.

18 Accumulated Deficit

In accordance with Russian Law on Banks and Banking Activity, the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules as at 31 December 2003 were RUR 314 746 thousand (2002: RUR 198 124 thousand).

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19 Interest Income and Expense

	<u>2003</u>	<u>2002</u>
Interest income		
Loans to customers	470,313	302,182
Due from other banks	28,277	12,820
Debt trading securities	<u>13,152</u>	<u>4,692</u>
Total interest income	<u>511,742</u>	<u>319,694</u>
Interest expense		
Due to other banks	(8,350)	(14,307)
Customer accounts	(216,762)	(134,779)
Certificates of deposit and promissory notes issued	<u>(27,721)</u>	<u>(6,268)</u>
Total interest expense	<u>(252,833)</u>	<u>(155,354)</u>
Net interest income	<u>258,909</u>	<u>164,340</u>

20 Fee and Commission Income and Expense

	<u>2003</u>	<u>2002</u>
Fee and commission income		
Commission on settlement transactions	207,162	149,937
Commission on cash transactions	73,681	72,187
Other	<u>13,951</u>	<u>10,695</u>
Total fee and commission income	<u>294,794</u>	<u>232,819</u>
Fee and commission expense		
Commission on settlement transactions	(9,453)	(2,869)
Commission on cash transactions	(3,002)	(19,206)
Other	<u>(323)</u>	<u>(1,041)</u>
Total fee and commission expense	<u>(12,778)</u>	<u>(23,116)</u>
Net fee and commission income	<u>282,016</u>	<u>209,703</u>

21 Operating Expenses

	<u>Note</u>	<u>2003</u>	<u>2002</u>
Taxes other than on income		34,940	38,696
Other expenses related to premises and equipment		33,813	16,541
Depreciation of premises and equipment	13	33,099	25,458
Rental expenses		29,897	34,181
Professional services		26,077	37,215
Security		20,049	20,544
Advertising and marketing		15,975	6,964
Low value items written off		9,897	14,996
Business trips and representation expenses		6,491	6,673
Other expenses		<u>73,959</u>	<u>39,790</u>
Total operating expenses		<u>284,197</u>	<u>241,058</u>

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22 Income Taxes

Income tax expense comprises the following:

	<u>2003</u>	<u>2002</u>
Current tax expense	34,382	8,858
Deferred tax expense/(credit)	6,442	(13,884)
Income tax expense/(credit) for the year	<u>40,824</u>	<u>(5,026)</u>

The Bank's applicable tax rate for current and deferred tax was 24% (2002: 24%).

Reconciliation of effective tax rate:

	<u>2003</u>	<u>%</u>	<u>2002</u>	<u>%</u>
Profit/(loss) before tax	125,293		(15,234)	
Income tax expense/(credit) using the applicable tax rate ..	30,070	24%	(3,656)	24%
Non-deductible costs/(non-taxable income)	10,754	9%	(1,370)	9%
Income tax expense/(credit) for the year	<u>40,824</u>	<u>33%</u>	<u>(5,026)</u>	<u>33%</u>

23 Dividends

	<u>2003</u>	<u>2002</u>
	<u>Preference shares</u>	<u>Preference shares</u>
Dividends payable at 1 January	64	61
Dividends declared during the year for previous financial year	15	15
Dividends paid during the year	(15)	(4)
Effect of inflation	—	(8)
Dividends payable at 31 December	<u>64</u>	<u>64</u>

All dividends are declared and paid in Russian Roubles. Dividends on ordinary shares have not been declared or paid by the Bank in respect of 2003.

24 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks (credit, market, interest rate, currency and liquidity), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimize operational and legal risks.

Credit risk. The Bank takes on exposure to credit risk which is the risk that a counterparty will not pay principal or interest amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to individual borrower or groups of borrowers, and economic sectors. Limits on the level of credit risk by borrower (or group of borrowers), and economic sectors are approved by Bank's Credit Committee on a regular basis.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

The Bank's maximum exposure to credit risk is primary reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the

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contract. The Bank uses the same procedures and methodologies, as defined by its credit policy, for approving credit related commitments (credit lines, letters of credit and guarantees) as it does for on balance sheet credit obligations (loans).

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in fixed income and equity securities and currencies, which are exposed to general and specific market movements. The Board of Directors sets limits on the level of risk that may be accepted by the Bank. This is monitored on a daily basis.

Currency risk. Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. As at 31 December 2003, the Banks had the following positions in different currencies:

	<u>RUR</u>	<u>USD</u>	<u>Other currencies</u>	<u>Total</u>
Assets				
Cash and cash equivalents	1,132,718	336,282	64,457	1,533,457
Mandatory cash balances with the Central Bank of the Russian Federation	311,068	—	—	311,068
Trading securities	203,234	—	—	203,234
Due from other banks	55,174	185,260	8,473	248,907
Loans to customers	2,973,443	207,913	61,343	3,242,699
Investment securities available for sale	7,845	—	—	7,845
Investments in associates and unconsolidated subsidiaries	19,596	—	—	19,596
Other assets	40,040	—	—	40,040
Deferred tax asset	25,891	—	—	25,891
Premises and equipment	459,674	—	—	459,674
Total assets	<u>5,228,683</u>	<u>729,455</u>	<u>134,273</u>	<u>6,092,411</u>
Liabilities				
Due to other banks	203,217	171,579	15,823	390,619
Customer accounts	4,043,117	513,632	129,792	4,686,541
Certificates of deposit and promissory notes	437,887	16,117	—	454,004
Other liabilities	78,323	3,255	—	81,578
Total liabilities	<u>4,762,544</u>	<u>704,583</u>	<u>145,615</u>	<u>5,612,742</u>
Net balance sheet position	<u>466,139</u>	<u>24,872</u>	<u>(11,342)</u>	<u>479,669</u>
Credit related commitments	<u>217,258</u>	<u>5,906</u>	<u>74,259</u>	<u>297,423</u>

As at 31 December 2002, the Bank had the following positions in different currencies:

	<u>RUR</u>	<u>USD</u>	<u>Other currencies</u>	<u>Total</u>
Net balance sheet position	<u>473,876</u>	<u>(110,671)</u>	<u>(13,990)</u>	<u>349,215</u>
Credit related commitments	<u>307,499</u>	<u>44,561</u>	<u>14,756</u>	<u>366,816</u>
Off-balance sheet net notional position	<u>(95,353)</u>	<u>90,068</u>	<u>5,298</u>	<u>13</u>

Liquidity risk. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

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The table below shows assets and liabilities of the Bank by their remaining contractual maturity. Some of the assets, however, may be of a longer-term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer-term duration.

The liquidity position of the Bank as at 31 December 2003 is set out below.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents.	1,533,457	—	—	—	—	1,533,457
Mandatory cash balances with the Central Bank of the Russian Federation	133,554	121,718	48,908	6,888	—	311,068
Trading securities	81,871	39,318	500	81,545	—	203,234
Due from other banks	1,703	109,491	137,713	—	—	248,907
Loans to customers.....	668,212	1,564,013	929,181	81,293	—	3,242,699
Investment securities available for sale	—	—	—	—	7,845	7,845
Investments in associates and unconsolidated subsidiaries	—	—	—	—	19,596	19,596
Other assets	11,521	22,043	3,877	2,599	—	40,040
Deferred tax asset.....	—	—	—	—	25,891	25,891
Premises and equipment ..	—	—	—	—	459,674	459,674
Total assets	<u>2,430,318</u>	<u>1,856,583</u>	<u>1,120,179</u>	<u>172,325</u>	<u>513,006</u>	<u>6,092,411</u>
Liabilities						
Due to other banks.....	275,451	25,806	—	89,362	—	390,619
Customer accounts	2,012,124	1,833,793	736,852	103,772	—	4,686,541
Certificates of deposit and promissory notes	186,986	248,978	18,040	—	—	454,004
Other liabilities	36,361	11,967	3,812	29,438	—	81,578
Total liabilities	<u>2,510,922</u>	<u>2,120,544</u>	<u>758,704</u>	<u>222,572</u>	<u>—</u>	<u>5,612,742</u>
Net liquidity gap	<u>(80,604)</u>	<u>(263,961)</u>	<u>16,910</u>	<u>(50,247)</u>	<u>513,006</u>	<u>479,669</u>

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity
Cumulative liquidity gap as at 31 December 2003	<u>(80,604)</u>	<u>(344,565)</u>	<u>16,910</u>	<u>(33,337)</u>	<u>479,669</u>
Cumulative liquidity gap at 31 December 2002	<u>(528,111)</u>	<u>(433,819)</u>	<u>(183,600)</u>	<u>(141,641)</u>	<u>349,215</u>

Management believes that in spite of a substantial portion of customers' accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customers' accounts provide a long-term and stable source of funding for the Bank.

Interest rate risk. The Bank is exposed to interest rate risk, principally as a result of lending to customers and other banks, at fixed interest rates, in amounts and for periods, which differ from those of term deposits at fixed interest rates.

In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

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The Board of Directors sets limits on the level of interest rate mismatch which may be undertaken.

The table below summarises the effective interest rate, by major currencies, for major monetary financial instruments. The analysis has been prepared on the basis of weighted average interest rates for the various financial instruments using period end effective interest rates.

	2003		2002	
	RUR	USD	RUR	USD
Assets				
Trading securities	14%	—	17%	—
Due from other banks	3%	6%	19%	3%
Loans to customers	25%	12%	21%	11%
Liabilities				
Due to other banks	11%	4%	11%	6%
Customer accounts	11%	4%	14%	6%
Certificates of deposit and promissory notes	9%	9%	8%	6%

The sign “—” in the table above means that the Bank does not have assets or liabilities in that currency.

25 Contingencies, Commitments and Derivative Financial Instruments

Litigation. As at 31 December 2003, Management is unaware of any significant actual, pending or threatened claims against the Bank.

Taxation contingencies. The taxation system in the Russian Federation is relatively new and is characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in the Russian Federation substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation.

However, the relevant authorities may have differing interpretations and the effects could be significant.

Capital commitments. As at 31 December 2003, the Bank had capital commitments in respect of construction of branch premises totalling RUR 538 thousand (2002: RUR 13 765 thousand). The Bank's Management has already allocated the necessary resources in respect of this commitment.

Operating lease commitments. Where the Bank is the lessee, the future minimum lease payments under non cancellable operating leases are as follows:

	2003	2002
Not later than 1 year	423	20,871
Later than 1 year and not later than 5 years	103	26,207
Later than 5 years	—	1,792
Total operating lease commitments	526	48,870

Credit related commitments. Credit related commitments comprise undrawn credit lines, letters of credit and guarantees. The contractual amount of these commitments represents the value at risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless.

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Outstanding credit related commitments are as follows:

	<u>Note</u>	<u>2003</u>	<u>2002</u>
Undrawn credit lines		215,707	330,181
Import letters of credit	15	46,544	526
Export letters of credit		—	13,422
Guarantees issued		35,172	22,687
Total credit related commitments		297,423	366,816

Management evaluated the likelihood of possible losses arising from credit related commitments and concluded that no provision was necessary as at 31 December 2003 (2002: nil).

Derivative financial instruments. As at 31 December 2003, the Bank had no outstanding derivative financial instruments (2002: nominal value RUR 100 651 thousand).

26 Fair Value of Financial Instruments

The Bank has performed an assessment of its financial instruments, as required by IAS 32 “Financial Instruments: Disclosure and Presentation”, to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability.

Based on this assessment the Bank has concluded that due to the lack of liquidity and published “indicator interest rates” in the Russian markets, and the fact that some of its transactions are with related parties, it is not possible to determine the fair value of the majority of its financial assets and financial liabilities.

The financial assets and financial liabilities that the Bank does believe it is able to estimate fair values for include cash and cash equivalents, trading securities and non-related party amounts due from and due to other banks. The Bank estimates the fair value of these instruments to be not materially different from their carrying values.

This estimate of fair value is intended to approximate the amount at which the above listed assets could be exchanged in a current transaction between willing parties. However given the uncertainties and the use of subjective judgement, the fair value should not be interpreted as being realisable in an immediate sale of the assets settlement of liabilities.

27 Related Party Transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 “Related Party Disclosures”. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Banking transactions are entered into in the normal course of business with significant shareholders, directors, subsidiaries, associates, companies with which the Bank has significant shareholders in common and other related parties. These transactions include settlements, loans, deposit taking, guarantees, trade finance and foreign currency transactions.

The outstanding balances at the year-end, income and expense items for 2003 and 2002 years, as well as other related party transactions are as follows:

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	<u>2003</u>	<u>2002</u>
Cash and cash equivalents		
Correspondent accounts and overnight placements with other banks at the year end.	403,643	154,090
Due from other banks		
Term placements at the year end.	94,764	21,172
Interest income for the year.	20,380	3,372
Loans to customers		
Loans at the year end.	1,590	155,486
Provision for loan impairment at the year end.	(16)	(12,439)
Interest income for the year.	11	23,460
Due to other banks		
Correspondent accounts of other banks at the year end.	214,964	113,771
Interest expense for the year.	1,952	578
Customer accounts		
Current/settlement accounts at the year end.	31,511	8,026
Term deposits outstanding at the year end.	46,616	18,894
Interest expense for the year.	(4,695)	(1,924)
Promissory notes issued		
Outstanding balances at the year end.	57,000	—
Other income and expense for the year		
Other income for the year.	7,034	8,816
Other expenses for the year.	(7,706)	(16,027)

Further to the table above, in 2003 the Bank obtained guarantees from a related party, which cover consumer finance loans to individuals of RUR 1 383 365 thousand outstanding as at 31 December 2003 and interest on these loans. During 2003, overdue consumer finance loans to individuals of RUR 160 823 thousand (including accrued interest) were repaid to the Bank by the related party under these guarantees (refer to Note 8).

In 2003 the total remuneration of the directors and key management personnel, including state pension contributions, amounted to RUR 35 920 thousand (2002: RUR 32 263 thousand).

APPENDIX

OVERVIEW OF THE BANKING SECTOR AND BANKING REGULATION IN THE RUSSIAN FEDERATION

Role of the CBR

The CBR is in many respects the successor to the former State Bank of the USSR, Gosbank. Until 2002, the CBR had been operating under the general terms of reference of the law “On the Central Bank of the Russian Federation (the Bank of Russia)” of 2 December 1990 as edited on 26 April 1995 with further amendment. In 2002, this law was superseded by the new law “On the Central Bank of the Russian Federation (Bank of Russia)” of 10 July 2002 (the “**Central Bank Law**”). According to the Central Bank Law, the State is not liable for the CBR’s obligations, nor is the CBR liable for the State’s obligations unless the relevant liability has been undertaken or is required under other Russian laws. The CBR’s property is under federal ownership.

The CBR is legally and financially independent of the Russian Government. The CBR governing bodies are the Board of Directors and the National Banking Council, a collective management body carrying out certain governing functions, which were solely vested in the Board of Directors prior to adoption of the Central Bank Law (including, among other things, making decisions on maximum capital expenditures of the CBR, distribution of profits gained by the CBR, appointment of the CBR auditor, approval of the CBR’s accounting rules and requirements). The structure of the CBR comprises the Moscow Head Office, a number of regional branches in constituent entities of the Russian Federation (in some of the Russian republics the CBR regional branches are called National Banks) and local branches. The Chairman of the CBR Board of Directors is appointed for a fixed term of four years by the State Duma (the lower chamber of the Russian Parliament) only on the recommendation of the President, can be replaced under the same procedure, and has the right to participate in meetings of the Russian Government (Cabinet). The Ministers (or Deputy Ministers, as the case may be) of Finance and of Economic Development and Trade have the right to participate in meetings of the CBR Board of Directors with consultative voting rights. The members of the National Banking Council are appointed by the Council of Federation (the upper chamber of the Russian Parliament), the State Duma, the President and the Government of the Russian Federation. The Chairman of the CBR is a member of the National Banking Council *ex officio*.

Under the Central Bank Law, the Law “On Banks and Banking” (the “**Banking Law**”) and the New Currency Law, the CBR is authorised to adopt implementing regulations on various banking and currency control issues. The CBR has actively used this authorisation in recent years, creating a detailed and extensive body of regulations.

Under current legislation the CBR has the following major functions:

Function	Summary
Issue of money and regulation of circulation	The CBR is the sole issuer of Russian Rouble banknotes and regulates their circulation. The CBR plans and arranges for the printing of banknotes and the engraving of coins, establishes the rules for their transportation and storage and regulates over-the-counter operations with cash.
Financing/Monetary policy	Refinancing of banks by way of granting credits; fixing reserve requirements for the banks; setting capital adequacy and other mandatory economic ratio requirements for banks. The CBR is prohibited from extending credits to the Government for the purposes of budget deficit financing.

Function	Summary
Transactions and deals with banks	Rendering decisions on the state registration of banks; registering securities issued by banks; extending credit to banks; maintaining correspondent accounts of banks in roubles; providing banks with guarantees; purchase and sale of Russian state securities, CBR bonds, certificates of deposit, precious metals and natural gems and holding them in depositary accounts; purchase and sale of foreign currencies and payment documents in foreign currencies issued by Russian and foreign banks. Unless otherwise directly provided in federal laws, the CBR is not permitted to participate in the charter capital of banks.
Federal budget implementation and external debt service	Extending credits to the Ministry of Finance; acting as a placement agent with respect to government securities issued by the Ministry of Finance; budget accounts administration.
Exchange control	Regulation of dealing and settlements in roubles; regulation of foreign currency operations; administration of the gold and currency reserves; establishment of regimes for rouble and foreign currency accounts of residents and non-residents in Russia.
Licensing	Issuance, suspension and revocation of banking licences to banks.
Control and supervision	Bank supervision (compliance with mandatory economic ratios and reserves requirements, sanctions for violations, overseeing banking operations); defining format requirements for accounting and statistical reports; fixing reporting schedules; appointment of temporary administration to banks; control over acquisition (and/or a trust management) of significant (more than 5%) stakes in banks; assessment of financial standing of banks' founders (shareholders/participants).

Regulation

Banking activities in Russia are broadly governed by the Banking Law and the New Currency Law. The CBR supervises banks in various aspects (as outlined below). Generally, other institutions have only indirect influence over banks. The newly established Federal Service for the Financial Market will issue licences to banking institutions acting as professional participants of the Russian securities market. The Federal Antimonopoly Service controls mergers and acquisitions of stakes in excess of 20% of total voting shares in credit organisations. Tax authorities supervise tax assessments of banks. Other governmental authorities are largely inactive in relation to banks. The Association of Russian Banks, comprising, as at 11 May 2005, 512 member credit organisations, was established pursuant to the provisions of the Banking Law as a non-commercial self-regulatory organisation. It offers various technical support to its members and lobbies the interests of banks in all branches of power.

Set out below are some of the principal features of the regulatory regime governing banks in Russia.

Licensing

A licence must be obtained from the CBR for any "banking activity" as defined in the Banking Law. Applicants must be incorporated within the Russian Federation, submit an application for the state registration with an attached feasibility report and detailed information on the suitability of the management together with certain other information. Under the CBR regulations a bank can be created in the form of a jointstock company, a limited liability company or a company with additional liability. The latter form is not used in banking practice. A licence may be denied if the legal documents are not in order, if the financial or banking records of the founders are unsatisfactory or if the proposed candidates for executive positions and for the position of chief accountant do not meet the qualification requirements.

Mandatory Economic Ratios

The CBR is authorised to introduce various capital adequacy and liquidity requirements applicable to banks and, as the case may be, to banking groups. Such requirements currently exist in the form of the

relevant mandatory economic ratios described in Instruction No. 110-i of 16 January 2004 of the CBR “On the Banks’ Mandatory Economic Ratios”. Set out below is the system of the mandatory economic ratios which banks are required to observe on a daily basis.

Mandatory Economic Ratios	Description of Mandatory Economic Ratios	CBR Maximum/Minimum Mandatory Economic Ratio Requirements
Capital adequacy ratio (N1)	This ratio is intended to limit the risk of a bank’s insolvency and sets requirements for the minimum size of the bank’s capital base necessary to cover credit and market risks. It is formulated as a ratio of the size of the bank’s capital base to the amount of its risk-weighted assets.	Minimum 11% (where a bank’s capital base is below EUR5 million) and minimum 10% (where a bank’s capital base is equal or more than EUR5 million)
Instant liquidity ratio (N2)	This ratio is intended to limit the risk of loss by a bank with respect to its liquidity within one operational day. It is formulated as the minimum ratio of a bank’s highly-liquid assets to the amount of the bank’s liabilities payable on demand.	Minimum 15% (minimum 17% for the banks participating in the system of mandatory insurance of private deposits)
Current liquidity ratio (N3)	This ratio is intended to limit the risk of loss by a bank with respect to its liquidity within 30 calendar days preceding the date of the calculation of this ratio. It is formulated as the minimum ratio of the bank’s liquid assets to the amount of the bank’s liabilities with terms of up to 30 calendar days.	Minimum 50% (minimum 55% for the banks participating in the system of mandatory insurance of private deposits)
Long-term liquidity ratio (N4)	This ratio is intended to limit the risk of loss by a bank with respect to its liquidity as a result of the placement of funds into longterm assets. It is formulated as the maximum permitted ratio of the bank’s credit claims maturing in more than one year, to the bank’s capital base and liabilities maturing in more than one year.	Maximum 120%
Maximum exposure to single borrower or a group of related borrowers (N6)	This ratio is intended to limit the credit exposure of a bank to one borrower or a group of related borrowers. It is formulated as the maximum ratio of the aggregate amount of the bank’s claims to a borrower or a group of related borrowers to the bank’s capital base.	Maximum 25%

Mandatory Economic Ratios	Description of Mandatory Economic Ratios	CBR Maximum/Minimum Mandatory Economic Ratio Requirements
Maximum amount of major credit risks (N7)	This ratio is intended to limit the aggregate amount of a bank's major credit risks. It is formulated as the maximum ratio of the aggregate amount of major credit risks to the size of the bank's capital base.	Maximum 800%
Maximum amount of loans, bank guarantees and sureties extended by the bank to its participants (shareholders) (N9.1)	This ratio is intended to limit a bank's credit exposure to the bank's shareholders. It is formulated as the maximum ratio of the amount of loans, bank guarantees and sureties extended by the bank to its shareholders, to the bank's capital base.	Maximum 50%
Aggregate amount of exposure to the bank's insiders (N10.1)	This ratio is intended to limit the aggregate credit exposure of a bank to its insiders (i.e., individuals capable of influencing the bank's credit decisions). It is formulated as the maximum ratio of the aggregate amount of the bank's credit claims to its insiders, to the bank's capital base.	Maximum 3%
Ratio for the use of the bank's capital base to acquire shares (participation interest) in other legal entities (N12)	This ratio is intended to limit the aggregate risk of a bank's investments into shares (participation interests) of other legal entities. It is formulated as the maximum ratio of the bank's investments into shares (participation interest) of other legal entities, to the bank's capital base.	Maximum 25%

The capital base of a bank is defined in CBR regulations as the aggregate amount of its fixed capital (including, *inter alia*, its charter and paid-in capital and certain reserve funds and approved profits) and additional capital (including, *inter alia*, revaluation surpluses, subordinated loans and preferred shares) decreased by certain mandatory reserves and some other amounts.

Also, banks issuing mortgage-backed bonds are required to additionally comply with the following mandatory economic ratios: (i) a minimum ratio of issued mortgage loans to a bank's capital base (N17, minimum 10%); (ii) a minimum ratio of the amount of the "mortgage coverage" to the amount of issued mortgage-backed bonds (N18, minimum 100%), (iii) a maximum ratio of the aggregate amount of a bank's liabilities to creditors having a priority right to satisfy their claims, to the bank's capital base (N19, maximum 50%). In addition, such banks should observe a higher capital adequacy ratio (N1) of minimum 14% (as opposed to the general 10% requirement).

Charter Capital Requirements

The CBR sets minimum equity (charter capital) requirements for banks. Under Directive of the CBR No. 1346-u of 1 December 2003, the minimum capital requirement is set at EUR5 million for each newly founded bank. Those banks whose charter capital exceeds their capital base, are required to adjust their

capital base (or, if impossible, their charter capital) accordingly. The procedure for reduction of banks' charter capital to adjust the amount of their capital base is established by Directive of the CBR No. 1260-u of 24 March 2003.

Reporting Requirements

Russian banks must regularly submit balance sheets, together with financial statements showing the actual financial position of the bank. They must also inform the CBR about providing large loans (exceeding 5% of a bank's capital). Banking groups (i.e. alliances of banks in which one bank directly or indirectly controls decisions of the governing bodies of other banks within this alliance) and consolidated groups (i.e. alliances of legal entities in which one bank, directly or indirectly, controls decisions of the governing bodies of the other legal entities and non-lending organisations within such alliances) must regularly submit consolidated accounts to the CBR. The CBR may at any time carry out full or selective checks of a bank's submissions, and may inspect all books and records of the bank. In addition, annual audits must be carried out by a licenced auditing company.

Mandatory Reserve Deposit Requirements

To cover loan losses and currency, interest and financial risks, banks are required to comply with the CBR requirements for the formation of mandatory reserve deposits. Particular reserve requirements are set by the Board of Directors of the CBR from time to time. Banks are currently required to form mandatory reserve deposits to be held on non-interest bearing accounts with the CBR (starting from 1 August 2004, 2% in respect of funds in Roubles and foreign currency attracted from foreign banks, and 3.5% in respect of other funds).

Prior to July 2004, mandatory reserves were to be calculated under CBR Order No. 02-77 of 30 March 1996. From July 2004, the mandatory reserves are calculated by banks in accordance with CBR Regulation No. 255-P of 29 March 2004 (the "**New Reserves Regulation**"), which changed the methods of reserve calculation, but not the amounts set by the Board of Directors of the CBR. Both regimes require prompt reporting by banks to the CBR and its regional units after the end of each calendar month with calculation of reserves and prompt posting of additional reserves, if necessary. The CBR and its regional units have a right to conduct unscheduled audits of credit organisations to check their compliance with the reserve rules. The New Reserves Regulation no longer requires creation of reserves for certain long-term borrowings, however, it requires posting of reserves for obligations to non-resident banks. In addition, credit organisations with good reserves and credit history will be offered a new mechanism that would allow posting of reserves in accordance with certain calculated averages.

Provisioning

The CBR put in place certain rules concerning creation of loan impairment provisions for loans extended by banks. Beginning 1 August 2004, Russian credit organisations are required to calculate and establish their loan impairment provisions in accordance with Regulation No. 254-P of 26 March 2004. This new Regulation has introduced a number of new rules which purport to 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 the four under the previous regulation; the range of loans that must be provided for has been extended to include assigned rights under contracts, financial leasing operations, mortgages acquired in the secondary markets, rights under repo contracts (if the securities transferred under such repo transaction are unlisted) and some other operations. It has been established that loans classified as Category I loans (standard loans) need not be provided for. Additionally, credit organisations will be required to classify their loan security into two groups on the basis of its quality etc.

The CBR also established rules concerning creation of provisions for loans other than loan impairment, which may include losses from investments in securities, funds held in correspondent accounts of other banks, contingent liabilities, forward and other transactions. CBR Instruction No. 232-P of 9 July 2003 requires banks to rank such assets and operations into five risk groups rejecting the following situations (i) no real or potential threat of losses; (ii) moderate potential threat of losses; (iii) serious potential or moderate real threat of losses; (iv) simultaneous potential and moderate real threat of losses or material real threat of losses; and (v) value of particular type of asset or operation is going to be lost completely. Banks are then required to provide for each type of asset or operation in the amounts corresponding to the amounts of possible losses but within the following framework established by the CBR for each risk group indicated above, respectively : (i) 0%; (ii) 1% to 20%; (iii) 21% to 50%; (iv) 51% to 100%; and (v) 100%. Banks must report to the CBR on the amounts of created non-loan

impairment provisions monthly within ten days following the reporting month. The CBR and its regional units are responsible for monitoring the compliance of banks with these rules.

Mandatory provisions are also created for operations with residents of offshore areas in the amount of up to the higher of (a) 100% held on the bank's balance sheet accounts, and (b) average daily turnover with residents of off-shore zones during the last month.

Regulation of Currency Exposure

In its Instruction No. 41 of 22 May 1996, the CBR established rules regarding exposure of banks to foreign currency and precious metals (collectively, "**currency exposure**"), as well as controls over such exposure. Currency exposure is calculated with respect to net amounts of balance sheet positions, spot market positions, forward positions, option positions and positions under guarantees. Open currency position is calculated as the sum of all these net amounts. Such exposure is calculated for each currency and each precious metal, and then recalculated into roubles in accordance with the official exchange rates and CBR's prices for precious metals.

The CBR established that at the end of each operation day the total amount of all long or short currency positions shall not exceed 20% of the bank's capital base. At the same time, at the end of each operation day the long or short position with respect to one particular currency or precious metal shall not exceed 10% of the bank's capital base.

Banks with capital base not exceeding €6 million are required to report to the CBR about their currency exposure once a week with breakdowns for each day. Banks with capital base equal to or exceeding €6 million are required to report about their currency exposure daily on the day following the reporting day.

Accounting Practices

The CBR has established a standard format for the presentation of a bank's accounts and instructions on how transactions are recorded within the accounts. It requires the preparation of financial statements and other accountancy in accordance with Directive of the CBR No. 1375-u "On the Rules for the Preparation and Submission of Reports to the CBR by Credit Organisations" dated 16 January 2004. Despite certain differences, such financial statements represent a close approximation to IFRS.

Starting from 1 January 2004, all credit organisations are required to prepare their accounting reports in accordance with IFRS. The first IFRS financial statements were to be prepared for the period ending 30 September 2004. Credit organisations will continue the preparation of their financials under RAS until 1 January 2006, when only IFRS financials will need to be prepared.

Bankruptcy (Insolvency) and Other Related Issues

Bankruptcy of credit organisations in Russia is governed by the Law "On Insolvency (Bankruptcy)" of 26 October 2002 (the "**Bankruptcy Law**") and the Law "On Insolvency (Bankruptcy) of Credit Organisations" of 25 February 1999, as amended (the "**Bank Insolvency Law**").

Bankruptcy. Bankruptcy proceedings against a Russian bank may be initiated only after the revocation by the CBR of its banking licence. Following the revocation of the bank's licence, *inter alia*, all obligations of the bank are deemed to have fallen due and the bank is prohibited from entering into transactions and performing its obligations until the liquidator or the competition manager is appointed.

Bankruptcy proceedings may be initiated against a Russian bank provided that its business has "signs" of insolvency described in the Bank Insolvency Law (the overall amount of the outstanding obligations is not less than 1,000 times the statutory minimum wage amount (currently Rbl 100,000 or approximately US\$3,450) and the bank has failed to perform such obligations within 14 days after their due date, or after the revocation of the bank's licence its total assets do not cover all of its outstanding obligations).

Prior to the institution of bankruptcy proceedings, the CBR, on its own initiative or upon the application of the authorised body of the bank, has the right to take action aimed at preventing the bank's bankruptcy. Such action may include (a) financial rehabilitation of the bank (i.e., financial support, changing the structure of assets and liabilities or organisational structure of the bank, etc.), (b) appointment of a temporary administration to the bank or (c) reorganisation.

Temporary Administration. The Bank Insolvency Law provides for a special pre-bankruptcy procedure called "temporary administration" which is aimed at financial rehabilitation of a bank.

Technically, temporary administration precedes, and does not necessarily result in, the commencement of bankruptcy proceedings. Temporary administration may be imposed by the CBR in certain negative financial circumstances listed in Article 17 of the Bank Insolvency Law. The grounds for the appointment of a temporary administration include, among other things, breach of certain financial and regulatory capital ratios and the bank's failure to perform its payment obligations to some of its creditors for a period greater than seven days due to insufficiency of funds in its correspondent accounts.

Introduction of a temporary administration may entail a limitation or suspension of the powers of the executive bodies of the bank. The temporary administration can manage the bank and is further entitled to request that the CBR impose a 3-month moratorium on all payments of the bank to counterparties and creditors. The temporary administration may also refuse performance of agreements or challenge transactions under Articles 27 and 28 of the Bank Insolvency Law.

Priority of claims. Under Russian bankruptcy law, claims of unsecured creditors against Russian banks are generally subordinated to the claims of individual clients arising out of deposit and bank account agreements, certain claims of creditors arising after the initiation of the bankruptcy proceedings and certain other ongoing payments, workplace injury and moral damages obligations, severance pay, employment-related obligations and royalties. There is also some risk that claims of unsecured creditors may be further subordinated to claims under certain tax and mandatory payment obligations to the government. Furthermore, unsecured claims are also effectively subordinated to claims secured by a Russian law pledge. Under the Bankruptcy Law, claims of creditors secured by a Russian law pledge are settled with the money received from the sale of pledged assets. Claims of creditors secured by a Russian law pledge will be subordinated to the following obligations: (i) injury obligations and moral damages obligations and (ii) severance pay, employment-related obligations and royalties, if such obligations arose prior to the creation of the pledge. Claims of creditors secured by a Russian law pledge remaining unsatisfied upon the sale of pledged assets would be ranked as claims of unsecured creditors after the obligations mentioned above, irrespective of the moment of the creation of such claims.

Liquidation and Revocation of the Banking Licence

Mandatory Liquidation. The procedure for the revocation of banking licences and liquidation of banks is regulated by the Banking Law. Article 20 of the Banking Law lists a number of grounds on which the CBR can or must revoke the banking licence of a Russian bank. Among other things, these grounds include: (i) material inaccuracy of reporting statements; (ii) a delay of more than 15 days in the submission of monthly financial statements; (iii) effecting transactions that are not covered by its banking licence; (iv) persistent failure to comply with federal laws governing banking activities and CBR regulations and persistent breach of reporting, client identification and various internal control requirements of anti-money laundering legislation; (v) certain breaches of capital adequacy and regulatory capital ratios and; (vi) inability to discharge creditors' claims within one month of their due date where such claims exceed 1000 minimum wages (currently, RUR100,000 or approximately US\$3,450).

Upon the revocation of its licence, the bank must be liquidated either under mandatory solvent liquidation procedures set out in the Banking Law or under bankruptcy procedures set out in the Bank Insolvency Law.

Article 20 of the Banking Law also establishes the consequences of the revocation of the banking licence, including that the CBR must impose the "temporary administration" on the relevant bank, that all obligations of the bank are deemed to have fallen due, that enforcement of execution documents issued on the basis of court judgments, with certain exceptions, is suspended and that entering into transactions and performance by the bank of its obligations is prohibited until the liquidator or the competition manager is appointed.

The CBR must make a public announcement of the revocation of the banking licence within a week of resolving to revoke such banking licence.

Voluntary Liquidation. In case of voluntary liquidation of the bank, the shareholders (founders), upon the adoption of the relevant decision, must apply to the CBR for cancellation of the banking licence and, upon its cancellation, the liquidation should be carried out in accordance with the general rules on liquidation of companies and certain CBR regulations. In particular, shareholders will appoint the liquidation commission to oversee the liquidation process.

History of the Russian Banking Sector and Banking Statistics

Under the Soviet regime, Gosbank allocated resources from the Government's budget according to the prevailing economic plan, and was in effect the only bank in existence. In 1987, with the relaxation of

controls over companies and interbank settlements, a small group of dependent, specialised banks developed to conduct business relating to savings, foreign trade, construction, industry, agriculture and small enterprises.

In 1988 and 1989, the second phase of reform saw regional commercial banks (primarily in the form of cooperatives or joint-stock companies) begin to emerge rapidly, with initial capital between RUR500,000 and RUR300 million. By the start of 1992, 1,500 licences had been granted to banks.

In 1991, three of the specialised state dependent banks were transformed into joint-stock companies. Some regional branches became independent from head offices through management buy-outs.

The CBR assumed all the functions of Gosbank in November 1991 and Gosbank was liquidated in December of that year.

Between 1991 and 1998 the Russian banking system experienced rapid growth. The number of commercial banks in Russia increased from 358 in 1990 to 2,538 in 1996. On 17 August 1998, the Russian financial market suffered a serious crisis, causing major concern over the liquidity and solvency of the market as a whole. Many banks went into bankruptcy or fell under the administration of the Agency for Restructuring of Credit Organisations (“**ARCO**”). Due to the further stabilisation of the Russian banking sector, the importance of ARCO as the administrator of credit organisations undergoing financial restructuring has decreased. On 18 October 2003, the last of such credit organisations was withdrawn from ARCO’s administration.

Since the 1998 financial crisis the number of credit organisations operating in Russia has fallen to 1,289 as at 1 April 2005. The 1998 financial crisis revealed the lack of proper controls in the banking sector, and strengthened concerns of the public over the integrity of the banking system, with misleading advertising, laundering, corruption, and criminal contacts all being concerns.

Further, the Russian banking sector experienced instability and a liquidity deficit in 2004 resulting from the actions taken by the CBR and a crisis of confidence among Russian banking customers. During May-July 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 reliable larger banks experienced depositor withdrawals.

Currently, the banking sector mostly offers services related to short-term and mid-term financing, because of the historical instability of the Russian lending market and the difficulty borrowers face in providing adequate collateral.

The presence of foreign owned banks in the Russian market is relatively limited as their activities have been restricted out of a fear that they may overwhelm the nascent Russian banks. Foreign owned banks face additional requirements in connection with obtaining a licence, for example, there must be a degree of reciprocity in the home country of the foreign bank. The aggregate participation of foreign capital in the Russian banking system is determined by federal law proposed by the Government in conjunction with the CBR. No such law is currently in force.

Banking and Other Relevant Reforms

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

On 5 April 2005, the 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% (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 system of the insurance of private deposits was introduced late in 2003. According to the new law **“On the Insurance of Individuals' Deposits held in the Russian Federation”**, banks holding a CBR licence for attracting deposits from individuals and opening and administering individuals' accounts are required to qualify for such activities. Subject to a bank's compliance with certain regulatory requirements, it enters the system of the insurance of individuals' deposits and thus qualifies for the attraction of deposits and opening accounts for individuals. If a bank fails to comply with the applicable requirements or chooses not to participate in the insurance system, it will be precluded from the attraction of deposits and opening accounts for individuals. Banks accepting private deposits and opening accounts for individuals are required to make quarterly payments to a newly established insurance fund in the amount of up to 0.3% of the average account balances calculated under the new law.

On 30 December 2004, the President signed Federal Law No. 218-FZ **“On Credit Histories”** (the **“Credit Histories Law”**). Most of the provisions of the Credit Histories Law will come into force on 1 June

2005. Pursuant to the Credit Histories Law, the “credit history” of a borrower (whether an individual or a legal entity) consists of certain data, as defined by the Credit Histories Law, which describe the borrower’s performance under loan or credit arrangements and which are stored with a “credit history bureau” (a Russian legal entity included in the State Register of Credit History Bureaus, whose principal activity is to collect, process and store credit history data and issue “reports” as defined in the Credit Histories Law).

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.

Credit organisations are obliged to make their activities compliant with the Credit Histories Law within nine months of the date of its entry into force. In connection with the entry into force of the Credit Histories Law, amendments to the Banking Law, the Civil Code and to the Code of Administrative Offences are going to be introduced in order to make them compliant with the Credit Histories Law. Specifically, these amendments will address issues concerning bank secrecy, liability for unauthorised access to, and disclosure of, credit history data, and violation of the procedure for the collection, storage and processing of such 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.

In order to build up an effective domestic system for combating money laundering, in July 2001, Russia adopted the Federal Law “*On Combating of the Legalisation of Illegal Earnings (Money Laundering)*” and subsequently passed certain legislation to implement this law. As a result of the implementation of recent reform to its anti-money laundering system, in October 2002 Russia was removed from the “black list” of non-cooperative countries and territories in the fight against money laundering maintained by the Financial Action Task Force on Money Laundering. The CBR monitors Russian banks’ compliance with the antimoney laundering requirements by way of issuing regulations and inspecting banks’ activities. In particular, Russian banks are required to comply with various customer identification, reporting and other related procedures. In line with the development of the anti-money laundering system, the CBR introduced certain restrictions relating to the banks’ operations involving foreign entities and individuals registered (residing) in off-shore areas. The CBR has compiled a list of such off-shore areas. In particular, the CBR restrictions apply to the establishment by Russian banks of correspondent relationships with foreign banks registered in these off-shore areas.

On 18 June 2004, the New Currency Law came into force replacing almost in its entirety the former Federal Law “*On Currency Regulation and Currency Control*” of 1992. The New Currency Law is generally aimed at the gradual liberalisation of Russian currency control regulations, but at the same time it introduces some new forms of currency control (such as the placement of mandatory deposits with the CBR and the use of special accounts).

With respect to certain operations, the mandatory reserve (i.e. rouble cash deposit) requirement may be imposed on residents or non-residents in the amount of either up to 100% of the amount of the operation for a period of up to 60 days or up to 20% for a period of up to one year (excluding export/import operations for which special rules are established). In addition, the CBR has the power to require residents and non-residents to carry out certain operations through special accounts which may also be accompanied by the above mandatory reserve requirements. In particular, settlements between

residents and non-residents in relation to foreign currency and rouble loans, settlements in relation to securities, non-banking operations of banks and conversion operations may be restricted in various combinations by such special account and mandatory reserve requirements (however, conversion restrictions may not be imposed on authorised banks).

Pursuant to the New Currency Law, the new restrictive measures should be applied by the CBR and/or the Russian Government with reference to the current economic situation in order to prevent a substantial reduction in the gold and foreign exchange reserves, to neutralise the currency rate swings and secure a stable balance of payments of the Russian Federation. This implies that these restrictions should not be applied unless the Russian economy is subject to adverse trends. At the same time, the criteria for the introduction of these restrictive measures are vague enough to allow the CBR and the Russian Government to apply those at their discretion and on a long-term basis and unexpectedly vary the regime depending on their view of market conditions. Furthermore, under the New Currency Law, the CBR retains a right to introduce special rules relating to the application of currency control restrictions as set out in the New Currency Law to banking operations of credit organisations.

As part of implementing legislation contemplated by the New Currency Law, the CBR passed Directive No. 1425-U of 28 April 2004 which came into force on 18 June 2004. Directive No. 1425-U confirms that no currency control limitations will apply to bank operations between authorised banks and sets forth a list of non-banking transactions between authorised banks that are exempt from currency control restrictions. Directive No. 1425-U specifically provides that all other non-banking transactions of authorised banks will fall under general currency control regime applicable to resident legal entities.

In addition, the CBR has introduced the following requirements in respect of foreign currency loans received by Russian residents (except for Russian banks) from non-residents if the repayment term of the principal amount of such loan exceeds three years.

- Under CBR Instruction No. 116-I of 7 June 2004, Russian residents are required to make “all payments and transfers relating to the receipt of such loans” through a special “R1” type foreign currency account to be opened with an authorised Russian bank.
- Under CBR Directive No. 1465-U of 29 June 2004, Russian residents are required to deposit the Rouble equivalent of 2% of the amount of such loans actually received for a period of 365 calendar days into a non-interest bearing account with an authorised Russian bank.

(See “Certain Risk Factors – Risks Related to the Russian Federation – Exchange Risks and Currency Regulation”).)

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