

# **JSB ROSBANK AND SUBSIDIARIES**

**Independent Auditors' Report**

**Consolidated Financial Statements**  
Year Ended 31 December 2004

# JSB ROSBANK AND SUBSIDIARIES

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Joint Stock Bank ROSBANK:

We have audited the accompanying consolidated balance sheet of Joint Stock Bank ROSBANK and its subsidiaries (hereinafter - the "Bank") as of 31 December 2004, the related consolidated profit and loss account and statements of cash flows and changes in equity (the "consolidated financial statements") for the year then ended. These consolidated 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. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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



8 April 2005  
Moscow

# JSB ROSBANK AND SUBSIDIARIES

## CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2004

	NOTES	Year ended 31 December 2004 RUR'000	Year ended 31 December 2003 RUR'000
Interest income	5,26	9,745,577	7,232,460
Interest expense	5,26	<u>(5,573,570)</u>	<u>(4,476,455)</u>
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES		4,172,007	2,756,005
Provision for loan losses	6	<u>(376,086)</u>	<u>(126,015)</u>
NET INTEREST INCOME		<u>3,795,921</u>	<u>2,629,990</u>
Net gain on operations with securities		368,170	964,198
Net gain/(loss) on foreign exchange operations		81,986	(9,687)
Net gain on precious metals operations		73,631	33,170
Fee and commission income	7,26	1,624,704	983,438
Fee and commission expense	7	(471,128)	(285,866)
Fair value adjustment on securities available-for-sale		(5,421)	3,302
Dividends received		9,797	12,887
Other income		<u>59,480</u>	<u>83,455</u>
NET NON-INTEREST INCOME		<u>1,741,219</u>	<u>1,784,897</u>
OPERATING INCOME		5,537,140	4,414,887
OPERATING EXPENSES	8,26	<u>(4,045,851)</u>	<u>(3,107,561)</u>
PROFIT BEFORE OTHER PROVISIONS AND INCOME TAX		1,491,289	1,307,326
Provision for impairment of securities	6	(28,512)	(4,428)
Provision for losses on other transactions	6	<u>(109,574)</u>	<u>(129,609)</u>
PROFIT BEFORE TAXATION AND MINORITY INTEREST		1,353,203	1,173,289
Income tax expense	9	<u>(469,727)</u>	<u>(766,320)</u>
NET PROFIT BEFORE MINORITY INTEREST		883,476	406,969
Minority interest	4	<u>(1,754)</u>	<u>-</u>
NET PROFIT		<u>881,722</u>	<u>406,969</u>
<b>Earnings per share</b>			
Basic and diluted (RUR)	10	<u>2.6</u>	<u>1.2</u>

On behalf of the Management Board:

Chairman

8 April 2005  
Moscow

Chief Financial Officer

8 April 2005  
Moscow

The notes on pages 7-48 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 1.

# JSB ROSBANK AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2004

	NOTE S	31 December 2004 RUR'000	31 December 2003 RUR'000
<b>ASSETS:</b>			
Cash and balances with Central and National banks	11	24,560,307	18,155,721
Loans and advances to banks, less allowance for loan losses	12,26	28,066,385	9,428,494
Trading assets	13,26	5,513,096	8,265,705
Loans to customers, less allowance for loan losses	15,26	57,113,909	52,344,311
Investment securities, less allowance for impairment	16,26	3,886,182	2,903,324
Fixed and intangible assets, less accumulated depreciation	17	122,885	129,530
Income tax recoverable	9	255,362	-
Other assets, less allowance for losses	18	353,174	444,966
<b>TOTAL ASSETS</b>		<b>119,871,300</b>	<b>91,672,051</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES:</b>			
Loans and advances from banks	19,26	8,849,497	7,560,389
Customer accounts	20,26	80,485,624	58,805,058
Debt securities issued	21	19,166,195	15,828,489
Provisions	6,25	239,809	347,395
Income tax liabilities	9	-	214,320
Other liabilities	22	609,380	487,665
		109,350,505	83,243,316
Subordinated debt	23,26	1,450,000	-
Total liabilities		110,800,505	83,243,316
Minority interest	4	94,149	92,395
<b>SHAREHOLDERS' EQUITY:</b>			
Share capital	24	5,478,179	5,478,179
Reserves		3,498,467	2,858,161
Total shareholders' equity		8,976,646	8,336,340
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>119,871,300</b>	<b>91,672,051</b>

On behalf of the Management Board:

Chairman

8 April 2005  
Moscow

Chief Financial Officer

8 April 2005  
Moscow

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## JSB ROSBANK AND SUBSIDIARIES

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2004

	Share capital	Share premium	Translation reserve	Accumulated deficit	Total shareholders' equity
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
<b>31 December 2002</b>	5,478,179	3,672,190	(213,500)	(984,582)	7,952,287
Changes in translation reserves	-	-	92,864	-	92,864
Dividends declared	-	-	-	(115,780)	(115,780)
Net profit	-	-	-	406,969	406,969
<b>31 December 2003</b>	5,478,179	3,672,190	(120,636)	(693,393)	8,336,340
Changes in translation reserves	-	-	58,249	-	58,249
Dividends declared	-	-	-	(299,665)	(299,665)
Net profit	-	-	-	881,722	881,722
<b>31 December 2004</b>	5,478,179	3,672,190	(62,387)	(111,336)	8,976,646

On behalf of the Management Board:

Chairman

8 April 2005  
Moscow

Chief Financial Officer

8 April 2005  
Moscow

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## JSB ROSBANK AND SUBSIDIARIES

### CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2004

	NOTES	Year ended 31 December 2004 RUR'000	Year ended 31 December 2003 RUR'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Profit before income tax and minority interest		1,353,203	1,173,289
Adjustments for:			
Provision for loan losses		376,086	126,015
Provision for impairment of securities		28,512	4,428
Provision for losses on other transactions		109,574	129,609
Fair value adjustment on securities available-for-sale		5,421	(3,302)
Net change in net replacement value of derivative financial instruments		37,837	(9,364)
Depreciation and amortisation		32,212	33,820
Change in interest accruals, net		595,054	(164,050)
Change in accrued commission income		174,694	(174,694)
Change in other accruals		157,870	233,091
		<u>2,870,463</u>	<u>1,348,842</u>
Cash flows from operating activities before changes in operating assets and liabilities			
Changes in operating assets and liabilities (Increase)/decrease in operating assets:			
Minimum reserve deposit with Central and National banks		3,870,932	(2,465,523)
Loans and advances to banks		(8,672,735)	(201,646)
Trading assets		3,097,613	(2,447,349)
Loans and advances to customers		(5,428,934)	(21,201,577)
Other assets		(89,762)	111,492
Increase/(decrease) in operating liabilities:			
Loans and advances from banks		1,282,489	2,730,281
Customer accounts		21,486,154	24,992,806
Provisions		(210,300)	-
Other liabilities		(59,326)	10,202
		<u>18,146,594</u>	<u>2,877,528</u>
Cash inflow from operating activities before taxation			
Income tax paid		(939,409)	(554,790)
		<u>17,207,185</u>	<u>2,322,738</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of fixed and intangible assets		(27,027)	(49,086)
Proceeds on sale of fixed and intangible assets		1,460	19,107
Purchase of investment securities, net		(1,011,370)	(2,024,652)
Cash on acquisition of a subsidiary, net of consideration paid		-	27,977
		<u>(1,036,937)</u>	<u>(2,026,654)</u>
Net cash outflow from investing activities			

## JSB ROSBANK AND SUBSIDIARIES

### CONSOLIDATED STATEMENT OF CASH FLOWS (continued) FOR THE YEAR ENDED 31 DECEMBER 2004

	NOTES	Year ended 2004 RUR'000	Year ended 2003 RUR'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Dividends paid		(299,665)	(115,780)
Net proceeds on sale of debt securities issued		3,254,706	8,516,564
Subordinated debt		<u>1,450,000</u>	<u>-</u>
Net cash inflow from financing activities		<u>4,405,041</u>	<u>8,400,784</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		20,575,289	8,696,868
CHANGE IN TRANSLATION RESERVE		58,249	92,864
CASH AND CASH EQUIVALENTS, beginning of the year	11	<u>16,943,978</u>	<u>8,154,246</u>
CASH AND CASH EQUIVALENTS, end of the year	11	<u><u>37,577,516</u></u>	<u><u>16,943,978</u></u>

Interest paid and received by the Bank in cash during the year ended 31 December 2004 amounted to RUR 5,289,539 thousand and RUR 10,056,600 thousand, respectively.

Interest paid and received by the Bank in cash during the year ended 31 December 2003 amounted to RUR 4,335,820 thousand and RUR 6,927,775 thousand, respectively.

**On behalf of the Management Board:**

Chairman

8 April 2005  
Moscow

Chief Financial Officer

8 April 2005  
Moscow

The notes on pages 7-48 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 1.



## JSB ROSBANK AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

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#### 1. ORGANISATION

ROSBANK is a joint stock bank which was incorporated in the Russian Federation in 1993. ROSBANK is regulated by the Central Bank of the Russian Federation (the “CBR”) and conducts its business under license number 2272. ROSBANK's primary business consists of commercial banking activities, securities dealings, foreign currency transactions and retail banking. On 7 June 1999 ROSBANK re-registered its legal status from a limited liability bank to a joint-stock bank. On 14 September 2000, at a joint shareholders meeting, it was approved to merge UNEXIM Bank into ROSBANK. UNEXIM Bank was a joint stock bank incorporated in the Russian Federation. On 21 November 2000, the CBR approved the merger and de-registered UNEXIM Bank with ROSBANK as the successor bank.

ROSBANK has 67 branches in the Russian Federation. ROSBANK is registered at: 11, Masha Poryvaeva Street, Moscow, 107078, Russian Federation.

ROSBANK is a parent company of the Banking group (the “Bank”) which consists of the following enterprises consolidated in the financial statements:

<u>Name</u>	<u>Country of incorporation</u>	<u>ROSBANK's ownership interest and voting power</u>
Rosbank (Switzerland) SA	Switzerland	100%
Rosbank International Finance BV	The Netherlands	100%
RosInvest SA	Luxembourg	100%
Belrosbank	Byelorussia	50.00002%
Russia International Card Finance S.A.	Luxembourg	Contractual agreement

In 2003 Interros, the major shareholder of the Bank, purchased controlling interest in OVK group. OVK group consists of 6 commercial banks and 35 other financial and service companies. The main activity of these banks is retail banking. There is a plan to merge OVK banks with the Bank during 2004-2005. The management of ROSBANK has commenced the process of merging the operations of OVK with those of ROSBANK and, on 26 January 2004, the CBR approved ROSBANK's proposed plan of consolidation. The integration of banks as large as OVK will require extensive management, personnel and monetary resources. The integration is expected to be completed by the second half of 2005, prior to which time management will be faced with modernising the OVK network, integrating its operations and personnel with those of ROSBANK, merging its information technology systems with those of ROSBANK, and implementing group-wide financial and management information systems and controls. As of 31 December 2004 and from the date Interros acquired controlling interest in OVK group, the latter is considered to be a related party to the Bank.

Total number of employees of the Bank as of 31 December 2004 and 2003 was 5,056 and 2,365, respectively.

As of 31 December 2004, the following shareholders owned the outstanding shares:

Shareholder	%
CJSC "Interros estate"	95.79%
Other	4.21%
Total	<u>100.00%</u>

These consolidated financial statements were authorized for issue by the Chairman of the Management Board of the Bank on 8 April 2005.

## 2. BASIS OF PRESENTATION

**Accounting basis** - These consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements are presented in thousands of Russian Roubles ("RUR"), except for the earnings per share amounts and unless otherwise indicated. These financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments and according to International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29").

ROSBANK maintains its accounting records in accordance with the Russian law. Other companies of the Banking Group maintain their accounting records in accordance with statutory accounting standards generally accepted in the countries where they operate. For the purpose of incorporation in the consolidated financial statements, the financial statements of ROSBANK, Rosbank (Switzerland) SA, Rosbank International Finance BV, RosInvest SA, Belrosbank and Russia International Card Finance S.A. prepared under the statutory accounting standards generally accepted in the countries of their origin have been adjusted to conform with IFRS.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for losses and impairment and the fair value of financial instruments.

**Functional currency** -The functional currency of these financial statements is the Russian Rouble.

## 3. SIGNIFICANT ACCOUNTING POLICIES

**Principles of consolidation** - The consolidated financial statements include the financial statements of subsidiaries where ROSBANK, directly or indirectly, owns a majority voting interest. All significant transactions between ROSBANK and the subsidiaries, as well as the relevant balances have been eliminated. The effective ownership interest of ROSBANK and voting power of ROSBANK in the significant subsidiaries of ROSBANK as of 31 December 2004 are presented in Note 1.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Bank.

In translating the financial statements of a foreign subsidiary into the presentation currency for incorporation in the financial statements, the Bank follows a translation policy in accordance with International Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates" ("IAS 21") and the following procedures are done:

- Assets and liabilities, both monetary and non-monetary, of the foreign entity are translated at closing rate;
- Income and expense items of the foreign entity are translated at exchange rates at the dates of transactions;
- All resulting exchange differences are classified as equity until the disposal of the investment;
- On disposal of the investment in the foreign entity related exchange differences are recognized in the profit and loss account;
- Financial statements of CB Belrosbank that operates in a hyperinflationary economy are restated in accordance with IAS 29 and translated into the functional currency at closing rates for the purpose of inclusion into the consolidated financial statements.

All intra-bank transactions, balances, income and expenses are eliminated on consolidation.

**Negative goodwill** - Any excess of the Bank's interest in the fair values of the identifiable assets and liabilities of subsidiaries over the cost of acquisition as of the acquisition date is recognized as negative goodwill. To the extent that negative goodwill does not relate to identifiable expected future losses and expenses that can be measured reliably at the date of acquisition, negative goodwill is recognized as income in the profit and loss account as follows:

- The amount of negative goodwill not exceeding the fair values of the acquired identifiable non-monetary assets is recognized as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable assets and recorded in the profit and loss account as part of other income;
- The amount of negative goodwill in excess of the fair value of the acquired identifiable non-monetary assets is recognized as income immediately.

**Investments in other subsidiaries and associates** - Investments in corporate shares where the Bank owns more than 20% of share capital, but does not have ability or intent to control or exercise significant influence over operating and financial policies, or non-consolidation of such companies does not significantly affect the financial statements of the Bank as a whole, or the Bank has an intention to resell such investments in the nearest future, as well as investments in corporate shares where the Bank owns less than 20% of share capital, are accounted for at fair value or at approximate fair value. If such value cannot be estimated, investments are accounted for at cost. Management

periodically assesses realizability of the carrying values of such investments and provides valuation allowances, if necessary. Such investments are accounted for as securities available-for-sale.

***Recognition and measurement of financial instruments*** - The Bank recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting.

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, respectively, net of any transaction costs incurred, respectively. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

***Cash and cash equivalents*** - Cash and cash equivalents include cash, unrestricted balances on correspondent and time deposit accounts with central and national banks, loans and advances to banks in countries included in the Organization for Economic Co-operation and Development (“OECD”) with remaining maturity within 90 days, except for margin deposits for operations with plastic cards, as well as precious metals in vault and placed at nostro accounts with OECD banks, and government debt securities included in trading portfolio which may be converted to cash within a short period of time. For purposes of determining cash flows, the minimum reserve deposit required by central and national banks is not included as a cash equivalent due to restrictions on its availability.

***Precious metals*** - Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Bullion Market rates using the RUR/USD exchange rate effective at the date. Changes in the bid prices are recorded in net gain on operations with precious metals. Precious metals are accounted for as trading assets.

***Loans and advances to banks*** - In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for losses.

***Securities held-for-trading*** - Securities held-for-trading represent debt and equity securities held-for-trading that are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer’s margin. Securities held-for-trading are initially recorded at cost which approximates fair value of the consideration given and subsequently measured at fair value. The Bank uses quoted market prices to determine fair value for the Bank’s securities held-for-trading. When reliable market prices are not available or if liquidating the Bank’s position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or management’s estimates of the amounts that can be realized from an orderly disposition over a period of time, assuming current market conditions. Fair value adjustment on securities held-for-trading is recognized in profit and loss for the period.

***Repurchase and reverse repurchase agreements*** - The Bank enters into sale and purchase back agreements (“repos”) and purchase and sale back agreements (“reverse repos”) in the normal course of its business. Repos and reverse repos are utilized by the Bank as an element of its treasury management and trading business.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the consolidated financial

statements and consideration received under these agreements is recorded as collateralized deposit received.

Assets purchased under reverse repos are recorded in the consolidated financial statements as cash placed on deposit which is collateralized by securities and other assets.

In the event that assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gains/ (losses) on respective assets. Any related income or expense arising from the pricing difference between purchase and sale of the underlying assets is recognized as interest income or expense.

***Derivative financial instruments*** - The Bank enters into derivative financial instruments to manage currency and liquidity risks and such financial instruments are held primarily for trading purposes. Derivatives entered into by the Bank include forwards and swaps.

Derivative financial instruments are initially recorded at cost which approximates the fair value of the consideration given, with their subsequent re-measurement to fair value. Fair values are obtained from the interest rates model. Most of the derivatives the Bank enters into are of a short-term and speculative nature. The results of the valuation of derivatives are reported in trading assets (aggregate of positive market values) or other liabilities (aggregate of negative market values), respectively. Both positive and negative valuation results are recognized in the profit and loss for the year in which they arise under net gain/(loss) on operations with respective instruments.

***Originated loans*** - Loans originated by the Bank are financial assets that are created by the Bank by providing money directly to a borrower or by participating in a loan facility.

Loans granted by the Bank with fixed maturities are initially recognized in accordance with the policy stated below. The difference between the nominal amount of consideration given and the amortized cost of loans issued at lower than market terms is recognized in the period the loan is issued as initial recognition adjustment discounting using market rates at inception and included in the profit and loss account as losses on origination of assets. Subsequently, the carrying amount of such loans is adjusted for amortization of the losses on origination and the related income is recorded as interest income within the profit and loss account using the effective interest method. Loans to customers that do not have fixed maturities are carried at cost. Loans to customers are carried net of any allowance for loan losses.

***Write off of loans and advances*** - Loans and advances are written off against allowance for loan losses in case of uncollectibility of loans and advances, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral.

***Non-accrual loans*** - Loans are placed on non-accrual status when interest or principal is delinquent for a period in excess of 30 days, except when all amounts due are fully secured by cash or marketable securities and collection proceedings are in process. Interest income is not recognized if recovery is doubtful. Subsequent payments by borrowers are applied to either principal or delinquent interest based on individual arrangements with the borrower. A non-accrual loan is restored to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period.

***Allowance for losses*** - The Bank establishes an allowance for losses of financial assets when it is probable that the Bank will not be able to collect the principal and interest according to the contractual terms of financial assets, which are carried at cost or amortized cost. The allowance for losses is defined as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral.

The determination of the allowance for losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses inherent in the risk assets. Provisions are made as a result of a detailed appraisal of risk assets.

The change in the allowance for losses is charged to profit and the total of the allowance for losses is deducted in arriving at assets as shown in balance sheet. Management's evaluation of the allowance is based upon the Bank's past loss experience, known and inherent risks in the risk assets, adverse situations that may affect the debtor's ability to repay, the estimated value of any underlying collateral and current economic conditions.

It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Bank may sustain losses, which are substantial relative to the allowance for losses, it is the judgment of management that the allowance for losses is adequate to absorb losses inherent in the risk assets.

**Securities held-to-maturity** - Securities held-to-maturity are debt securities with determinable or fixed payments. The Bank has the positive intent and ability to hold them to maturity. Such securities are carried at amortized cost, less any allowance for impairment plus accrued coupon income. Amortized discounts are recognized in interest income over the period to maturity using the effective interest method.

**Securities available-for-sale** - Securities available-for-sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at cost which approximates the fair value of the consideration given. Subsequently the securities are measured at fair value, with such re-measurement included in the consolidated profit and loss account, plus accrued coupon income. The Bank uses quoted market prices to determine the fair value for the Bank's securities available-for-sale. If such quotes do not exist, management estimation is used. Realised and unrealised gains and losses arising from changes in the fair value of securities available-for-sale are included in the consolidated profit and loss account in the period in which they arise as fair value adjustment on securities available-for-sale. Interest earned on securities available-for-sale is reflected in the consolidated profit and loss account as interest income on debt securities. Dividends received are included in dividend income in the consolidated profit and loss account.

**Fixed and intangible assets** - Fixed and intangible assets acquired after 1 January 2003 are carried at historical cost less accumulated depreciation and any accumulated impairment loss. Fixed and intangible assets, acquired before 1 January 2003 are carried at historical cost restated for inflation less accumulated depreciation and any accumulated impairment loss. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use. Depreciation of fixed and intangible assets is designed to write off assets over their useful economic lives and is calculated on a straight line basis at the following annual prescribed rates:

Buildings	2 %
Furniture and equipment	20 %
Intangible assets	Over useful life of 3-10 years

The carrying amounts of fixed and intangible assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. Impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for fixed assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

**Impairment loss** - If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable value. The difference being an impairment loss is recognized as an expense in the consolidated profit and loss account for the year in which it arises.

**Taxation** - Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the consolidated profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Countries where the Bank operates also have various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the consolidated profit and loss account.

**Deposits from banks and customers** - Customer and bank deposits are initially recognized at cost, which amounts to the issue proceeds less transaction costs incurred. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated profit and loss account over the period of the borrowings using the effective interest method.

**Debt securities issued** - Debt securities issued represent promissory notes, certificates of deposit, and bonds issued by the Bank to customers. They are accounted using the same principles as for deposits from banks and customers.

**Provisions** - Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

**Share capital and share premium** - Share capital is recognized at restated cost. Share premium represents the excess of contributions over the nominal value of the shares issued.

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Dividends on ordinary shares are recognized in shareholders' equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under International Accounting Standard 10 "Events after the Balance Sheet Date" and disclosed accordingly.

**Retirement and other benefit obligations** - The Bank does not incur any expenses in relation to provision of pensions to its employees. In accordance with the legal requirements of the Russian Federation and other countries the Bank operates in, the Bank withholds pension contributions from employee salaries and transfers them into pension funds. Current contributions by the employer are calculated as a percentage of current gross salary payments with the expense charged in the period in which the related salaries are earned. Upon retirement of employees, all pension payments are administered by the above pension funds. In other countries where its subsidiaries domicile the Bank does not have any significant pension arrangements separate from the state pension system of those countries.

**Recognition of income and expense** - Interest income and expense are recognized on an accrual basis. The recognition of interest income is suspended when loans become overdue by more than 30 days. Interest income also includes income earned on investment securities and securities held-for-trading. Other income is credited to profit and loss account when the related transactions are completed. Loan origination fees, if significant, are deferred (together with related direct costs) and recognized as an adjustment to the loan's effective yield. Commission income/expenses are recognized on an accrual basis.

**Foreign currency translation** - Monetary assets and liabilities denominated in foreign currencies are translated into RUR at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain/(loss) on foreign exchange operations.

**Rates of exchange** - The exchange rates at year-end used by the Bank in the preparation of the consolidated financial statements are as follows:

	<b>31 December 2004</b>	<b>31 December 2003</b>
RUR/1 US Dollar	27.7487	29.4545
RUR/1 Euro	37.8104	36.8240
RUR/Swiss Franc	24.4827	23.5995
RUR/Gold (1 ounce)	12,087.33	12,289.90
RUR/Palladium (1 ounce)	5,105.76	6,397.89
RUR/Platinum (1 ounce)	23,850.01	21,734.45

**Fiduciary activities** - The Bank provides trustee services to its customers. Also the Bank provides depositary services to its customers that include transactions with securities on their depo accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Bank's financial statements. The Bank accepts the operational risk on these activities, but the Bank's customers bear the credit and market risks associated with such operations.



**Reclassifications** - Certain reclassifications have been made to the financial statements as of 31 December 2003 and for the year then ended to conform to the presentation as of 31 December 2004 and for the year then ended.

#### 4. ACQUISITION OF A SUBSIDIARY

In 2004 the Bank established a special purpose entity Russia International Card Finance S.A. that was purely engaged in issuing Bank's eurobonds due 2009. This company is consolidated in the financial statements of the Bank as the Bank exercises control over the companies operating and financial policies within the framework of the transaction documents on eurobonds issue.

In December 2003 the Bank acquired 50.00002% interest in CB Belrosbank in exchange of cash consideration. At the date of acquisition the Bank recognized identifiable assets and liabilities of the CB Belrosbank at its fair value and negative goodwill arising on the acquisition. Negative goodwill was calculated as difference between net assets of CB Belrosbank calculated based on market value and/or discounted cash flow (interest rate) model and the amount of cash paid.

Below is the calculation of negative goodwill recorded in the Bank's consolidated financial statements with respect to the Bank's acquisition of CB Belrosbank and computed as of the date of acquisition:

	<b>CB Belrosbank 16 December 2003 RUR'000</b>
<b>Assets</b>	
Cash and cash equivalents	112,031
Other current assets	365,008
Non-current assets	6,328
Total assets	<u>483,367</u>
<b>Liabilities</b>	
Current liabilities	<u>298,577</u>
<b>Net assets</b>	<u>184,790</u>
Share in net assets acquired by the Bank	50.00002%
Value of the consideration given	<u>84,054</u>
<b>Negative goodwill</b>	<u><u>8,341</u></u>

Negative goodwill of RUR 8,341 thousand was recorded in the profit and loss account for the year ended 31 December 2003 as part of other income.

Movement in minority interest during the year ended 31 December 2004 comprise:

	<b>Year ended 31 December 2004 RUR'000</b>
31 December 2003	92,395
Change for the period	<u>1,754</u>
31 December 2004	<u><u>94,149</u></u>

## 5. NET INTEREST INCOME

	<b>Year ended 31 December 2004 RUR'000</b>	<b>Year ended 31 December 2003 RUR'000</b>
<b>Interest income</b>		
Interest on loans to corporate customers	7,713,808	4,736,223
Interest on loans and advances to banks	1,074,132	562,795
Interest on debt securities	625,476	1,860,641
Interest income on loans to individuals	313,810	59,223
Interest on reverse repurchase transactions	<u>18,351</u>	<u>13,578</u>
<b>Total interest income</b>	<u><b>9,745,577</b></u>	<u><b>7,232,460</b></u>
<b>Interest expense</b>		
Interest on corporate customer accounts	2,291,184	1,515,825
Interest expense on customer accounts of individuals	1,724,632	1,170,033
Interest on debt securities issued	938,088	1,373,580
Interest on loans and advances from banks	<u>619,666</u>	<u>417,017</u>
<b>Total interest expense</b>	<u><b>5,573,570</b></u>	<u><b>4,476,455</b></u>
Net interest income before provision for loan losses	<u><u>4,172,007</u></u>	<u><u>2,756,005</u></u>

## 6. ALLOWANCE FOR LOSSES AND IMPAIRMENT, OTHER PROVISIONS

The movements in allowance for losses on interest earning assets were as follows:

	<b>Loans and advances to banks RUR'000</b>	<b>Loans to customers RUR'000</b>	<b>Total RUR'000</b>
31 December 2002	89,270	2,180,775	2,270,045
(Recovery)/Provision	(58,114)	184,129	126,015
Write-off of assets	-	(1,008)	(1,008)
Recoveries of assets previously written off	-	58,514	58,514
	<u>31,156</u>	<u>2,422,410</u>	<u>2,453,566</u>
31 December 2003	31,156	2,422,410	2,453,566
(Recovery)/ Provision	(30,750)	406,836	376,086
Write-off of assets	(200)	-	(200)
	<u>206</u>	<u>2,829,246</u>	<u>2,829,452</u>
31 December 2004	<u>206</u>	<u>2,829,246</u>	<u>2,829,452</u>

The movements in allowances for losses on other transactions were as follows:

	<b>Investment securities RUR'000</b>	<b>Other assets RUR'000</b>	<b>Guarantees and other commitments RUR'000</b>	<b>Total RUR'000</b>
31 December 2002	90,166	18,372	218,255	326,793
Provision	4,428	469	129,140	134,037
	<u>94,594</u>	<u>18,841</u>	<u>347,395</u>	<u>460,830</u>
31 December 2003	94,594	18,841	347,395	460,830
Provision	28,512	6,860	102,714	138,086
Write-off of assets	-	-	(210,300)	(210,300)
	<u>123,106</u>	<u>25,701</u>	<u>239,809</u>	<u>388,616</u>
31 December 2004	<u>123,106</u>	<u>25,701</u>	<u>239,809</u>	<u>388,616</u>

Allowances for losses on assets are deducted from the related assets. Provisions for claims, guarantees and commitments are recorded in liabilities.

## 7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2004 RUR'000	Year ended 31 December 2003 RUR'000
<b>Fee and commission income:</b>		
Settlements	681,594	377,647
Depository and securities operations	429,787	107,158
Cash operations	152,533	130,112
Foreign exchange operations	151,135	115,965
Guarantees	150,295	202,220
Documentary operations	22,216	25,685
Other	37,144	24,651
	<u>1,624,704</u>	<u>983,438</u>
<b>Total fee and commission income</b>	<b>1,624,704</b>	<b>983,438</b>
<b>Fee and commission expense:</b>		
Settlements	424,325	237,461
Securities operations	27,636	31,071
Cash operations	11,373	11,537
Foreign exchange operations	7,794	5,797
	<u>471,128</u>	<u>285,866</u>
<b>Total fee and commission expense</b>	<b>471,128</b>	<b>285,866</b>

## 8. OPERATING EXPENSES

	Year ended 31 December 2004 RUR'000	Year ended 31 December 2003 RUR'000
Staff costs	2,664,171	2,079,415
Operating lease expense	500,711	423,049
Taxes, other than income tax	188,599	116,885
Professional services fees	151,259	66,533
Repairs and maintenance expense	110,450	77,161
Advertising and marketing expenses	93,952	49,999
Security costs	56,273	43,106
Customs duties	35,067	36,804
Telecommunication service expenses	34,282	18,120
Insurance	33,425	26,058
Depreciation of fixed and intangible assets	32,212	33,820
Expenses on stationery and other office expenses	28,335	17,172
Business trip expenses	24,523	21,400
Representation expenses	23,272	14,911
Charity expenses	18,624	15,406
Penalties paid	13,178	931
Other	37,518	66,791
	<u>4,045,851</u>	<u>3,107,561</u>
<b>Total operating expenses</b>	<b>4,045,851</b>	<b>3,107,561</b>

## 9. INCOME TAXES

The Bank provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of countries where the Bank and its subsidiaries operate and which may differ from International Financial Reporting Standards.

The Bank is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 December 2004 and 2003 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as of 31 December 2004 and 2003 comprise:

	<b>31 December 2004 RUR'000</b>	<b>31 December 2003 RUR'000</b>
Deferred assets:		
Loans to banks and customers	1,758,416	2,559,632
Securities held-for-sale	47,054	-
Investments	15,880	-
Fixed assets	17,336	1,083
Other assets	20,309	-
Deposits from banks and customer accounts	-	25,135
Other liabilities	433,731	8,701
<b>Total deferred assets</b>	<b><u>2,292,726</u></b>	<b><u>2,594,551</u></b>
Deferred liabilities:		
Trading assets	-	(121,076)
Securities available-for-sale	-	(7,494)
Other assets	-	(150,063)
Deposits from banks and customer accounts	(15,947)	-
<b>Total deferred liabilities</b>	<b><u>(15,947)</u></b>	<b><u>(278,633)</u></b>
Net deferred assets	<u>2,276,779</u>	<u>2,315,918</u>
Deferred tax assets at the statutory rate of 24%	546,427	557,619
Deferred tax liability at the statutory rate of 15%	-	(1,124)
Total deferred tax assets	546,427	556,495
Less: valuation allowance	(546,427)	(556,495)
<b>Net deferred tax asset</b>	<b><u>-</u></b>	<b><u>-</u></b>

Relationships between tax expenses and accounting profit for the years ended 31 December 2004 and 2003 are explained as follows:

	<b>Year ended 31 December 2004 RUR'000</b>	<b>Year ended 31 December 2003 RUR'000</b>
<b>Profit before income taxes and minority interest</b>	<u>1,353,203</u>	<u>1,173,289</u>
Statutory tax rate	24%	24%
Theoretical tax at the statutory tax rate	324,769	281,589
Tax effect of permanent differences	155,026	199,281
Change in valuation allowance	<u>(10,068)</u>	<u>285,450</u>
<b>Income tax expense</b>	<u><b>469,727</b></u>	<u><b>766,320</b></u>
Current income tax expense	469,727	605,080
Current income tax expense for prior year – additional charge	-	<u>161,246</u>
<b>Income tax expense</b>	<u><b>469,727</b></u>	<u><b>766,320</b></u>

Income tax assets and liabilities consist of the following:

	<b>31 December 2004 RUR'000</b>	<b>31 December 2003 RUR'000</b>
Current income tax assets/(liabilities)	255,362	(214,320)
Deferred income tax assets/(liabilities)	-	-
<b>Income tax assets/(liabilities)</b>	<u><b>255,362</b></u>	<u><b>(214,320)</b></u>

## 10. EARNINGS PER SHARE

	<b>Year ended 31 December 2004</b>	<b>Year ended 31 December 2003</b>
<b>Profit:</b>		
Net income for the year (RUR'000)	<u>881,722</u>	<u>406,969</u>
<b>Weighted average number of ordinary shares</b> for basic and diluted earnings per share	<u>340,528,420</u>	<u>340,528,420</u>
<b>Earnings per share – basic and diluted (RUR)</b>	<u><b>2.6</b></u>	<u><b>1.2</b></u>

## 11. CASH AND BALANCES WITH CENTRAL AND NATIONAL BANKS

	<b>31 December 2004 RUR'000</b>	<b>31 December 2003 RUR'000</b>
Cash on hand	2,691,000	1,896,617
Balance with Central and National banks	21,869,307	13,759,104
Time deposit with the Central Bank of the Russian Federation	-	<u>2,500,000</u>
<b>Total cash and balances with Central and National banks</b>	<u><b>24,560,307</b></u>	<u><b>18,155,721</b></u>

The balances with Central and National banks comprise of balances with the Central Bank of the Russian Federation, the National Bank of Switzerland and the National Bank of Byelorussia as of 31 December 2004 and 2003 and include RUR 3,144,349 thousand and RUR 7,015,281 thousand, respectively, which represent the minimum reserve deposits required by Central and National banks. The Bank is required to maintain the reserve balance at Central and National banks at all times.

Cash and cash equivalents for the purposes of the statement of cash flows comprise:

	<b>31 December 2004 RUR'000</b>	<b>31 December 2003 RUR'000</b>
Cash and balances with Central and National banks	24,560,307	18,155,721
Loans and advances to banks in OECD countries	15,504,133	5,585,212
Trading government debt securities	588,711	179,776
Precious metals in vault	68,714	38,550
	<u>40,721,865</u>	<u>23,959,259</u>
Less minimum reserve deposit with Central and National banks	<u>(3,144,349)</u>	<u>(7,015,281)</u>
<b>Cash and cash equivalents</b>	<b><u>37,577,516</u></b>	<b><u>16,943,978</u></b>

## 12. LOANS AND ADVANCES TO BANKS

	<b>31 December 2004 RUR'000</b>	<b>31 December 2003 RUR'000</b>
Loans to banks	18,902,471	2,306,845
Advances to banks	9,105,231	7,109,401
Accrued interest income on loans and advances to banks	58,889	43,404
	<u>28,066,591</u>	<u>9,459,650</u>
Less allowance for loan losses	<u>(206)</u>	<u>(31,156)</u>
<b>Total loans and advances to banks, net</b>	<b><u>28,066,385</u></b>	<b><u>9,428,494</u></b>

Movements in allowances for loan losses and advances to banks for the years ended 31 December 2004 and 2003 are disclosed in Note 6.

As of 31 December 2004 included in loans to banks are loans collateralized by pledge of securities purchased under agreement to resell amounting to RUR 439,279 thousand. The reverse repurchase agreements were settled in January-February 2005. Securities purchased under the agreement to resell comprise of Bonds of Voronezh Region Authority, Bonds of Novosibirsk City Authority, Bonds of JSC YuTK and Ordinary Shares of JSC Gazprom with fair value of RUR 496,888 thousand as of 31 December 2004.

As of 31 December 2004 and 2003 the Bank had loans and advances to 10 and one counterparties totaling RUR 21,759,305 thousand and RUR 5,669,067 thousand, respectively, which individually exceeded 10% of the Bank's equity.

### 13. TRADING ASSETS

	<b>31 December 2004 RUR'000</b>	<b>31 December 2003 RUR'000</b>
Securities held-for-trading	5,367,219	8,135,326
Precious metals	68,714	38,550
Derivative financial instruments	77,163	91,829
<b>Total trading assets</b>	<b>5,513,096</b>	<b>8,265,705</b>

Securities held-for-trading comprise:

	<b>31 December 2004 RUR'000</b>	<b>31 December 2003 RUR'000</b>
Debt securities of corporates	3,239,573	3,688,092
Debt securities of local authorities	1,330,033	2,414,616
Debt securities of central government	588,711	179,776
Equity securities	163,486	1,534,992
Debt securities of financial institutions	45,416	218,241
Other securities	-	99,609
<b>Total securities held-for-trading</b>	<b>5,367,219</b>	<b>8,135,326</b>

	<b>% rate to nominal</b>	<b>31 December 2004 RUR'000</b>	<b>% rate to nominal</b>	<b>31 December 2003 RUR'000</b>
<b>Debt securities:</b>				
<b>Corporates:</b>				
Bonds of LLC Neftegazovaya kompaniya Itera	14%	803,627	-	-
Bonds of LLC Roshleboproduct	12%	602,161	-	-
Eurobonds of JSC Norilsk Nickel	7%	467,705	-	-
Bonds of JSC Salyut-Energiya	14%	464,830	-	-
Bonds of JSC Uglemet-trading	12%	225,385	12%	488,586
Bonds of MIG Finance	16%	182,307	-	-
Bonds of SU-155 Capital	12%	180,935	-	-
Eurobonds of JSC Sistema	9%	101,985	10-11%	204,182
Bonds of JSC Salavatnefteorgsintez	9%	100,674	-	-
Promissory notes of Byelorussian companies	-	49,486	-	-
Bonds of JSC YuTK	12%	31,820	-	-
Eurobonds of MMK Finance	10%	20,501	8-10%	795,326
Bonds of JSC Chelyabinsky Metallurgichesky Kombinat	12%	8,157	11%	72,425
Bonds of LLC Russky Aluminy Finance	-	-	10%	187,774
Bonds of JSC Eastline	-	-	14%	600,805
Bonds of JSC IAPO	-	-	12-17%	254,250
Eurobonds of Euraz Securities	-	-	9%	240,096
Bonds of RAO UES	-	-	15%	167,590
Eurobonds of JSC Rosneft	-	-	13%	137,202
Bonds of JSC Alrosa	-	-	16%	113,301
Eurobonds of JSC MTS	-	-	10%	99,560
Bonds of JSC Mikoyanovsky Myasokombinat	-	-	15%	81,644
Eurobonds of JSC Sibneft	-	-	11-12%	69,224



	% rate to nominal	31 December 2004 RUR'000	% rate to nominal	31 December 2003 RUR'000
Bonds of RITEK	-	-	9%	68,694
Bonds of JSC Severo-Zapadny Telecom	-	-	14%	50,886
Eurobonds of JSC Alrosa	-	-	8%	40,283
Bonds of JSC Centrtelecom	-	-	12%	16,264
		<u>3,239,573</u>		<u>3,688,092</u>
<b>Local authorities:</b>				
Bonds of Novosibirsk City Authority	13-16%	231,594	16%	367,984
Bonds of Yakutia Region Authority	10-14%	218,044	-	-
Bonds of Krasnoyarsk Region Authority	10-11%	200,235	14%	881,904
Bonds of Irkutsk Region Authority	12%	177,214	-	-
Bonds of Krasnoyarsk City Authority	3-11%	139,026	11%	239,404
Bonds of Chuvashia Region Authority	10-12%	121,294	12%	39,308
Bonds of Khabarovsk Region Authority	12-13%	95,747	13%	62,921
Bonds of Moscow City Authority	10%	93,931	10-15%	587,593
Bonds of Voronezh Region Authority	13%	45,869	-	-
Bonds of Yaroslavl Region Authority	11%	3,694	14%	28,204
Bonds of St-Peterburg City Authority	9-10%	3,385	9-15%	81,640
Bonds of Moscow Region Authority	-	-	11-17%	101,609
Bonds of Ufa City Authority	-	-	10%	24,049
		<u>1,330,033</u>		<u>2,414,616</u>
<b>Central government:</b>				
T-bills of MF of Byelorussia	-	586,811	-	-
RF Government Eurobonds	5%	1,900	5-10%	55,214
OVGVZ Bonds	-	-	3%	78,898
OFZ bonds	-	-	11%	45,664
		<u>588,711</u>		<u>179,776</u>
<b>Financial institutions:</b>				
Promissory notes of Byelorussian banks	-	45,416	-	-
Bonds of JSC Vneshtorgbank	-	-	15%	218,241
		<u>45,416</u>		<u>218,241</u>

	31 December 2004 RUR'000	31 December 2003 RUR'000
<b>Equity securities:</b>		
Ordinary shares of RAO UES	135,539	420,241
ADR on shares of GMK Norilsky Nickel	12,209	-
Ordinary shares of JSC YUKOS	6,701	-
Ordinary shares of Easter Prop. Hold	2,517	-
Ordinary shares of Lukoil	1,894	-
Ordinary shares of Deutsche Telekom	1,395	-
Preferred shares of RAO UES	1,204	-
Ordinary shares of GUM	1,134	-
ADR on shares of JSC YUKOS	793	-
Preferred shares of JSC Transneft	-	615,515
Ordinary shares of JSC Gazprom	-	407,748
Ordinary shares of JSC Avtovaz	-	82,811

Other	100	8,677
	<u>163,486</u>	<u>1,534,992</u>

As of 31 December 2004 and 2003 included in trading securities is accrued interest income on debt securities amounting to RUR 39,069 thousand and RUR 118,498 thousand, respectively.

As of 31 December 2004 included in trading securities are Bonds of MF of Byelorussia sold under the agreement to repurchase.

Russian State Bonds (OFZ bonds) are Rouble denominated government securities issued at discount to face value and guaranteed by the Ministry of Finance of the Russian Federation with a medium to long-term maturities. Interest on bonds is paid on a quarterly basis.

RF Government Eurobonds are securities issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. As of 31 December 2004 and 2003 the Bank's portfolio of Russian Eurobonds consisted of one and four tranches, respectively, that mature in 2007 - 2030. Interest on these bonds is paid semi-annually.

MinFin Bonds (OVGVZ Bonds) are securities issued by the Ministry of Finance of the Russian Federation, which are freely tradable internationally. As of 31 December 2003 the Bank's portfolio of the bonds consisted of two tranches that mature in 2007-2008. Interest on these bonds is paid on an annual basis.

Precious metals (bullion in vault) comprise:

	<b>31 December 2004 RUR'000</b>	<b>31 December 2003 RUR'000</b>
Platinum	41,122	12,395
Gold	27,592	4,417
Silver	-	21,738
	<u><b>68,714</b></u>	<u><b>38,550</b></u>

## 14. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank enters into derivative financial instruments for trading purposes. The Bank's position and fair value of derivatives outstanding as of 31 December 2004 and 2003 comprise:

	31 December 2004				31 December 2003			
	Notional principal	Fair values		Net fair value	Notional principal	Fair value		Net fair value
	RUR'000	Asset	Liability	RUR'000	RUR'000	Asset	Liability	RUR'000
<b>Foreign exchange contracts</b>								
Forwards								
Positive replacement value	1,683,516	1,737,391	(1,683,516)	53,875	421,995	431,668	(421,995)	9,673
Negative replacement value	2,712,304	2,696,686	(2,712,304)	(15,618)	1,137,764	1,132,559	(1,137,764)	(5,205)
Swaps								
Positive replacement value	33,441	33,635	(33,441)	194	1,381,416	1,463,259	(1,381,416)	81,843
Negative replacement value	187,617	187,250	(187,617)	(367)	36,824	36,508	(36,824)	(316)
<b>Total foreign exchange contracts asset/(liabilities)</b>	<b>4,616,878</b>	<b>4,654,962</b>	<b>(4,616,878)</b>	<b>38,084</b>	<b>2,977,999</b>	<b>3,063,994</b>	<b>(2,977,999)</b>	<b>85,995</b>
<b>Contracts on precious metals</b>								
Forwards								
Positive replacement value	37,678	37,850	(37,678)	172	397,102	397,415	(397,102)	313
Negative replacement value	16,393	16,009	(16,393)	(384)	318,795	315,615	(318,795)	(3,180)
Swaps								
Positive replacement value	565,566	587,091	(565,566)	21,525	-	-	-	-
Negative replacement value	248,961	233,660	(248,961)	(15,301)	-	-	-	-
<b>Total contracts on precious metals asset/ (liabilities)</b>	<b>868,598</b>	<b>874,610</b>	<b>(868,598)</b>	<b>6,012</b>	<b>715,897</b>	<b>713,030</b>	<b>(715,897)</b>	<b>(2,867)</b>
<b>Contracts on securities</b>								
Forwards								
Positive replacement value	261,723	263,120	(261,723)	1,397	-	-	-	-
Negative replacement value	905	703	(905)	(202)	-	-	-	-
<b>Total contracts on securities asset/(liabilities)</b>	<b>262,628</b>	<b>263,823</b>	<b>(262,628)</b>	<b>1,195</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 15. LOANS TO CUSTOMERS

	31 December 2004 RUR'000	31 December 2003 RUR'000
Originated loans	59,703,344	54,274,410
Accrued interest income on loans to customers	239,811	492,311
	59,943,155	54,766,721
Less allowance for loan losses	(2,829,246)	(2,422,410)
<b>Total loans to customers, net</b>	<b>57,113,909</b>	<b>52,344,311</b>

	<b>31 December 2004 RUR'000</b>	<b>31 December 2003 RUR'000</b>
Loans collateralized by pledge of equipment	10,837,503	5,755,331
Loans collateralized by pledge of goods in turnover	6,861,365	3,696,142
Loans collateralized by pledge of real estate	3,304,459	588,030
Loans collateralized by pledge of securities	1,822,053	2,582,241
Loans collateralized by others	2,569,213	1,313,686
Loans collateralized by corporate guarantees	836,222	4,573,423
Unsecured loans	33,472,529	35,765,557
Accrued interest income on loans to customers	239,811	492,311
	<u>59,943,155</u>	<u>54,766,721</u>
Less allowance for loan losses	<u>(2,829,246)</u>	<u>(2,422,410)</u>
<b>Total loans to customers, net</b>	<b><u>57,113,909</u></b>	<b><u>52,344,311</u></b>

Movements in allowances for loan losses for the years ended 31 December 2004 and 2003 are disclosed in Note 6.

	<b>31 December 2004 RUR'000</b>	<b>31 December 2003 RUR'000</b>
<b>Analysis by industry:</b>		
Trade	7,085,065	8,347,963
Individuals	6,822,104	1,231,482
Finance	5,247,288	6,420,555
Aircraft engineering	4,342,416	4,017,582
Real estate and leasing	4,273,613	2,310,450
Government	3,914,898	5,199,675
Construction	3,549,402	1,066,827
Ferrous metals manufacturing	3,535,256	1,856,822
Engineering	3,523,925	1,822,878
Manufacturing	2,689,624	4,843,035
Food industry	2,512,414	1,638,833
Oil and gas	2,450,494	2,041,057
Telecommunications	2,442,865	2,706,987
Energy industry	2,363,955	514,328
Heavy industry	1,410,967	398,665
Precious metals and diamond extraction and manufacturing	941,477	2,000,206
Transport	753,181	4,322,154
Agriculture	659,038	697,663
Chemical	443,319	590,594
Non-ferrous metals manufacturing	131,213	40,140
Hotel business	-	578,064
Other	610,830	1,628,450
Accrued interest income on loans and advances to customers	239,811	492,311
	<u>59,943,155</u>	<u>54,766,721</u>
Less allowance for loan losses	<u>(2,829,246)</u>	<u>(2,422,410)</u>
<b>Total loans to customers, net</b>	<b><u>57,113,909</u></b>	<b><u>52,344,311</u></b>

As of 31 December 2004 and 2003 included in loans to customers are non-accrual loans which amounted to RUR 871,881 thousand and RUR 517,011 thousand, respectively.

As of 31 December 2004 and 2003 the total amount of interest on these loans not recognized as income amounted to RUR 179,096 thousand and RUR 47,841 thousand, respectively.

As of 31 December 2004 and 2003 the Bank had loans to eight and ten customers totaling RUR 9,813,770 thousand and RUR 12,670,152 thousand, respectively, which individually exceeded 10% of the Bank's equity.

As of 31 December 2004 and 2003 included in loans and advances to customers are loans of RUR 1,693,718 thousand and RUR 2,178,180 thousand, respectively, pledged under advances received from the National Bank of Byelorussia of RUR 1,273,123 thousand and RUR 1,391,600 thousand, respectively.

## 16. INVESTMENT SECURITIES

	<b>31 December 2004 RUR'000</b>	<b>31 December 2003 RUR'000</b>
Securities available-for-sale	4,009,288	2,865,540
Securities held-to-maturity	-	132,378
	<u>4,009,288</u>	<u>2,997,918</u>
Less allowance for impairment	(123,106)	(94,594)
<b>Total investment securities, net</b>	<b><u>3,886,182</u></b>	<b><u>2,903,324</u></b>

Movements in allowance for impairment for the years ended 31 December 2004 and 2003 are disclosed in Note 6.

Available-for-sale securities comprise:

	<b>31 December 2004 RUR'000</b>	<b>31 December 2003 RUR'000</b>
Ordinary shares of GMK Norilsky Nickel	1,424,983	-
Promissory notes of JSC Vneshtorgbank	1,229,600	28,382
OFZ Bonds	578,485	435,768
Ordinary shares of JSC Kamaz	197,103	176,661
Non-consolidated subsidiaries, associates and other investments	185,772	135,270
Credit Linked Notes of JSC Salavatnefteorgsintez SNOS due May 2008	181,570	-
Ordinary shares of JSC "AutoVaz"	77,610	-
Ordinary shares of JSC NPO IRKUT	36,287	-
Preferred shares of JSC Sberbank	25,730	-
OVGZ bonds	24,443	-
Ordinary shares of JSC Surgutneftegaz	23,996	-
Ordinary shares of Hotel Nizhny Novgorod	10,200	-
Ordinary shares of JSC Sosnovo-Borsky Aluminievy Zavod	6,340	-
Bonds of Omsk city authority	2,614	-
Preferred shares of JSC Rudnik Matrosova	1,777	-
Ordinary shares of JSC Rudnik Matrosova	1,640	-
Eurobonds of Russian Federation	781	-
Ordinary shares of JSC MGTS	299	-
Ordinary shares of JSC Silovie Mashini-ZIL	-	133,598
Ordinary shares of JSC Sibirtelecom	-	37,853
Preferred shares of JSC Sibirtelecom	-	11,730
Promissory notes of JSC Sberbank	-	790,448
Promissory notes of JSC Gazprombank	-	272,100
Promissory notes of JSC Alfa-Bank	-	411,668
Bonds of MMK Finance	-	103,390
Promissory notes of JSC MDM-Bank	-	101,719
Ordinary shares of JSC Krasnoyarskenergo	-	100,925
Promissory notes of Impexbank	-	70,029
Promissory notes of JSC Uralo-Sibirsky Bank	-	28,431
Other securities	58	27,568
	<u>4,009,288</u>	<u>2,865,540</u>
Less allowance for impairment	(123,106)	(94,594)
<b>Total available-for-sale securities, net</b>	<b><u>3,886,182</u></b>	<b><u>2,770,946</u></b>

As of 31 December 2004 and 2003 included in securities available-for-sale was accrued interest income on debt securities amounting to RUR 19,287 thousand and RUR 13,866 thousand, respectively.

As of 31 December 2003 included in securities available-for-sale are OFZ bonds of RUR 327,190 thousand, that are pledged under general agreements on money market transactions. As of 31 December 2003 the Bank had no funds received under the above-mentioned agreements.

Russian State Bonds (OFZ Bonds) are Rouble denominated government securities issued at discount to face value and guaranteed by the Ministry of Finance of the Russian Federation with a medium to long-term maturities. Interest on OFZ Bonds is paid on a quarterly basis.

RF Government Eurobonds are securities issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. As of 31 December 2004 the Bank's portfolio of Russian Eurobonds consisted of three tranches, that mature in 2007 - 2030. Interest on these bonds is paid semi-annually.

MinFin Bonds (OVGVZ Bonds) are securities issued by the Ministry of Finance of the Russian Federation, which are freely tradable internationally. As of 31 December 2004 and 2003 the Bank's portfolio of the bonds consisted of two tranches that mature in 2007-2008. Interest on these bonds is paid on an annual basis.

Securities held-to-maturity comprise:

	<b>31 December 2004 RUR'000</b>	<b>31 December 2003 RUR'000</b>
OFZ Bonds	-	18,189
Promissory notes of Russian corporations	-	114,189
<b>Total securities held-to-maturity</b>	<b>-</b>	<b>132,378</b>

Non-consolidated subsidiaries and associates and other investments comprise:

	<b>31 December 2004 RUR'000</b>	<b>31 December 2003 RUR'000</b>
Subsidiaries	25,629	560
Associates	44,133	21,565
Other	116,010	113,145
	<u>185,772</u>	<u>135,270</u>
Less allowance for impairment	(8,642)	(42,159)
<b>Total, non-consolidated subsidiaries and associates and other investments, net</b>	<b><u>177,130</u></b>	<b><u>93,111</u></b>

Investments in non-consolidated subsidiaries and associates comprise:

	<b>Country</b>	<b>Industry</b>	<b>Share of ownership</b>	<b>31 December 2004 RUR'000</b>	<b>Share of ownership</b>	<b>31 December 2003 RUR'000</b>
<b>Subsidiaries</b>						
JSC KUI Yamal	Russia	Finance	75%	25,149	-	-
LLC Security Agency Shield Plus	Russia	Security	100%	300	100%	300
LLC OP Regional detective agency	Russia	Security	100%	110	100%	110
LLC Trapeznaya	Russia	Catering	100%	50	100%	50
		Plastic cards and				
LLC Processing company Nickel	Russia	processing	100%	10	100%	10
CJC RB Finance	Russia	Finance	100%	10	100%	10
				<u>25,629</u>		<u>480</u>
<b>Associates</b>						
JSC Tverskaya 16	Russia	Real estate	20%	26,260	-	-
JSC National Registration Company	Russia	Finance	20%	9,394	20%	9,394
LLC Interbank Loan Union	Russia	Finance	31%	8,466	31%	8,466
JSC Rosinspektorat	Russia	Other	28%	13	28%	13
JSC DCC	Russia	Finance		-	27%	3,692
				<u>44,133</u>		<u>21,565</u>

During the year ended 31 December 2004 the Bank disposed off all shares in JSC DCC.

During the year ended 31 December 2004 the Bank disposed off 85% share in non-consolidated subsidiary LLC PMD-Shield.

Currently, it is not possible to reasonably estimate the fair value of the investments listed above, therefore these investments are stated at cost less allowance for impairment (if any).

## 17. FIXED ASSETS

	<b>Buildings</b>	<b>Furniture and equipment</b>	<b>Intangible assets</b>	<b>Total</b>
	<b>RUR'000</b>	<b>RUR'000</b>	<b>RUR'000</b>	<b>RUR'000</b>
<b>At cost</b>				
31 December 2003	77,227	125,016	118,826	321,069
Additions	5,827	19,431	1,769	27,027
Disposals	-	(4,766)	-	(4,766)
	<u>83,054</u>	<u>139,681</u>	<u>120,595</u>	<u>343,330</u>
31 December 2004	<u>83,054</u>	<u>139,681</u>	<u>120,595</u>	<u>343,330</u>
<b>Accumulated depreciation</b>				
31 December 2003	31,331	88,548	71,660	191,539
Charge for the year	700	20,809	10,703	32,212
Disposals	-	(3,306)	-	(3,306)
	<u>32,031</u>	<u>106,051</u>	<u>82,363</u>	<u>220,445</u>
31 December 2004	<u>32,031</u>	<u>106,051</u>	<u>82,363</u>	<u>220,445</u>
<b>Net book value</b>				
31 December 2004	<u>51,023</u>	<u>33,630</u>	<u>38,232</u>	<u>122,885</u>
31 December 2003	<u>45,896</u>	<u>36,468</u>	<u>47,166</u>	<u>129,530</u>

## 18. OTHER ASSETS

	<b>31 December 2004 RUR'000</b>	<b>31 December 2003 RUR'000</b>
Debtors on plastic cards settlements	209,502	104,987
Due from suppliers and other contractors	89,508	84,264
Receivable financial asset on spot deals	8,490	-
Taxes, other than income tax, recoverable	839	459
Accrued commissions on fiduciary operations	-	174,694
Other	70,536	99,403
	<u>378,875</u>	<u>463,807</u>
Less allowance for losses on other assets	<u>(25,701)</u>	<u>(18,841)</u>
<b>Total other assets, net</b>	<u><b>353,174</b></u>	<u><b>444,966</b></u>

Movements in allowance for losses for the years ended 31 December 2004 and 2003 are disclosed in Note 6.



## 19. LOANS AND ADVANCES FROM BANKS

	<b>31 December 2004 RUR'000</b>	<b>31 December 2003 RUR'000</b>
Time deposits	7,626,354	6,572,276
Demand deposits	1,176,993	959,609
Securities sold under agreements to repurchase	11,027	-
Accrued interest expenses on deposits from banks	35,123	28,504
	<u>8,849,497</u>	<u>7,560,389</u>
<b>Total loans and advances from banks</b>	<b><u>8,849,497</u></b>	<b><u>7,560,389</u></b>

As of 31 December 2004 and 2003 included in deposits from banks are time and demand deposits denominated in gold bullion of RUR 1,100,131 thousand and RUR 397,354 thousand, respectively.

As of 31 December 2004 securities sold under the agreement to repurchase represent Bonds of MF of Byelorussia that are included in trading securities at the fair value of RUR 11,593 thousand.

As of 31 December 2004 and 2003 included in deposits from banks are time deposits from the National Bank of Byelorussia of RUR 1,273,123 thousand and RUR 2,127,963 thousand, respectively, that represents significant concentration. Out of these amounts RUR 1,273,123 thousand and RUR 1,391,600 thousand, respectively, were secured by pledge of loans granted to customers by the Bank of RUR 1,693,718 thousand and RUR 2,178,180 thousand as of 31 December 2004 and 2003, respectively.

In December 2004 the Bank received a syndicated loan of US Dollars 50 million that matures in December 2005 and bear annual interest rate of US Dollar LIBOR plus 2.75%.

## 20. CUSTOMER ACCOUNTS

Customer accounts comprise:

	<b>31 December 2004 RUR'000</b>	<b>31 December 2003 RUR'000</b>
Time deposits	59,955,171	34,732,647
Repayable on demand	20,091,908	23,828,278
Accrued interest expense on customer accounts	438,545	244,133
	<u>80,485,624</u>	<u>58,805,058</u>
<b>Total customer accounts</b>	<b><u>80,485,624</u></b>	<b><u>58,805,058</u></b>

As of 31 December 2004 and 2003 included in customer accounts are time and demand deposits denominated in precious metals of RUR 395,193 thousand and RUR 326,390 thousand, respectively.

As of 31 December 2004 and 2003 customer accounts of RUR 433,758 thousand and RUR 1,945,095 thousand were held as security against letters of credit and guarantees issued by the Bank.

<b>31 December 2004 RUR'000</b>	<b>31 December 2003 RUR'000</b>
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**Analysis by industry:**

Individuals	24,337,309	19,029,581
Non-ferrous metallurgy	16,325,770	8,617,516
Finance	12,222,997	13,606,173
Oil and gas	6,576,179	1,983,672
Ferrous metallurgy	5,427,568	5,598,109
Trading	3,577,064	1,635,581
Building construction	2,199,786	466,992
Housing	1,647,195	2,325,067
Real estate dealership	859,233	601,956
Hotel business	751,744	334,733
Insurance	740,814	78,713
Regional government	636,785	-
Aircraft industry	610,280	96,495
Mechanical engineering	589,555	255,852
Precious metals and diamond extraction and manufacturing	562,023	369,857
Communications	527,037	376,682
Public health and tourism	377,874	456,447
Geology	347,525	844,518
Professional services	343,357	525,456
Transportation	292,941	-
Electric power	244,205	158,228
Culture and art	141,555	27,116
Publishing	120,543	44,721
Information technology	112,038	-
Social organizations	83,789	144,067
Agriculture	41,673	1,682
Leasing	29,818	442,321
Supply and production distribution	22,288	32,140
Food industry	22,268	82,805
Defence industry	-	328,019
Other	275,866	96,426
Accrued interest expense on customer accounts	438,545	244,133
	<hr/>	<hr/>
Total customer accounts	80,485,624	58,805,058
	<hr/>	<hr/>

**21. DEBT SECURITIES ISSUED**

	<b>31 December 2004 RUR'000</b>	<b>31 December 2003 RUR'000</b>
Discount bearing promissory notes	7,528,822	6,284,947
Eurobonds due in 2009	6,131,746	-
Bonds due in 2009	2,030,000	-
Discount/interest free promissory notes	1,898,444	1,455,089
Adjustable Rate Guaranteed Bonds due in 2012	1,095,334	1,162,667
Certificates of deposit	342,324	6,834,666
Interest bearing promissory notes	-	34,595
Accrued interest expense on debt securities issued	139,525	56,525
	<hr/>	<hr/>
<b>Total debt securities issued</b>	<b>19,166,195</b>	<b>15,828,489</b>
	<hr/>	<hr/>

The eurobonds due in 2009 bear annual interest rate of 9.75%. The eurobonds are secured by future receivables under debit and credit card transactions. The bank is a settlement bank of a processing company United Card Systems on such transactions

## 22. OTHER LIABILITIES

	<b>31 December 2004 RUR'000</b>	<b>31 December 2003 RUR'000</b>
Accrued bonuses	382,870	225,000
Creditors on plastic cards settlements	55,984	86,003
Negative replacement value of derivatives	31,872	8,701
Taxes, other than income tax, payable	23,563	790
Creditors on operations with securities and precious metals	16,649	85,255
Financial liability on spot deals	14,023	-
Other creditors	84,419	81,916
<b>Total other liabilities</b>	<b>609,380</b>	<b>487,665</b>

## 23. SUBORDINATED DEBT

	<b>Maturity date year</b>	<b>Annual interest rate %</b>	<b>31 December 2004 RUR'000</b>	<b>31 December 2003 RUR'000</b>
Subordinated debt of CJSC Interros Estate	2010	8	850,000	-
Subordinated debt of CJSC Interros Estate	2012	10	600,000	-
<b>Total subordinated debt</b>			<b>1,450,000</b>	<b>-</b>

In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

Subordinated debt of CJSC Interros Estate was received in 2004.

## 24. SHARE CAPITAL AND SHARE PREMIUM

As of 31 December 2004 and 2003 nominal share capital authorized, issued and fully paid comprised 340,528,420 ordinary shares with par value of RUR 10 each. All shares are ranked equally and carry one vote.

Share premium of RUR 3,672,190 thousand represents the excess of contributions received in share capital over the nominal value of shares issued.

On 27 April 2004 Annual Shareholders' Meeting of the Bank authorized payment of dividends of RUR 0.88 per share for the year 2003. Dividends were paid 25 June 2004. As at 19 June 2003 Annual Shareholders' Meeting authorized payment of dividends of RUR 0.34 per share for the year 2002. Dividends were paid 31 July 2003.

The Bank's reserves distributable among shareholders are limited to the amount of its reserves as disclosed in statutory accounts of ROSBANK. As of 31 December 2004 and 2003, non-distributable reserves are represented by a general reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the ROSBANK's statutes that provide for the creation of a reserve for these purposes.

## 25. FINANCIAL COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

The Bank's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

The risk-weighted amount is obtained by applying credit conversion factors and counterparty risk weightings according to the principles employed by the Basle Committee on Banking Supervision.

As of 31 December 2004 and 2003, the nominal or contract amounts and the risk weighted credit equivalents of instruments with off-balance sheet risks were:

	31 December 2004		31 December 2003	
	Nominal Amount RUR'000	Risk Weighted Amount RUR'000	Nominal Amount RUR'000	Risk Weighted Amount RUR'000
<b>Contingent liabilities and credit commitments</b>				
Guarantees issued and similar commitments	7,165,121	7,140,972	9,568,390	8,130,555
Letters of credit and other transaction related contingent obligations	1,374,824	482,608	949,178	208,684
Commitments on credits and unused credit lines	15,891,455	4,235,813	16,881,354	3,326,165
	<b>24,431,400</b>	<b>11,859,393</b>	<b>27,398,922</b>	<b>11,665,404</b>

As of 31 December 2004 and 2003 letters of credit issued by the Bank of RUR 409,609 thousand and RUR 531,810 thousand, respectively, were collateralised by cash deposited with the Bank. As of 31 December 2004 and 2003, a provision of RUR 24,896 thousand and RUR 7,908 thousand was created with respect to losses on issued letters of credit.

As of 31 December 2004 and 2003 guarantees issued by the Bank of RUR 24,149 thousand and RUR 1,413,285 thousand respectively were collateralized by cash deposited with the Bank. The Bank has made a provision of RUR 119,809 thousand and RUR 131,878 thousand against commitments on guarantees issued as of 31 December 2004 and 2003, respectively.

**Capital commitments** - The Bank had no material commitments for capital expenditures outstanding as of 31 December 2004.

**Operating lease commitments** - Where the Bank is the lessee, the future minimum lease payments under non cancellable operating leases are as follows:

31 December 2004	31 December 2003
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	RUR'000	RUR'000
Not later than 1 year	573,771	198,216
Later than 1 year but not later than 5 years	859,233	322,840
Later than 5 years	62,905	16,368
	<u>1,495,909</u>	<u>537,424</u>

***Fiduciary activities*** - In the normal course of its business the Bank enters into agreements with limited right on decision making with clients for their assets management in accordance with specific criteria established by clients. The Bank may be liable for losses or actions aimed at appropriation of the clients' funds until such funds or securities are not returned to the client.

The maximum potential financial risk of the Bank at any given moment is equal to the volume of the clients' funds plus/minus any unrealized income/loss on the client's position. In the judgment of management, as of 31 December 2004 and 2003 the maximum potential financial risk on securities accepted by the Bank on behalf of its clients does not exceed RUR 719,474 thousand and RUR 290,757 thousand, respectively.

The Bank also provides depository services to its customers. As of 31 December 2004 and 2003 the Bank held the clients' securities on its accounts of 6,462,105,404 and 7,626,416,272 securities, respectively.

***Legal proceedings*** - From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

***Taxes*** - Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on management's judgment of the Bank's business activities was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest. The Bank believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax years remain open to review by the tax authorities for three years.

***Pensions and retirement plans*** - Employees receive pension benefits in accordance with the laws and regulations of the respective countries. As of 31 December 2004 and 2003, the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

***Operating environment*** - The Bank's principal business activities are within the Russian Federation. Laws and regulations affecting the business environment in the Russian Federation are subject to rapid changes and the Bank's assets and operations could be at risk due to negative changes in the political and business environment.

## 26. TRANSACTIONS WITH RELATED PARTIES

Related parties, as defined by IAS 24 "Related party disclosures", are those counter parties that represent:

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

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

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

	31 December 2004		31 December 2003	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
	RUR'000	RUR'000	RUR'000	RUR'000
Loans and advances to banks, gross	7,589,151	28,066,591	509,116	9,459,650
Allowance for loans and advances to banks	-	(206)	(10,182)	(31,156)
Securities held-for-trading	-	5,367,219	351,164	8,135,326
Loans to customers, gross	1,111,217	59,943,155	4,525,139	54,766,721
Allowance for loans to customers	(55,046)	(2,829,246)	(196,236)	(2,422,410)
Securities available-for-sale, gross	45,245	4,009,288	22,125	2,865,540
Allowance for impairment losses	(6,177)	(123,106)	(11,063)	(94,594)
Loans and advances from banks	274,429	8,849,497	200,703	7,560,389
Customer accounts	5,114,860	80,485,624	5,581,093	58,805,058
Subordinated debt	1,450,000	1,450,000	-	-
Commitments on credits and unused credit lines	-	15,891,455	7,778	16,881,354
Guarantees issued and similar commitments	4,693	7,165,121	396,848	9,568,390

During the years ended 31 December 2004 and 2003 the Bank originated loans and advances to banks and customers - related parties amounting to RUR 92,952,356 thousand and RUR 3,313,605 thousand, respectively, and received loans and advances repaid of RUR 89,286,243 thousand and RUR 2,826,963 thousand, respectively. The Bank has interest income accrued with respect to loans and advances granted to related parties totaling RUR 46,383 thousand and RUR 52,965 thousand, respectively, as of 31 December 2004 and 2003, respectively.

During the years ended 31 December 2004 and 2003 the Bank received advances from banks and customers - related parties of RUR 226,345,901 thousand and RUR 68,301,528 thousand,

respectively, and repaid deposits and advances totaling RUR 225,288,408 thousand and RUR 61,780,195 thousand, respectively. The Bank has interest expense accrued with respect to deposits and advances received from related parties, totaling RUR 21,313 thousand and RUR 42,793 thousand as of 31 December 2004 and 2003, respectively.

Included in the profit and loss account for the years ended 31 December 2004 and 2003 are the following amounts which arose due to transactions with related parties:

	2004		2003	
	Related party transactions	Total category as per financial statements caption RUR'000	Related party transactions	Total category as per financial statements caption RUR'000
	<u>RUR'000</u>		<u>RUR'000</u>	
Interest income	1,300,903	9,745,577	423,437	7,232,460
Interest expense	(385,557)	(5,573,570)	(290,766)	(4,476,455)
Fee and commission income	36,141	1,624,704	34,332	983,438
Operating expenses	(97,097)	(4,045,851)	(102,630)	(3,107,561)

Transactions with related parties entered by the Bank during the years ended 31 December 2004 and 2003 and outstanding as of 31 December 2004 and 2003 were made in the normal course of business and mostly under arm-length conditions.

## 27. SEGMENT REPORTING

The Bank's operations are highly integrated and primarily constitute a single industry segment, banking. Accordingly for the purposes of IAS No. 14 "Segment Reporting" the Bank is treated as one business segment. The Bank's assets are concentrated primarily in Russia, and the majority of the Bank's revenues and net profit is derived from operations in, and connected with, Russia. The banking activity consists of transactions with banks, corporates and individuals. Balances and results of such transactions are disclosed in the respective notes.

## 28. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Bank's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

As of 31 December 2004 and 2003 the following methods and assumptions were used by the Bank to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value.

***Cash and balances with the Central bank of the Russian Federation*** - For these short-term instruments the carrying amount is a reasonable estimate of fair value.

***Loans and advances to banks*** - As of 31 December 2004 and 2003, the carrying amount of deposits and advances given is a reasonable estimate of their fair value.

***Securities held-for-trading*** - As of 31 December 2004 and 2003 securities held-for-trading are stated at fair value. The fair value of securities held-for-trading was determined with reference to an active market.

***Derivative financial instruments*** - As of 31 December 2004 and 2003 derivative financial instruments are stated at fair value. Fair values of derivative financial instruments are determined based on interest rates models.

***Loans to customers*** - The fair value of the loan portfolio is based on the credit and interest rate characteristics of the individual loans within each sector of the portfolio. The estimation of the provision for loan losses includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation of the economic sector in which each borrower operates the economic situation of each borrower and guarantees obtained. Accordingly, the provision for loan losses is considered a reasonable estimate of the discount required to reflect the impact of credit risk.

***Securities available-for-sale*** - As of 31 December 2004 and 2003 marketable securities available-for-sale are stated at fair value amounting to RUR 3,606,398 thousand and RUR 2,526,041 thousand, respectively. Fair value of securities available-for-sale was determined with reference to an active market for those securities quoted publicly or at over-the-counter market. As of 31 December 2004 and 2003, non-marketable securities of RUR 402,890 thousand and RUR 339,499 thousand before allowance for impairment that do not have fixed maturities are stated at cost, less allowance for impairment as there are other appropriate and workable methods of reasonably estimating their fair value.

***Securities held-to-maturity*** - As of 31 December 2003 securities held-to-maturity are stated at cost and adjusted for accretion and amortization of premiums and discounts, respectively, which approximates the fair value.

***Deposits from banks*** - As of 31 December 2004 and 2003 the carrying amount is a reasonable estimate of their fair value.

***Customer accounts*** - As of 31 December 2004 and 2003 the carrying amount of time deposits and current accounts of the Bank's customers is a reasonable estimate of their fair value.



**Securities purchased and sold under agreements to resell and repurchase** - As of 31 December 2004 and 2003 the carrying value is a reasonable estimate of the fair value of securities purchased and sold under agreements to resell and repurchase. As of 31 December 2004 and 2003 the fair value of backed securities purchased under agreements to resell amounted to RUR 496,888 thousand and RUR 104,087 thousand and was determined with reference to an active market. As of 31 December 2004 the fair value of securities sold under agreements to repurchase amounted to RUR 11,593 thousand and was determined with reference to an active market.

**Debt securities issued** - Debt securities issued are stated at cost, adjusted for amortization of premium and discounts, which approximates their fair value.

**Subordinated debt** - As of 31 December 2004 and 2003 the carrying amount of subordinated debt is a reasonable estimate of its fair value.

## 29. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (as set forth in the table below) of total and Tier 1 capital to risk weighted assets.

The ratio was calculated according to the principles employed by the Basle Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for losses:

Estimate	Description of position
0%	Cash and balances with the Central and National Banks
0%	State debt securities
20%	Loans and advances to banks for up to 1 year
100%	Loans to customers
100%	Guarantees
50%	Obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Other assets

The Bank's actual capital amounts and ratios are presented in the following table:

Capital amounts and ratios	Actual amount	For Capital Adequacy purposes	Ratio for Capital Adequacy purposes	Minimum Required Ratio
	RUR'000	RUR'000	%	%
<b>As of 31 December 2004</b>				
Total capital	9,070,795	10,351,632	12.97%	8%
Tier 1 capital	9,070,795	9,070,795	11.36%	4%
<b>As of 31 December 2003</b>				
Total capital	8,428,735	9,391,949	12.05%	8%
Tier 1 capital	8,428,735	8,428,735	10.81%	4%

As of 31 December 2004 the Bank included in the computation of Total capital for Capital adequacy purposes the subordinated debt received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

### **30. SUBSEQUENT EVENTS**

On 2 February 2005 the Bank issued bonds of USD 75 mln at 9.75% per annum at a premium of 2%. The bonds are secured by future receivables under debit and credit card transactions. It is an additional issue to the bonds issued on 3 November 2004 of USD 225 mln.

On 3 March 2005 the Bank acquired controlling interest in JSB Bikalrosbank and CJSB Rosbank-Volga according to the agreement with shareholders of these banks.

### **31. RISK MANAGEMENT POLICIES**

Management of risk is fundamental to the Bank's banking business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Bank's risk management policies in relation to those risks follows.

The Bank manages the following risks:

#### **Liquidity risk**

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

Liquidity and cash flow risks are managed by the Treasury department. Strategic decisions and overall risk monitoring is provided by the Management Board and Credit Committee.

#### **Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments.

Interest rate is managed within the limit framework as established in accordance with the standards set by the Bank. Interest rate risks are controlled via regular interest rate gap reporting. The Bank does not perform hedging activities thus no risk management policy for hedging transactions has been developed.

The following table presents an analysis of interest rate risk and thus the potential of the Bank for gain or loss. Average effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Bank.

	31 Dec 2004			31 Dec 2003		
	RUR	USD	Other currencies	RUR	USD	Other currencies
<b>ASSETS</b>						
Cash and balances with Central and National banks	-	-	-	1.3%	-	-
Loans and advances to banks	8.0%	2.1%	2.0%	8.5%	2.7%	0.7%
Trading assets	9.2%	6.4%	5.4%	13.0%	9.2%	9.1%
Loans to customers	15.1%	11.5%	10.4%	16.2%	11.4%	10.3%
Investment securities	9.1%	-	9.3%	10.0%	-	10.0%
<b>LIABILITIES</b>						
Loans and advances form banks	3.3%	3.5%	-	2.5%	4.2%	2.0%
Customer accounts	8.1%	5.0%	5.1%	6.9%	5.4%	5.2%
Debt securities issued	9.4%	5.9%	-	13.6%	5.1%	-
Subordinated debt	8.8%	-	-	-	-	-

The analysis of interest rate and liquidity risk on balance sheet transactions is presented in the following table:

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined (incl. allowance for losses and impairment)	31 Dec 2004 RUR thousand Total
<b>ASSETS</b>								
<b>Interest rate bearing assets</b>								
Loans and advances to banks, less allowance for loan losses	12,791,510	4,328,427	1,163,676	608,112	10,746	-	(206)	18,902,265
Trading assets	5,164,664	-	-	-	-	-	-	5,164,664
Loans to customers, less allowance for loan losses	12,291,828	6,700,409	19,802,786	14,724,199	5,312,242	-	(2,304,675)	56,526,789
Investment securities, less allowance for impairment	221,225	-	1,776,981	-	-	-	(2,614)	1,995,592
<b>Total interest rate bearing assets</b>	<b>30,469,227</b>	<b>11,028,836</b>	<b>22,743,443</b>	<b>15,332,311</b>	<b>5,322,988</b>	<b>-</b>	<b>(2,307,495)</b>	<b>82,589,310</b>
Cash and balances with Central and National banks	21,415,958	-	-	-	-	-	3,144,349	24,560,307
Loans and advances to banks, less allowance for loan losses	6,201,462	2,098,467	564,163	294,819	5,209	-	-	9,164,120
Trading assets	348,432	-	-	-	-	-	-	348,432
Loans to customers, less allowance for loan losses	331,941	26,913	79,542	59,143	21,337	592,815	(524,571)	587,120
Investment securities, less allowance for impairment	-	-	1,825,310	185,772	-	-	(120,492)	1,890,590
Fixed and intangible assets, less accumulated depreciation	-	-	-	71,862	51,023	-	-	122,885
Income tax recoverable	-	-	255,362	-	-	-	-	255,362
Other assets, less allowance for losses	217,992	839	160,044	-	-	-	(25,701)	353,174
<b>TOTAL ASSETS</b>	<b>58,985,012</b>	<b>13,155,055</b>	<b>25,627,864</b>	<b>15,943,907</b>	<b>5,400,557</b>	<b>592,815</b>	<b>166,090</b>	<b>119,871,300</b>
<b>LIABILITIES</b>								
<b>Interest rate bearing liabilities</b>								
Loans and advances from banks Customer accounts and subordinated debt	2,450,623	1,035,758	3,418,549	732,451	-	-	-	7,637,381
Debt securities issued	31,554,774	12,761,607	11,266,657	513,411	5,308,722	-	-	61,405,171
	490,514	1,470,644	5,035,259	9,036,475	1,095,334	-	-	17,128,226
<b>Total interest rate bearing liabilities</b>	<b>34,495,911</b>	<b>15,268,009</b>	<b>19,720,465</b>	<b>10,282,337</b>	<b>6,404,056</b>	<b>-</b>	<b>-</b>	<b>86,170,778</b>
Loans and advances from banks Customer accounts	401,712	151,606	542,552	116,246	-	-	-	1,212,116
Debt securities issued	10,550,151	4,266,767	3,766,940	171,656	1,774,939	-	-	20,530,453
Provisions	122,125	383,010	1,230,628	293,284	8,922	-	-	2,037,969
Other liabilities	-	-	-	-	-	-	239,809	239,809
	118,528	23,563	467,289	-	-	-	-	609,380
<b>TOTAL LIABILITIES</b>	<b>45,688,427</b>	<b>20,092,955</b>	<b>25,727,874</b>	<b>10,863,523</b>	<b>8,187,917</b>	<b>-</b>	<b>239,809</b>	<b>110,800,505</b>
Liquidity gap	13,296,585	(6,937,900)	(100,010)	5,080,384	(2,787,360)			
Interest sensitivity gap	(4,026,684)	(4,239,173)	3,022,978	5,049,974	(1,081,068)			
Cumulative interest sensitivity gap	(4,026,684)	(8,265,857)	(5,242,879)	(192,905)	(1,273,973)			
Cumulative interest sensitivity gap as a percentage of total assets	(3.4%)	(6.9%)	(4.4%)	(0.2%)	(1.1%)			

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined (incl. allowance for losses and impairment)	31 Dec 2003  RUR thousand  Total
<b>ASSETS</b>								
<b>Interest rate bearing assets</b>								
Time deposits with the CBR	2,500,000	-	-	-	-	-	-	2,500,000
Loans and advances to banks, less allowance for loan losses	922,615	815,639	376,925	214,591	16,936	-	(30,324)	2,316,382
Trading assets	6,600,334	-	-	-	-	-	-	6,600,334
Loans and advances to customers, less allowance for loan losses	7,809,299	4,873,942	25,017,783	15,158,204	-	-	(1,944,776)	50,914,452
Investment securities, less allowance for impairment	311,010	243,950	678,512	1,027,372	102,197	-	(2,614)	2,360,427
<b>Total interest rate bearing assets</b>	<b>18,143,258</b>	<b>5,933,531</b>	<b>26,073,220</b>	<b>16,400,167</b>	<b>119,133</b>	<b>-</b>	<b>(1,977,714)</b>	<b>64,691,595</b>
Cash and balances with Central and National banks	8,640,440	-	-	-	-	-	7,015,281	15,655,721
Loans and advances to banks, less allowance for loan losses	7,112,744	-	-	-	-	200	(832)	7,112,112
Trading assets	1,665,371	-	-	-	-	-	-	1,665,371
Loans and advances to customers, less allowance for loan losses	-	-	1,390,482	-	-	517,011	(477,634)	1,429,859
Investment securities, less allowance for impairment	-	13,886	485,720	135,271	-	-	(91,980)	542,897
Fixed and intangible assets, less accumulated depreciation	-	-	-	83,634	45,896	-	-	129,530
Other assets, less allowance for losses	108,806	274,589	80,412	-	-	-	(18,841)	444,966
<b>TOTAL ASSETS</b>	<b>35,670,619</b>	<b>6,222,006</b>	<b>28,029,834</b>	<b>16,619,072</b>	<b>165,029</b>	<b>517,211</b>	<b>4,448,280</b>	<b>91,672,051</b>
<b>LIABILITIES</b>								
<b>Interest rate bearing liabilities</b>								
Deposits from banks	2,419,478	869,670	2,441,736	869,896	-	-	-	6,600,780
Customer accounts	16,094,438	13,130,565	2,578,228	483,689	2,689,860	-	-	34,976,780
Debt securities issued	1,575,722	889,640	3,215,770	7,529,600	1,162,668	-	-	14,373,400
<b>Total interest rate bearing liabilities</b>	<b>20,089,638</b>	<b>14,889,875</b>	<b>8,235,734</b>	<b>8,883,185</b>	<b>3,852,528</b>	<b>-</b>	<b>-</b>	<b>55,950,960</b>
Deposits from banks	959,609	-	-	-	-	-	-	959,609
Customer accounts	23,828,278	-	-	-	-	-	-	23,828,278
Debt securities issued	1,206,208	210,001	38,880	-	-	-	-	1,455,089
Provisions	-	207,609	-	-	-	-	139,786	347,395
Income tax liabilities	-	214,320	-	-	-	-	-	214,320
Other liabilities	197,066	65,599	225,000	-	-	-	-	487,665
<b>TOTAL LIABILITIES</b>	<b>46,280,799</b>	<b>15,587,404</b>	<b>8,499,614</b>	<b>8,883,185</b>	<b>3,852,528</b>	<b>-</b>	<b>139,786</b>	<b>83,243,316</b>
Liquidity gap	(10,610,180)	(9,365,398)	19,530,220	7,735,887	(3,687,499)			
Interest sensitivity gap	(1,946,380)	(8,956,344)	17,837,486	7,516,982	(3,733,395)			
Cumulative interest sensitivity gap	(1,946,380)	(10,902,724)	6,934,762	14,451,744	10,718,349			
Cumulative interest sensitivity gap as a percentage of total assets								

Substantially all of the Bank's interest earning assets and interest bearing liabilities are at fixed rates of interest.

Asset and liability maturity periods and the ability to replace interest bearing liabilities at an acceptable cost when they mature are crucial in determining the Bank's liquidity and its susceptibility to fluctuation of interest and exchange rates.

The maturity of time deposits of individuals is based on contractual terms. However, time deposits can be withdrawn by individuals on demand.

Currently, a considerable part of customer deposits are repayable on demand. However, the fact that these deposits are diversified by the number and type of customers and the Bank's previous experience indicate that these deposits are a stable and long-term source of finance for the Bank.

### Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management Board sets limits on the level of exposure by currencies (primarily US Dollar), by branches and in total. These limits also comply with the minimum requirements of the Central Bank of the Russian Federation.

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	<b>RUR</b>	<b>USD</b> 1 USD = 27.7487 RUR	<b>EUR</b> 1 EUR = 37.8104 RUR	<b>Gold bullion</b> 1 ounce = 12,087.33 RUR	<b>Other currency</b>	<b>Currency undefined (incl. allowance for losses and impairment)</b>	<b>31 Dec 2004 RUR thousand  Total</b>
<b>ASSETS</b>							
Cash and balances with Central and National banks	23,360,969	775,376	312,812	-	111,150	-	24,560,307
Loans and advances to banks, less allowance for loan losses	8,679,058	15,128,180	3,100,180	584,453	574,720	(206)	28,066,385
Trading assets	4,097,718	585,297	21,896	27,592	780,593	-	5,513,096
Loans and advances to customers, less allowance for loan losses	25,025,501	31,148,527	576,306	-	3,192,821	(2,829,246)	57,113,909
Investment securities, less allowance for impairment	3,800,845	207,932	442	-	69	(123,106)	3,886,182
Fixed and intangible assets, less accumulated depreciation	108,463	-	-	-	14,422	-	122,885
Income tax recoverable	255,362	-	-	-	-	-	255,362
Other assets, less allowance for losses	244,574	71,815	14,296	-	48,190	(25,701)	353,174
<b>TOTAL ASSETS</b>	<b>65,572,490</b>	<b>47,917,127</b>	<b>4,025,932</b>	<b>612,045</b>	<b>4,721,965</b>	<b>(2,978,259)</b>	<b>119,871,300</b>
<b>LIABILITIES</b>							
Deposits from banks	1,513,290	5,898,126	320,974	1,100,131	16,976	-	8,849,497
Customer accounts and subordinated debt	36,952,092	40,612,677	3,111,396	34,711	1,224,748	-	81,935,624
Debt securities issued	10,030,249	8,920,576	215,134	-	236	-	19,166,195
Provisions	-	-	-	-	-	239,809	239,809
Other liabilities	467,726	95,190	25,691	-	20,773	-	609,380
<b>TOTAL LIABILITIES</b>	<b>48,963,357</b>	<b>55,526,569</b>	<b>3,673,195</b>	<b>1,134,842</b>	<b>1,262,733</b>	<b>239,809</b>	<b>110,800,505</b>
<b>OPEN BALANCE SHEET POSITION</b>							
	<b>16,609,133</b>	<b>(7,609,442)</b>	<b>352,737</b>	<b>(522,797)</b>	<b>3,459,232</b>		

### Derivative financial instruments

Fair value of the derivatives are included in the currency analysis presented above and the following table presents further analysis of currency risk by types of derivative contracts as of 31 December 2004:

	RUR	USD 1 USD = 27.7487 RUR	EUR 1 EUR = 37.8104 RUR	Gold bullion 1 ounce = 12,087.33 RUR	Other currency	Currency undefined	31 Dec 2004 RUR thousand  Total
Payable under forward and swap contracts	(753)	(4,852,504)	(283,171)	-	(611,676)	-	(5,748,104)
Receivables under forward and swap contracts	2,437,909	846,897	18,905	537,050	1,952,634	-	5,793,395
<b>NET POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS</b>	<u>2,437,156</u>	<u>(4,005,607)</u>	<u>(264,266)</u>	<u>537,050</u>	<u>1,340,958</u>	-	<u>45,291</u>
<b>TOTAL OPEN POSITION</b>	<u>19,046,289</u>	<u>(11,615,049)</u>	<u>88,471</u>	<u>14,253</u>	<u>4,800,190</u>		

  

	RUR	USD 1 USD = 29.4545 RUR	EUR 1 EUR = 36.8240 RUR	Gold bullion 1 ounce = 12,289.90 RUR	Other currency	Currency undefined (incl. allowance for losses and impair- ment)	31 Dec 2003 RUR thousand  Total
<b>ASSETS</b>							
Cash and balances with Central and National banks	16,802,438	1,099,242	229,866	-	24,175	-	18,155,721
Loans and advances to banks, less allowance for loan losses	1,311,893	7,104,983	821,736	-	221,038	(31,156)	9,428,494
Trading assets	6,272,578	1,446,240	398,919	4,417	143,551	-	8,265,705
Loans and advances to customers, less allowance for loan losses	21,276,487	33,071,201	251,189	-	167,844	(2,422,410)	52,344,311
Investment securities, less allowance for impairment	2,892,815	1,208	103,821	-	74	(94,594)	2,903,324
Fixed and intangible assets, less accumulated depreciation	117,002	-	-	-	12,528	-	129,530
Other assets, less allowance for losses	248,915	174,511	6,043	-	34,338	(18,841)	444,966
<b>TOTAL ASSETS</b>	<u>48,922,128</u>	<u>42,897,385</u>	<u>1,811,574</u>	<u>4,417</u>	<u>603,548</u>	<u>(2,567,001)</u>	<u>91,672,051</u>
<b>LIABILITIES</b>							
Deposits from banks	1,924,943	5,107,433	130,150	397,354	509	-	7,560,389
Customer accounts	26,315,331	30,698,524	1,363,690	37,643	389,870	-	58,805,058
Debt securities issued	13,000,691	2,799,101	-	-	28,697	-	15,828,489
Provisions	207,609	-	-	-	-	139,786	347,395
Income tax liabilities	214,320	-	-	-	-	-	214,320
Other liabilities	296,616	143,110	28,244	-	19,695	-	487,665
<b>TOTAL LIABILITIES</b>	<u>41,959,510</u>	<u>38,748,168</u>	<u>1,522,084</u>	<u>434,997</u>	<u>438,771</u>	<u>139,786</u>	<u>83,243,316</u>
<b>OPEN BALANCE SHEET POSITION</b>	<u>6,962,618</u>	<u>4,149,217</u>	<u>289,490</u>	<u>(430,580)</u>	<u>164,777</u>		

## Derivative financial instruments

The fair value of the derivatives are included in the currency analysis presented above and the following table presents further analysis of currency risk by types of derivative contracts as of 31 December 2003:

	RUR	USD 1 USD = 29.4545 RUR	EUR 1 USD = 36.8240 RUR	Gold bullion 1 ounce = 12,260.44 RUR	Other currency	Currency undefined	31 Dec 2003 RUR thousand  Total
Payable under forward and swap contracts	(1,030,750)	(1,135,779)	(14,707)	(21,831)	(1,490,829)	-	(3,693,896)
Receivables under forward and swap contracts	404,350	2,547,369	128,090	691,433	5,782	-	3,777,024
<b>NET POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS</b>	<u>(626,400)</u>	<u>1,411,590</u>	<u>113,383</u>	<u>669,602</u>	<u>(1,485,047)</u>	-	<u>83,128</u>
<b>TOTAL OPEN POSITION</b>	<u>6,336,218</u>	<u>5,560,807</u>	<u>402,873</u>	<u>239,022</u>	<u>(1,320,270)</u>		

## Market risk

Market risk is assessed by the Bank using value at risk (VAR) methodology. VAR is calculated based on internationally accepted approach. The Bank performs back testing of the adequacy of the methodology at least every 3 months with reference to current market terms to ensure that deviations for all statistics parameters included in the calculation are within expected values. Based on statistics for preceding six months and maturities of debt securities, the Bank produces a model securities portfolio, calculates a proportion of different types of securities in the portfolio and the overall risk of the portfolio which is viewed as a standard portfolio proportion in current terms.

A stop-loss instrument is also used to prevent unexpected significant losses resulted from fluctuations in the securities portfolio. The stop-loss limits are set for accumulated losses for a day and for a month as a percentage of investments. The month stop-loss limit is set at 3/2 of a daily limit. No operations are allowed after the loss reaches the stop-loss limit. Daily limit utilization is determined from realized and unrealized mark-to-market adjustment. Market prices used are based on quotations in REUTERS and by brokers of Tradition, ADIX, Eurobroker, Garban.

## Credit risk

Credit activities are conducted in accordance with the regulatory framework set by the Central Bank of the Russian Federation as well as internationally accepted criteria. Credit Policy is defined by the Bank's Management Board and the Credit Committee. Credit Risk is taken based on the principles of risk adequacy, adequacy of profitability and strategic rationale. Credit operations conducted by the Bank include term loans, credit lines, overdraft facilities, syndications, documentary operations and other operations involving credit risk. The credit procedure is structured in line with a strict segregation of duties, based on the approved Credit Manual of the Bank.

The Bank performs the following activities to manage credit risk:

- Rating of credits;
- Performance of uncovered documentary operations;
- Purchase of debt bonds for issuers of which no credit risk limits have been utilised;
- Participation of the Bank in funding the corporate clients investment projects;
- Rendering of other services, equivalent to credit operations, by the Bank, its affiliates and branches;
- Approval of credit risk limits for counterparties;
- Approval of limits and check amounts for credit operations of the branches;



- Approval of the quotas of the Bank's branches in the limits for financial institutions, approval of the criteria for classification of loans in the Bank's loan portfolio for the creation of relevant loan loss allowance, formulation of proposals for the Board regarding the identification and modification of risk groups for specific loans;
- Approval of terms of credit for individuals;
- Approval of standard credit facilities;
- Approval of the procedures for evaluating various types of credit risk coverage.

The Credit Committee is a standing body of the Bank, authorized to take decisions on all issues relating to the credit operations of the Bank. Its task is to ensure formulation and implementation of the single credit policy of the Bank and its branches.

The Credit Committee consider issues regarding the assumption of credit risks for transactions for which the price does not exceed the relevant limit (there are separate limits for corporate clients, financial institutions and individuals) established and revised on an annual basis by the Board and/or for which the period does not exceed 12 months.

The assumption of credit risks for transactions which price exceeds the relevant limit established by the Board and/or for which the period exceeds 12 months is considered by the Board.

### Geographical concentration

The geographical concentration of assets and liabilities is set out below:

	Russia	Other CIS countries	OECD countries	Other non-OECD countries	Undefined (incl. allowance for losses and impairment)	31 Dec 2004 RUR thousand Total
<b>ASSETS</b>						
Cash and balances with Central and National banks	24,457,776	96,460	6,071	-	-	24,560,307
Loans and advances to banks, less allowance for loan losses	11,060,157	1,172,528	15,611,537	222,369	(206)	28,066,385
Trading assets	4,827,471	681,713	3,912	-	-	5,513,096
Loans and advances to customers, less allowance for loan losses	51,973,028	831,386	2,946,683	4,192,058	(2,829,246)	57,113,909
Investment securities, less allowance for impairment	4,007,639	1,207	442	-	(123,106)	3,886,182
Fixed and intangible assets, less accumulated depreciation	108,463	8,412	6,010	-	-	122,885
Income tax recoverable	255,362	-	-	-	-	255,362
Other assets, less allowance for losses	355,003	22,022	1,850	-	(25,701)	353,174
<b>TOTAL ASSETS</b>	<u>97,044,899</u>	<u>2,813,728</u>	<u>18,576,505</u>	<u>4,414,427</u>	<u>(2,978,259)</u>	<u>119,871,300</u>
<b>LIABILITIES</b>						
Deposits from banks	3,161,443	1,633,841	3,112,888	941,325	-	8,849,497
Customer accounts	67,144,298	1,512,313	5,945,629	7,333,384	-	81,935,624
Debt securities issued	11,934,098	1,003	7,231,094	-	-	19,166,195
Provisions	-	-	-	-	239,809	239,809
Other liabilities	589,722	2,556	17,102	-	-	609,380
<b>TOTAL LIABILITIES</b>	<u>82,829,561</u>	<u>3,149,713</u>	<u>16,306,713</u>	<u>8,274,709</u>	<u>239,809</u>	<u>110,800,505</u>
<b>NET POSITION</b>	<u>14,215,338</u>	<u>(335,985)</u>	<u>2,269,792</u>	<u>(3,860,282)</u>		

	Russia	Other CIS countries	OECD countries	Other non-OECD countries	Undefined (incl. allowance for losses and impairment)	31 Dec 2003 RUR thousand Total
<b>ASSETS</b>						
Cash and balances with Central and National banks	18,030,836	119,175	5,710	-	-	18,155,721
Loans and advances to banks, less allowance for loan losses	2,734,840	175,501	6,549,290	19	(31,156)	9,428,494
Trading assets	8,184,178	-	81,527	-	-	8,265,705
Loans and advances to customers, less allowance for loan losses	48,437,940	1,204,962	1,885,529	3,238,290	(2,422,410)	52,344,311
Investment securities, less allowance for impairment	2,996,206	1,281	431	-	(94,594)	2,903,324
Fixed and intangible assets, less accumulated depreciation	117,002	6,328	6,200	-	-	129,530
Other assets, less allowance for losses	451,477	8,526	3,804	-	(18,841)	444,966
<b>TOTAL ASSETS</b>	<u>80,952,479</u>	<u>1,515,773</u>	<u>8,532,491</u>	<u>3,238,309</u>	<u>(2,567,001)</u>	<u>91,672,051</u>
<b>LIABILITIES</b>						
Deposits from banks	3,891,864	2,428,760	503,402	736,363	-	7,560,389
Customer accounts	45,239,896	67,100	3,565,537	9,932,525	-	58,805,058
Debt securities issued	15,828,489	-	-	-	-	15,828,489
Provisions	207,609	-	-	-	139,786	347,395
Income tax liabilities	214,320	-	-	-	-	214,320
Other liabilities	467,438	5,767	14,460	-	-	487,665
<b>TOTAL LIABILITIES</b>	<u>65,849,616</u>	<u>2,501,627</u>	<u>4,083,399</u>	<u>10,668,888</u>	<u>139,786</u>	<u>83,243,316</u>
<b>NET POSITION</b>	<u>15,102,863</u>	<u>(985,854)</u>	<u>4,449,092</u>	<u>(7,430,579)</u>		