

# **Avtobank-NIKoil**

## **Consolidated financial statements**

*Year ended December 31, 2004*

*Together with independent auditors' report*

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## REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors of Avtobank-NIKoil –

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

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

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

As discussed in Note 24, the Bank has significant transactions with related parties, in particular with regard to securities and financing operations.

*Ernst & Young Vneshaudit*

April 15, 2005

**CONSOLIDATED STATEMENTS OF INCOME***(Thousands of Russian Rubles)*

	<i>Notes</i>	<i>Year ended December 31,</i>	
		<i>2004</i>	<i>2003</i>
<b>Interest income</b>			
Loans		2,218,838	1,148,933
Due from credit institutions		133,559	79,668
Securities		90,601	85,002
		<u>2,442,998</u>	<u>1,313,603</u>
<b>Interest expense</b>			
Deposits		1,089,627	654,652
Borrowings		318,162	89,875
Amounts owed to credit institutions		77,845	62,424
		<u>1,485,634</u>	<u>806,951</u>
<b>Net interest income</b>		<b>957,364</b>	<b>506,652</b>
Impairment of interest earning assets (reversal)	4	482,523	(146,141)
<b>Net interest income after impairment</b>		<u>474,841</u>	<u>652,793</u>
Fee and commission income		1,064,951	707,335
Fee and commission expense		326,073	196,743
<b>Fees and commissions</b>	5	<u>738,878</u>	<u>510,592</u>
Trading gains less losses		246,445	742,982
Gain less losses from available-for-sale securities		624,225	–
Foreign exchange gains less losses		127,151	200,377
Translation gains less losses from foreign currency		93,504	94,151
Dividend income		42,726	75,365
Other income		26,748	30,541
<b>Non interest income</b>		<u>1,160,799</u>	<u>1,143,416</u>
Salaries and employment benefits	6	1,197,636	869,777
Administrative and operating expenses	6	882,299	707,085
Depreciation and amortization	15, 16	131,827	155,248
Loss on property and equipment disposal	15	21,984	117,784
Reversal of other impairment and provisions	4	(88,767)	(12,210)
<b>Non interest expense</b>		<u>2,144,979</u>	<u>1,837,684</u>
<b>Profit before income tax expense</b>		<b>229,539</b>	<b>469,117</b>
Income tax expense	7	101,071	94,291
<b>Net income</b>		<u>128,468</u>	<u>374,826</u>

*The accompanying notes on pages 5 to 30 are an integral part of these consolidated financial statements.*

**CONSOLIDATED BALANCE SHEETS***(Thousands of Russian Rubles)*

	<i>Notes</i>	<i>December 31,</i>	
		<i>2004</i>	<i>2003</i>
<b>Assets</b>			
Cash and cash equivalents	8	4,886,196	9,301,822
Trading securities	9	2,426,116	1,342,114
Amounts due from credit institutions	10	3,689,530	2,193,720
Derivative financial assets	11	3,687	8,305
Available-for-sale securities	12	4,587,943	6,455,852
Loans to customers	13	21,046,425	8,790,056
Due from the Group members	14	–	1,117,880
Tax assets	7	41,404	2,737
Property and equipment	15	483,554	434,652
Other assets	16	1,210,926	1,660,477
<b>Total assets</b>		<b><u>38,375,781</u></b>	<b><u>31,307,615</u></b>
<b>Liabilities</b>			
Amounts due to credit institutions	17	7,614,463	1,712,729
Amounts due to customers	18	21,704,571	16,821,246
Derivative financial liabilities	11	1,312	2,914
Debt securities issued	19	1,600,281	5,875,417
Tax liabilities	7	66,618	188,735
Provisions	4	–	88,767
Other liabilities	16	1,021,121	78,523
<b>Total liabilities</b>		<b><u>32,008,366</u></b>	<b><u>24,768,331</u></b>
<b>Shareholders' funds</b>			
Share capital	20	7,722,215	7,722,215
Additional paid-in-capital		318,577	318,577
Investment revaluation reserve		65,901	366,238
Accumulated deficit		(1,739,278)	(1,867,746)
<b>Total shareholders' funds</b>		<b><u>6,367,415</u></b>	<b><u>6,539,284</u></b>
<b>Total liabilities and shareholders' funds</b>		<b><u>38,375,781</u></b>	<b><u>31,307,615</u></b>
<b>Financial commitments and contingencies</b>	21	<b>6,395,383</b>	<b>3,932,793</b>

**Signed on behalf of the Board of Directors**

Nickolai A. Tsvetkov

Chairman

Yuriy V. Petuhov

Chief Accountant

April 15, 2005

*The accompanying notes on pages 5 to 30 are an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY***(Thousands of Russian Rubles)*

	<i>Note</i>	<i>Share capital</i>	<i>Additional paid-in capital</i>	<i>Investment revaluation reserve</i>	<i>Retained earnings (accumulated deficit)</i>	<i>Shareholders' funds</i>
<b>December 31, 2002</b>		<b>3,722,215</b>	<b>644,949</b>	<b>231,333</b>	<b>(2,568,944)</b>	<b>2,029,553</b>
Capital contributions		4,000,000	–	–	–	4,000,000
Additional paid-in-capital capitalized		–	(326,372)	–	326,372	–
Revaluation of available-for-sale securities, net of tax		–	–	134,905	–	134,905
Net income		–	–	–	374,826	374,826
<b>December 31, 2003</b>		<b>7,722,215</b>	<b>318,577</b>	<b>366,238</b>	<b>(1,867,746)</b>	<b>6,539,284</b>
Revaluation of available-for-sale securities, net of tax		–	–	187,950	–	187,950
Disposal of available-for-sale securities, net of tax		–	–	(488,287)	–	(488,287)
Net income		–	–	–	128,468	128,468
<b>December 31, 2004</b>	20	<b>7,722,215</b>	<b>318,577</b>	<b>65,901</b>	<b>(1,739,278)</b>	<b>6,367,415</b>

*The accompanying notes on pages 5 to 30 are an integral part of these consolidated financial statements.*

**CONSOLIDATED CASH FLOW STATEMENTS***(Thousands of Russian Rubles)*

	<i>Year ended December 31,</i>	
<i>Note</i>	<i>2004</i>	<i>2003</i>
<b>Cash flows from operating activities</b>		
Interest, fees and commissions received	3,431,151	2,094,521
Interest, fees and commissions paid	(1,698,585)	(958,877)
Gains less losses from trading securities	274,753	770,370
Realized gains less losses in foreign currencies	130,167	200,377
Other operating income	26,748	30,541
Salaries and employment benefits	(1,197,636)	(869,777)
Administrative and operating expenses	(862,162)	(707,085)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>104,436</b>	<b>560,070</b>
<b>Net (increase) decrease in operating assets</b>		
Trading securities	(1,081,512)	2,806,329
Amounts due from credit institutions	(1,480,457)	(1,029,998)
Loans to customers	(12,862,876)	(3,518,693)
Receivables from Group	1,117,880	(807,375)
Other assets	466,094	(1,470,733)
<b>Net increase (decrease) in operating liabilities</b>		
Amounts due to credit institutions	5,934,480	(14,957)
Amounts due to customers	5,041,946	7,320,551
Debt securities issued	(4,257,574)	4,978,465
Other liabilities	924,108	60,142
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES BEFORE INCOME TAXES</b>	<b>(6,093,475)</b>	<b>8,883,801</b>
Corporate income tax paid	(167,012)	(42,804)
<b>Net cash flows from operating activities</b>	<b>(6,260,487)</b>	<b>8,840,997</b>
<b>Cash flows from investing activities</b>		
Purchases of available-for-sale securities	(1,149,166)	(5,676,737)
Sale of available-for-sale securities	3,211,629	-
Purchases of intangibles, property and equipment	(245,783)	(119,877)
Proceeds from sale of property and equipment	21,270	126,512
Dividends received	42,726	75,424
<b>Net cash flows from investing activities</b>	<b>1,880,676</b>	<b>(5,594,678)</b>
<b>Cash flows from financing activities</b>		
Capital contributions	-	4,000,000
Repayment of Central Bank stabilization loan	-	(600,690)
<b>Net cash flows from financing activities</b>	<b>-</b>	<b>3,399,310</b>
Effect of exchange rate changes on cash and cash equivalents	(35,815)	(121,447)
<b>Net change in cash and cash equivalents</b>	<b>(4,415,626)</b>	<b>6,524,182</b>
<b>Cash and cash equivalents, beginning</b>	<b>9,301,822</b>	<b>2,777,640</b>
<b>Cash and cash equivalents, ending</b>	<b>8</b>	<b>9,301,822</b>

*The accompanying notes on pages 5 to 30 are an integral part of these consolidated financial statements.*

*(Thousands of Russian Rubles)*

## NOTE 1 – PRINCIPAL ACTIVITIES

**Avtobank-NIKoil** with original name **Avtobank** was formed on December 6, 1988 as an open joint stock company under the laws of the Russian Federation. The Bank operates under a general banking license issued by the Central Bank of Russia (“CBR”), as well as CBR licenses for operations with precious metals and foreign currency operations (both issued on July 3, 2003). The Bank also possesses licenses for securities operations and custody services from the Federal Commission for the Securities Market granted on November 16, 2000.

The Bank accepts deposits from the public and extends credit, transfers payments in Russia and abroad, exchanges currencies and provides banking services to its commercial and retail customers. The Bank is among the 25 largest banks in Russia in terms of net assets calculated under the local accounting rules. Its main office is in Moscow and it has 23 branches, including St. Petersburg, N. Novgorod, Omsk and other regions. The Bank’s registered legal address is Moscow, 119048, Efremova Str., 8.

As of December 31, 2004, the Bank is a 93.6% owned subsidiary of two entities, which in turn are controlled by Financial Corporation Uralsib, parent entity of a group of companies (the “Group”) whose principal activity is financial services (banking, brokerage, insurance, asset management, etc.).

The Bank had an average of 2,834 employees during the year (2003 – 2,702) and 3,109 employees at the end of 2004 (2003 – 2,713).

On November 9, 2004, the shareholders of the Bank approved a reorganisation in the form of a combination with Uralsiberian Bank (Uralsib), a Group subsidiary bank acquired in 2003. This combination is planned to be completed before year-end 2005.

On December 9, 2004, the Bank became a member of the obligatory deposit insurance system provided by the State Corporation “Agency for Deposits Insurance”.

## NOTE 2 – BASIS OF PREPARATION

### *a) General*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), which comprise standards and interpretations issued by the International Accounting Standards Board, and International Accounting Standards (“IAS”) and Standing Interpretations Committee interpretations (“SIC”) issued by the International Accounting Standards Committee that remain in effect. The Russian Ruble is utilized as measurement currency of the Bank as the majority of the transactions are denominated, measured, or funded in Russian Rubles. Transactions in other currencies are treated as transactions in foreign currencies. These financial statements are presented in thousands of Russian Rubles (“RUB”), except per share amounts and unless otherwise indicated.

The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in Russian Rubles in accordance with Russian accounting and banking legislation and related instructions (“RAL”). These consolidated financial statements are based on the Bank’s RAL books and records, as adjusted and reclassified in order to comply with IFRS. The reconciliation between RAL and IFRS is presented later in this note.

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of the financial statements. The most significant estimates are the allowances for asset impairment and useful lives of fixed assets. Actual results, therefore, could differ from these estimates.

### *b) Inflation Accounting*

Prior to January 1, 2003 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the Russian Ruble in accordance with IAS 29 “Financial Reporting in Hyperinflationary Economies”. IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from January 1, 2003 the Bank ceased applying IAS 29 to current periods and only recognizes the cumulative impact of inflation indexing on non-monetary elements of the financial statements through December 31, 2002.

(Thousands of Russian Rubles)

## NOTE 2 – BASIS OF PREPARATION (CONTINUED)

### b) Inflation Accounting (continued)

Non-monetary assets and liabilities acquired prior to December 31, 2002, and share capital contributions occurring before December 31, 2002, have been restated by applying the relevant conversion factors to the historical cost ("restated cost") through December 31, 2002. Gains or losses on subsequent disposal are recognised based on the restated cost of the non-monetary assets and liabilities.

### c) Changes in Accounting Policies. IFRS 3 "Business Combinations", IAS 36 "Impairment of Assets" and IAS 38 "Intangible Assets"

IFRS 3 applies to accounting for business combinations for which the agreement date is on or after March 31, 2004. The effect of the adoption of IFRS 3 upon the Bank's accounting policies has impacted the recognition of restructuring provisions arising upon an acquisition. The Bank is now only permitted to recognise an existing liability contained in the acquiree's financial statements on acquisition. Previously this type of restructuring provision could be recognised by acquirer regardless of whether the acquiree had recognised this type of liability or not.

Further, upon acquisition the Bank initially measures the identifiable assets and liabilities acquired at their fair values as at the acquisition date hence causing any minority interest in the acquiree to be stated at the minority proportion of the net fair values of those items.

Additionally, for business combinations for which the agreement date is on or after March 31, 2004, goodwill is not amortised but rather tested for impairment annually at the cash generating unit level (unless an event occurs during the year which requires the goodwill to be tested more frequently). Intangibles with indefinite useful lives acquired in those business combinations are reviewed annually to ensure the carrying value does not exceed the recoverable amount regardless of whether an indicator of impairment is present.

### d) Consolidated Subsidiaries

The consolidated financial statements include the accounts of the Bank and the following controlled subsidiary:

December 31, 2004 and 2003					
Subsidiary	Holding, %	Country	Industry	Date of incorporation	Date of acquisition
ZAO Fondovoye Agency	100%	Russia	Investment	June 6, 1996	June 6, 1996

### e) Reconciliation of RAL and IFRS Equity and Net Income

Shareholders' equity and net income are reconciled between RAL and IFRS as follows:

	2004		2003	
	Shareholders' equity	Net profit	Shareholders' equity	Net profit
<b>Russian Accounting Legislation (combined)</b>	<b>6,978,285</b>	<b>471,818</b>	<b>6,711,020</b>	<b>758,956</b>
Impairment of financial assets and other provisions	(479,087)	(129,981)	(349,106)	271,591
Accelerated depreciation	(189,493)	(28,029)	(161,464)	(78,109)
Effect of accrued interest	(197,373)	(66,704)	(130,669)	(118,488)
Inflation impact on non-monetary items	133,724	(30,321)	164,045	(346,354)
Fair value re-measurement of securities	67,888	30,485	37,403	(19,460)
Current taxes	(66,618)	(34,263)	(130,093)	(130,093)
Available-for-sale investments revaluation	65,901	–	366,238	–
Deferred taxation	62,203	22,563	39,640	87,984
Consolidation	(250)	–	(250)	–
Expenses recorded directly in equity	–	(103,178)	–	(53,541)
Other	(7,765)	(3,922)	(7,480)	2,340
<b>International Financial Reporting Standards</b>	<b>6,367,415</b>	<b>128,468</b>	<b>6,539,284</b>	<b>374,826</b>

(Thousands of Russian Rubles)

### NOTE 3 – SUMMARY OF ACCOUNTING POLICIES

#### ***Principles of Consolidation***

The consolidated financial statements of the Bank include Avtobank-NIKoil and its subsidiaries. Subsidiaries are those entities in which the Bank has an interest of more than one half of the voting rights, or otherwise has power to exercise control over its operations. Subsidiaries are consolidated from the date on which control is transferred to the Bank and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank. The excess of purchase consideration over the fair value of the Bank's share of identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Bank's share of identifiable net assets of the subsidiary acquired the difference is either recorded on the balance sheet as negative goodwill (for business combinations prior to March 31, 2004) or recognized directly in the statement of income (for business combinations on or after March 31, 2004).

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Bank. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Minority interest is the interest in subsidiaries not held by the Bank. Minority interest at the balance sheet date represents the minority shareholders' portion of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination. Minority interest is presented separately from liabilities and shareholders' equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. All such losses are allocated to the Bank.

#### ***Recognition and Presentation of Financial Instruments***

The Bank recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognized using trade date accounting.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred. Any gain or loss at initial recognition is recognized in the current period's statement of income. 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 consist of cash on hand, amounts due from the CBR – excluding obligatory reserves, and due from credit institutions that mature within three months of the date of origination and are free from contractual encumbrances.

#### ***Trading Securities***

Securities purchased principally for the purpose of generating a profit from short-term fluctuations in price or dealers' margin are classified as trading securities. Trading securities are initially recognized under the policy for financial instruments and are subsequently measured at fair value, based on market values as of the balance sheet date. Realized and unrealized gains and losses resulting from operations with trading securities are recognized in the statement of income as trading gains less losses. Interest earned on trading securities is reported as interest income.

In determining estimated fair value, securities are valued at quoted bid prices. When market prices are not available, fair value is determined by reference to price quotations for similar instruments traded in different markets or using discounted cash flow models.

(Thousands of Russian Rubles)

### NOTE 3 – SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

#### ***Amounts due from Credit Institutions***

In the normal course of business, the Bank maintains current accounts or deposits for various periods of time with other banks. Amounts due from credit institutions with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Amounts due from credit institutions are carried net of any allowance for impairment.

#### ***Repurchase and Reverse Repurchase Agreements***

Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included into trading or available-for sale securities. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the consolidated financial statements. Securities borrowed are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the consolidated statement of income. The obligation to return them is recorded at fair value as a trading liability.

#### ***Derivative Financial Instruments***

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are primarily held for trading and are initially recognized in accordance with the policy of initial recognition of financial instruments and subsequently are measured at their fair value. Their fair values are estimated based on quoted market prices that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the accompanying consolidated statements of income as trading gains less losses.

#### ***Investment Securities***

The Bank classifies its investment securities into two categories:

- securities with fixed maturities and fixed or determinable payments that Management has both the positive intent and the ability to hold to maturity are classified as held-to-maturity; and
- securities that are not classified by the Bank as held-to-maturity or trading (see above) are included in the available-for-sale portfolio.

The Bank classifies investment securities depending upon the intent of management at the time of the purchase. Investment securities are initially recognized in accordance with the policy stated above and subsequently re-measured using the following policies:

- held-to-maturity investment securities – at amortized cost using the effective interest method. Allowance for impairment is estimated on a case-by-case basis.
- Available-for-sale investment securities are subsequently measured at fair value, which is equal to the market value as at the balance sheet date. When debt securities with fixed maturities are non-marketable or no information is available about the market value of similar instruments, fair value has been estimated as the discounted future cash flows using current interest rates. Non-marketable securities that do not have fixed maturities are stated at cost, less allowance for diminution in value unless there are other appropriate and workable methods of reasonably estimating their fair value.

Gains and losses arising from changes in the fair value of available-for-sale investment securities are recognized in the statement of income as gains less losses from available-for-sale securities in the period that the change occurs.

#### ***Promissory Notes***

Promissory notes purchased are included in trading securities, or in amounts due from credit institutions or in loans to customers, depending on their substance and are recorded and subsequently remeasured and accounted in accordance with the accounting policies for these categories of assets.

(Thousands of Russian Rubles)

### NOTE 3 – SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

#### ***Loans to Customers***

Loans granted by the Bank by providing funds directly to the borrower are categorized as loans originated by the Bank and are initially recorded in accordance with the policy for initial recognition of financial instruments. The difference between the nominal amount of the consideration given and the fair value of loans issued at other than market terms is recognized in the period the loan is issued as gain/loss from initial recognition of loans to customers in the statement of income. Loans to customers with fixed maturities are subsequently measured at amortized cost using the effective interest method. Those loans that do not have fixed maturities are carried at cost. Loans and advances to customers are carried net of any allowance for impairment.

#### ***Leases***

##### ***Operating - Bank as lessee***

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into other administrative and operating expenses.

#### ***Taxation***

The current income tax expense is calculated in accordance with the regulations of the Russian Federation and of the cities in which the Bank has offices and branches and its subsidiaries are located.

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences:

- except where the deferred income tax liability arises from goodwill amortization or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the same time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized:

- except where the deferred income tax asset relating to the temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the same time of the transaction, affects neither the accounting profit nor taxable profit nor loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is probable that sufficient taxable profit will not be available to allow the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Russia also has various operating taxes, which are assessed on the Bank's activities. These taxes are included as a component of administrative and operating expenses in the statement of income.

(Thousands of Russian Rubles)

### NOTE 3 – SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

#### ***Investments in Associates***

The Bank's investment in its associates are accounted for under the equity method. This is an entity over which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the Bank (generally investments of between 20% to 50% in a company's equity). The investment in associate is carried in the balance sheet at cost plus post-acquisition changes in the Bank's share of net assets of the associate, less any impairment in value. Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Bank has incurred obligations or guaranteed obligations in respect of the associated undertaking. Where necessary, the accounting policies used by the associates have been changed to ensure consistency with the policies adopted by the Bank. The income statement reflects the Bank's share of the results of operations of the associate.

#### ***Goodwill***

Goodwill represents the excess of the cost of an acquisition over the fair value of the Bank's share of the net assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of an associate is included in the investments in associate.

Goodwill arising from acquisitions prior to March 31, 2004 is amortised using the straight-line method over its estimated useful life. Goodwill relating to acquisitions from March 31, 2004 is not amortised but is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that carrying amount may be impaired. As at the acquisition date, any goodwill acquired in acquisitions from March 31, 2004 is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operations within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Negative goodwill represents the excess of the fair value of the Bank's share of the net assets acquired over the cost of acquisition.

Negative goodwill arising from acquisitions prior to March 31, 2004 is presented in the same balance sheet classifications as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Bank's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities, that portion of negative goodwill is recognised in the statement of income when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the statement of income over the remaining weighted average useful life of depreciable and amortisable assets acquired; negative goodwill in excess of the fair values of those assets is recognised in the statement of income immediately. Negative goodwill relating to acquisitions from March 31, 2004 is recognised in the statement of income.

#### ***Allowances for Impairment of Financial Assets***

The Bank establishes allowances for impairment 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 the related loans issued, held-to-maturity securities and other financial assets, which are carried at cost and amortized cost. The allowances for impairment of financial assets are defined as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the financial instrument. For instruments that do not have fixed maturities, expected future cash flows are discounted using periods during which the Bank expects to realize the financial instrument.

The allowances are based on the Bank's own loss experience and management's judgment as to the level of losses that will most likely be recognized from assets in each credit risk category by reference to the debt service capability and repayment history of the borrower. The allowances for impairment of financial assets in the accompanying consolidated financial statements have been determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in the Russian Federation and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

Changes in allowances are reported in the statement of income of the related period. When a loan is not collectable, it is written off against the related allowance for impairment; if the amount of the impairment subsequently decreases due to an event occurring after the write-down, the reversal of the related allowance is credited to the related impairment of financial assets in the statement of income.

(Thousands of Russian Rubles)

### NOTE 3 – SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

#### ***Property and Equipment***

Property and equipment are carried at restated cost less accumulated depreciation and any accumulated impairment for diminution in value. Depreciation of assets under construction and those not placed in service commences from the date the assets are placed into service. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings	50
Furniture and fixtures	7
Computers and office equipment	4-6
Motor vehicles	5

Leasehold improvements are amortized over the life of the related leased asset. The carrying amounts of property and equipment 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. An impairment is recognized in the respective period and is included in administrative and operating expenses.

Costs related to repairs and renewals are charged when incurred and included in administrative and operating expenses, unless they qualify for capitalization.

#### ***Intangible Assets***

Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Bank and will probably generate economic benefits exceeding costs beyond one year, are recorded as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recorded as a capital improvement and added to the original cost of the software. Computer software development costs recorded as assets are amortised using the straight-line method over their useful lives, not exceeding a period of 10 years.

#### ***Amounts due to Credit Institutions and to Customers***

Amounts due to credit institutions and to customers are initially recognized in accordance with recognition of financial instruments policy. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of income over the period of the borrowings using the effective interest method.

#### ***Debt Securities Issued***

Debt securities issued represent promissory notes and certificates of deposit issued by the Bank to its customers. Debt securities issued are accounted for according to the same principles used for amounts owed to credit institutions 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.

#### ***Retirement and Other Benefit Obligations***

The Bank does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

(Thousands of Russian Rubles)

### NOTE 3 – SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

#### ***Share Capital***

Share capital, additional-paid-in capital and treasury stock are recognized at restated cost. Gains and losses on sales of treasury stock are charged or credited to retained earnings.

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 IAS 10 "Events After the Balance Sheet Date" and disclosed accordingly.

#### ***Contingencies***

Contingent liabilities are not recognized in the financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

#### ***Income and Expense Recognition***

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognized as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time

#### ***Foreign Currency Translation***

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Russian Rubles at official CBR exchange rates at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of income as translation gains less losses from foreign currency.

Differences between the contractual exchange rate of a certain transaction and the Central Bank exchange rate on the date of the transaction are included in foreign exchange gains or losses. The official CBR exchange rates at December 31, 2004 and 2003, were 27.75 Rubles and 29.45 Rubles to 1 USD, respectively.

#### ***Related Parties Transactions***

Related parties, as defined by IAS 24 "Related Party Disclosures", are those counter parts that represent:

- enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);
- associates – enterprises in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank, and anyone expected to influence, or be influenced by, that person in their dealings with the Bank;
- 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
- enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described above 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.

(Thousands of Russian Rubles)

### NOTE 3 – SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

#### Reclassifications

The following reclassifications have been made to 2003 balances to conform to the 2004 presentation.

<i>Amount</i>	<i>Previously reported</i>	<i>As reclassified</i>
9,383	Investment revaluation reserve	Accumulated deficit

### NOTE 4 – ALLOWANCES FOR LOSSES AND PROVISIONS

The movements in the allowances for impairment of interest earning assets were as follows:

	<i>Due from credit institutions</i>	<i>Loans to customers</i>	<i>Total</i>
<b>December 31, 2002</b>	<b>21,626</b>	<b>733,915</b>	<b>755,541</b>
Reversal	(21,496)	(124,645)	(146,141)
Write-off	–	(368)	(368)
Recoveries	–	49,003	49,003
<b>December 31, 2003</b>	<b>130</b>	<b>657,905</b>	<b>658,035</b>
Charge	246	482,277	482,523
Write-off	–	(30,575)	(30,575)
<b>December 31, 2004</b>	<b>376</b>	<b>1,109,607</b>	<b>1,109,983</b>

The movements in allowances for other losses and provisions were as follows:

	<i>Other assets</i>	<i>Guarantees and letters of credit</i>	<i>Unsettled forward deals</i>	<i>Total</i>
<b>December 31, 2002</b>	<b>11,993</b>	<b>26,614</b>	<b>71,750</b>	<b>110,357</b>
Reversal	(2,613)	(9,597)	–	(12,210)
Write-offs	(9,380)	–	–	(9,380)
Charge	–	–	–	–
<b>December 31, 2003</b>	<b>–</b>	<b>17,017</b>	<b>71,750</b>	<b>88,767</b>
Reversal	–	(17,017)	(71,750)	(88,767)
<b>December 31, 2004</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

Allowances for impairment of assets are deducted from the related assets. Other provisions for claims, guarantees and commitments are recorded in liabilities. In accordance with Russian legislation, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

Reversal of provision for unsettled forward deals in 2004 relates to a termination agreement with a counter party whereby all the previous arrangements in respect of these deals were terminated without execution and mutual rights and obligations of the Bank and the counter party were cancelled as if the forward contracts had never been concluded.

*(Thousands of Russian Rubles)***NOTE 5 – FEES AND COMMISSIONS**

Fees and commissions comprise:

	<i>2004</i>	<i>2003</i>
Settlements operations	658,099	459,743
Cash operations	364,987	228,671
Foreign exchange operations	20,450	7,593
Guarantees issued	16,113	5,973
Securities operations	1,428	2,576
Insurance	586	503
Other	3,288	2,276
<b>Fee and commission income</b>	<b><u>1,064,951</u></b>	<b><u>707,335</u></b>
Settlements operations	280,197	186,248
Cash operations	29,799	6,307
Guarantees received	12,778	1,114
Securities operations	3,115	2,981
Other	184	93
<b>Fee and commission expense</b>	<b><u>326,073</u></b>	<b><u>196,743</u></b>
<b>Fees and commissions</b>	<b><u>738,878</u></b>	<b><u>510,592</u></b>

**NOTE 6 – SALARIES, EMPLOYMENT BENEFITS AND ADMINISTRATIVE AND OPERATING EXPENSES**

Salaries, employment benefits, administrative and operating expenses comprise:

	<i>2004</i>	<i>2003</i>
Salaries and bonuses	998,241	713,158
Social security costs	199,395	156,619
<b>Salaries and employment benefits</b>	<b><u>1,197,636</u></b>	<b><u>869,777</u></b>
Occupancy and rent	241,935	187,819
Operating taxes	206,120	182,060
Communications	89,834	68,508
Marketing and advertising	79,283	44,108
Repair and maintenance of property and equipment	72,287	73,546
Data processing	55,616	52,397
Business travel and related expenses	35,592	13,109
Charity	21,505	1,457
Low value items expenses and materials	10,612	9,635
Legal and consultancy	7,036	5,602
Personnel training	4,049	1,920
Insurance	3,843	4,367
Penalties incurred	88	4,435
Other	54,499	58,122
<b>Administrative and operating expenses</b>	<b><u>882,299</u></b>	<b><u>707,085</u></b>

(Thousands of Russian Rubles)

## NOTE 7 – TAXATION

The corporate income tax expense comprises:

	<u>2004</u>	<u>2003</u>
Current tax expense	123,634	182,275
Deferred tax expense (benefit):		
Movement in deferred tax liability	(117,406)	(45,382)
Recognised directly in equity – investment revaluation reserve	94,843	(42,602)
	<u>(22,563)</u>	<u>(87,984)</u>
<b>Income tax expense</b>	<b><u>101,071</u></b>	<b><u>94,291</u></b>

Russian legal entities must file individual tax declarations. The tax rate for banks for profits other than on state securities was 24% for 2004 and 2003. The tax rate for interest income on state securities was 15% for Federal taxes. The tax rate for companies other than banks was also 24 % for 2004 and 2003.

Tax assets and liabilities consist of the following:

	<u>2004</u>	<u>2003</u>
Current tax assets	12	2,737
Deferred tax asset	62,203	–
Deferred tax liabilities relating to investment revaluation reserve of available-for-sale securities	(20,811)	–
<b>Tax assets</b>	<b><u>41,404</u></b>	<b><u>2,737</u></b>
Current tax liabilities	66,618	112,721
Deferred tax liabilities (assets)	–	(39,640)
Deferred tax liabilities relating to investment revaluation reserve of available-for-sale securities	–	115,654
<b>Tax liabilities</b>	<b><u>66,618</u></b>	<b><u>188,735</u></b>

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	<u>2004</u>	<u>2003</u>
<b>Income before taxation</b>	<b>229,539</b>	<b>469,117</b>
Statutory tax rate	24%	24%
<b>Theoretical income tax expense at statutory rate</b>	<b>55,089</b>	<b>112,588</b>
Change in unrecognized deferred tax asset	56,533	(11,924)
Dividend income taxed at different rate	(10,254)	(18,088)
State securities income taxed at different rates	(1,747)	(1,939)
Non deductible administrative expenditures	265	14,879
Transitional base tax carryforward	–	62,422
Reclassification relating to investment revaluation reserve	–	(29,786)
Cession expenses carried forward	–	(12,484)
Other items	1,185	(21,377)
<b>Income tax expense</b>	<b><u>101,071</u></b>	<b><u>94,291</u></b>

(Thousands of Russian Rubles)

## NOTE 7 – TAXATION (CONTINUED)

Deferred tax assets and liabilities as of December 31 comprise:

	<u>2004</u>	<u>2003</u>
<b>Tax effect of deductible temporary differences</b>		
Loans to customers	222,957	129,505
Debt securities issued	1,333	5,674
Provisions for other losses	–	21,304
<b>Deferred tax assets, gross</b>	<u>224,290</u>	<u>156,483</u>
Unrecognized deferred tax asset	134,446	77,913
<b>Deferred tax assets</b>	<u>89,844</u>	<u>78,570</u>
<b>Tax effect of taxable temporary differences</b>		
Amounts due from credit institutions	4,005	–
Securities	26,760	121,250
Derivative financial instruments	570	1,294
Property and equipment	17,117	32,040
<b>Deferred tax liabilities</b>	<u>48,452</u>	<u>154,584</u>
<b>Deferred tax liabilities (assets)</b>	<u>(41,392)</u>	<u>76,014</u>

As at December 31, 2004, management believes that its interpretation of the relevant legislation is appropriate and that it is most likely that the Bank's tax, currency and customs positions will be sustained.

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Management understands that its interpretation of such legislation applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal authorities. As such, significant additional taxes, penalties and interest may be assessed. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

## NOTE 8 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	<u>2004</u>	<u>2003</u>
Cash on hand	1,527,784	1,011,440
Current accounts with the Central Bank	1,751,105	2,657,442
Current accounts with other credit institutions	637,369	1,363,688
Time deposits with credit institutions up to 90 days	969,938	1,269,252
Time deposits with the Central Bank	–	3,000,000
<b>Cash and cash equivalents</b>	<u>4,886,196</u>	<u>9,301,822</u>

As of December 31, 2004, RUB 99,028 (2003 – RUB 214,205) was placed on inter-bank deposit with an internationally recognized OECD bank, which is the main counter party of the Bank in performing international settlements.

During 2004, the Bank simultaneously placed with and received short-term funds from Russian banks in different currencies. As of December 31, 2004, the Bank placed equivalents of RUB 111,023 in USD (2003 – RUB 322,591, RUB 147,273 in USD, RUB 36,824 in EUR) as deposits with Russian banks, which were secured by deposits received from the same banks (see Note 17).

(Thousands of Russian Rubles)

## NOTE 9 – TRADING SECURITIES

Trading securities comprise:

	<u>2004</u>	<u>2003</u>
LUKoil ordinary shares	1,652,231	–
Promissory notes	640,508	1,171,123
Russian State bonds (OFZ)	133,084	95,192
Corporate and regional government bonds	86	75,748
Other	207	51
<b>Trading securities</b>	<b><u>2,426,116</u></b>	<b><u>1,342,114</u></b>

Trading securities represent the following:

	<u>Description</u>
Promissory notes	Notes of top Russian banks and blue-chip Russian companies
Corporate and regional government bonds	Bonds of Gazprom, St. Petersburg and Moscow Cities, Republic of Bashkortostan

Coupon interest rates and maturity of debt securities follow.

	<u>2004</u>		<u>2003</u>	
	%	Maturity	%	Maturity
Promissory notes	10%	2005	9% – 22%	2004 – 2005
Russian State bonds (OFZ)	10%	2010 – 2018	10% – 11%	2004 – 2018
Corporate and regional government bonds	8%	2007 – 2010	15%	2005

## NOTE 10 – AMOUNTS DUE FROM CREDIT INSTITUTIONS

Amounts due from credit institutions:

	<u>2004</u>	<u>2003</u>
Obligatory reserve with the Central Bank	617,427	1,317,693
Time deposits of more than 90 days	255,600	876,157
Reverse repurchase agreements	2,816,879	–
	<b><u>3,689,906</u></b>	<b><u>2,193,850</u></b>
Less – Allowances for impairment	(376)	(130)
<b>Amounts due from credit institutions</b>	<b><u>3,689,530</u></b>	<b><u>2,193,720</u></b>

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposit is significantly restricted by legislation.

In July 2004 the Central Bank decreased the reserve requirements for banks, resulting in a lower proportion of funds deposited with the CBR as of December 31, 2004, comparing to prior year-end.

The Bank had entered into reverse repurchase agreements with a credit institution. The subject of these agreements is US Treasury bills of RUB 2,778,103.

(Thousands of Russian Rubles)

### NOTE 11 – DERIVATIVE FINANCIAL INSTRUMENTS

The Bank enters into derivative financial instruments for trading purposes. The outstanding deals with derivative financial instruments are as follows:

	2004			2003		
	<i>Notional principal</i>	<i>Fair values</i>		<i>Notional principal</i>	<i>Fair value</i>	
		<i>Asset</i>	<i>Liability</i>		<i>Asset</i>	<i>Liability</i>
<b>Foreign exchange contracts</b>						
Forwards and Swaps – foreign	1,384,733	1,638	647	338,781	4,830	–
Forwards – domestic	3,503,729	2,049	665	3,926,751	3,475	2,914
<b>Derivative financial instruments</b>	<b>4,888,462</b>	<b>3,687</b>	<b>1,312</b>	<b>4,265,532</b>	<b>8,305</b>	<b>2,914</b>

### NOTE 12 – AVAILABLE-FOR-SALE SECURITIES

Available-for-sale securities are presented by the following investments:

	2004	2003
Units in closed investment funds	4,264,756	5,810,685
Corporate bonds	284,126	–
Corporate shares	38,756	619,299
Russian state bonds (OFZ)	–	25,563
Other equity investments	305	305
<b>Available-for-sale securities</b>	<b>4,587,943</b>	<b>6,455,852</b>

Available-for-sale securities represent the following:

	Description
Units in closed investment funds	Units in closed investment funds managed by Management Company Uralsib Savings, to which the Bank's trading portfolio of equity shares was passed for professional management during 2003
Corporate bonds	Bonds of Russian companies traded on MICEX
Corporate shares	Shares of Novorossiysk Trade Sea Port and other Russian companies

Interest rates and maturity of debt securities follow:

	2004		2003	
	<i>%</i>	<i>Maturity</i>	<i>%</i>	<i>Maturity</i>
Corporate bonds	13%	2007	–	–
Russian state bonds (OFZ)	–	–	10%	2004

(Thousands of Russian Rubles)

### NOTE 13 – LOANS TO CUSTOMERS

Loans to customers comprise:

	<u>2004</u>	<u>2003</u>
Loans to customers	21,531,571	9,288,286
Overdrafts	624,461	159,675
	<u>22,156,032</u>	<u>9,447,961</u>
Less – Allowance for loan impairment	(1,109,607)	(657,905)
<b>Loans to customers</b>	<u><b>21,046,425</b></u>	<u><b>8,790,056</b></u>

As of December 31, 2004, the Bank's loans to its largest ten third party borrowers totalled RUB 4,775,123 or 22% of gross loan portfolio (2003 – RUB 2,875,367 or 30%). As of December 31, 2004, an allowance of RUB 162,695 (2003 – RUB 183,443) was made against these loans.

Loans have been extended to the following types of customers:

	<u>2004</u>	<u>2003</u>
Private companies	20,855,726	9,215,946
Individuals	1,013,151	120,941
State companies	127,755	64,474
State budget or local authorities	159,400	46,600
<b>Loans to customers</b>	<u><b>22,156,032</b></u>	<u><b>9,447,961</b></u>

Loans are made principally within Russia in the following industry sectors:

	<u>2004</u>	<u>2003</u>
Financial services	6,087,218	2,308,726
Trading enterprises	4,063,638	2,849,253
Agriculture and food processing	3,940,796	990,889
Production and manufacturing	1,232,440	834,641
Individuals	1,013,151	120,941
Machine-building	913,480	72,707
Fuel, gas and chemical	888,327	160,367
Real estate construction	881,329	533,680
Energy	658,924	19,911
Mining and refinery	656,457	895,490
Services	503,214	260,474
Transport	218,515	30,818
Metallurgy	212,130	50,143
Government and municipal bodies	159,400	23,680
Forestry	133,035	50,197
Telecommunication	118,213	1,324
Other	475,765	244,720
	<u><b>22,156,032</b></u>	<u><b>9,447,961</b></u>

The Bank accepts listed and unlisted securities and other property as collateral for commercial loans, which the Bank is not permitted to sell or re-pledge in the absence of default.

(Thousands of Russian Rubles)

#### NOTE 14 – DUE FROM THE GROUP MEMBERS

As a result of the change in controlling shareholders in 2002, the Bank executed a series of transactions with the controlling shareholders and members of the Group. Such transactions included the restructuring of certain assets. Amounts due from the Group members reflect the effect of such asset restructurings. Amounts due from the Group members bore market interest rates, and their contractual maturities ranged from on demand to one year. During 2004 those debt assets were fully realised according to the contractual terms.

#### NOTE 15 – PROPERTY AND EQUIPMENT

The movements of property and equipment were as follows:

	<i>Property</i>	<i>Furniture and equipment</i>	<i>Assets under construction</i>	<i>Total</i>
<b>Cost</b>				
<b>December 31, 2003</b>	<b>163,623</b>	<b>737,176</b>	<b>36,147</b>	<b>936,946</b>
Additions	54,395	154,904	7,911	217,210
Disposals	14,698	82,140	–	96,838
<b>December 31, 2004</b>	<b>203,320</b>	<b>809,940</b>	<b>44,058</b>	<b>1,057,318</b>
<b>Accumulated depreciation</b>				
<b>December 31, 2003</b>	<b>11,751</b>	<b>490,543</b>	<b>–</b>	<b>502,294</b>
Charge	5,426	115,468	–	120,894
Disposals	1,473	47,951	–	49,424
<b>December 31, 2004</b>	<b>15,704</b>	<b>558,060</b>	<b>–</b>	<b>573,764</b>
<b>Net book value:</b>				
<b>December 31, 2003</b>	<b>151,872</b>	<b>246,633</b>	<b>36,147</b>	<b>434,652</b>
<b>December 31, 2004</b>	<b>187,616</b>	<b>251,880</b>	<b>44,058</b>	<b>483,554</b>

As of December 31, 2004, the Bank has RUB 253,922 of fully depreciated property and equipment, which are still in active use.

Loss on property and equipment disposal in 2003 included RUB 115,569 relating to the sale of a building under construction in Moscow based on restated (hyperinflated) value.

#### NOTE 16 – OTHER ASSETS AND LIABILITIES

Other assets comprise:

	<i>2004</i>	<i>2003</i>
Trade receivable	970,110	1,380,916
Settlements on payment cards	105,421	99,267
Prepayments	92,375	130,376
Intangible assets	29,832	10,886
Prepaid operating taxes	13,049	13,386
Settlements on foreign exchange derivatives	139	135
Settlements on operations with securities	–	24,172
Other	–	1,339
<b>Other assets</b>	<b>1,210,926</b>	<b>1,660,477</b>

(Thousands of Russian Rubles)

#### NOTE 16 – OTHER ASSETS AND LIABILITIES (CONTINUED)

The amortization charge on intangible assets for 2004 is RUB 10,933.

Other liabilities comprise:

	<u>2004</u>	<u>2003</u>
Trade payables	966,375	37,977
Settlements on payment cards	30,244	32,414
Accrued administrative and operating expenses	17,429	–
Operating taxes payable	3,211	5,364
Settlements on conversion operations	2,367	1,599
Other	1,495	1,169
<b>Other liabilities</b>	<b><u>1,021,121</u></b>	<b><u>78,523</u></b>

#### NOTE 17 – AMOUNTS DUE TO CREDIT INSTITUTIONS

Amounts due to credit institutions comprise:

	<u>2004</u>	<u>2003</u>
Current accounts and deposits on demand	3,283,094	1,434,268
Time deposits and loans	4,331,369	278,461
<b>Amounts due to credit institutions</b>	<b><u>7,614,463</u></b>	<b><u>1,712,729</u></b>

During 2004, the Bank simultaneously placed with and received short-term funds from Russian banks in different currencies. As of December 31, 2004, the Bank placed equivalents of RUB 111,023 in USD (2003 – RUB 322,591, RUB 147,273 in USD, RUB 36,824 in EUR) as deposits with Russian banks, which were secured by deposits received from the same banks (see Note 8).

#### NOTE 18 – AMOUNTS DUE TO CUSTOMERS

The amounts due to customers include the following:

	<u>2004</u>	<u>2003</u>
Current accounts	9,069,187	6,979,702
Time deposits	12,635,384	9,841,544
<b>Amounts due to customers</b>	<b><u>21,704,571</u></b>	<b><u>16,821,246</u></b>

At year-end 2004, amounts due to customers of RUB 2,671,405 (12%) were due to ten largest third party customers (2003 - RUB 1,292,755 or 8%).

Amounts due to customers include accounts with the following types of customers:

	<u>2004</u>	<u>2003</u>
Individuals	11,139,520	8,549,882
Private enterprises	9,522,647	7,454,183
State and budgetary organisations	622,948	508,882
Employees	419,456	308,299
<b>Amounts due to customers</b>	<b><u>21,704,571</u></b>	<b><u>16,821,246</u></b>

(Thousands of Russian Rubles)

## NOTE 19 – DEBT SECURITIES ISSUED

Debt securities issued were represented by promissory notes as of December 31, 2004 and 2003.

As of December 31, 2004, the Bank had issued non-interest-bearing promissory notes with an aggregate nominal value of RUB 367,375 (2003 – RUB 205,519) maturing in 2004 or issued on demand. Other debt securities issued by the Bank as of December 31, 2004, bear annual interest ranging from 2% to 11% (2003 – from 2% to 17%).

## NOTE 20 – SHAREHOLDERS' FUNDS

Movement of shares authorised, issued, fully paid and outstanding:

	<i>Number of shares Common</i>	<i>Nominal amount Common</i>	<i>Inflation adjustment</i>	<i>Total</i>
<b>December 31, 2003</b>	<u>53,770,000</u>	<u>5,377,000</u>	<u>2,345,215</u>	<u>7,722,215</u>
<b>December 31, 2004</b>	<u>53,770,000,000</u>	<u>5,377,000</u>	<u>2,345,215</u>	<u>7,722,215</u>

The share capital of the Bank was contributed by the shareholders in Russian Rubles and they are entitled to dividends and any capital distributions in Russian Rubles. In 2004 53,770,000 ordinary shares of the Bank with nominal value of 100 Rubles each were split into 53,770,000,000 shares with nominal value of 0.1 Rubles each.

The Bank's distributable reserves are determined by the amount of its reserves as disclosed in its accounts prepared in accordance with RAL. At December 31, 2004, the statutory accounts of the Bank disclosed distributable reserves of RUB 842,369 (2003 – RUB 359,273) and the amount of non-distributable reserves was RUB 295,048 (2003 – RUB 209,521). Non-distributable reserves are represented by a general reserve fund, which is created as required by the regulations of the Russian Federation, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The fund has been created in accordance with the Bank's statutes, which provide for the creation of a fund for these purposes of not less than 5% of the Bank's share capital reported in statutory books.

## NOTE 21 – FINANCIAL COMMITMENTS AND CONTINGENCIES

### Operating environment

The Russian economy, while deemed to be of market status, continues to display certain traits consistent with that of a market in transition. The Russian economy does not possess the business and regulatory infrastructure that would generally exist in a more mature market economy.

However, the continuing price escalation on world commodity markets has been a positive contributing factor to the improving trends in the Russian economy. The GDP level increased by 7.1% during 2004 and reported foreign currency reserves of the Central Bank of Russia increased by 62.5% compared with year-end 2003 and reached USD 124.5 billion. Additionally, the Government reduced its debt to the International Monetary Fund by USD 1.7 billion during 2004. Fitch Rating on 18 November 2004 has upgraded the Russian Federation's rating in local and foreign currencies to investment grade BBB-. Standard & Poor's sovereign rating was upgraded to level BBB- in local currency and to BB+ in foreign currency with Stable outlook. Moody's Investors Service on July 8, 2004 has confirmed the Russian Federation's rating Baa3 in local and foreign currencies. Deposits ceiling and domestic ratings were also upgraded.

Nevertheless, some uncertainties with respect to legal and tax infrastructures, including potential changes in these areas, may affect the positions taken by the Bank. The accompanying consolidated financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the Bank's financial statements in the period when they become known and estimable.

### Legal

In the ordinary course of business, the Bank may be subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of the Bank's future operations.

(Thousands of Russian Rubles)

## NOTE 21 – FINANCIAL COMMITMENTS AND CONTINGENCIES (CONTINUED)

### Financial commitments and contingencies

As of December 31, the Bank's financial commitments and contingencies comprised the following:

	<u>2004</u>	<u>2003</u>
<b>Credit related commitments</b>		
Undrawn loan commitments	5,440,092	1,991,313
Guarantees	405,444	852,385
Promissory note guarantees	–	1,533,619
	<u>5,845,536</u>	<u>4,377,317</u>
<b>Lease commitments</b>		
Not later than 1 year	336,357	98,480
Later than 1 year but not later than 5 years	194,073	118,021
Later than 5 years	14,542	12,009
	<u>544,972</u>	<u>228,510</u>
<b>Capital expenditure commitments</b>	<u>131,810</u>	<u>18,659</u>
Less – Provisions	–	(17,017)
Less – Bank's promissory notes held as security against guarantees	(126,935)	(674,676)
<b>Financial commitments and contingencies</b>	<u>6,395,383</u>	<u>3,932,793</u>

Part of property leased by the Bank is subleased to third parties. As of December 31, 2004, total future minimum sublease payments under non-cancellable subleases were RUB 4,923 (2003 – RUB 2,725).

### Insurance

The Bank's premises are insured for RUB 234,578. The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Russia at present.

Starting December 2004 the Bank is a member of the obligatory deposit insurance system. The system operates under the Federal laws and regulations and is governed by State Corporation "Agency for Deposits Insurance". Insurance covers Bank's liabilities to individual depositors for the amount up to RUB 100 for each individual in case of business failure and revocation of the CBR banking license.

## NOTE 22 – FINANCIAL RISK MANAGEMENT POLICIES

Management of risk is fundamental to the 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.

### Credit risk

The Bank is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry and geographical segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee that meets at least once a week. Actual exposures against limits are monitored daily.

(Thousands of Russian Rubles)

## NOTE 22 – FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

### Credit risk (continued)

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

The credit risk exposure on derivatives is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments.

Credit-related commitments ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the credit risk as well. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are sometimes fully or partially covered by the funds deposited by customers and therefore bear no credit risk.

With respect to undrawn loan commitments the Bank is potentially exposed to loss in an amount equal to the total of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set forth in the loan agreements.

### Concentration

The geographical concentration of banking assets and liabilities follows.

	2004				2003			
	<i>Russia</i>	<i>OECD</i>	<i>CIS and other foreign countries</i>	<i>Total</i>	<i>Russia</i>	<i>OECD</i>	<i>CIS and other foreign countries</i>	<i>Total</i>
<b>Assets</b>								
Cash and cash equivalents	4,202,609	681,737	1,850	<b>4,886,196</b>	9,087,617	214,205	–	<b>9,301,822</b>
Trading securities	2,426,116	–	–	<b>2,426,116</b>	1,342,114	–	–	<b>1,342,114</b>
Due from credit institutions	769,736	2,919,794	–	<b>3,689,530</b>	2,193,720	–	–	<b>2,193,720</b>
Derivative assets	2,049	1,638	–	<b>3,687</b>	3,475	4,830	–	<b>8,305</b>
Available-for-sale securities	4,578,950	412	8,581	<b>4,587,943</b>	6,443,856	402	11,594	<b>6,455,852</b>
Loans to customers	20,164,265	606,107	276,053	<b>21,046,425</b>	8,790,056	–	–	<b>8,790,056</b>
Due from Group members	–	–	–	–	1,117,880	–	–	<b>1,117,880</b>
All other assets	1,735,884	–	–	<b>1,735,884</b>	2,097,866	–	–	<b>2,097,866</b>
	<b>33,879,609</b>	<b>4,209,688</b>	<b>286,484</b>	<b>38,375,781</b>	<b>31,076,584</b>	<b>219,437</b>	<b>11,594</b>	<b>31,307,615</b>
<b>Liabilities</b>								
Due to credit institutions	7,560,990	11	53,462	<b>7,614,463</b>	1,465,667	246,745	317	<b>1,712,729</b>
Due to customers	21,130,539	399,078	174,954	<b>21,704,571</b>	16,207,965	6,606	606,675	<b>16,821,246</b>
Derivative liabilities	665	615	32	<b>1,312</b>	2,914	–	–	<b>2,914</b>
Debt securities issued	1,600,281	–	–	<b>1,600,281</b>	5,875,417	–	–	<b>5,875,417</b>
All other liabilities	1,087,739	–	–	<b>1,087,739</b>	356,025	–	–	<b>356,025</b>
	<b>31,380,214</b>	<b>399,704</b>	<b>228,448</b>	<b>32,008,366</b>	<b>23,907,988</b>	<b>253,351</b>	<b>606,992</b>	<b>24,768,331</b>
<b>Net position</b>	<b>2,499,395</b>	<b>3,809,984</b>	<b>58,036</b>	<b>6,367,415</b>	<b>7,168,596</b>	<b>(33,914)</b>	<b>(595,398)</b>	<b>6,539,284</b>

(Thousands of Russian Rubles)

**NOTE 22 – RISK MANAGEMENT POLICIES (CONTINUED)****Currency risk**

The Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's Assets and Liabilities Management Committee 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 Russia. The Bank's exposure to foreign currency exchange rate risk follows.

	2004					2003				
	Rubles	USD	EUR	Other	Total	Rubles	USD	EUR	Other	Total
<b>Assets:</b>										
Cash and cash equivalents	3,552,499	742,637	556,480	34,580	4,886,196	7,621,360	1,415,940	251,471	13,051	9,301,822
Trading securities	2,426,116	–	–	–	2,426,116	1,342,114	–	–	–	1,342,114
Amounts due from credit institutions	769,735	2,915,465	–	4,330	3,689,530	1,746,954	446,766	–	–	2,193,720
Derivative financial assets	–	1,953	1,734	–	3,687	–	3,103	5,202	–	8,305
Available-for-sale securities	4,578,950	–	412	8,581	4,587,943	6,443,856	–	402	11,594	6,455,852
Loans to customers	15,443,856	5,537,473	65,096	–	21,046,425	5,961,890	2,810,307	17,859	–	8,790,056
Due from Group members	–	–	–	–	–	1,117,880	–	–	–	1,117,880
All other assets	1,644,063	39,421	52,392	8	1,735,884	2,009,113	88,753	–	–	2,097,866
	<u>28,415,219</u>	<u>9,236,949</u>	<u>676,114</u>	<u>47,499</u>	<u>38,375,781</u>	<u>26,243,167</u>	<u>4,764,869</u>	<u>274,934</u>	<u>24,645</u>	<u>31,307,615</u>
<b>Liabilities:</b>										
Amounts due to credit institutions	3,685,644	3,873,007	52,362	3,450	7,614,463	1,108,089	557,943	46,632	65	1,712,729
Amounts due to customers	16,617,051	4,451,696	624,973	10,851	21,704,571	10,664,587	5,445,893	696,044	14,722	16,821,246
Derivative financial liabilities	–	696	616	–	1,312	1,971	913	30	–	2,914
Debt securities issued	1,092,496	505,341	2,444	–	1,600,281	4,597,473	1,257,493	20,451	–	5,875,417
All other liabilities	995,821	44,497	47,337	84	1,087,739	327,589	28,436	–	–	356,025
	<u>22,391,012</u>	<u>8,875,237</u>	<u>727,732</u>	<u>14,385</u>	<u>32,008,366</u>	<u>16,699,709</u>	<u>7,290,678</u>	<u>763,157</u>	<u>14,787</u>	<u>24,768,331</u>
<b>Net balance sheet position</b>	<u>6,024,207</u>	<u>361,712</u>	<u>(51,618)</u>	<u>33,114</u>	<u>6,367,415</u>	<u>9,543,458</u>	<u>(2,525,809)</u>	<u>(488,223)</u>	<u>9,858</u>	<u>6,539,284</u>
<b>Net off balance sheet position</b>	<u>452,171</u>	<u>(914,746)</u>	<u>427,287</u>	<u>37,663</u>	<u>2,375</u>	<u>(2,252,166)</u>	<u>1,872,746</u>	<u>384,811</u>	<u>–</u>	<u>5,391</u>

*(Thousands of Russian Rubles)***NOTE 22 – RISK MANAGEMENT POLICIES (CONTINUED)****Liquidity risk**

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs, guarantees and from margin and other calls on derivatives settled by cash. The Bank maintains liquidity management with the objective of ensuring that funds will be available to honor cash flow obligations as they become due. The Bank's Assets and Liabilities Management Committee sets limits on the minimum proportion of maturing funds available to cover such cash outflows and the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The contractual maturities of assets and liabilities:

	<i>2004</i>								<i>Total</i>
	<i>On demand</i>	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Overdue</i>	<i>No defined maturity</i>	
<b>Assets</b>									
Cash and cash equivalents	3,916,258	499,089	470,849	–	–	–	–	–	4,886,196
Trading securities	2,426,116	–	–	–	–	–	–	–	2,426,116
Amounts due from credit institutions	131,209	347,844	133,977	3,070,993	5,507	–	–	–	3,689,530
Derivative financial assets	–	3,687	–	–	–	–	–	–	3,687
Available-for-sale securities	4,587,943	–	–	–	–	–	–	–	4,587,943
Loans to customers	–	1,639,168	5,985,423	10,317,099	3,021,542	700	82,493	–	21,046,425
All other assets	699,802	69,836	666	440,634	41,392	–	–	483,554	1,735,884
	<u>11,761,328</u>	<u>2,559,624</u>	<u>6,590,915</u>	<u>13,828,726</u>	<u>3,068,441</u>	<u>700</u>	<u>82,493</u>	<u>483,554</u>	<u>38,375,781</u>
<b>Liabilities</b>									
Amounts due to credit institutions	3,283,094	4,285,733	39,636	6,000	–	–	–	–	7,614,463
Amounts due to customers	9,357,762	3,213,767	3,763,675	5,213,591	155,776	–	–	–	21,704,571
Derivative financial liabilities	–	1,312	–	–	–	–	–	–	1,312
Debt securities issued	338,896	218,996	708,759	281,546	52,060	24	–	–	1,600,281
All other liabilities	587,273	61,362	66,650	372,248	–	206	–	–	1,087,739
	<u>13,567,025</u>	<u>7,781,170</u>	<u>4,578,720</u>	<u>5,873,385</u>	<u>207,836</u>	<u>230</u>	<u>–</u>	<u>–</u>	<u>32,008,366</u>
<b>Net position</b>	<u>(1,805,697)</u>	<u>(5,221,546)</u>	<u>2,012,195</u>	<u>7,955,341</u>	<u>2,860,605</u>	<u>470</u>	<u>82,493</u>	<u>483,554</u>	<u>6,367,415</u>
<b>Accumulated gap</b>	<u>(1,805,697)</u>	<u>(7,027,243)</u>	<u>(5,015,048)</u>	<u>2,940,293</u>	<u>5,800,898</u>	<u>5,801,368</u>	<u>5,883,861</u>	<u>6,367,415</u>	

(Thousands of Russian Rubles)

**NOTE 22 – RISK MANAGEMENT POLICIES (CONTINUED)****Liquidity risk (continued)**

	2003							No defined maturity	Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Overdue		
<b>Assets</b>									
Cash and cash equivalents	5,032,570	4,269,252	–	–	–	–	–	–	9,301,822
Trading securities	1,342,114	–	–	–	–	–	–	–	1,342,114
Amounts due from credit institutions	574,404	297,300	350,021	956,989	15,006	–	–	–	2,193,720
Derivative financial assets	–	8,305	–	–	–	–	–	–	8,305
Available-for-sale securities	6,455,852	–	–	–	–	–	–	–	6,455,852
Loans to customers	–	1,708,605	1,392,264	5,053,557	618,869	544	16,217	–	8,790,056
Due from Group members	1,070,000	–	–	47,880	–	–	–	–	1,117,880
All other assets	254,150	1,063,387	264,655	75,235	2,144	–	3,643	434,652	2,097,866
	<u>14,729,090</u>	<u>7,346,849</u>	<u>2,006,940</u>	<u>6,133,661</u>	<u>636,019</u>	<u>544</u>	<u>19,860</u>	<u>434,652</u>	<u>31,307,615</u>
<b>Liabilities</b>									
Amounts due to credit institutions	1,434,268	150,400	95,366	32,695	–	–	–	–	1,712,729
Amounts due to customers	7,244,025	1,942,337	4,468,251	3,008,153	158,480	–	–	–	16,821,246
Derivative financial liabilities	–	2,914	–	–	–	–	–	–	2,914
Debt securities issued	186,506	905,565	1,135,639	3,629,216	18,491	–	–	–	5,875,417
All other liabilities	22,697	55,018	112,805	88,863	76,642	–	–	–	356,025
	<u>8,887,496</u>	<u>3,056,234</u>	<u>5,812,061</u>	<u>6,758,927</u>	<u>253,613</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>24,768,331</u>
<b>Net position</b>	<u>5,841,594</u>	<u>4,290,615</u>	<u>(3,805,121)</u>	<u>(625,266)</u>	<u>382,406</u>	<u>544</u>	<u>19,860</u>	<u>434,652</u>	<u>6,539,284</u>
<b>Accumulated gap</b>	<u>5,841,594</u>	<u>10,132,209</u>	<u>6,327,088</u>	<u>5,701,822</u>	<u>6,084,228</u>	<u>6,084,772</u>	<u>6,104,632</u>	<u>6,539,284</u>	

Long-term credits and overdraft facilities are generally not available in Russia except for programs set up by international financial institutions. However, in the Russian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. In addition, the maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due on demand in the tables above. While trading and available-for-sale securities are shown at demand, realizing such assets upon demand is dependent upon financial market conditions. Those securities may not be realisable during a short period of time at stated fair value as the sales price might include premium or discount.

**Interest rate risk**

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. The Bank's expected repricing and maturity dates do not differ significantly from the contract dates, which are disclosed in the liquidity risk table above.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Bank's management. These limits restrict the potential effect of movements in interest rates on interest margin and on the value of interest-sensitive assets and liabilities.

(Thousands of Russian Rubles)

## NOTE 22 – RISK MANAGEMENT POLICIES (CONTINUED)

### Interest rate risk (continued)

The Bank's interest rate policy is reviewed and approved by the Bank's Assets and Liabilities Management Committee. The Bank's average effective interest rates as of December 31 for monetary financial instruments follow.

	2004			2003		
	Rubles	USD	EUR	Rubles	USD	EUR
Cash and cash equivalents, time deposits	4%	2%	2%	2%	2%	2%
Credit institutions, time deposits	6%	–	–	4%	2%	–
Trading debt securities Available-for-sale debt securities	10%	–	–	11%	–	–
Loans to customers	13%	–	–	10%	–	–
Due to credit institutions, time deposits	15%	13%	13%	14%	12%	11%
Due to customers, time deposits	1%	2%	10%	1%	5%	3%
Debt securities issued	12%	7%	7%	12%	7%	6%
	2%	11%	4%	8%	1%	–

## NOTE 23 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in forced sale or liquidation. 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 the 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.

The following methods and assumptions are used by the Bank to estimate the fair value of these financial instruments:

### Amounts due from credit institutions

For assets maturing within three months, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For longer-term deposits, the interest rates applicable reflect market rates and, consequently, the fair value approximates the carrying amounts.

### Loans to customers

The estimate is made by discounting scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as of the respective year-end.

### Available-for-sale securities

Non-marketable available-for-sale securities are represented by corporate bonds and equity instruments. The total carrying amount of these securities approximates their fair values.

### Amounts due to customers

For balances maturing within three months the carrying amount approximates fair value due to the relatively short term maturity of these financial instruments. For longer term fixed interest bearing deposits and other borrowings the estimated fair value is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(Thousands of Russian Rubles)

## NOTE 23 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

### Debt securities issued

Debt securities are issued at interest rates approximating market rates and consequently the carrying amount of debt securities issued is a reasonable estimate of their fair value.

The Bank's assets and operations are concentrated primarily in the Russian Federation. Management believes that, based upon its best estimates, as of December 31, 2004 and 2003, the carrying value of substantially all Bank's assets and liabilities approximates their fair values.

## NOTE 24 – RELATED PARTIES

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

	2004			2003		
	<i>Related party transactions</i>	<i>Percentage on normal conditions</i>	<i>Total category as per financial statements captions</i>	<i>Related party transactions</i>	<i>Percentage on normal conditions</i>	<i>Total category as per financial statements captions</i>
Cash and cash equivalents	788,881	100%	4,886,196	976,403	100%	9,301,822
Trading securities	1,704,074	100%	2,426,116	57,046	100%	1,342,114
Amounts due from credit institutions, gross	119,182	100%	3,689,906	721,345	100%	2,193,850
Available-for-sale securities	4,302,110	100%	4,587,943	5,925,641	100%	6,455,852
Loans to customers, gross	5,374,088	100%	22,156,032	2,307,640	100%	9,447,961
Due from the Group members	–	–	–	1,117,880	100%	1,117,880
Other assets	969,818	100%	1,210,926	1,380,890	100%	1,660,477
Amounts due to credit institutions	6,282,298	100%	7,614,463	46,450	100%	1,712,729
Amounts due to customers	1,783,640	100%	21,704,571	48,570	100%	16,821,246
Debt securities issued	370,888	100%	1,600,281	3,186,479	81%	5,875,417
Provisions	–	–	–	71,750	–	88,767
Other liabilities	918,799	100%	1,021,121	–	–	78,523
Commitments and guarantees issued	790,836	100%	5,845,536	1,691,194	100%	4,377,317
Interest income	725,269	100%	2,442,998	176,807	100%	1,313,603
Interest expense	281,210	100%	1,485,634	88,237	100%	806,951
Trading gains less losses	331,594	100%	246,445	429,477	100%	742,982
Gain less losses from available-for-sale securities	103,468	100%	624,225	–	–	–
Dividend income	42,693	100%	42,726	75,235	100%	75,365
Administrative and operating expenses - Occupancy and rent	87,027	100%	241,935	41,676	100%	187,819
Other impairment and provisions (reversal)	(71,750)		(88,767)	–	–	(12,210)

In consolidation of the Bank's operating results into the Group financial statements, trading gains and losses will be offset against the carrying value of the related securities carried by members of the Group.

*(Thousands of Russian Rubles)*

**NOTE 24 – RELATED PARTIES (CONTINUED)**

As of December 31, 2004, members of the Shareholders' Council and Management Boards had RUB 5,922 (2003 – RUB 2,945) of loans due to the Bank on normal commercial terms.

The aggregate remuneration and other benefits paid to members of the Shareholders' Council and Management Boards for 2004 was RUB 52,997 (2003 – RUB 41,688).

**NOTE 25 – CAPITAL ADEQUACY**

The Central Bank of Russia requires banks to maintain a capital adequacy ratio of 10% of risk weighted assets, computed based on RAL for Banks with capital more than five million EUR. As of December 31, 2004 and 2003, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

The Bank's international risk based capital adequacy ratio as of December 31, 2004 and 2003, was 21.9% and 30.8%, respectively, which exceed the minimum ratio of 8% recommended by the Basle Accord.