

NIKoil IBG Bank

Consolidated financial statements

Year ended December 31, 2004

Together with independent auditors' report

CONTENTS

REPORT OF INDEPENDENT AUDITORS

| | |
|--|---|
| CONSOLIDATED STATEMENTS OF INCOME | 1 |
| CONSOLIDATED BALANCE SHEETS | 2 |
| CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY | 3 |
| CONSOLIDATED CASH FLOW STATEMENTS | 4 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

| | |
|---|----|
| NOTE 1 – PRINCIPAL ACTIVITIES | 5 |
| NOTE 2 – BASIS OF PREPARATION | 5 |
| NOTE 3 – SUMMARY OF ACCOUNTING POLICIES | 7 |
| NOTE 4 – ALLOWANCES FOR LOSSES AND PROVISIONS | 13 |
| NOTE 5 – FEES AND COMMISSIONS | 14 |
| NOTE 6 – TRADING GAINS LESS LOSSES | 14 |
| NOTE 7 – SALARIES AND ADMINISTRATIVE AND OPERATING EXPENSES | 15 |
| NOTE 8 – TAXATION | 15 |
| NOTE 9 – CASH AND CASH EQUIVALENTS | 17 |
| NOTE 10 – TRADING SECURITIES | 17 |
| NOTE 11 – AMOUNTS DUE FROM CREDIT INSTITUTIONS | 18 |
| NOTE 12 – DERIVATIVE FINANCIAL INSTRUMENTS | 18 |
| NOTE 13 – AVAILABLE-FOR-SALE SECURITIES | 18 |
| NOTE 14 – LOANS TO CUSTOMERS | 19 |
| NOTE 15 – PROPERTY AND EQUIPMENT | 20 |
| NOTE 16 – OTHER ASSETS AND LIABILITIES | 21 |
| NOTE 17 – AMOUNTS DUE TO CREDIT INSTITUTIONS | 21 |
| NOTE 18 – AMOUNTS DUE TO CUSTOMERS | 21 |
| NOTE 19 – BORROWED FUNDS | 22 |
| NOTE 20 – DEBT SECURITIES ISSUED | 22 |
| NOTE 21 – SHAREHOLDERS' FUNDS | 22 |
| NOTE 22 – FINANCIAL COMMITMENTS AND CONTINGENCIES | 23 |
| NOTE 23 – FINANCIAL RISK MANAGEMENT POLICIES | 24 |
| NOTE 24 – FAIR VALUE OF FINANCIAL INSTRUMENTS | 29 |
| NOTE 25 – RELATED PARTIES | 30 |
| NOTE 26 – TRUST ACTIVITIES | 31 |
| NOTE 27 – CAPITAL ADEQUACY | 31 |

REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors of NIKoil IBG Bank –

We have audited the accompanying consolidated balance sheet of NIKoil IBG Bank and its subsidiaries (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 25, the Bank has significant transactions with related parties, in particular with regard to securities and financing operations.



February 28, 2005

CONSOLIDATED STATEMENTS OF INCOME

(Thousands of Russian Rubles)

| | | <i>Year ended December 31,</i> | |
|--|--------------|--------------------------------|------------------|
| | <i>Notes</i> | <i>2004</i> | <i>2003</i> |
| Interest income | | | |
| Loans | | 2,635,876 | 2,445,087 |
| Securities | | 268,269 | 280,202 |
| Due from credit institutions | | 149,206 | 60,086 |
| Factoring | | 33,823 | 174,348 |
| | | <u>3,087,174</u> | <u>2,959,723</u> |
| Interest expense | | | |
| Deposits | | 476,266 | 336,835 |
| Amounts owed to credit institutions | | 573,398 | 582,666 |
| Borrowings | | 530,478 | 236,041 |
| | | <u>1,580,142</u> | <u>1,155,542</u> |
| Net interest income | | <u>1,507,032</u> | <u>1,804,181</u> |
| Impairment of interest earning assets (reversal) | 4 | (115,044) | 680,675 |
| Net interest income after impairment | | <u>1,622,076</u> | <u>1,123,506</u> |
| Fees and commissions income | | 528,450 | 346,281 |
| Fees and commissions expense | | 72,288 | 41,185 |
| Fees and commissions | 5 | <u>456,162</u> | <u>305,096</u> |
| Trading gains less losses | 6 | (688,172) | 18,562 |
| Gain less losses from available-for-sale securities | | 94,077 | 115,750 |
| Foreign exchange gains | | 331,607 | 370,343 |
| Gains less losses from operations with precious metals | | 69,688 | 20,488 |
| Translation gains less losses from foreign currency | | (140,548) | (466,954) |
| Dividend income | | 86,648 | 132,622 |
| Other income | | 66,503 | 52,852 |
| Non interest income (loss) | | <u>(180,197)</u> | <u>243,663</u> |
| Salaries and employment benefits | 7 | 769,116 | 548,636 |
| Administrative and operating expenses | 7 | 457,793 | 403,665 |
| Depreciation and amortization | 15,16 | 50,077 | 64,406 |
| Other impairment and provisions (reversal) | 4 | (102,861) | 149,531 |
| Non interest expense | | <u>1,174,125</u> | <u>1,166,238</u> |
| Income before income tax expense | | <u>723,916</u> | <u>506,027</u> |
| Income tax expense | 8 | 151,141 | 218,961 |
| Net income | | <u>572,775</u> | <u>287,066</u> |

The accompanying notes on pages 5 to 31 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> |
| Assets | | | |
| Cash and cash equivalents | 9 | 10,177,333 | 3,275,866 |
| Precious metals | | 1,556 | 49,618 |
| Trading securities | 10 | 6,337,983 | 1,514,605 |
| Amounts due from credit institutions | 11 | 1,903,867 | 1,745,171 |
| Derivative financial assets | 12 | 60,207 | 902,693 |
| Available-for-sale securities | 13 | 6,630,620 | 5,081,902 |
| Loans to customers | 14 | 16,692,409 | 21,681,845 |
| Tax assets | 8 | – | 69,318 |
| Property and equipment | 15 | 97,080 | 130,481 |
| Other assets | 16 | 634,002 | 605,627 |
| Total assets | | 42,535,057 | 35,057,126 |
| Liabilities | | | |
| Amounts due to credit institutions | 17 | 7,607,549 | 6,315,680 |
| Amounts due to customers | 18 | 16,997,999 | 13,577,280 |
| Derivative financial liabilities | 12 | 5,825 | 47,413 |
| Borrowed funds | 19 | 4,218,663 | – |
| Debt securities issued | 20 | 5,302,363 | 7,107,081 |
| Tax liabilities | 8 | 153,428 | 180,250 |
| Provisions | 4 | 82,800 | 185,661 |
| Other liabilities | 16 | 79,781 | 129,867 |
| Total liabilities | | 34,448,408 | 27,543,232 |
| Shareholders' funds | | | |
| Share capital | 21 | 7,360,922 | 7,360,922 |
| Additional paid-in-capital | | 505,817 | 505,817 |
| Retained earnings (accumulated deficit) | | 219,910 | (352,845) |
| Total shareholders' funds | | 8,086,649 | 7,513,894 |
| Total liabilities and shareholders' funds | | 42,535,057 | 35,057,126 |
| Financial commitments and contingencies | 22 | 8,569,782 | 11,132,964 |

Signed on behalf of the Board of Directors

Vladimir M. Ryskin

Chairman

Renat S. Koneev

Chief Accountant

February 28, 2005

The accompanying notes on pages 5 to 31 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>Treasury stock</i> | <i>Retained earnings (accumulated deficit)</i> | <i>Shareholders' funds</i> |
|---------------------------------|-------------|--------------------------|---|---------------------------|--|--------------------------------|
| December 31, 2002 | | 7,360,922 | 743,437 | (317,620) | (639,891) | 7,146,848 |
| Expiration of asset restriction | | – | (237,620) | 317,620 | – | 80,000 |
| Dividends | | – | – | – | (20) | (20) |
| Net income | | – | – | – | 287,066 | 287,066 |
| December 31, 2003 | | 7,360,922 | 505,817 | – | (352,845) | 7,513,894 |
| Dividends | | – | – | – | (20) | (20) |
| Net income | | – | – | – | 572,775 | 572,775 |
| December 31, 2004 | 21 | 7,360,922 | 505,817 | – | 219,910 | 8,086,649 |

The accompanying notes on pages 5 to 31 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> |
| Cash flows from operating activities | | |
| Interest, fees and commissions received | 3,688,798 | 3,158,061 |
| Interest, fees and commissions paid | (1,476,265) | (1,216,988) |
| Gains less losses from securities | (36,329) | (211,996) |
| Gains less losses in operations with precious metals | 33,948 | 12,048 |
| Realized gains less losses in foreign currencies | 331,607 | 369,276 |
| Other operating income | 63,040 | 58,850 |
| Salaries and employment benefits | (769,113) | (548,636) |
| Administrative and operating expenses | (513,149) | (403,665) |
| Cash flows from operating activities before changes in operating assets and liabilities | 1,322,537 | 1,216,950 |
| Net (increase) decrease in operating assets | | |
| Precious metals | 48,062 | 33,397 |
| Trading securities | (4,280,188) | 3,783,245 |
| Amounts due from credit institutions | (168,852) | (710,685) |
| Loans to customers | 4,537,759 | (9,643,430) |
| Receivables from Group | - | (107,118) |
| Other assets | (175,297) | 31,206 |
| Net increase (decrease) in operating liabilities | | |
| Amounts due to credit institutions | 1,430,146 | 1,980,800 |
| Amounts due to customers | 3,682,248 | 6,424,088 |
| Other liabilities | (68,573) | (511,503) |
| Net cash flows from operating activities before income taxes | 6,327,842 | 2,496,950 |
| Corporate income tax paid | (108,645) | (267,857) |
| Net cash flows from operating activities | 6,219,197 | 2,229,093 |
| Cash flows from investing activities | | |
| Purchases of available-for-sale securities | (1,811,015) | (4,481,571) |
| Purchases of property and equipment | (27,267) | (24,118) |
| Proceeds from sale of property and equipment | 40,649 | 8,957 |
| Dividends received | 86,648 | 132,622 |
| Net cash flows from investing activities | (1,710,985) | (4,364,110) |
| Cash flows from financing activities | | |
| Debt securities issued | (1,713,434) | 2,609,008 |
| Proceeds from borrowed funds issued | 4,162,305 | - |
| Dividends paid | (14) | (20) |
| Net cash flows from financing activities | 2,448,857 | 2,608,988 |
| Effect of exchange rate changes on cash and cash equivalents | (55,602) | (74,741) |
| Net change in cash and cash equivalents | 6,901,467 | 399,230 |
| Cash and cash equivalents, beginning | 3,275,866 | 2,876,636 |
| Cash and cash equivalents, ending | 9 10,177,333 | 3,275,866 |

The accompanying notes on pages 5 to 31 are an integral part of these consolidated financial statements.

(Thousands of Russian Rubles)

NOTE 1 – PRINCIPAL ACTIVITIES

The accompanying consolidated financial statements contain the accounts of NIKoil IBG Bank and its subsidiaries (together the “Bank”). NIKoil IBG Bank was established in 1990 as an open joint stock company under the laws of the Russian Federation. NIKoil IBG Bank possesses a general banking license from the Central Bank of Russia (the “CBR”) granted in June 1999. Furthermore, NIKoil IBG Bank also possesses licenses for securities operations and custody services from the Federal Stock Market Commission, granted in December 2000, as well as a license for precious metals operations granted by the CBR in August 1999.

The Bank is a 99.9% owned subsidiary of nine Russian entities which in turn are controlled directly or indirectly by Financial Corporation NIKoil, parent entity of a group of companies (the “Group”) with principal subsidiaries engaged in the provision of financial services in Russia, Cyprus, and other jurisdictions. The Bank plays an important role in the Group, providing a full range of financial and banking services to the members of the Group in Russia.

On November 11, 2004, the shareholders of the Bank approved a reorganisation in the form of a combination with Uralsibirian Bank (Uralsib), a Group subsidiary bank acquired in 2003. This combination is planned to be completed before year-end 2005.

NIKoil IBG Bank is among the 20 largest banks in Russia in terms of net assets calculated under local accounting rules. Its main office is in Moscow and it has one operating outlet in Moscow and three branches in different regions of Russia. During March 2003, the Board of Directors made a decision to cease branch activities. Further, NIKoil IBG Bank is shifting regional operations to branch networks of other Group members (Avtobank-NIKoil and Uralsib). NIKoil IBG Bank’s registered legal address is 8 Efremova Street, Moscow 119048. The Bank had an average of 973 employees during 2004 (2003 – 1,028) and 1,061 employees at December 31, 2004 (2003 – 951). The Bank accepts deposits from the public and makes loans, operates with debt and equity securities, transfers payments in Russia and abroad, exchanges currencies and provides banking services for its commercial and retail customers.

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”), 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 property and equipment. Actual results, therefore, could differ from these estimates.

(Thousands of Russian Rubles)

NOTE 2 – BASIS OF PREPARATION (CONTINUED)

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.

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 subsidiaries:

| December 31, 2004 | | | |
|---|-------------------|----------------|-----------------|
| Subsidiary | Holding, % | Country | Industry |
| Operating Factoring Company NIKoil | 100% | Russia | Factoring |
| Nov-Trans-Group | 100% | Russia | Logistics |
| Electronnie Tehnologii UralSib (former NIKoil Escrow) | 100% | Russia | Consulting |
| December 31, 2003 | | | |
| Operating Factoring Company NIKoil | 100% | Russia | Factoring |
| Nov-Trans-Group | 100% | Russia | Logistics |
| Service Company NIKoil | 100% | Russia | Catering |
| NIKoil Escrow | 100% | Russia | Consulting |

Ownership over Service Company NIKoil has been transferred to other Group member during 2004.

(Thousands of Russian Rubles)

NOTE 2 – BASIS OF PREPARATION (CONTINUED)

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 income | Shareholders' equity | Net income |
| Russian Accounting Legislation (combined) | 8,085,135 | 1,542,322 | 6,656,340 | 451,804 |
| Fair value re-measurement of securities | 252,615 | (1,006,806) | 1,259,421 | 371,312 |
| Impairment of financial assets and other provisions | (240,351) | 455,554 | (695,905) | (564,775) |
| Group administrative expenses | 482,704 | – | 482,704 | 146,392 |
| Deferred taxation | (139,789) | 40,461 | (180,250) | 36,206 |
| Accelerated depreciation | (91,300) | (18,172) | (73,128) | (38,930) |
| Current taxes | (14,098) | (14,641) | 69,318 | 69,318 |
| Effect of accrued interest | (305,706) | (255,503) | (50,203) | 132,440 |
| Inflation impact on non-monetary items | 48,592 | (853) | 49,445 | – |
| Expenses recorded directly to equity | – | (179,266) | – | (333,173) |
| Other | 8,847 | 9,679 | (3,848) | 16,472 |
| International Financial Reporting Standards | 8,086,649 | 572,775 | 7,513,894 | 287,066 |

NOTE 3 – SUMMARY OF ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements of the Bank include NIKoil IBG Bank and 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.

(Thousands of Russian Rubles)

NOTE 3 – SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Recognition and Presentation of Financial Instruments (continued)

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.

Precious Metals

Gold and other precious metals are recorded at current CBR bid prices, which are quoted at a discount to London Metal Exchange rates. Changes in CBR bid price are recorded as gains less losses from operations with precious metals.

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.

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 arising from changes in the value of derivatives on securities are included in the statement of income as gains less losses from trading securities, changes in fair value of derivatives on precious metals – as gains less losses from precious metals, changes in fair value of foreign exchange derivatives – as translation gains less losses from foreign currency.

(Thousands of Russian Rubles)

NOTE 3 – SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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 securities are subsequently measured at fair value, which is equal to the market value as of 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.

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.

(Thousands of Russian Rubles)

NOTE 3 – SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

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.

Investments in Associates

The Bank's investment in its associates are accounted for under the equity method. Associate 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.

(Thousands of Russian Rubles)

NOTE 3 – SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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.

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.

(Thousands of Russian Rubles)

NOTE 3 – SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Debt Securities Issued and Borrowed Funds

Debt securities issued represent promissory notes and certificates of deposit issued by the Bank to its customers. Debt securities issued and borrowed funds 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.

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. Preferred shares that are non-redeemable or redeemable only upon the occurrence of an event that is not likely to occur are classified as equity.

Dividends 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.

(Thousands of Russian Rubles)

NOTE 3 – SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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.

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> |
|---------------|---|--|
| 5,998 | Other income | Fees and commissions received |
| 8,440 | Translation gains less losses from foreign currency and precious metals | Gains less losses from operations with precious metals |
| 12,048 | Trading gains less losses | Gains less losses from operations with precious metals |
| 216,594 | Advances to gold mining companies | Loans to customers |

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> |
|--------------------------|-------------------------------------|---------------------------|------------------|
| December 31, 2002 | 15,442 | 420,741 | 436,183 |
| Charge (reversal) | (11,102) | 691,777 | 680,675 |
| December 31, 2003 | 4,340 | 1,112,518 | 1,116,858 |
| Charge (reversal) | 26,712 | (141,756) | (115,044) |
| Write-off | – | (8,436) | (8,436) |
| December 31, 2004 | 31,052 | 962,326 | 993,378 |

The movements in provisions were as follows:

| | <i>Guarantees and letters of credit</i> |
|--------------------------|---|
| December 31, 2002 | 36,130 |
| Charge | 149,531 |
| December 31, 2003 | 185,661 |
| Reversal | (102,861) |
| December 31, 2004 | 82,800 |

(Thousands of Russian Rubles)

NOTE 4 – ALLOWANCES FOR LOSSES AND PROVISIONS (CONTINUED)

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.

NOTE 5 – FEES AND COMMISSIONS

Fees and commissions comprise:

| | <i>2004</i> | <i>2003</i> |
|-------------------------------------|----------------|----------------|
| Settlements operations | 205,874 | 115,004 |
| Factoring operations | 86,474 | 89,907 |
| Consulting fees | 83,878 | 29,845 |
| Underwriting | 47,753 | 31,814 |
| Asset management | 39,078 | 5,998 |
| Guarantees issued | 21,519 | 20,123 |
| Cash operations | 19,428 | 27,084 |
| Foreign exchange operations | 12,644 | 14,700 |
| Securities operations | 5,410 | 8,737 |
| Other | 6,392 | 3,069 |
| Fees and commissions income | 528,450 | 346,281 |
| Credit facilities received | 40,747 | 8,314 |
| Settlements operations | 14,209 | 8,341 |
| Precious metals operations | 6,694 | 4,668 |
| Cash operations | 4,937 | 6,943 |
| Securities operations | 3,168 | 6,710 |
| Guarantees received | 1,264 | 4,426 |
| Currency exchange operations | 300 | 544 |
| Other | 969 | 1,239 |
| Fees and commissions expense | 72,288 | 41,185 |
| Fees and commissions | 456,162 | 305,096 |

NOTE 6 – TRADING GAINS LESS LOSSES

Trading gains less losses comprise:

| | <i>2004</i> | <i>2003</i> |
|--------------------------|------------------|---------------|
| Trading securities | (688,172) | (797,141) |
| Derivatives - securities | – | 815,703 |
| | (688,172) | 18,562 |

(Thousands of Russian Rubles)

NOTE 7 – SALARIES AND ADMINISTRATIVE AND OPERATING EXPENSES

Salaries and benefits, administrative and operating expenses comprise:

| | <i>2004</i> | <i>2003</i> |
|--|----------------|----------------|
| Salaries and bonuses | 672,900 | 453,363 |
| Social security costs | 96,216 | 95,273 |
| Salaries and employment benefits | 769,116 | 548,636 |
| Business development | 134,395 | 99,791 |
| Occupancy and rent | 127,089 | 116,729 |
| Operating taxes | 70,159 | 64,890 |
| Communications | 43,085 | 35,782 |
| Marketing and advertising | 27,980 | 31,644 |
| Insurance | 8,847 | 4,858 |
| Low value items expenses and materials | 584 | 2,901 |
| Other | 45,654 | 47,070 |
| Administrative and operating expenses | 457,793 | 403,665 |

NOTE 8 – TAXATION

The corporate income tax expense comprises:

| | <i>2004</i> | <i>2003</i> |
|---------------------------|----------------|----------------|
| Current tax expense | 191,602 | 255,167 |
| Deferred tax benefit | (40,461) | (36,206) |
| Income tax expense | 151,141 | 218,961 |

Russian legal entities must file individual tax declarations. The tax rate for banks for income 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:

| | <i>2004</i> | <i>2003</i> |
|---------------------------|----------------|----------------|
| Current tax assets | – | 69,318 |
| Current tax liabilities | 13,639 | – |
| Deferred tax liabilities | 139,789 | 180,250 |
| Tax liabilities | 153,428 | 180,250 |

(Thousands of Russian Rubles)

NOTE 8 – TAXATION (CONTINUED)

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> |
|---|----------------|----------------|
| Income before taxation | 723,916 | 506,027 |
| Statutory tax rate | 24% | 24% |
| Theoretical income tax expense at statutory rate | 173,740 | 121,446 |
| Change in unrecognized deferred tax asset | (93,378) | 145,795 |
| Change in tax rate applicable to taxable temporary difference on securities mark-to-market, intragroup | 83,105 | (27,780) |
| Non deductible administrative expenditures | 25,609 | 17,213 |
| Dividend income taxed at different rate | (20,796) | (31,829) |
| Transfer pricing adjustment on trading gains, intra-group | 3,211 | 4,559 |
| State securities income taxed at different rates | (2,181) | (1,574) |
| Expenses attributable to overall Group activity | – | (31,677) |
| Other items | (18,169) | 22,808 |
| Income tax expense | 151,141 | 218,961 |

Deferred tax assets and liabilities as of December 31 comprise:

| | <u>2004</u> | <u>2003</u> |
|---|----------------|----------------|
| Tax effect of deductible temporary differences | | |
| Loans to customers | 190,705 | 264,866 |
| Administrative expenses accrued | – | 3,025 |
| Other | 1,503 | 1,290 |
| Deferred tax assets, gross | 192,208 | 269,181 |
| Unrecognized deferred tax asset | 139,796 | 233,174 |
| Deferred tax assets | 52,412 | 36,007 |
| Tax effect of taxable temporary differences | | |
| Securities | 167,310 | 5,282 |
| Derivative financial instruments | 13,052 | 205,267 |
| Borrowed funds | 11,587 | – |
| Property and equipment | 252 | 5,708 |
| Deferred tax liabilities | 192,201 | 216,257 |
| Deferred tax liability | 139,789 | 180,250 |

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.

(Thousands of Russian Rubles)

NOTE 9 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

| | <i>2004</i> | <i>2003</i> |
|--|-------------------|------------------|
| Cash on hand | 138,980 | 178,537 |
| Current accounts with the Central Bank | 1,394,048 | 851,518 |
| Current accounts with other credit institutions | 3,027,900 | 948,822 |
| Time deposits with credit institutions up to 90 days | 4,670,491 | 1,260,678 |
| Reverse repurchase agreements | 945,914 | 36,311 |
| Cash and cash equivalents | 10,177,333 | 3,275,866 |

As of December 31, 2003, the Bank placed equivalent of RUB 68,900 as deposits in USD with Russian banks, which were related to deposits received from the same banks (see Note 17) (2004: nil).

The Bank had entered into reverse repurchase agreements with a credit institution. The subject of these agreements are bonds issued by Russian companies and banks of RUB 1,005,038 (2003 – RUB 40,296) and shares of RUB 67,435 (2003: nil).

NOTE 10 – TRADING SECURITIES

Trading securities comprise:

| | <i>2004</i> | <i>2003</i> |
|------------------------------------|------------------|------------------|
| LUKoil ordinary shares | 2,727,462 | – |
| Treasury bills of MinFin | 2,053,410 | 400,564 |
| Corporate equity shares | 607,935 | 230,463 |
| Corporate bonds | 604,527 | 651,432 |
| Promissory notes | 326,940 | – |
| Regional and local authority bonds | 17,709 | 30,766 |
| Corporate Eurobonds | – | 201,380 |
| Trading securities | 6,337,983 | 1,514,605 |

Trading securities represent the following:

| | Description |
|------------------------------------|---|
| Corporate equity shares | Ordinary shares of blue-chip Russian companies |
| Corporate bonds | Bonds of various Russian companies, including blue chips |
| Promissory notes | Notes of top Russian banks and blue-chip Russian companies |
| Regional and local authority bonds | Bonds issued by Krasnoyarsk, Moscow and Leningrad Regions, Bashkortostan and Komi Republic local authorities. |
| Corporate Eurobonds | Eurobonds of blue-chip Russian companies |

Coupon interest rates and maturity of these securities follow.

| | <i>2004</i> | | <i>2003</i> | |
|------------------------------------|-------------|-------------|-------------|-------------|
| | % | Maturity | % | Maturity |
| Treasury bills of MinFin | 5% - 11% | 2010 – 2030 | 5% | 2030 |
| Corporate bonds | 8% - 18% | 2005 – 2010 | 9% - 20% | 2004 - 2007 |
| Promissory notes | 8% - 14% | 2005 | – | – |
| Regional and local authority bonds | 8% - 14% | 2006 – 2010 | 15% - 17% | 2004 |
| Corporate Eurobonds | – | – | 10% | 2013 |

(Thousands of Russian Rubles)

NOTE 11 – AMOUNTS DUE FROM CREDIT INSTITUTIONS

Amounts due from credit institutions:

| | <i>2004</i> | <i>2003</i> |
|---|------------------|------------------|
| Obligatory reserve with the Central Bank | 859,379 | 1,631,876 |
| Time deposits of more than 90 days or overdue | 1,075,540 | 90,125 |
| Other amounts | – | 27,510 |
| | 1,934,919 | 1,749,511 |
| Less – Allowances for impairment | 31,052 | 4,340 |
| Amounts due from credit institutions | 1,903,867 | 1,745,171 |

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 has 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.

NOTE 12 – DERIVATIVE FINANCIAL INSTRUMENTS

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

| | <i>2004</i> | | | <i>2003</i> | | |
|---|---------------------------|--------------------|------------------|---------------------------|-------------------|------------------|
| | <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> |
| Foreign exchange contracts | | | | | | |
| Forwards and Swaps – foreign | 2,701,769 | 48,161 | – | 2,567,445 | 47,590 | 9,941 |
| Forwards – domestic | 277,487 | 13 | – | 2,201,742 | 1,452 | 302 |
| Precious metal contracts | | | | | | |
| Forwards – foreign | 3,230,663 | 11,968 | 5,809 | 426,549 | 677 | 7,273 |
| Forwards – domestic | 2,387 | 65 | 16 | 68,181 | 7,373 | – |
| Equity contracts | | | | | | |
| Forwards – foreign | – | – | – | 1,965,849 | 232,470 | 857 |
| Forwards – domestic | – | – | – | 4,626,471 | 613,131 | 29,040 |
| Derivative financial instruments | | 60,207 | 5,825 | | 902,693 | 47,413 |

NOTE 13 – AVAILABLE-FOR-SALE SECURITIES

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

| | <i>2004</i> | <i>2003</i> |
|--------------------------------------|------------------|------------------|
| Units in closed investment funds | 5,457,486 | 4,214,197 |
| Corporate bonds | 1,172,992 | 445,237 |
| LUKoil ordinary shares | – | 421,938 |
| Other equity investments | 142 | 530 |
| Available-for-sale securities | 6,630,620 | 5,081,902 |

(Thousands of Russian Rubles)

NOTE 13 – AVAILABLE-FOR-SALE SECURITIES (CONTINUED)

Interest rates and maturity of these securities follow:

| | <i>2004</i> | | <i>2003</i> | |
|-----------------|-------------|-----------------|-------------|-----------------|
| | <i>%</i> | <i>Maturity</i> | <i>%</i> | <i>Maturity</i> |
| Corporate bonds | 9% - 14% | 2007 - 2009 | 16%-18% | 2004 |

NOTE 14 – LOANS TO CUSTOMERS

Loans to customers comprise:

| | <i>2004</i> | <i>2003</i> |
|--------------------------------------|-------------------|-------------------|
| Loans to customers | 17,419,878 | 21,202,217 |
| Factoring | 208,063 | 1,197,027 |
| Overdrafts | 26,794 | 334,201 |
| Reverse repurchase agreements | – | 60,918 |
| | 17,654,735 | 22,794,363 |
| Less – Allowance for loan impairment | 962,326 | 1,112,518 |
| Loans to customers | 16,692,409 | 21,681,845 |

The subject of repo agreements as at December 31, 2003 were bonds issued by Russian companies and local authorities with fair value of RUB 63,754.

As of December 31, 2004, the Bank's loans to its 10 largest third party borrowers totalled RUB 6,170,981 or 35% of gross loan portfolio (2003 – RUB 6,150,053 or 27%). As of December 31, 2004, an allowance of RUB 287,487 (2003 – RUB 342,507) was made against these loans.

Loans have been extended to the following types of customers:

| | <i>2004</i> | <i>2003</i> |
|---------------------------|-------------------|-------------------|
| Private companies | 17,420,722 | 22,156,027 |
| Individuals | 234,013 | 304,326 |
| State companies | – | 334,010 |
| Loans to customers | 17,654,735 | 22,794,363 |

(Thousands of Russian Rubles)

NOTE 14 – LOANS TO CUSTOMERS (CONTINUED)

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

| | <i>2004</i> | <i>2003</i> |
|-------------------------------------|-------------------|-------------------|
| Investment and finance | 4,582,266 | 5,717,324 |
| Food & beverages | 3,349,915 | 4,067,565 |
| Production and manufacturing | 2,975,135 | 2,931,886 |
| Precious metals mining and refinery | 1,918,678 | 428,364 |
| Real estate construction | 1,099,304 | 1,986,688 |
| Trading enterprises | 945,266 | 2,710,213 |
| Oil & gas | 931,867 | 1,297,558 |
| Transport | 832,628 | 713,392 |
| Agriculture | 623,086 | 1,952,604 |
| Individuals | 234,013 | 304,326 |
| Printing production | 147,577 | 152,986 |
| Social services | 15,000 | 3,685 |
| Other | – | 527,772 |
| | <u>17,654,735</u> | <u>22,794,363</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.

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> |
|---------------------------------|----------------------|------------------------------------|--------------------------------------|-----------------------|
| Cost | | | | |
| December 31, 2003 | 14,873 | 265,190 | 5,527 | 285,590 |
| Additions | – | 27,267 | – | 27,267 |
| Disposals | (7,152) | (46,282) | (111) | (53,545) |
| December 31, 2004 | <u>7,721</u> | <u>246,175</u> | <u>5,416</u> | <u>259,312</u> |
| Accumulated depreciation | | | | |
| December 31, 2003 | 1,223 | 153,886 | – | 155,109 |
| Charge | 261 | 38,830 | – | 39,091 |
| Disposals | (192) | (31,776) | – | (31,968) |
| December 31, 2004 | <u>1,292</u> | <u>160,940</u> | <u>–</u> | <u>162,232</u> |
| Net book value: | | | | |
| December 31, 2003 | <u>13,650</u> | <u>111,304</u> | <u>5,527</u> | <u>130,481</u> |
| December 31, 2004 | <u>6,429</u> | <u>85,235</u> | <u>5,416</u> | <u>97,080</u> |

As of December 31, 2004, the Bank had RUB 56,702 fully depreciated fixed assets, which are still in active use.

(Thousands of Russian Rubles)

NOTE 16 – OTHER ASSETS AND LIABILITIES

Other assets comprise:

| | <i>2004</i> | <i>2003</i> |
|--|----------------|----------------|
| Receivables from Group | 504,763 | 511,750 |
| Prepayments | 116,229 | 69,989 |
| Intangible assets | 10,341 | 15,964 |
| Prepaid operating taxes | 2,669 | 6,547 |
| Settlements on operations with bullion | – | 1,377 |
| Other assets | 634,002 | 605,627 |

The amortization charge on intangible assets for 2004 is RUB 10,986.

Other liabilities comprise:

| | <i>2004</i> | <i>2003</i> |
|--|---------------|----------------|
| Operating payables | 51,532 | 54,108 |
| Deferred commission income | 18,260 | – |
| Operating taxes payable | 7,808 | 18,922 |
| Settlements on operations with bullion | 1,569 | 52,222 |
| Other | 612 | 4,615 |
| Other liabilities | 79,781 | 129,867 |

NOTE 17 – AMOUNTS DUE TO CREDIT INSTITUTIONS

Amounts due to credit institutions comprise:

| | <i>2004</i> | <i>2003</i> |
|---|------------------|------------------|
| Current accounts | 1,728,202 | 2,788,980 |
| Time deposits and loans | 5,879,347 | 3,526,700 |
| Amounts due to credit institutions | 7,607,549 | 6,315,680 |

Included in current accounts is RUB 894,956 (2003 - RUB 1,798,680) received from two Russian banks.

As of December 31, 2003, the Bank received equivalent of RUB 69,513 as deposits in USD from Russian banks, which relate to short-term deposits granted to the same banks (2004: nil).

As of December 31, 2003, the Bank had a borrowing from a foreign credit institution of USD 10,000,000 (RUB 294,545) (2004: nil), for which the Group has pledged LUKoil ordinary shares to fulfill the obligations. Should the market value of the pledged shares fall by more than that defined in the agreement, the Group will have to deliver additional shares as security.

NOTE 18 – AMOUNTS DUE TO CUSTOMERS

The amounts due to customers include the following:

| | <i>2004</i> | <i>2003</i> |
|---|-------------------|-------------------|
| Current accounts | 8,999,473 | 7,694,948 |
| Time deposits | 7,998,526 | 5,882,332 |
| Amounts due to customers | 16,997,999 | 13,577,280 |
| Held as security against letters of credit | 208,718 | 1,361 |

(Thousands of Russian Rubles)

NOTE 18 – AMOUNTS DUE TO CUSTOMERS (CONTINUED)

At year-end 2004, amounts due to customers of RUB 2,505,999 (15%) were due to the 10 largest customers (2003 - RUB 1,704,195 or 13%).

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

| | <u>2004</u> | <u>2003</u> |
|-----------------------------------|--------------------------|--------------------------|
| Private enterprises | 12,476,967 | 10,017,362 |
| Individuals | 4,520,882 | 3,357,971 |
| State and budgetary organisations | 150 | 201,947 |
| Amounts due to customers | <u>16,997,999</u> | <u>13,577,280</u> |

NOTE 19 – BORROWED FUNDS

On March 19, 2004, the Bank successfully closed its inaugural issue of Eurobonds totaling US\$ 150,000,000, (RUB equivalent of 4,162,305) maturing in 2007 with 9% fixed interest paid semi-annually. The issue was structured as Loan Participation Notes issued by a Luxembourg company for the purpose of financing a loan to the Bank. The costs to issue were US\$ 2,349,002 (RUB equivalent of 67,103) and are treated as a part of effective interest rate for the instrument.

NOTE 20 – DEBT SECURITIES ISSUED

Debt securities issued consisted of the following:

| | <u>2004</u> | <u>2003</u> |
|-------------------------------|-------------------------|-------------------------|
| Promissory notes | 4,166,705 | 5,913,049 |
| Certificates of deposit | 1,135,658 | 1,194,032 |
| Debt securities issued | <u>5,302,363</u> | <u>7,107,081</u> |

As of December 31, 2004, the Bank had issued non-interest-bearing promissory notes with an aggregate nominal value of RUB 489,868 (2003 – RUB 60,079) maturing in 2004 and 2005. Other promissory notes and certificates of deposit issued by the Bank as of December 31, 2004, bear annual interest ranging from 4.0% to 14.3% (2003 – from 4.0% to 15.0%).

NOTE 21 – SHAREHOLDERS' FUNDS

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

| | <i>Number of shares</i> | | <i>Nominal amount</i> | | <i>Inflation adjustment</i> | <i>Total</i> |
|---|-------------------------|---------------------------|-----------------------|-------------------------|-----------------------------|-------------------------|
| | <i>Preferred</i> | <i>Common</i> | <i>Preferred</i> | <i>Common</i> | | |
| December 31, 2002, 2003 and 2004 | <u>2,000</u> | <u>528,298,000</u> | <u>20</u> | <u>5,282,980</u> | <u>2,077,922</u> | <u>7,360,922</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. Preference shares are non-voting and guarantee annual dividends of not less than 100% from their nominal amount. Additional paid-in-capital was contributed by shareholders in Rubles in excess of nominal value when the shares were issued.

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 1,997,008 (2003 – RUB 571,006) and the amount of non-distributable reserves was RUB 264,150 (2003 – RUB 264,150). 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.

(Thousands of Russian Rubles)

NOTE 22 – 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. As of December 31, 2004, the Bank was engaged in litigation proceedings with a third party related to the withdrawal of funds from a customer’s current account as a payment on certificated debt issued by the Bank. No provision has been made against the above claim, as it is currently uncertain what decision is going to be taken by the court.

Financial commitments and contingencies

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

| | <u>2004</u> | <u>2003</u> |
|--|------------------|-------------------|
| Credit related commitments | | |
| Undrawn loan commitments | 4,224,835 | 4,774,508 |
| Letters of credit | 3,390,882 | 3,939,402 |
| Guarantees | 814,003 | 1,975,443 |
| Promissory note guarantees | – | 260,000 |
| | <u>8,429,720</u> | <u>10,949,353</u> |
| Non-cancellable operating lease commitments | | |
| Not later than 1 year | 103,551 | 86,341 |
| Later than 1 year but not later than 5 years | 267,490 | 231,016 |
| Later than 5 years | 60,539 | 53,276 |
| | <u>431,580</u> | <u>370,633</u> |
| | <u>8,861,300</u> | <u>11,319,986</u> |
| Less – Provisions | 82,800 | 185,661 |
| Less – Cash held as security against letters of credit | 208,718 | 1,361 |
| | <u>8,569,782</u> | <u>11,132,964</u> |
| Financial commitments and contingencies | | |

Insurance

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.

(Thousands of Russian Rubles)

NOTE 23 – 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.

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.

(Thousands of Russian Rubles)

NOTE 23 – RISK MANAGEMENT POLICIES (CONTINUED)

Concentration

The geographical concentration of banking assets and liabilities follows.

| | 2004 | | | | 2003 | | | |
|-------------------------------|-------------------|--------------------|-----------------------------|-------------------|-------------------|--------------------|-----------------------------|-------------------|
| | Russia | OECD | CIS and other foreign banks | Total | Russia | OECD | CIS and other foreign banks | Total |
| Assets | | | | | | | | |
| Cash and cash equivalents | 6,984,460 | 3,158,187 | 34,686 | 10,177,333 | 2,678,556 | 450,037 | 147,273 | 3,275,866 |
| Precious metals | 1,556 | – | – | 1,556 | 49,618 | – | – | 49,618 |
| Trading securities | 6,337,983 | – | – | 6,337,983 | 1,514,605 | – | – | 1,514,605 |
| Due from credit institutions | 1,903,867 | – | – | 1,903,867 | 1,743,580 | 1,591 | – | 1,745,171 |
| Derivative assets | 78 | 60,129 | – | 60,207 | 621,956 | 47,842 | 232,895 | 902,693 |
| Available-for-sale securities | 6,630,558 | 62 | – | 6,630,620 | 5,081,902 | – | – | 5,081,902 |
| Loans to customers | 16,338,867 | 118,620 | 234,922 | 16,692,409 | 21,681,845 | – | – | 21,681,845 |
| All other assets | 731,082 | – | – | 731,082 | 805,426 | – | – | 805,426 |
| | 38,928,451 | 3,336,998 | 269,608 | 42,535,057 | 34,177,488 | 499,470 | 380,168 | 35,057,126 |
| Liabilities | | | | | | | | |
| Due to credit institutions | 3,520,770 | 4,052,974 | 33,805 | 7,607,549 | 3,721,587 | 2,115,742 | 478,351 | 6,315,680 |
| Due to customers | 15,852,157 | 975,264 | 170,578 | 16,997,999 | 12,438,655 | 11,288 | 1,127,337 | 13,577,280 |
| Derivative liabilities | 16 | 5,809 | – | 5,825 | 29,341 | 17,214 | 858 | 47,413 |
| Borrowed funds | – | 4,218,663 | – | 4,218,663 | – | – | – | – |
| Debt securities issued | 4,981,779 | 87,009 | 233,575 | 5,302,363 | 7,107,081 | – | – | 7,107,081 |
| All other liabilities | 316,009 | – | – | 316,009 | 495,778 | – | – | 495,778 |
| | 24,670,731 | 9,339,719 | 437,958 | 34,448,408 | 23,792,442 | 2,144,244 | 1,606,546 | 27,543,232 |
| Net position | 14,257,720 | (6,002,721) | (168,350) | 8,086,649 | 10,385,046 | (1,644,774) | (1,226,378) | 7,513,894 |

(Thousands of Russian Rubles)

NOTE 23 – 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 |
| Assets: | | | | | | | | | | |
| Cash and cash equivalents | 5,778,346 | 4,109,308 | 287,862 | 1,817 | 10,177,333 | 2,256,261 | 981,218 | 36,780 | 1,607 | 3,275,866 |
| Precious metals | – | – | – | 1,556 | 1,556 | – | – | – | 49,618 | 49,618 |
| Trading securities | 4,453,438 | 1,884,545 | – | – | 6,337,983 | 912,661 | 601,944 | – | – | 1,514,605 |
| Amounts due from credit institutions | 1,640,163 | 263,704 | – | – | 1,903,867 | 1,743,580 | 1,591 | – | – | 1,745,171 |
| Derivative financial assets | 735 | 11,968 | 47,474 | 30 | 60,207 | 846,026 | 26,390 | 22,769 | 7,508 | 902,693 |
| Available-for-sale securities | 6,630,558 | – | 62 | – | 6,630,620 | 5,081,824 | 78 | – | – | 5,081,902 |
| Loans to customers | 7,290,076 | 9,191,621 | 210,712 | – | 16,692,409 | 10,741,707 | 10,511,902 | 428,236 | – | 21,681,845 |
| All other assets | 724,856 | 6,226 | – | – | 731,082 | 801,542 | 3,884 | – | – | 805,426 |
| | 26,518,172 | 15,467,372 | 546,110 | 3,403 | 42,535,057 | 22,383,601 | 12,127,007 | 487,785 | 58,733 | 35,057,126 |
| Liabilities: | | | | | | | | | | |
| Amounts due to credit institutions | 2,754,135 | 4,573,649 | 260,441 | 19,324 | 7,607,549 | 2,531,860 | 3,308,899 | 474,921 | – | 6,315,680 |
| Amounts due to customers | 10,559,625 | 5,778,408 | 651,134 | 8,832 | 16,997,999 | 8,131,836 | 4,888,065 | 557,379 | – | 13,577,280 |
| Derivative financial liabilities | – | 2,442 | – | 3,383 | 5,825 | 29,041 | 1,245 | 9,941 | 7,186 | 47,413 |
| Borrowed funds | – | 4,218,663 | – | – | 4,218,663 | – | – | – | – | – |
| Debt securities issued | 4,137,227 | 967,448 | 197,688 | – | 5,302,363 | 5,944,565 | 1,148,921 | 13,595 | – | 7,107,081 |
| All other liabilities | 313,100 | 2,909 | – | – | 316,009 | 487,854 | 7,924 | – | – | 495,778 |
| | 17,764,087 | 15,543,519 | 1,109,263 | 31,539 | 34,448,408 | 17,125,156 | 9,355,054 | 1,055,836 | 7,186 | 27,543,232 |
| Net balance sheet position | 8,754,085 | (76,147) | (563,153) | (28,136) | 8,086,649 | 5,258,445 | 2,771,953 | (568,051) | 51,547 | 7,513,894 |

(Thousands of Russian Rubles)

NOTE 23 – 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 monetary assets and liabilities:

| | 2004 | | | | | | | Total |
|--------------------------------------|-------------------|-------------------|------------------|--------------------|--------------------|------------------|---------------------|-------------------|
| | On demand | Less than 1 month | 1 to 3 months | 3 months to 1 year | 1 to 5 years | Overdue | No defined maturity | |
| Assets | | | | | | | | |
| Cash and cash equivalents | 4,560,928 | 5,257,490 | 358,915 | – | – | – | – | 10,177,333 |
| Precious metals | 1,556 | – | – | – | – | – | – | 1,556 |
| Trading securities | 6,337,983 | – | – | – | – | – | – | 6,337,983 |
| Amounts due from credit institutions | – | 619,459 | 126,161 | 1,106,256 | 51,991 | – | – | 1,903,867 |
| Derivative financial assets | – | 48,180 | 4,876 | 7,151 | – | – | – | 60,207 |
| Available-for-sale securities | 5,457,487 | – | 900,644 | 272,489 | – | – | – | 6,630,620 |
| Loans to customers | 25,081 | 1,861,084 | 4,466,806 | 8,807,449 | 1,479,961 | 52,028 | – | 16,692,409 |
| All other assets | – | – | 118,898 | – | 504,763 | – | 107,421 | 731,082 |
| | 16,383,035 | 7,786,213 | 5,976,300 | 10,193,345 | 2,036,715 | 52,028 | 107,421 | 42,535,057 |
| Liabilities | | | | | | | | |
| Amounts due to credit institutions | 1,728,202 | 1,737,109 | 226,068 | 2,979,925 | 936,245 | – | – | 7,607,549 |
| Amounts due to customers | 8,999,473 | 3,270,878 | 2,488,247 | 2,228,623 | 10,778 | – | – | 16,997,999 |
| Derivative financial liabilities | 2,241 | 514 | 3,059 | 11 | – | – | – | 5,825 |
| Borrowed funds | – | – | – | – | 4,218,663 | – | – | 4,218,663 |
| Debt securities issued | 123,960 | 1,425,802 | 2,307,722 | 1,444,879 | – | – | – | 5,302,363 |
| All other liabilities | – | 2,181 | 21,447 | 152,592 | 139,789 | – | – | 316,009 |
| | 10,853,876 | 6,436,484 | 5,046,543 | 6,806,030 | 5,305,475 | – | – | 34,448,408 |
| Net position | 5,529,159 | 1,349,729 | 929,757 | 3,387,315 | (3,268,760) | 52,028 | 107,421 | 8,086,649 |
| Accumulated gap | 5,529,159 | 6,878,888 | 7,808,645 | 11,195,960 | 7,927,200 | 7,979,228 | 8,086,649 | |

(Thousands of Russian Rubles)

NOTE 23 – RISK MANAGEMENT POLICIES (CONTINUED)

Liquidity risk (continued)

| | <i>2003</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>Overdue</i> | <i>No defined maturity</i> | <i>Total</i> |
| Assets | | | | | | | | |
| Cash and cash equivalents | 1,978,877 | 1,291,938 | 5,051 | – | – | – | – | 3,275,866 |
| Precious metals | 49,618 | – | – | – | – | – | – | 49,618 |
| Trading securities | 1,514,605 | – | – | – | – | – | – | 1,514,605 |
| Amounts due from credit institutions | – | 1,212,996 | 215,573 | 315,890 | 712 | – | – | 1,745,171 |
| Derivative financial assets | – | – | 78,168 | 824,525 | – | – | – | 902,693 |
| Available-for-sale securities | 5,081,902 | – | – | – | – | – | – | 5,081,902 |
| Loans to customers | 5,043,310 | 2,485,815 | 2,322,486 | 6,702,403 | 4,974,571 | 153,260 | – | 21,681,845 |
| All other assets | – | – | 69,318 | – | 511,750 | – | 224,358 | 805,426 |
| | 13,668,312 | 4,990,749 | 2,690,596 | 7,842,818 | 5,487,033 | 153,260 | 224,358 | 35,057,126 |
| Liabilities | | | | | | | | |
| Amounts due to credit institutions | 2,788,980 | 573,232 | 1,031,164 | 1,529,299 | 393,005 | – | – | 6,315,680 |
| Amounts due to customers | 7,694,948 | 2,388,596 | 1,675,229 | 1,812,587 | 5,920 | – | – | 13,577,280 |
| Derivative financial liabilities | – | 45,231 | 1,324 | 858 | – | – | – | 47,413 |
| Debt securities issued | 6,819 | 1,051,479 | 936,899 | 5,044,048 | 67,836 | – | – | 7,107,081 |
| All other liabilities | – | – | – | – | 129,867 | – | 365,911 | 495,778 |
| | 10,490,747 | 4,058,538 | 3,644,616 | 8,386,792 | 596,628 | – | 365,911 | 27,543,232 |
| Net position | 3,177,565 | 932,211 | (954,020) | (543,974) | 4,890,405 | 153,260 | (141,553) | 7,513,894 |
| <i>Accumulated gap</i> | <u><u>3,177,565</u></u> | <u><u>4,109,776</u></u> | <u><u>3,155,756</u></u> | <u><u>2,611,782</u></u> | <u><u>7,502,187</u></u> | <u><u>7,655,447</u></u> | <u><u>7,513,894</u></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 in less than one month 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 23 – 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 | Other foreign currencies | Rubles | USD | Other foreign currencies |
| Cash and cash equivalents, time deposits | 3.3% | 1.2% | 2.0% | 2.1% | 1.0% | – |
| Credit institutions, time deposits | 12.9% | 12.0% | – | 17.7% | – | – |
| Trading debt securities | 11.7% | 6.3% | – | 13.5% | 6.5% | – |
| Available-for-sale debt securities | 10.1% | – | – | 17.1% | – | – |
| Loans to customers | 12.6% | 11.4% | 5.7% | 13.0% | 12.4% | 6.2% |
| Due to credit institutions, time deposits | 3.7% | 4.6% | 4.1% | 3.6% | 4.0% | 3.3% |
| Due to customers, time deposits | 6.8% | 6.5% | 7.5% | 9.1% | 6.0% | 7.2% |
| Borrowed funds | – | 9.8% | – | – | – | – |
| Debt securities issued | 8.6% | 5.1% | 7.8% | 11.4% | 8.3% | 6.2% |

NOTE 24 – 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 24 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Debt securities issued and borrowed funds

Debt securities and borrowed funds 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 fair value of substantially all Bank's assets and liabilities approximates their carrying values.

NOTE 25 – 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 | 4,335,937 | 100% | 10,777,333 | 830,941 | 100% | 3,275,866 |
| Trading securities | 2,820,111 | 100% | 6,337,983 | – | – | 1,514,605 |
| Amounts due from credit institutions, gross | 797,962 | 100% | 1,934,919 | 116,045 | 100% | 1,749,511 |
| Derivative assets | 701 | – | 60,207 | 817,840 | – | 902,693 |
| Available-for-sale securities | 5,457,557 | 100% | 6,630,620 | 4,636,587 | 100% | 5,081,902 |
| Loans to customers, gross | 5,240,897 | 100% | 17,654,735 | 6,472,958 | 100% | 22,794,363 |
| Other assets – Receivables from Group | 504,763 | 100% | 634,002 | 511,750 | 100% | 605,627 |
| Amounts due to credit institutions | 1,841,283 | 100% | 7,607,549 | 2,827,656 | 100% | 6,315,680 |
| Amounts due to customers | 8,578,474 | 100% | 16,997,999 | 7,163,308 | 100% | 13,577,280 |
| Derivative liabilities | 4,167 | 100% | 5,825 | 1,141 | 100% | 47,413 |
| Debt securities issued | 1,465,438 | 100% | 5,302,363 | 1,374,862 | 100% | 7,107,081 |
| Financial commitments and contingencies, gross | 1,567,316 | 100% | 8,861,300 | 1,915,943 | 100% | 11,319,986 |
| Interest income | 441,881 | 100% | 3,087,174 | 133,921 | 100% | 2,959,723 |
| Interest expense | 135,598 | 100% | 1,580,142 | 18,901 | 100% | 1,155,542 |
| Trading gains less losses | | | | | | |
| – Trading gains | 1,424,415 | 100% | – | 1,599,928 | 100% | – |
| – Trading losses | 2,334,750 | 65% | – | (1,603,420) | 100% | – |
| – Trading securities | (910,335) | | (688,172) | (3,492) | | (797,141) |
| – Derivatives with securities | – | – | – | 815,643 | – | 815,703 |
| Gain less losses from revaluing available-for-sale securities | 94,077 | 100% | 94,077 | 115,750 | 100% | 115,750 |
| Foreign exchange gains less losses | | | | | | |
| – Foreign exchange gains | 244,043 | 100% | – | 963,365 | 100% | – |
| – Foreign exchange losses | (186,584) | 100% | – | (1,035,319) | 100% | – |
| – Foreign currency | 57,459 | | 331,607 | (71,954) | | 370,343 |
| Dividend income | 86,648 | 100% | 86,648 | 132,622 | 100% | 132,622 |
| Administrative and operating expenses - Occupancy and rent | 86,439 | 100% | 127,089 | 79,620 | 100% | 116,729 |

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 25 – RELATED PARTIES (CONTINUED)

As of December 31, 2004, members of the Shareholders’ Council and Management Boards had RUB 225 (2003 – RUB 285) 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 26,127 (2003– RUB 18,814).

NOTE 26 – TRUST ACTIVITIES

The Bank provides custody, trustee and investment management service to third parties that involve the Bank making asset management, purchase and sales decisions in relation to a wide range of financial instruments. The assets that are held in a fiduciary capacity are not included in the Bank’s financial statements. The trust assets comprise:

| | <u>2004</u> | <u>2003</u> |
|---|-----------------------|-------------------------|
| Marketable Securities | 841,024 | 669,855 |
| Settlement accounts with MICEX and brokerage houses | 38,423 | 371,528 |
| Unquoted Securities | – | 11,702 |
| Cash | 22,824 | 12,076 |
| Trust assets | <u>902,271</u> | <u>1,065,161</u> |

NOTE 27 – 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 22.9% and 22.6%, respectively, which exceed the minimum ratio of 8% recommended by the Basle Accord.

(end) _____