

**Joint Stock Bank
“Moscow Bank for
Reconstruction and
Development” (Open
Joint Stock Company)**

Independent Auditors' Report

Consolidated Financial Statements
Year Ended 31 December 2004

JOINT STOCK BANK “MOSCOW BANK FOR RECONSTRUCTION AND DEVELOPMENT” (OPEN JOINT STOCK COMPANY)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Joint Stock Bank "Moscow Bank for Reconstruction and Development":

We have audited the accompanying consolidated balance sheet of Joint Stock Bank "Moscow Bank for Reconstruction and Development" and its subsidiaries (the "Group") as of 31 December 2004 and the related consolidated profit and loss account, consolidated statement of cash flows and consolidated statement of changes in equity (the "consolidated financial statements") for the year then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit. We have not audited the consolidated financial statements as of and for the year ended 31 December 2003 and, accordingly, express no assurance thereon.

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

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



8 April 2005
Moscow

**JOINT STOCK BANK "MOSCOW BANK FOR
RECONSTRUCTION AND DEVELOPMENT" (OPEN JOINT STOCK COMPANY)**

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

	Notes	Year ended 31 December 2004 RUR'000	Year ended 31 December 2003 RUR'000 (unaudited)
Interest income	5,24	1,649,005	1,426,084
Interest expense	5,24	(863,304)	(833,348)
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES		785,701	592,736
Provision for loan losses	6	(225,435)	(415,648)
NET INTEREST INCOME		560,266	177,088
Net gain on trading securities	24	59,009	286,768
Net gain on foreign exchange operations	24	46,136	27,819
Fee and commissions income	7,24	127,775	85,588
Fee and commission expense	7	(22,571)	(16,134)
Other income		11,675	11,421
NET NON-INTEREST INCOME		222,024	395,462
OPERATING INCOME		782,290	572,550
OPERATING EXPENSES	8,24	(585,679)	(497,644)
OPERATING PROFIT		196,611	74,906
(Provision)/recovery of provision for losses on other transactions	6	(17,343)	1,188
PROFIT BEFORE INCOME TAX		179,268	76,094
Income tax expense	9	(10,552)	(89,586)
NET INCOME/(LOSS)		168,716	(13,492)
<i>Earnings/(loss) per ordinary share</i> <i>Basic and diluted earnings (RUR)</i>	10	209.3	(16.9)

On behalf of the Board:

Chairman

9 March 2005
Moscow

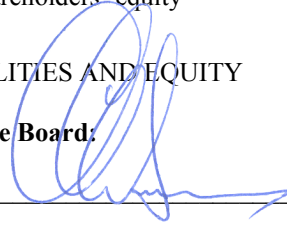

Chief Accountant

9 March 2005
Moscow

The notes on pages 6 to 38 form an integral part of these consolidated financial statements. The independent auditors' report is on page 1.

**JOINT STOCK BANK "MOSCOW BANK FOR
RECONSTRUCTION AND DEVELOPMENT" (OPEN JOINT STOCK COMPANY)**

**CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2004**

	Notes	31 December 2004 RUR'000	31 December 2003 RUR'000 (unaudited)
ASSETS:			
Cash and balances with the Central Bank of the Russian Federation	11	2,342,092	2,788,117
Loans and advances to banks, less allowance for loan losses	12,24	4,805,498	4,792,597
Trading securities	13,24	959,076	3,278,869
Loans to customers, less allowance for loan losses	14,24	12,075,361	8,886,947
Investment securities	15	606	258
Fixed and intangible assets, less accumulated depreciation	16	250,050	217,250
Income tax assets	9	2,472	27,131
Other assets	17,24	55,751	20,415
TOTAL ASSETS		20,490,906	20,011,584
LIABILITIES AND EQUITY			
LIABILITIES:			
Loans and advances from banks	18,24	1,296,006	1,654,915
Customer accounts	19,24	12,998,333	12,474,830
Debt securities issued	20	3,016,526	2,779,653
Provisions	23,24	23,419	6,076
Income tax liability	9	40,491	82,891
Other liabilities	21	9,881	8,377
Total liabilities		17,384,656	17,006,742
Minority interests	4	-	30,047
SHAREHOLDERS' EQUITY:			
Share capital	22	878,408	878,408
Share premium	22	3,042,304	3,042,304
Accumulated deficit		(814,462)	(945,917)
Total shareholders' equity		3,106,250	2,974,795
TOTAL LIABILITIES AND EQUITY		20,490,906	20,011,584
On behalf of the Board:			
 Chairman		 Chief Accountant	
9 March 2005 Moscow		9 March 2005 Moscow	

The notes on pages 6 to 38 form an integral part of these consolidated financial statements. The independent auditors' report is on page 1.

**JOINT STOCK BANK "MOSCOW BANK FOR
RECONSTRUCTION AND DEVELOPMENT" (OPEN JOINT STOCK COMPANY)**

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2004**

	Notes	Share capital	Share premium	Accumulated deficit	Total
		RUR'000	RUR'000	RUR'000	RUR'000
31 December 2002 (unaudited)		878,408	3,042,304	(932,425)	2,988,287
Net loss for the year (unaudited)		-	-	(13,492)	(13,492)
31 December 2003 (unaudited)		878,408	3,042,304	(945,917)	2,974,795
Dividends declared on:					
- ordinary shares	22	-	-	(36,000)	(36,000)
- preferred shares	22	-	-	(1,261)	(1,261)
Net profit for the year		-	-	168,716	168,716
31 December 2004		<u>878,408</u>	<u>3,042,304</u>	<u>(814,462)</u>	<u>3,106,250</u>

On behalf of the Board:

Chairman

9 March 2005
Moscow

Chief Accountant

9 March 2005
Moscow

The notes on pages 6 to 38 form an integral part of these consolidated financial statements. The independent auditors' report is on page 1.

JOINT STOCK BANK "MOSCOW BANK FOR RECONSTRUCTION AND DEVELOPMENT" (OPEN JOINT STOCK COMPANY)

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

	Notes	Year ended 31 December 2004 RUR'000	Year ended 31 December 2003 RUR'000 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before tax		179,268	76,094
Adjustments for:			
Provision for loan losses		225,435	415,648
Provision/(recovery of provision) for losses on other transactions		17,343	(1,188)
Depreciation charge on fixed assets		54,237	39,083
Change in net interest accruals		(66,534)	75,739
Net change in market value of derivatives		(9,312)	-
Cash flows from operating activities before changes in operating assets and liabilities		400,437	605,367
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Obligatory reserves with the Central Bank of the Russian Federation		1,043,542	(729,837)
Loans and advances to banks		(7,706)	(3,315,643)
Trading securities		771,422	(924,544)
Loans to customers		(3,453,988)	(3,532,759)
Other assets		(26,024)	14,516
Increase/(decrease) in operating liabilities:			
Loans and advances from banks		(353,021)	337,361
Customer accounts		571,993	7,513,322
Other liabilities		1,504	(35,920)
Cash outflows from operating activities before income tax		(1,051,841)	(68,128)
Income tax paid		(28,293)	(29,890)
Net cash outflow from operating activities		(1,080,134)	(98,018)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed and intangible assets		(89,601)	(145,850)
Proceeds on sale of fixed and intangible assets		2,564	-
Change in cash and cash equivalents due to (disposal)/acquisition of investments in affiliates		(30,047)	30,047
(Investments)/proceeds from disposal of investments in securities		(348)	33,373
Net cash outflow from investing activities		(117,432)	(82,430)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from debt securities issued		236,873	1,588,544
Dividends paid		(37,261)	-
Net cash inflow from financing activities		199,612	1,588,544
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(997,954)	1,408,096
CASH AND CASH EQUIVALENTS, beginning of year	11	4,675,615	3,267,519
CASH AND CASH EQUIVALENTS, end of year	11	3,677,661	4,675,615

Interest paid and received by the Group in cash during the year ended 31 December 2004 amounted to RUR 917,682 thousand and RUR 1,636,849 thousand, respectively.

Interest paid and received by the Group in cash during the year ended 31 December 2003 amounted to RUR 752,963 thousand and RUR 1,421,438 thousand, respectively.

On behalf of the Board:

Chairman

9 March 2005
Moscow

Chief Accountant

9 March 2005
Moscow

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JOINT STOCK BANK “MOSCOW BANK FOR RECONSTRUCTION AND DEVELOPMENT” (OPEN JOINT STOCK COMPANY)

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

1. ORGANISATION

Joint Stock Bank “Moscow Bank for Reconstruction and Development” (open joint stock company) (“MBRD”) is a joint stock bank, which was incorporated in the Russian Federation (the “RF”) in 1993. MBRD is regulated by the Central Bank of the Russian Federation (the “CBR”) and conducts its business under license number 2268. MBRD's primary business consists of commercial banking activities, securities dealings and foreign currency transactions.

MBRD's principal business activities are within the Russian Federation. Registered headquarters of MBRD is located at: 5 bldg. 1, Yeropkinsky per., Moscow, 119034, Russian Federation.

MBRD has 5 branches in the territory of the Russian Federation.

Joint Stock Bank “Moscow Bank for Reconstruction and Development” is the Group's parent company (the “Group”). The Group included the following companies consolidated in the financial statements for the year ended 31 December 2004:

Name	Country of operation	Proportion of ownership interest and voting power of JSB MBRD		Type of Activity
		2004	2003	
JSC “Sistema K-Invest”	Russian Federation	100%/100%	100%/100%	Leasing
JSC “UK “Sistema-Investments”	Russian Federation	-	40%/100%	Financing Activities

On 30 July 2004, the Group disposed of its investments into JSC “UK “Sistema-Investments” by selling its ownership interest share to an affiliated company. Prior to 30 July 2004, the Group was in control of operational and investment policy of JSC “UK “Sistema-Investments” in accordance with the agreement signed with another shareholder of JSC “UK “Sistema-Investments”, JSFC “Sistema” (“Sistema”) owning 60% of the shares of JSC “UK “Sistema-Investments” (see Note 4).

The Group renders services to a group of entities related by means of direct or indirect ownership by one parent company which is also an ultimate parent of the Group. At the close of business on 31 December 2004 and 2003 loans issued to such companies were 51.8% and 48.9% of the total loans to customers and deposits at banks (see Note 24). Deposits from such companies were 46.3% and 64.0% of the total amount of advances from customers and banks (see Note 24).

As of 31 December 2004, shareholders owned outstanding shares are as follows:

Shareholder	%
JSFC “Sistema”	54.28
JSC AK “ALROSA”	13.32
JSC “Moscow City Telephone Network”, controlled by Sistema	6.22
LLC Notris, controlled by Sistema	5.77
JSC Promtorgcenter, controlled by Sistema	5.39
Other	15.02
Total	100.0

The number of the Group's employees at the end of the day on 31 December 2004 and 2003 was 724 and 567, respectively.

These financial statements were authorized for issue by the Management Board of the Group on 9 March 2005.

2. BASIS OF PRESENTATION

Accounting basis - These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements are presented in thousands of Russian Roubles ("RUR"), unless otherwise indicated. These financial statements are prepared under the historical cost convention, except for revaluation of financial instruments, and in accordance with International Accounting Standard No. 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29").

The Group maintains its accounting records in accordance with Russian law. These financial statements have been prepared from the Russian statutory accounting records and have been adjusted to conform to IFRS.

The consolidated financial statements of the Group have been prepared in accordance with IFRS for the first time. Disclosure required by IFRS 1 "First-time adoption of International Financial Reporting Standards" (IFRS 1) relating to the reconciliation from the Russian statutory accounting standards to IFRS are as follows.

	31 December 2004 RUR'000 Equity	Year ended 31 Dec 2004 RUR'000 Profit	31 December 2003 RUR'000 Equity	Year ended 31 Dec 2003 RUR'000 Profit/(loss)	31 December 2002 RUR'000 Equity
Russian Accounting Legislation	3,112,909	222,965	2,928,754	45,404	2,883,350
Accrued interest, net	(107,825)	20,309	(129,018)	(98,947)	(30,071)
Provision for losses	124,011	(44,383)	168,479	91,338	77,141
Deferred tax liabilities	(25,130)	55,480	(80,610)	(40,784)	(39,826)
Fixed and intangible assets	1,610	(13,069)	13,681	(15,166)	28,847
Trading securities	6,885	(76,719)	83,604	8,775	74,829
Other	(6,210)	4,133	(10,095)	(4,112)	(5,983)
International Financial Reporting Standards	<u>3,106,250</u>	<u>168,716</u>	<u>2,974,795</u>	<u>(13,492)</u>	<u>2,988,287</u>

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

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

3. PRINCIPAL ACCOUNTING POLICIES

Principles of consolidation - The consolidated financial statements incorporate the financial statements of MBRD and enterprises controlled by MBRD (its subsidiaries) prepared on an annual basis for periods ended 31 December. Control is achieved where MBRD has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

On acquisition, the assets and liabilities, as well as contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of the acquisition over the fair values of identifiable net assets is recognized as goodwill. The amount by which the cost of acquisition of identified net assets is less than their fair value (i.e. discount on the acquisition) is recognized in the profit and loss account at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognized. Subsequently any losses relating to the minority interest in excess of such interest are charged to the parent.

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

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

All balances related to transactions between MBRD and consolidated entities and any income and expenses resulting from such transactions are eliminated on consolidation.

Investments securities - Investments in corporate shares where the Group owns more than 20% of share capital, but does not have ability or intent to control or exercise significant influence over operating and financial policies, or non-consolidation of such companies does not significantly affect the financial statements of the Group as a whole, or the Group has an intention to resell such investments in the nearest future, as well as investments in corporate shares where the Group owns less than 20% of share capital, are accounted for at fair value or at approximate fair value. If no fair value is available, an investment is accounted for at historical cost. Management periodically assesses the carrying values of such investments and provides valuation allowances, if required. Such investments are accounted for as available-for-sale.

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

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

Cash and cash equivalents - Cash and cash equivalents include cash, unrestricted balances with the Central Bank of the Russian Federation, loans and advances to banks in countries included in the Organization for Economic Co-operation and Development ("OECD"), other than guarantee deposits, and government debt securities included in trading portfolio. Cash equivalents are considered to be short term, highly liquid investments that are readily convertible to known amounts of cash and mature within 90 days from the reporting date. For purposes of determining cash flows, the minimum reserve deposit required by the Central Bank of the Russian Federation is not included as a cash equivalent due to restrictions on its availability.

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

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

Derivative financial instruments - The Group enters into derivative financial instruments to manage currency and liquidity risks. However, such instruments are not qualified for hedging purposes. Derivatives entered into by the Group include foreign currency and securities forwards, swaps, as well as combinations of such instruments.

Derivative financial instruments are initially recorded at cost and are subsequently remeasured to fair value. Fair value is calculated based on interest model. Most of derivatives the Group enters in are of short-term and speculative nature. The results of the valuation of derivatives are reported in other assets or other liabilities. Both positive and negative valuation results are recognized in the profit and loss account for the year in which they arise under gain/loss for the period they arise and are recognized in the gain/losses on the respective instrument.

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

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

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

In case when assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gains/(losses) on respective assets. Any related income or expense arising from pricing spreads of the underlying securities is recognized as interest income or expense.

Loans to customers - Loans originated by the Group are financial assets that are created by the Group by providing money directly to a borrower or by participating in a loan facility.

Loans to customers with a fixed maturity term are measured at amortized cost using the effective interest rate method. Those that do not have fixed maturities are carried at cost. Loans to customers are carried net of allowance for loan losses.

Write off of loans - Loans and advances to customers are written off against allowance for loan losses in case of uncollectibility of loans and advances, including through repossession of collateral. Loans and advances are written off after the Group's management takes all possible steps to collect the amounts due to the Group, and after sale of the collateral.

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

Allowance for losses - The Group establishes an allowance for losses of financial assets when it is probable that the Group will not be able to collect the principal and interest according to the contractual terms of financial assets, which are carried at cost or amortized cost. The allowance for losses is defined as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral discounted at the original effective interest rate of the financial asset. For financial assets that do not have fixed maturities, expected future cash flows are discounted using periods during which the Group expects to realize the loan.

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

The change in the allowance for loan losses is charged to profit and loss account. The total of the allowance for loan losses is deducted in arriving at loans and advances to customers and banks. Management's evaluation of the allowance is based on the Group's past loss experience, known risks, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and current economic conditions.

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

Fixed and intangible assets - Fixed and intangible assets are carried at historical cost less accumulated depreciation and any accumulated impairment loss adjusted in accordance with IAS 29.

Depreciation and amortization are designed to write off assets over their useful economic lives and is calculated on a straight-line basis at the following annual prescribed rates:

Buildings	2%
Furniture, equipment, and vehicles	20%
Intangible assets	20%

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

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

Taxation - Income tax on the profit or loss comprises current and deferred taxation.

Income tax expense for the current period is determined on the basis of the taxable profit received in the year. During the year ended 31 December 2004 the Group's taxable profit was subject to income tax at the rate of 24%, 5% of which was paid to the Federal budget, 17% - to the municipal budget and 2% - to the local budget (during the year ended 31 December 2003 – 7.5%, 14.5% and 2%, respectively). Taxable profit is different from net profit shown on the profit and loss account as it does not include income and expense items taxable or deductible in other years, and also does not include non-taxable and non-deductible items. The Group's income tax expense is calculated in the current year using tax rate enacted fully or to a considerable extent at the balance sheet date.

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

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

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

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

The Group also has various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated profit and loss account.

Finance leases - Leases are classified as finance leases, whenever the terms of the lease transfer substantially all the risks and rewards incident to ownership of an asset to the Group. Title to the assets may or may not eventually be transferred to the Group. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The lease is classified as a finance lease if:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of a specialized nature such that only the lessee can use them without major modifications being made.

The Group, which acts as lessee under finance lease contracts, recognizes finance leases as assets and liabilities in the balance sheet at the inception of the lease at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the rate of interest on similar borrowings, which was effective at the inception of the lease, is used. Initial direct costs related to leased assets are included in the cost of such assets. The lease payments under finance lease contracts are partially recognized as finance charge and also decrease the finance lease liabilities. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Operating leases - Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases.

The Group, which acts as lessee under operating lease contracts, includes relevant lease payments in operating expenses using straight-line method.

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

Debt securities issued - Debt securities issued represent promissory notes issued by the Group to customers. They are accounted according to the same principles as those used for customer and bank deposits.

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

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

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

Retirement and other benefit obligations - The Group does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by employer calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by pension funds selected by employees. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

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

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

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

	31 December 2004	31 December 2003
RUR/USD	27.7487	29.4545
RUR/Euro	37.8104	36.8240

Fiduciary activities - The Group provides to its customers depositary services, custody for client securities and performing transactions with securities on depositary accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

4. DISPOSAL OF A SUBSIDIARY

Late in 2003 the Group gained control over operating and financial policy of JSC "UK "Sistema-Investments" which principal business involved operations at securities market by acquiring 40% of ownership rights for cash consideration of RUR 20,000 thousand. The Group obtained 100% of the company's voting power according to an agreement with Sistema, which owned another 60% share in JSC "UK "Sistema-Investments". The company's net assets as of the date of acquisition comprised cash of RUR 40,176 thousand and loans to customers of RUR 9,903 thousand. The fair value of net assets acquired approximated their carrying value and the consideration paid as of the date of acquisition, therefore the transaction resulted in no goodwill. Minority interest amounted to RUR 30,047 thousand as of the date of acquisition and as of 31 December 2003.

On 30 July 2004, the Group sold shares of JSC "UK "Sistema Investments" and transferred control over this company to a related party, having received a compensation of RUR 20,195 thousand and recognized a gain on disposal of RUR 195 thousand in the profit and loss account as part of other income. Minority interest for the year ended 31 December 2004 was insignificant and was recognized in other expenses.

5. NET INTEREST INCOME

	Year ended 31 December 2004 RUR'000	Year ended 31 December 2003 RUR'000
Interest income		
Interest on loans to customers	1,315,981	967,855
Interest on loans and advances to banks	131,193	172,766
Interest on debt securities	118,261	215,923
Interest on reverse repurchase transactions	49,856	38,603
Interest on discounted promissory notes	33,714	30,937
	<hr/>	<hr/>
Total interest income	1,649,005	1,426,084

Interest expense

Interest on customer accounts	440,332	448,829
Interest on debt securities issued	230,045	211,280
Interest on loans and advances from banks	191,721	148,497
Other interest expense	1,206	24,742
	<hr/>	<hr/>
Total interest expenses	863,304	833,348
	<hr/>	<hr/>
Net interest income before provision for loan losses	785,701	592,736
	<hr/>	<hr/>

6. ALLOWANCES FOR LOSSES AND IMPAIRMENT, OTHER PROVISIONS

The movements in provision for losses on interest-earning assets, were as follows:

	Loans and advances to banks RUR'000	Loans to customers RUR'000	Total RUR'000
31 December 2002	590	208,712	209,302
Provision	<hr/> 47,926	<hr/> 367,722	<hr/> 415,648
31 December 2003	48,516	576,434	624,950
(Recovery of provision)/provision	<hr/> (48,516)	<hr/> 273,951	<hr/> 225,435
31 December 2004	<hr/> -	<hr/> 850,385	<hr/> 850,385

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

	Guarantees and commitments RUR'000
31 December 2002	7,264
Recovery of provision	<hr/> (1,188)
31 December 2003	6,076
Provision	<hr/> 17,343
31 December 2004	<hr/> 23,419

7. FEE AND COMMISSION INCOME AND EXPENSE

	Year ended 31 December 2004 RUR'000	Year ended 31 December 2003 RUR'000
Fee and commission income from:		
Settlement operations	52,651	25,075
Cash operations	42,292	37,212
Documentary operations	14,119	7,143
Other	<hr/> 18,713	<hr/> 16,158
Total fee and commission income	<hr/> 127,775	<hr/> 85,588

	Year ended 31 December 2004 RUR'000	Year ended 31 December 2003 RUR'000
Fee and commission expense on:		
Plastic card operations	11,325	4,166
Documentary operations	8,301	939
Settlement operations	1,136	10,641
Other	1,809	388
	<hr/>	<hr/>
Total fee and commission expense	<u>22,571</u>	<u>16,134</u>

8. OPERATING EXPENSES

	Year ended 31 December 2004 RUR'000	Year ended 31 December 2003 RUR'000
Staff cost	289,625	227,882
Operating lease	68,837	60,132
Depreciation/amortization of fixed and intangible assets	54,237	39,083
Professional services	48,692	31,674
Taxes, other than income tax	41,879	44,651
Security	21,801	17,531
Telecommunication	12,089	8,633
Maintenance of fixed assets (buildings, intangible assets etc.)	12,039	10,845
Stationery and other office expenses	11,278	9,218
Business trip expenses	3,021	1,867
Advertising expenses	2,582	24,896
Hospitality expenses	1,112	2,211
Other expenses	18,487	19,021
	<hr/>	<hr/>
Total operating expenses	<u>585,679</u>	<u>497,644</u>

Advertising expenses for the year ended 31 December 2004 are shown net of reimbursement of expenses received from Mastercard of RUR 15,536 thousand.

9. INCOME TAXES

The Group provides for taxes based on the statutory tax accounts maintained and prepared in accordance with the Russian statutory tax regulations which may differ from International Financial Reporting Standards.

The Group is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and tax-free regime under local tax regulations.

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

Temporary differences as of 31 December 2004 and 2003 comprise:

	31 December 2004 RUR'000	31 December 2003 RUR'000
Deferred assets:		
Fixed and intangible assets	9,217	11,045
Trading securities	5,685	-
Other assets	6,735	5,910
	<u>21,637</u>	<u>16,955</u>
Deferred liabilities:		
Loans to banks and customers	(126,347)	(277,132)
Trading securities	-	(75,698)
Total deferred liabilities	<u>(126,347)</u>	<u>(352,830)</u>
	<u>(104,710)</u>	<u>(335,875)</u>
Net deferred liabilities	<u>(25,130)</u>	<u>(80,610)</u>
Net deferred tax liability	<u>(25,130)</u>	<u>(80,610)</u>

Reconciliation of tax expense and accounting profit for the year ended 31 December 2004 and 2003 are explained as follows:

	31 December 2004 RUR'000	31 December 2003 RUR'000
Profit before income tax	<u>179,268</u>	<u>76,094</u>
Theoretical tax at the statutory tax rate	43,024	18,263
Effect of income taxed at different tax rates	(2,052)	(1,417)
Tax effect of permanent differences	<u>(30,420)</u>	<u>72,740</u>
Income tax expense	<u>10,552</u>	<u>89,586</u>
Current income tax expense	66,032	48,802
Change in net deferred tax liability	<u>(55,480)</u>	<u>40,784</u>
Income tax expense	<u>10,552</u>	<u>89,586</u>
Deferred income tax liabilities	2004 RUR'000	2003 RUR'000
1 January	80,610	39,826
Change in deferred tax liabilities	<u>(55,480)</u>	<u>40,784</u>
31 December	<u>25,130</u>	<u>80,610</u>

As of 31 December 2004 and 2003, income tax assets comprise current income tax assets amounting to RUR 2,472 thousand and RUR 27,131 thousand, respectively.

The income tax liabilities comprise:

	31 December 2004 RUR'000	31 December 2003 RUR'000
Current income tax liability	15,361	2,281
Deferred income tax liability	25,130	80,610
Income tax liability	<u>40,491</u>	<u>82,891</u>

10. EARNINGS PER SHARE

The Group's basic and diluted earnings per share are calculated as follows:

	Year ended 31 December 2004 RUR'000	Year ended 31 December 2003 RUR'000
Net profit/(loss) for the year	168,716	(13,492)
Less dividends on preferred shares	(1,261)	-
Net profit attributable to ordinary shareholders	<u>167,455</u>	<u>(13,492)</u>
Weighted average number of ordinary shares for the calculation of basic and diluted earnings per share	<u>800,000</u>	<u>800,000</u>
Earnings per share – basic and diluted (RUR)	<u>209.3</u>	<u>(16.9)</u>

There were no dilutions during the reported periods that would have resulted from conversions, exercises, and other contingent issuances that individually would have decreased earnings per share reported by the Group.

11. CASH AND BALANCES WITH THE CENTRAL BANK OF THE RUSSIAN FEDERATION

	31 December 2004 RUR'000	31 December 2003 RUR'000
Cash in vault	371,630	382,792
Balance with the Central Bank of the Russian Federation	<u>1,970,462</u>	<u>2,405,325</u>
Total cash and balances with the Central Bank of the Russian Federation	<u>2,342,092</u>	<u>2,788,117</u>

The balances with the CBR as of 31 December 2004 and 2003 include RUR 302,916 thousand and RUR 1,346,458 thousand, respectively, that represent the minimum reserve deposit required by the CBR. The Group is required to maintain the reserve deposit with the CBR at all times.

Cash and cash equivalents for the purposes of the statement of cash flows are comprised of the following:

	31 December 2004 RUR'000	31 December 2003 RUR'000
Cash in vault	371,630	382,792
Balances with the Central Bank of the Russian Federation	1,970,462	2,405,325
Loans and advances to banks in OECD countries	1,384,833	1,424,272
Trading securities	253,652	1,809,684
	<u>3,980,577</u>	<u>6,022,073</u>
Less minimum reserve deposit with the CBR	<u>(302,916)</u>	<u>(1,346,458)</u>
Cash and cash equivalents	<u><u>3,677,661</u></u>	<u><u>4,675,615</u></u>

12. LOANS AND ADVANCES TO BANKS

	31 December 2004 RUR'000	31 December 2003 RUR'000
Loans and advances to banks	4,664,184	20,618
Correspondent accounts with banks	139,253	4,367,010
Securities purchased under agreement to resell	-	447,542
Accrued interest income on loans and advances to banks	2,061	5,943
	<u>4,805,498</u>	<u>4,841,113</u>
Less allowance for losses	<u>-</u>	<u>(48,516)</u>
Total loans and advances to banks, net	<u><u>4,805,498</u></u>	<u><u>4,792,597</u></u>

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

As of 31 December 2003, securities purchased under agreement to resell comprise:

	Fair value of securities RUR'000	Carrying value of receivables, RUR'000
Promissory notes of JSB Rosbank	333,170	287,140
Promissory notes of JSB Gazprombank	45,120	44,763
Promissory notes of JSB Mezhprombank	18,314	15,127
Promissory notes of JSB Alfa-bank	76,587	74,999
Promissory notes of JSC IBG NIKOIL	26,865	25,513
	<u>500,056</u>	<u>447,542</u>

These contracts on purchase of securities under the obligation to resell were settled within one month after 31 December 2003 and bore interest at rates ranging from 6.9% to 8.4% per annum.

As of 31 December 2004 and 2003 the Group had loans and advances to 3 and 4 banks totaling RUR 3,583,307 thousand and RUR 3,809,317 thousand, respectively, that individually exceeded 10% of the Group's equity.

13. TRADING SECURITIES

	Interest to nominal %	31 December 2004 RUR'000	Interest to nominal %	31 December 2003 RUR'000
Debt securities				
Russian State Bonds (OFZ)	8-10%	63,000	8-10%	64,130
Bonds of the Moscow City Government	10%	54,708	10%	87,495
Micron bonds	15%	103,904	15%	69,303
Izhavto bonds	13%	78,882	-	-
Avtovaz bonds	11%	67,630	15%	27,647
YuTK bonds	9%	62,159	-	-
JSB Spurt bonds	11%	60,810	-	-
KhKF Bank bonds	11%	51,625	-	-
JSCB Vneshtorgbank bonds	15%	38,414	-	-
MGTS bonds	10%	34,515	11%	20,483
Efko bonds	16%	32,560	17%	68,597
Kamaz Finance bonds	12%	18,451	-	-
Zenit Bank bonds	9%	5,099	-	-
Megafon Finance bonds		-	12%	112,037
AIZhK bonds		-	11%	41,335
Alrosa bonds		-	16%	34,521
IlimPulp bonds		-	15%	8,350
Tsentrtelcom bonds		-	18%	5,472
Volgatelecom bonds		-	17%	5,449
		<u>554,049</u>		<u>393,194</u>
OVGVZ bonds	3%	190,652		193,241
Promissory notes of Russky Standart Bank		9,350		-
LLC Kamaz-Finance promissory notes		9,086		-
JSC Gazprom promissory notes		-		299,633
JSC MDM-Bank promissory notes		-		205,181
Promissory notes of JSC Bank "Petrokommerz"		-		174,005
Promissory notes of JSB IB TRUST		-		147,273
Promissory notes of JSC AVTOVAZ		-		129,555
Promissory notes of JSC NPK Irkut		-		7,671
		<u>18,436</u>		<u>963,318</u>
Ordinary shares of RAO UES		11,655		-
Ordinary shares of Lukoil		24,450		11,271
Ordinary shares of Surgutneftegaz		17,146		860
Ordinary and preferred shares of MGTS		13,124		7,168
Ordinary shares of Rostelecom		7,973		5,853
Ordinary shares of MMC Norilsk Nickel		2,310		-
		<u>76,658</u>		<u>25,152</u>
Eurobonds of the Russian Federation		-		1,552,313
Other		<u>1,573</u>		<u>26</u>
Total trading securities		<u><u>959,076</u></u>		<u><u>3,278,869</u></u>

Russian State Bonds (OFZ) are Russian Ruble denominated government securities issued at discount to face value and guaranteed by the Ministry of Finance of the Russian Federation with medium to long-term maturities. Interest on these bonds is payable four times a year at the annual rates of 7.5-10% of the par value.

Municipal bonds represent bonds maturing in 2014 (included in trading portfolio as of 31 December 2004) and bonds with short-term maturities (included in trading portfolio as of 31 December 2003). Coupon interest on these securities is paid at the annual rate of 10% to the par value.

Corporate promissory notes represent debt instruments issued by companies and commercial banks in the Russian Federation with a discount from the par value. Corporate promissory notes mature within one year.

Corporate bonds are bonds issued by Russian enterprises. A coupon of 8.7%-15.5% and 11%-18% to the nominal value is payable under the bonds outstanding as of 31 December 2004 and 2003. Corporate bonds have maturities between 1 and 5 years.

As of 31 December 2004 and 2003 included in trading securities is accrued interest income on debt securities amounting to RUR 29,248 thousand and RUR 21,587 thousand, respectively.

As of 31 December 2004 and 2003 included in the trading portfolio were OFZ bonds of RUR 63,000 thousand and RUR 64,130 thousand, respectively, which were provided as collateral for CBR loan facilities. As of 31 December 2004 and 2003, none of them were pledged and no funds were received by the Group on such facilities.

As of 31 December 2004 included in trading securities were securities sold under repurchase agreements with other banks at fair value of RUR 198,491 thousand. These agreements were settled by the Group in January 2005.

14. LOANS TO CUSTOMERS

	31 December 2004 RUR'000	31 December 2003 RUR'000
Originated loans	12,906,061	9,452,073
Accrued interest income on loans to customers	19,685	11,308
	<u>12,925,746</u>	<u>9,463,381</u>
Less allowance for losses	<u>(850,385)</u>	<u>(576,434)</u>
Total customer loans, net	<u>12,075,361</u>	<u>8,886,947</u>

	31 December 2004 RUR'000	31 December 2003 RUR'000
Analysis by type of collateral		
Loans secured by corporate guarantees	6,954,040	150,988
Loans collateralized by pledge of shares of other companies	1,928,410	6,219,918
Loans collateralized by pledge of inventory	1,520,757	-
Loans collateralized by pledge of equipment	80,834	696,489
Loans collateralized by the MBRD's promissory notes	-	46,033
Unsecured loans	2,441,705	2,349,953
	<u>12,925,746</u>	<u>9,463,381</u>
Less allowance for losses	<u>(850,385)</u>	<u>(576,434)</u>
Total customer loans, net	<u>12,075,361</u>	<u>8,886,947</u>
	31 December 2004 RUR'000	31 December 2003 RUR'000
Analysis by industry:		
Real estate management and development	5,052,861	2,710,639
Trading	2,369,701	1,897,812
Manufacturing	2,232,019	674,272
Finance	1,245,372	2,692,263
Telecommunications	896,830	661,043
Tourist and hotel business	297,789	169,177
Individuals	204,681	82,590
Other	626,493	575,585
	<u>12,925,746</u>	<u>9,463,381</u>
Less allowance for losses	<u>(850,385)</u>	<u>(576,434)</u>
Total customer loans, net	<u>12,075,361</u>	<u>8,886,947</u>

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

As of 31 December 2004 and 2003 included in loans to customers are non-accrual loans amounting to RUR 18,994 thousand and RUR 28,100 thousand, respectively. As of 31 December 2004 and 2003 the total amount of interest on these loans non-recognized as income amounted to RUR 18,972 thousand and RUR 11,644 thousand, respectively.

As of 31 December 2004 and 2003 the Group had loans to 13 and 11 borrowers totaling RUR 6,798,835 thousand and RUR 5,011,271 thousand, respectively, which individual exposure exceeded 10% of the Group's equity.

The Group's loans to customers in Moscow and the Moscow region represent 85% and 91% of the total loan portfolio as of 31 December 2004 and 2003, respectively. Thus, there is a significant geographical concentration of the loan portfolio.

15. INVESTMENT SECURITIES

As of 31 December 2004, investment securities include shares of Russian companies, in which the Group holds less than 1% interests, except for the investment in 100% ordinary shares of LLC “MBRD-Capital” (RF) at a cost of RUR 10 thousand. The company is not consolidated in the financial statements of the Group as the effect of consolidation is immaterial.

16. FIXED ASSETS

	Buildings and facilities	Leasehold improvements	Furniture and equipment	Intangible assets	Total
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
Cost					
31 December 2003	34,171	32,756	181,750	40,744	289,421
Additions	-	11,357	68,045	10,199	89,601
Disposals	(2)	(556)	(9,839)	(364)	(10,761)
31 December 2004	34,169	43,557	239,956	50,579	368,261
Accumulated depreciation					
31 December 2003	683	8,726	50,383	12,379	72,171
Charge for the year	698	11,633	34,310	7,596	54,237
Disposal	-	(556)	(7,280)	(361)	(8,197)
31 December 2004	1,381	19,803	77,413	19,614	118,211
Net book value at					
31 December 2004	32,788	23,754	162,543	30,965	250,050
31 December 2003	33,488	24,030	131,367	28,365	217,250

17. OTHER ASSETS

	31 December 2004 RUR'000	31 December 2003 RUR'000
Prepaid expenses and receivables on other transactions	39,641	10,253
Receivables on derivative financial instruments	9,312	-
Other	6,798	10,162
Total other assets	55,751	20,415

As of 31 December 2004, receivables on derivative financial instruments of RUR 9,312 thousand comprise fair value of a foreign currency forward contract with notional sell equivalent of RUR 1,936,982 and notional buy of RUR 1,946,294 thousand.

18. LOANS AND ADVANCES FROM BANKS

	31 December 2004 RUR'000	31 December 2003 RUR'000
Loans from banks and financial institutions	1,006,681	989,345
Securities sold under agreement to repurchase	156,047	-
Correspondent accounts of banks	128,302	654,706
Accrued interest expense	4,976	10,864
	<hr/>	<hr/>
Total loans and advances from banks	<u>1,296,006</u>	<u>1,654,915</u>

As of 31 December 2004, included in loans from banks and financial institutions was RUR 584,900 thousand received from a Russian bank maturing in June 2006 and bearing interest at an annual rate of 11.5% .

As of 31 December 2003, included in correspondent accounts of banks was RUR 654,339 thousand received from a Russian bank. Included in loans from banks and financial institutions was RUR 412,363 thousand received from a foreign bank maturing in December 2004 and bearing interest at an annual rate of 5%.

As of 31 December 2004, securities sold under agreement to repurchase comprise:

	Fair value of securities RUR'000	Carrying value of liabilities, RUR'000
JSCB Vneshtorgbank bonds	33,895	27,481
MGTS bonds	29,649	25,518
YuTK bonds	41,439	31,657
Avtovaz bonds	62,533	47,293
KhKF Bank bonds	30,975	24,098
	<hr/>	<hr/>
	<u>198,491</u>	<u>156,047</u>

19. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2004 RUR'000	31 December 2003 RUR'000
Demand deposits	7,946,605	2,861,931
Time deposits	4,995,190	9,507,871
Accrued interest expense on customer accounts	56,538	105,028
	<hr/>	<hr/>
Total customer accounts	<u>12,998,333</u>	<u>12,474,830</u>

	31 December 2004 RUR'000	31 December 2003 RUR'000
Analysis by industry:		
Telecommunications	5,012,094	8,500,901
Aircraft manufacturing	2,449,111	1,218,670
Finance	2,332,956	1,160,872
Individuals	2,074,131	1,032,081
Culture and sports	151,047	75,161
Construction	130,261	64,817
Trading	116,929	58,184
Food industry	96,141	47,839
Other	635,663	316,305
Total customer accounts	<u>12,998,333</u>	<u>12,474,830</u>

As of 31 December 2004 included in customer accounts were RUR 3,071,953 thousand and RUR 1,591,099 thousand payable to two Russian companies.

As of 31 December 2003 included in customer accounts were RUR 8,337,728 thousand and RUR 803,941 thousand payable to two Russian companies.

20. DEBT SECURITIES ISSUED

	31 December 2004 RUR'000	31 December 2003 RUR'000
Interest bearing promissory notes	1,829,059	1,683,417
Discount bearing promissory notes	1,185,649	1,042,807
Other settlement notes	1,818	53,429
Total debt securities issued	<u>3,016,526</u>	<u>2,779,653</u>

21. OTHER LIABILITIES

	31 December 2004 RUR'000	31 December 2003 RUR'000
Current settlements	5,124	1,719
Taxes payable, other than income tax	2,925	15
Other payables	1,832	6,643
Total other liabilities	<u>9,881</u>	<u>8,377</u>

22. SHARE CAPITAL

As of 31 December 2004 and 2003 share capital authorized, issued and fully paid comprised of 800,000 ordinary shares with par value of RUR 500 each and 1,000 preferred shares with par value of RUR 500 each. All ordinary shares are of the same type and bear one vote. Preferred shares are not cumulative.

Share premium represents the excess of contributions received over the nominal value of shares issued.

On 31 May 2004 an annual shareholders' meeting approved payment of dividends on preferred and ordinary shares for 2003 of RUR 1,299 per share and RUR 45 per share, respectively. The dividends were paid before 30 September 2004. No dividends on preferred or ordinary shares were declared by the Group in 2003.

The Group's reserves distributable to shareholders are limited to the amount of its reserves (share capital, share premium and retained earnings) as disclosed in its statutory accounts. Non-distributable reserves are represented by a general reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve was created in accordance with the Charter.

On 4 November 2004, the general shareholders approved an increase of share capital through by issuing additional 130,000 ordinary shares with par value of RUR 500 each.

23. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

Provision for losses on guarantees and letters of credit was RUR 23,419 thousand and RUR 6,076 thousand as of 31 December 2004 and 2003, respectively.

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

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

	31 December 2004		31 December 2003	
	Nominal amount	Risk- weighted amount	Nominal amount	Risk- weighted amount
	RUR'000	RUR'000	RUR'000	RUR'000
Contingent liabilities and credit commitments				
Guarantees issued and similar commitments	200,223	195,755	303,794	303,794
Letters of credit and other transaction-related contingent obligations	113,077	-	6,127	-
Credit commitments	3,376,237	226,673	2,146,497	158,230
Total contingent liabilities and credit commitments	3,689,537	422,428	2,456,418	462,024

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

Operating leases - The Group has the following commitments with respect to minimum lease payments under non-cancellable building and land lease contracts:

	31 December 2004 RUR'000	31 December 2003 RUR'000
Not later than one year	44,801	41,060
Later than one year but not later than five years	38,507	60,884
Later than 5 years	138,442	99,205
Total operating lease	221,750	201,149

Fiduciary activities - The Group provides depositary services to its customers.

As of 31 December 2004 and 2003, the Group held as the nominee the clients' securities on its accounts of 4,823,261 securities and 821,950 securities, respectively.

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

Taxes - Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed by the tax authorities of making arbitrary judgment of taxpayer activities, if a particular treatment based on Management's judgment of the Group's business activities was to be challenged by the tax authorities, the Group may be assessed for additional taxes, penalties and interest. The Group believes now that it has already complied with them, and therefore has not provided for in the financial statements. Tax years remain open to review by the tax authorities for three years.

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

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

24. RELATED-PARTY TRANSACTIONS

Related parties, as defined by IAS 24 "Related Party Disclosures", are those counterparties 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 Group has significant influence and which are neither a subsidiary nor a joint venture of the investor;
- Individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group;
- Key management personnel, i.e. persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group and close members of the families of such individuals;

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

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

	31 December 2004		31 December 2003	
	RUR'000		RUR'000	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Loans to banks	1,953,697	4,805,498	-	4,841,113
Trading securities	151,543	959,076	131,475	3,278,869
Loans to customers, gross	7,243,145	12,925,746	6,998,978	9,463,381
Provisions for losses on loans and advances to customers	467,183	850,385	500,020	576,434
Other assets	9,312	55,751	-	20,415
Loans from banks	174,195	1,296,006	271,276	1,654,915
Customer accounts	6,438,825	12,998,333	8,776,587	12,474,830
Unused credit commitments	939,782	3,376,237	1,699,495	2,146,497
Guarantees issued	148,614	200,223	106,213	303,794
Provision for losses on guarantees	15,888	23,419	4,654	6,076

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

	Year ended		Year ended	
	31 December 2004		31 December 2003	
	RUR'000		RUR'000	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	728,713	1,649,005	696,039	1,426,084
Interest expense	511,385	863,304	452,509	833,348
Fee and commission income	40,140	127,775	32,105	85,588
Net gain on trading securities	-	59,009	14,580	286,768
Net gain on foreign exchange operations	339	46,136	21,944	27,819
Operating expenses	62,275	585,679	41,339	497,644

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

25. SEGMENTS

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

26. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

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

Trading securities - As of 31 December 2004 and 2003 are stated at fair value including accrued interest income of RUR 29,248 thousand and RUR 21,587 thousand, respectively. Fair value of trading securities was determined with reference to an active market.

Derivative financial instruments - As of 31 December 2004 derivative financial instruments are stated at fair value. The fair value of financial derivatives is determined using interest model.

Securities purchased under repurchase agreements - As of 31 December 2003 the carrying value of funds received under reverse repurchase agreements is a reasonable estimate of their fair value.

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

Loans and advances from banks - As of 31 December 2004 and 2003, the carrying amount of loans and advances from banks is a reasonable estimate of their fair value.

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

Securities sold under repurchase agreements - As of 31 December 2004 the carrying value of the Group's liabilities under agreements to repurchase is a reasonable estimate of their fair value.

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

27. REGULATORY MATTERS

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

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

Measurement	Description of position
0%	Cash and balances with the Central Bank of the Russian Federation
0%	Government debt securities nominated in Russian roubles
20%	Loans and advances to banks maturing within 1 year
100%	Loans and advances to customers
100%	Warranties
50%	Commitments on unused loans with the initial duration over 1 year
100%	Other assets

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

Capital amounts and ratios	Actual amount, RUR'000	For Capital Adequacy purposes RUR'000	Capital adequacy ratio %	Minimum Required Ratio %
At 31 December 2004				
Total capital	3,106,250	3,106,250	21.5%	8%
Tier 1 capital	3,106,250	3,106,250	21.5%	4%
At 31 December 2003				
Total capital	3,004,842	3,174,819	26.1%	8%
Tier 1 capital	3,004,842	3,004,842	24.8%	4%

28. SUBSEQUENT EVENTS

In the beginning of 2005 JSC AK "ALROSA" (see Note 1) sold its holding in JSC "MBRD" to Sistema.

In March of 2005, the Group issued eurobonds in the amount of USD 150 mln at nominal value maturing in 2008 and bearing interest at 8.625% per annum payable semi-annually.

29. RISK MANAGEMENT POLICY

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

The Group manages the following main types of risks:

Liquidity Risk

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

Cash flow forecasts are the primary tool that the Group uses to monitor liquidity. Cash flow forecasts contain a detailed breakdown by maturity and value of all assets and liabilities based on agreements and commitments entered into by the Group. In order to better manage liquidity, Group regularly requests from its major corporate customers a schedule of upcoming changes in their deposit and loan balances. On the retail banking side, the Group carries out a scenario analysis and stress testing to forecast likely customer request to withdraw funds.

The Group aims to match the terms of loans and deposits whenever possible. Gap analysis is used to monitor liquidity positions on a weekly basis. A maximum gap is set and monitored for a liquidity deficit. Stress testing is also carried out on a monthly basis using statistical analysis on the stability of deposits. For liquidity management purposes, the Group calculates expected liquidity surpluses/shortfalls over various time periods on the basis of cash flow forecasts under an "average expected scenario" assuming there are no significant losses or withdrawals of client deposits over the relevant period and under a "worst-case scenario" assuming losses are incurred as a result of market or credit risk or significant withdrawals of deposits. The "worst-case scenario" is essentially a stress-testing technique which is based on an analysis of the impact of a combination of negative factors.

An analysis of the liquidity and balance sheet interest rate risks as of 31 December 2004 based on contractual maturity is presented below.

	On demand and up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined (incl. allowance for losses)	Total RUR*000
ASSETS								
Interest bearing assets:								
Loans and advances to banks	4,315,828	477,132	-	-	-	-	-	4,792,960
Trading securities	882,418	-	-	-	-	-	-	882,418
Loans and advances to customers, less allowance for loan losses	2,537,281	1,611,215	5,932,493	2,825,734	-	-	(831,391)	12,075,332
Total interest-bearing assets	7,735,527	2,088,347	5,932,493	2,825,734	-	-	(831,391)	17,750,710
Cash and balances with the Central Bank of the Russian Federation	2,039,176	-	-	-	-	-	302,916	2,342,092
Loans and advances to banks	12,538	-	-	-	-	-	-	12,538
Trading securities	76,658	-	-	-	-	-	-	76,658
Loans and advances to customers, less allowance for loan losses	-	-	29	-	-	18,994	(18,994)	29
Investment securities	-	-	-	606	-	-	-	606
Fixed and intangible assets, less accumulated depreciation	-	-	-	217,262	32,788	-	-	250,050
Other assets and income tax assets	46,439	9,312	2,472	-	-	-	-	58,223
TOTAL ASSETS	9,910,338	2,097,659	5,934,994	3,043,602	32,788	18,994	(547,469)	20,490,906
LIABILITIES								
Interest bearing liabilities:								
Loans and advances from banks	286,145	-	421,780	584,900	-	-	-	1,292,825
Customer accounts	3,639,326	2,133,188	2,415,675	29,807	-	-	-	8,217,996
Debt securities issued	551,034	817,066	1,645,603	1,005	-	-	-	3,014,708
Total interest bearing liabilities	4,476,505	2,950,254	4,483,058	615,712	-	-	-	12,525,529
Loans and advances from banks	3,181	-	-	-	-	-	-	3,181
Customer accounts	4,780,337	-	-	-	-	-	-	4,780,337
Debt securities issued	-	689	1,045	84	-	-	-	1,818
Other liabilities, provisions and income tax liabilities	9,881	40,491	-	-	-	-	23,419	73,791
TOTAL LIABILITIES	9,269,904	2,991,434	4,484,103	615,796	-	-	23,419	17,384,656
Liquidity gap	640,434	(893,775)	1,450,891	2,427,806	32,788			
Interest sensitivity gap	3,259,022	(861,907)	1,449,435	2,210,022	-			
Cumulative interest sensitivity gap	3,259,022	2,397,115	3,846,550	6,056,572	6,056,572			
Cumulative interest sensitivity gap as a percentage of total assets	15.9%	11.7%	18.8%	29.6%	29.6%			

An analysis of the liquidity and balance sheet interest rate risks as of 31 December 2003 based on contractual maturity is presented below

	On demand and up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined (incl. allowance for losses)	Total RUR*000
ASSETS								
Interest bearing assets:								
Loans and advances to banks, less allowance for loan losses	4,816,017	-	22,321	-	-	-	(48,516)	4,789,822
Trading securities	3,253,717	-	-	-	-	-	-	3,253,717
Loans and advances to customers, less allowance for loan losses	1,173,320	2,365,609	4,717,757	1,178,595	-	-	(548,334)	8,886,947
Total interest-bearing assets	9,243,054	2,365,609	4,740,078	1,178,595	-	-	(596,850)	16,930,486
Cash and balances with the Central Bank of the Russian Federation	1,441,659	-	-	-	-	-	1,346,458	2,788,117
Loans and advances to banks	-	-	2,775	-	-	-	-	2,775
Trading securities	25,152	-	-	-	-	-	-	25,125
Loans and advances to customers, less allowance for loan losses	-	-	-	-	-	28,100	(28,100)	-
Investment securities	-	-	-	258	-	-	-	258
Fixed and intangible assets, less accumulated depreciation	-	-	-	183,762	33,488	-	-	217,250
Other assets and income tax assets	20,094	27,452	-	-	-	-	-	47,546
TOTAL ASSETS	10,729,959	2,393,061	4,742,853	1,362,615	33,488	28,100	721,508	20,011,584
LIABILITIES								
Interest bearing liabilities:								
Loans and advances from banks	1,038,934	-	615,981	-	-	-	-	1,654,915
Customer accounts	2,327,754	7,172,524	1,252,878	59	-	-	-	10,753,215
Debt securities issued	571,775	393,335	1,590,572	170,542	-	-	-	2,726,224
Total interest bearing liabilities	3,938,463	7,565,859	3,459,431	170,601	-	-	-	15,134,354
Loans and advances from banks	-	-	-	-	-	-	-	-
Customer accounts	1,721,615	-	-	-	-	-	-	1,721,615
Debt securities issued	53,429	-	-	-	-	-	-	53,429
Other liabilities, provisions and income tax liabilities	8,377	82,891	-	-	-	-	6,076	97,344
TOTAL LIABILITIES	5,721,884	7,648,750	3,459,431	170,601	-	-	6,076	17,006,742
Liquidity gap	5,008,075	(5,255,689)	1,283,422	1,192,014	33,488			
Interest sensitivity gap	5,304,591	(5,200,250)	1,280,647	1,007,994	-			
Cumulative interest sensitivity gap	5,304,591	104,341	1,384,988	2,392,982	2,392,982			
Cumulative interest sensitivity gap as a percentage of total assets	26.5%	0.5%	6.9%	12.0%	12.0%			

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

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

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

Long-term credits and overdraft facilities are generally not available in Russia. 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.

Interest rate risk

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

The Group has exposure to interest rate risk both through its bonds portfolio and interest bearing assets and liabilities that are held to maturity. The interest rate gaps are divided by maturity, and are monitored by Group's financial committee on a weekly basis. The Group also carries out a scenario analysis.

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

	31 December 2004			31 December 2003		
	RUR	USD	Other currency	RUR	USD	Other currency
ASSETS						
Loans and advances to banks	5.6%	-	-	5.5%	2.9%	0.8%
Correspondent accounts with other banks	0.8%	2.5%	2.3%			
Trading securities	10.2%	5.8%	-	9.2%	5.7%	-
Loans and advances to customers:						
- corporate customers	11.9%	11.6%	15.6%	12.6%	12.2%	16.6%
- individuals	18.6%	12.5%	14.0%	19.9%	12.9%	14.9%
LIABILITIES						
Loans and advances from banks	11.5%	4.1%	2.0%	10.8%	7.1%	-
Customer accounts – current accounts:						
- corporate customers	2.9%	-	7.3%	3.3%	-	6.8%
- individuals	1.2%	0.2%	-	1.6%	0.5%	-
Customer accounts – time deposits:						
- corporate customers	7.7%	0.2%	-	7.4%	0.7%	-
- individuals	11.8%	8.0%	-	12.6%	8.5%	-
Debt securities issued	8.9%	7.2%	4.5%	11.2%	7.7%	7.8%

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows.

Foreign exchange risk is managed via derivative instruments (foreign currency forward and swap contracts) with domestic and foreign banks.

These limits also comply with the minimum requirements of the Central Bank of the Russian Federation.

The Group's exposure to foreign currency exchange rate risk as of 31 December 2004 is presented below:

	RUR	USD USD 1 = RUR 27.7487	Other currency	Currency undefined (incl. allowance for losses)	Total RUR '000
ASSETS					
Cash and balances with the Central Bank of the Russian Federation	2,254,049	72,245	15,798	-	2,342,092
Loans and advances to banks	1,413,321	3,141,457	250,720	-	4,805,498
Trading securities	771,406	187,670	-	-	959,076
Loans and advances to customers, less allowance for loan losses	7,370,382	5,545,885	9,479	(850,385)	12,075,361
Investment securities	549	-	57	-	606
Fixed and intangible assets, less accumulated depreciation	250,050	-	-	-	250,050
Other assets and income tax assets	58,166	2	55	-	58,223
TOTAL ASSETS	12,117,923	8,947,259	276,109	(850,385)	20,490,906
LIABILITIES					
Loans and advances from banks	743,384	552,611	11	-	1,296,006
Customer accounts	6,930,436	5,865,826	202,071	-	12,998,333
Debt securities issued	2,185,323	744,881	86,322	-	3,016,526
Other liabilities, provisions and income tax liabilities	49,594	708	70	23,419	73,791
TOTAL LIABILITIES	9,908,737	7,164,026	288,474	23,419	17,384,656
OPEN POSITION	2,209,186	1,783,233	(12,365)		

Derivative financial instruments

Fair values of derivative financial instruments are included in the currency analysis presented above. The following table presents further analysis of currency risk by types of derivative contracts as of 31 December 2004:

Derivative financial instruments	RUR	USD USD 1=RUR 27.7487	Other currency	Currency undefined (incl. allowance for losses)	Total RUR '000
Payables under foreign exchange forward deals	-	(1,936,982)	-	-	(1,936,982)
Receivables on foreign exchange forward contracts	1,946,294	-	-	-	1,946,294
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	1,946,294	(1,936,982)	-		
TOTAL OPEN POSITION	4,155,480	(153,749)	(12,365)		

The Group's exposure to foreign currency exchange rate risk as of 31 December 2003 is presented below:

	RUR	USD USD 1 = RUR 29.4545	Other currency	Currency undefined (incl. allowance for losses)	Total RUR '000
ASSETS					
Cash and balances with the Central Bank of the Russian Federation	2,640,815	96,670	50,632	-	2,788,117
Loans and advances to banks, less allowance for loan losses	30,250	4,765,179	45,684	(48,516)	4,792,597
Trading securities	1,745,554	1,533,315	-	-	3,278,869
Loans and advances to customers, less allowance for loan losses	5,481,457	3,908,671	73,253	(576,434)	8,886,947
Investment securities	199	-	59	-	258
Fixed and intangible assets, less accumulated depreciation	217,250	-	-	-	217,250
Other assets and income tax assets	40,624	6,922	-	-	47,546
TOTAL ASSETS	10,156,149	10,310,757	169,628	(624,950)	20,011,584
LIABILITIES					
Loans and advances from banks and customer accounts	4,134,567	9,904,959	90,219	-	14,129,745
Debt securities issued	2,127,442	618,221	33,990	-	2,779,653
Other liabilities, reserves, income tax liabilities	90,797	471	-	6,076	97,344
TOTAL LIABILITIES	6,352,806	10,523,651	124,209	6,076	17,006,742
OPEN POSITION	3,803,343	(212,894)	45,419		

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group lends to corporate and retail customers. Rouble denominated loans to Russian customers represent a significant portion of Group's loan portfolio. Loans advanced are typically short-term and secured by collateral. The Group has established procedures for approving and monitoring loan quality and for extensions and refinancing of existing loans. These procedures are set out in the credit policy approved by the Group's Management Board and apply to all loans, including those to related parties.

Credit Committee performs primary Group's lending and approval process, makes all decisions with respect to any loan made by the Group's headquarters and branches to corporate clients and individuals. The final decisions with respect to transactions exceeding 25% of the Group's total assets and transactions with related parties are made by the Group's Board of Directors. Some transactions between the Group and related parties require the approval of directors or shareholders with no interest in the transaction.

The Group evaluates borrowers on the basis of their credit history, quality of the collateral offered and financial condition. In addition, it may take into account certain business relationships when determining the interest rate of loans to certain related parties.

The Group carries out regular monitoring of its loan portfolio. As well as ensuring that the borrower fulfils its obligations under each loan, the Group regularly reviews all of the available information on the borrower's activities. In particular, the Group obtains and analyses financial reports on a quarterly basis, regularly monitors the value of the underlying collateral for each loan. In relation to its loan portfolio, the Group also monitors the level of non-performing loans and the concentration of loan portfolio per borrower, group of borrowers or industry.

In 2004, the Group established a department that performs valuation and monitoring of collateral. When evaluating collateral, the Group discounts the market value of the assets to reflect the costs of sale.

The Group establishes loan provisions and revises them on a regular basis to account for changes in the risk underlying variables. Allowances are made on impairment of individual loans as a result of a borrower's failure to perform according to contractual terms or in case of a loan impairment.

Market risk

The Group's Financial Committee approves stop-loss limits, both on securities and foreign currency trading portfolios, securities position limits, foreign currency position limits. The largest limit, set for the RUR/USD exposure is in line with the Central Bank of the Russian Federation requirements on foreign currency exposure. Stop-loss limits are reviewed on a monthly basis, and positions are monitored and revalued daily. They are monitored in terms of mark-to-market exposure and for compliance with limits. A Value at Risk calculation is also used. In addition, the Group carries out stress testing procedures.

Geographical concentration

Country risk (risk of global changes in the bank services market and markets of the Group's principal debtors, changes in investment attractiveness of securities) are managed through on-going monitoring.

Geographical concentration analysis of assets and liabilities as of 31 December 2004 is presented below:

	The Russian Federation	OECD	Other countries	Undefined (incl. allowance for losses)	Total RUR '000
ASSETS					
Cash and balances with the Central Bank of the Russian Federation	2,342,092	-	-	-	2,342,092
Loans and advances to banks	1,465,282	1,384,833	1,955,383	-	4,805,498
Trading securities	959,076	-	-	-	959,076
Loans and advances to customers, less allowance for loan losses	12,923,549	-	2,197	(850,385)	12,075,361
Investment securities	549	57	-	-	606
Fixed and intangible assets, less accumulated depreciation	250,050	-	-	-	250,050
Other assets and income tax assets	48,911	-	9,312	-	58,223
TOTAL ASSETS	17,989,509	1,384,890	1,966,892	(850,385)	20,490,906
LIABILITIES					
Loans and advances from banks and customer accounts	12,957,715	-	1,336,624	-	14,294,339
Debt securities issued	3,016,526	-	-	-	3,016,526
Other liabilities, provisions and income tax liabilities	50,372	-	-	23,419	73,791
TOTAL LIABILITIES	16,024,613	-	1,336,624	23,419	17,384,656
NET POSITION	1,964,896	1,384,890	630,268		

Geographical concentration analysis of the assets and liabilities as of 31 December 2003 is presented below:

	The Russian Federation	OECD	Other countries	Undefined (incl. allowance for losses)	Total RUR '000
ASSETS					
Cash and balances with the Central Bank of the Russian Federation	2,788,117	-	-	-	2,788,117
Loans and advances to banks, less allowance for loan losses	1,911,274	1874861	1,054,978	(48,516)	4,792,597
Trading securities	3,278,869	-	-	-	3,278,869
Loans and advances to customers, less allowance for loan losses	9,463,381	-	-	(576,434)	8,886,947
Investment securities	258	-	-	-	258
Fixed and intangible assets, less accumulated depreciation	217,250	-	-	-	217,250
Other assets and income tax assets	47,281	-	265	-	47,546
TOTAL ASSETS	17,706,430	1,874,861	1,055,243	(624,950)	20,011,584
LIABILITIES					
Loans and advances from banks and customer accounts	13,441,158	412,911	275,676	-	14,129,745
Debt securities issued	2,779,653	-	-	-	2,779,653
Other liabilities, provisions and income tax liabilities	91,268	-	-	6,076	97,344
TOTAL LIABILITIES	16,312,079	412,911	275,676	6,076	17,006,742
NET POSITION	1,394,351	1,461,950	779,567		