National Bank TRUST
(formerly Bank MENATEP St. Petersburg)

Consolidated Financial Statements

For the year ended 31 December 2004
Together with Independent Auditors' Report

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Independent Auditors' Report

To the Board of Directors of National Bank TRUST:

We have audited the accompanying consolidated balance sheet of National Bank TRUST (formerly Bank MENATEP St. Petersburg) and its subsidiaries (the "Bank") as of 31 December 2004, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of the Bank for the year ended 31 December 2003 were audited by another auditor, whose report dated 26 May 2004 expressed an unqualified opinion on those statements.

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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

ЗАО КПМГ

ZAO KPMG
23 June 2005

(Thousands of Russian Rubles)

CONSOLIDATED BALANCE SHEETS

	Note	31 December 2004	31 December 2003
Assets			
Cash and cash equivalents	5	14 185 353	4 968 291
Obligatory reserve with the CBR		591 355	2 138 564
Trading securities	6	4 656 124	5 645 606
Amounts due from credit institutions		5 312	45 101
Held-to-maturity securities	7	8 336	473 934
Available-for-sale securities	8	111 418	100 565
Loans to customers	9	9 005 012	16 279 316
Tax assets	21	144 337	111 744
Tangible fixed assets	10	653 297	566 203
Goodwill and other intangible assets	11	145 950	146 371
Investment in leases		-	481 306
Other assets		208 126	223 554
Total assets		**29 714 620**	**31 180 555**
Liabilities			
Amounts due to credit institutions	12	1 162 820	3 402 866
Amounts due to customers	13	22 257 414	18 004 890
Debt securities issued	14	2 155 256	6 432 960
Tax liabilities	21	511 912	17 939
Other liabilities		82 187	105 938
Total liabilities		**26 169 589**	**27 964 593**
Shareholders' equity			
Share capital	15	2 896 441	2 896 441
Additional paid-in capital		706 013	706 013
Accumulated deficit		(57 423)	(386 492)
Total shareholders' equity		**3 545 031**	**3 215 962**
Total liabilities and shareholders' equity		**29 714 620**	**31 180 555**

Signed and authorized for release on behalf of the Board of the Bank on 23 June 2005

Kolyada O. R. Chairman of the Board

(Thousands of Russian Rubles)

CONSOLIDATED STATEMENTS OF INCOME

	Note	2004	2003
Interest income	17	2 490 189	4 848 733
Interest expense	17	(1 299 566)	(2 371 136)
Net interest income		**1 190 623**	**2 477 597**
Recovery of provision for impairment	16	563 459	42 832
Net interest income after provision for impairment		**1 754 082**	**2 520 429**
Fee and commission income	18	858 374	898 360
Fee and commission expense	18	(145 693)	(147 451)
Net fee and commission income		**712 681**	**750 909**
Dealing gains less losses	19	52 203	248 909
Foreign exchange gains less losses		327 252	198 950
Translation gains less losses		(68 605)	1 121
Other income		103 656	42 233
Other non interest income		**414 506**	**491 213**
Salaries and employment benefits	20	(1 105 239)	(1 497 693)
Administrative expenses	20	(771 128)	(945 658)
Depreciation and amortization	10,11	(117 268)	(120 545)
Recovery of other provisions/(other provisions)	16	48 696	(80 304)
Gain on disposal of subsidiaries	28	20 368	-
Other expenses		(100 719)	(77 953)
Non interest expense		**(2 025 292)**	**(2 722 153)**
Initial recognition of loans to customers at fair value		-	(5 279)
Profit before tax		**855 977**	**1 035 119**
Income tax expense	21	(526 908)	(252 344)
Net profit		**329 069**	**782 775**

(Thousands of Russian Rubles)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Inflation impact on share capital	Additional paid-in capital	Accumulated deficit	Total shareholders' equity
Balance as at 31 December 2002	**1 472 690**	**1 423 751**	**706 013**	**(1 130 977)**	**2 471 477**
Dividends paid	-	-	-	(38 290)	(38 290)
Net profit	-	-	-	782 775	782 775
Balance as at 31 December 2003	**1 472 690**	**1 423 751**	**706 013**	**(386 492)**	**3 215 962**
Net profit	-	-	-	329 069	329 069
Balance as at 31 December 2004	**1 472 690**	**1 423 751**	**706 013**	**(57 423)**	**3 545 031**

(Thousands of Russian Rubles)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	2004	2003
Cash flows from operating activities			
Interest income and fees and commissions received		3 324 377	5 645 057
Interest expense and fees and commissions paid		(1 630 814)	(2 604 575)
Dealing gains less losses		30 382	318 562
Foreign exchange gains less losses		327 252	198 950
Other income		103 656	42 233
Salaries and employment benefits		(1 105 239)	(1 586 244)
Administrative and other expenses		(839 473)	(1 023 613)
Cash flows provided from operating activities before changes in operating assets and liabilities		**210 141**	**990 370**
Net (increase) decrease in operating assets*:*			
Obligatory reserve with the CBR		1 547 209	444 966
Trading securities		977 526	379 361
Amounts due from credit institutions		37 289	341 568
Loans to customers		7 695 392	1 739 986
Investments in leases		197 343	(313 944)
Other assets		(411 536)	(60 251)
Net increase (decrease) in operating liabilities:			
Amounts due to credit institutions		(1 884 297)	539 767
Amounts due to customers		4 433 727	(7 555 858)
Other liabilities		388 457	(50 265)
Net cash flows provided from/(used in) operating activities before income taxes		**13 191 251**	**(3 544 300)**
Income taxes paid		(42 893)	(240 259)
Net cash flows provided from/(used in) operating activities		**13 148 358**	**(3 784 559)**
Cash flows from investing activities			
Purchase of investment securities		(9 583)	(86 942)
Proceeds from sale and redemption of investment securities		529 243	175 047
Purchase of tangible fixed assets	10	(193 753)	(266 695)
Proceeds from sale of tangible fixed assets		4 087	142 627
Purchase of intangible assets	11	(23 871)	(42 883)
Proceeds from disposal of subsidiary, net of cash disposed	28	(27 166)	-
Net cash flows provided from/(used in) investing activities		**278 957**	**(78 846)**
Cash flows from financing activities			
Debt securities issued		(4 078 619)	601 087
Dividends paid		-	(38 290)
Net cash flows (used in)/provided from financing activities		**(4 078 619)**	**562 797**
Effect of change in exchange rates on cash and cash equivalents		(131 634)	(46 639)
Net change in cash and cash equivalents		**9 217 062**	**(3 347 247)**
Cash and cash equivalents as at the beginning of the year		4 968 291	8 315 538
Cash and cash equivalents as at the end of the year	5	**14 185 353**	**4 968 291**

1. Principal Activities

These consolidated financial statements include the financial statements of National Bank TRUST (formerly Bank MENATEP St. Petersburg) (the "Bank") and its subsidiaries. The Bank and its subsidiaries together are referred to as the "Group".

National Bank TRUST (formerly Bank MENATEP St. Petersburg) ("the Bank") is the leading company in the Group. It was formed on 27 November 1995 as a closed joint stock company under the laws of the Russian Federation and was named Bank MENATEP St. Petersburg. On 18 December 2000 the Bank was re-organized into an open joint stock company. In March 2005 the Bank was re-named National Bank TRUST. The Bank operates under general banking licence № 3279 from the Central Bank of the Russian Federation (the "CBR"), issued on 26 May 2003, and a licence for operations with precious metals from the CBR, issued on 18 December 2000. The Bank also possesses a licence for operations with securities from the Federal Stock Market Commission (the "FSMC"), granted on 27 November 2000, and a licence for custody services from the FSMC, granted on 7 December 2000. The Bank was accepted into the state deposit insurance scheme in December 2004. The Bank accepts deposits from the public and makes loans, transfers payments in Russia and abroad, exchanges currencies and provides banking services for its corporate and retail customers.

The Bank has 56 branches in 47 regions of Russia, one foreign branch in Ulan-Bator, Mongolia, and one representative office in Kursk, Russia. The Bank's registered legal address is: Nevsky pr.1, Saint Petersburg, Russia, 191186.

The Group has 2 853 employees as of 31 December 2004 (2003: 3 279).

In May 2004 management of the Bank has completed a buyout of the controlling stake in the Bank from its previous owners and as a result received full control over the Bank. In accordance with the management buyout deal the management purchased shares of CJSC "Management company "TRUST" which owns 99.35% of shares in the Bank. The owner of 100% of shares of CJSC "Management company "TRUST" is TIB Holdings Limited which is fully owned by the Bank's management. Therefore management of the Bank now controls 99.35% of shares in the Bank.

A list of principal subsidiaries of the Bank is disclosed in Note 27.

2. Operating Environment

The Russian Federation has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks, which do not typically exist in other markets. The accompanying consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

3. Basis of Preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements are presented in thousands of Russian Rubles ("RR"), except per share amounts and unless otherwise indicated. The Ruble is utilized as the majority of the Bank's transactions are denominated, measured, or funded in Russian Rubles. Transactions in other currencies are treated as transactions in foreign currencies.

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 statutory 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.

(Thousands of Russian Rubles)

3. Basis of Preparation (continued)

The preparation of these consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

Inflation Accounting
As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Bank no longer applies the provisions of IAS 29 to current periods and only recognizes the cumulative impact of inflation indexing through 31 December 2002, on non-monetary elements of the consolidated financial statements.

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

Reconciliation of RAL and IFRS Shareholders' Equity and Net Profit

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

	2004		**2003**	
	Shareholders' equity	**Net income**	**Shareholders' equity**	**Net income**
Russian Accounting Legislation	**3 303 493**	**182 795**	**3 208 245**	**336 866**
Recoveries of provision for impairment	137 451	576 266	(438 815)	66 531
Financial instruments and accruals	834 952	217 214	617 738	184 046
Adjustments to fair value	(411 768)	(25 992)	(385 776)	(75 224)
Effect of inflation on non-monetary items	43 023	-	43 023	-
Tangible fixed assets	(165 113)	70 252	(235 365)	(45 976)
Taxation	(615 369)	(498 020)	(140 687)	(116 373)
Earnings of consolidated subsidiaries	544 881	(155 529)	700 410	454 827
Expenses recorded directly to equity	-	(64 209)	-	(130 153)
Other	(126 519)	26 292	(152 811)	108 231
International Financial Reporting Standards	**3 545 031**	**329 069**	**3 215 962**	**782 775**

4. Summary of Accounting Policies

Principles of consolidation
Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Bank's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Recognition of Financial Instruments
The Group recognizes financial assets and liabilities on its consolidated 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.

4. Summary of Accounting Policies (continued)

Financial assets and liabilities are offset and the net amount is reported in the consolidated 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, respectively. Any gain or loss on initial recognition is recognized in the current period consolidated 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, current accounts with other credit institutions and short term deposits with other credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Gold and other precious metals are recorded at current CBR bid prices, which are quoted at a discount to London Metal Exchange rates. Differences between the contractual exchange rate of a certain transaction and the CBR bid price on the date of the transaction is included in dealing gains less losses. Any gains or losses on assets and liabilities denominated in gold and other precious metals arising from a change in the CBR bid rate are recognized as foreign exchange gains less losses.

Obligatory Reserves with the CBR
The obligatory reserves with the CBR represent amounts deposited with the CBR. Credit institutions are required to maintain a non-interest earning cash deposits (obligatory reserves) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw such deposits is significantly restricted by the statutory legislation.

Amounts Due from Credit Institutions
Amounts due from credit institutions consist of deposits placed in other credit institutions that mature later than ninety days from the date of origination and are free from contractual encumbrances. Amounts due from credit institutions are initially recognized at cost which is the fair value of the consideration given and subsequently accounted for at amortized cost less allowance for impairment. As these placements of funds are typically unsecured extensions of credit, some of the assets may be impaired. The principles used to create an allowance for impairment on amounts due from credit institutions are the same as for loans to customers (see below).

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 consolidated statement of income as dealing gains less losses. Interest earned on trading securities is reported as interest income in the consolidated statement of income.

In determining estimated fair value, securities are valued at the last trade price if quoted on an exchange, or the last bid price if traded over-the-counter. When market prices are 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.

Investment Securities
The Group 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 Group as held-to-maturity or trading (see above) are included in the available-for-sale portfolio.

4. Summary of Accounting Policies (continued)

The Group classifies investment securities depending upon the intent of management at the time of the purchase. Shares of associates and subsidiaries held by the Group exclusively with a view to their future disposal are also classified as available-for-sale. Investment securities are initially recognized in accordance with the recognition of financial instruments policy and subsequently re-measured using the following policies:

1. Held-to-maturity investment securities – at amortized cost using the effective yield method. Provision for impairment is estimated on a case-by-case basis.

2. Available-for-sale investment securities are subsequently measured at fair value, which is equal to the market value as at the balance sheet date. When debt securities with fixed maturities are non-marketable or no information is available about the market value of similar instruments, fair value has been estimated as the discounted future cash flows using current interest rates. Non-marketable securities that do not have fixed maturities are stated at cost, less provision for impairment 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 consolidated statement of income as dealing gains less losses in the period that the change occurs.

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

Loans are placed on non-accrual status when full payment of principal or interest is in doubt (a loan with principal and interest unpaid for at least ninety days). When a loan is placed on non-accrual status, contractual interest income is not recognized in the consolidated statement of income. A non-accrual loan may be restored to accrual status when principal and interest amounts contractually due are reasonably assured of timely repayment.

Promissory Notes
The majority of promissory notes held by the Group are, in substance, equivalent to loans and any allowance for their impairment are assessed on the same basis. For promissory notes held as trading or investment securities, the Group applies the same accounting policies as for these categories of securities.

Provisions for Impairment of Financial Assets
The Group establishes the provisions for impairment 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 loans issued, held-to-maturity securities, and other financial assets, which are carried at cost and amortized cost. The provision for impairment of financial assets 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 instrument. For instruments that do not have fixed maturities, expected future cash flows are discounted using periods during which the Group expects to realize the financial instrument.

Provisions are based on the Group’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. Provisions for impairment of financial assets in the accompanying consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group 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 provisions for impairment of financial assets in future periods.

4. Summary of Accounting Policies (continued)

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

Tangible Fixed Assets
Tangible fixed assets are carried at cost less accumulated depreciation. Depreciation on assets under construction and those not placed in service commences from the date the assets are placed in service. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	50
Fixtures and equipment	5-7

The carrying amounts of tangible fixed assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment is recognized in the respective period and is included in administrative and other expenses.

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

Goodwill and Other Intangible Assets
The excess of the cost of an acquisition over the Group's interest in the fair value of the net identifiable assets acquired as of the date of the transaction is recorded as goodwill and recognized as an asset in the consolidated balance sheet. Goodwill is carried at cost less accumulated amortization and impairment losses. Goodwill is amortized on a straight-line basis over its useful life, which has been estimated as being 5 years.

Intangible assets are primarily represented by computer software and licences and are recognized at restated cost. Amortization is calculated on a straight-line basis over the estimated useful economic life of the asset. The economic lives are 1 to 10 years.

Intangible assets under development are not amortized. Amortization of these assets will begin when the related assets are placed in service.

Finance and Operating Leases

i. Finance - Group as lessor
Where the Group is the lessor, upon inception of a finance lease, the present value of the minimum lease payments and any unguaranteed residual value accruing to the Group less unearned finance income ("net investment in leases") is recorded as a separate line in the consolidated balance sheet. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are recognized as expenses when incurred.

The inception of a lease is considered to be the date of the lease agreement, or commitment if earlier. For purposes of this definition, a commitment should be in writing, signed by the parties with an interest in the transaction, and should specifically set forth the principal terms of the transaction. Any advance payments made by the lessee prior to commencement of the lease reduce net investment in leases. Finance income from leases is recorded within interest income in the consolidated statement of income. Investments in leases are carried net of any allowance for impairment.

ii. Operating - Group as lessee
Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under operating leases are recognized as expenses on a straight-line basis over the lease term and included in administrative expenses.

4. Summary of Accounting Policies (continued)

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 these amounts are stated at amortized cost and any difference between net proceeds and the redemption value is recognized over the period of the borrowings using the effective interest method. If the Group purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount of a liability and the consideration paid is included in net interest income.

Debt securities issued

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

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.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Russian Federation, of the cities in which the Bank has offices and branches and its subsidiaries are located and the countries in which the Bank has foreign subsidiaries. Deferred 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 tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized.

The carrying amount of the deferred 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 tax asset to be utilized. Deferred 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 the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

The Russian Federation also has various operating taxes, which are assessed on the Group’s activities. These taxes are included as a component of administrative expenses.

Share Capital and Dividends

Share capital and additional paid-in capital are recognised at restated cost. External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Dividends on ordinary shares are recognized as a reduction of shareholders’ equity in the period in which they are declared.

Income and Expense Recognition

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. The recognition of interest income is suspended when loans become overdue by more then ninety days. Interest income includes coupon income earned on investment and trading securities.

Commissions and other income are recognised when the related transactions are completed. Loan origination fees for loans issued to customers, when significant, are deferred (together with related direct costs) and recognized as an adjustment to the loans effective yield. Non-interest expenses are recognized at the time the transaction occurs.

Foreign Currency Translation

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

(Thousands of Russian Rubles)

4. Summary of Accounting Policies (continued)

Differences between the contractual exchange rate of a certain transaction and the CBR exchange rate on the date of the transaction are included in foreign exchange gains less losses. The official CBR exchange rates as of 31 December 2004 and 31 December 2003 were 27.7487 Russian Rubles and 29.4545 Russian Rubles to 1 US Dollar, respectively.

Repurchase and Reverse Repurchase Agreements
Repurchase and reverse repurchase agreements are utilized by the Group as an element of its treasury management and trading business.

Repurchase agreements are accounted for as financing transactions. As such, the related securities are recorded in the Group's accounts and the related payable is included as an amount due to credit institutions or customers. Any related expense arising from the pricing spreads for the underlying securities is recognized as interest expense and accrued over the period that the related transactions are open using the effective yield method.

Reverse repurchase agreements are accounted for as amounts due from credit institutions and loans to customers, respectively. Securities borrowed are not recognized in the consolidated financial statements.

Any related income or expense arising from the pricing spreads of the underlying securities is recognized as interest income or expense, accrued using the effective interest method, during the period that the related transactions are open.

Contingencies
Contingent liabilities are not recognized in the consolidated 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. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Reclassifications
Certain reclassifications have been made to 31 December 2003 amounts to conform to the current period presentation. Such reclassifications had no impact on net profit or shareholders' equity.

5. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	31 December 2004	**31 December 2003**
Cash on hand	1 873 438	1 804 490
Current accounts with the CBR	7 375 555	2 054 494
Current accounts with other credit institutions	698 527	488 525
Short term deposits with other credit institutions	4 236 053	585 449
Precious metals	1 780	35 333
Cash and cash equivalents	**14 185 353**	**4 968 291**

As of 31 December 2004 the Group had five borrowers with aggregated short term deposit amounts above RR 100 000 thousand each. The aggregate amount of these short term deposits is RR 4 190 741 thousand or 99% of the total short term deposits with other credit institutions (2003: RR 229 239 thousand or 39%).

Geographical and currency analyses of cash and cash equivalents are disclosed in Note 23. The estimated fair value of cash and cash equivalents is disclosed in Note 25. The information on related party balances is disclosed in Note 26.

(Thousands of Russian Rubles)

6. Trading Securities

Trading securities comprise:

	31 December 2004	31 December 2003
Corporate bonds	1 638 298	1 976 340
Municipal government bonds	1 619 039	2 756 948
Trading promissory notes	628 648	353 186
Federal bonds	357 505	289 586
Corporate shares	232 294	65 790
Corporate Eurobonds	177 731	200 696
Vnesheconombank bonds	2 609	3 060
Trading securities	**4 656 124**	**5 645 606**

Corporate bonds
Corporate bonds are marketable debt securities issued primarily by Russian companies. The bonds are purchased at a discount to face value and carry fixed quarterly coupons. The average annual coupon rate fluctuates from 4% to 16%. Coupons are paid two or four times a year depending on bond issuance terms. The bonds mature during the period starting from 2005 to 2009. As of 31 December 2003 corporate bonds with market value of RR 1 289 305 thousand were pledged under repurchase agreements. Corresponding liabilities to repurchase these securities are included in amounts due to credit institutions (Note 12).

Municipal government bonds
Municipal government bonds comprise registered government bonds of Moscow, St.Petersburg, regions of Volgograd, Yamalo-Nenetsk, Murmansk and Karelia. The bonds mature during the period starting from 2005 to 2014. The average annual coupon rate fluctuates from 9% to 15%.

Trading promissory notes
Trading promissory notes comprise debt securities issued by Russian companies which are purchased at a discount to face value. The average annual rate of return on such promissory notes is 21%.

Federal bonds
Federal bonds (OFZ) are Ruble-denominated government securities issued and guaranteed by the Ministry of Finance of the Russian Federation. The bonds are purchased at a discount to face value and have a floating or fixed coupon rate depending on the terms of issuance. The average annual coupon rate is 9%. The coupons are paid one or four times a year. Federal bonds mature during the period starting from 2007 to 2018.

Corporate shares
Corporate shares are marketable shares of Russian companies.

Corporate Eurobonds
Corporate Eurobonds are interest bearing securities denominated in USD issued by a large Russian company, Sibneft, and are freely tradable internationally. These bonds mature in 2007, have coupon rate of 11,5% and yield to maturity of 8% as at 31 December 2004.

As of 31 December 2004 corporate Eurobonds with market value of RR 177 731 thousand were pledged under repurchase agreements (2003: RR 200 696 thousand). Corresponding liabilities to repurchase these securities are included in amounts due to credit institutions (Note 12).

Vnesheconombank bonds
Vnesheconombank (VEB) bonds are USD denominated interest bearing securities, which carry the guarantee of the Ministry of Finance of the Russian Federation. The bonds are purchased at a discount to face value and carry a fixed annual coupon. The interest is paid twice a year, the average coupon rate for such securities is 3%. Vnesheconombank bonds mature in 2007.

(Thousands of Russian Rubles)

6. Trading Securities (continued)

Geographical, currency, maturity and interest rate analyses of trading securities are disclosed in Note 23. The estimated fair value of trading securities is disclosed in Note 25. The information on related party balances is disclosed in Note 26.

7. Held-to-Maturity Securities

Held-to-maturity securities are presented by the following debt securities:

	31 December 2004	31 December 2003
Promissory notes	8 336	488 873
Less - Allowance for impairment (Note 16)	-	(14 939)
Held-to-maturity securities	**8 336**	**473 934**

Geographical, currency, maturity and interest rate analyses of held-to-maturity securities are disclosed in Note 23. The estimated fair value of held-to-maturity securities is disclosed in Note 25. The information on related party balances is disclosed in Note 26.

8. Available-for-Sale Securities

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

	31 December 2004	31 December 2003
Promissory notes	101 676	-
Equity instruments	9 742	103 350
Less - Allowance for impairment (Note 16)	-	(2 785)
Available-for-sale securities	**111 418**	**100 565**

Promissory notes
Promissory notes as of 31 December 2004 represent mainly non-interest bearing notes of a large Russian bank, bought by the Bank at a discount or premium, and with maturity between 2005 and 2009.

Equity instruments
The equity instruments disclosed above are carried at cost, because they do not have a quoted market price in an active market and other methods of reasonably estimating fair value are unworkable due to the absence of comparable quoted companies and the lack of reliable information for discounted cash flow analysis. It is also currently impossible to calculate the range of estimates within which fair value of the equity investments is highly likely to lie.

As of 31 December 2003 included in available–for-sale securities are shares of JSC “Volgoprombank” in amount of RR 86 942 thousand which represents approximately 54% of its share capital. The Group did not consolidate JSC “Volgoprombank” as the control over the entity was intended to be temporary because shares of JSC “Volgoprombank” have been acquired and held exclusively with a view to subsequent disposal in the near future. In May 2004 the Group sold all above shares with no gain or loss to a related party that acted as an intermediary between the Group and a third party.

Geographical, currency, maturity and interest rate analyses of available-for-sale securities are disclosed in Note 23. The estimated fair value of available-for-sale securities is disclosed in Note 25. The information on related party balances is disclosed in Note 26.

(Thousands of Russian Rubles)

9. Loans to Customers

Loans to customers are made principally within the Russian Federation in the following industry sectors:

	31 December 2004	31 December 2003
Trading enterprises	2 791 800	2 789 197
Individuals	1 064 360	566 908
Manufacturing	919 226	1 685 576
Chemical and petrochemical	839 827	1 043 841
Engineering and metal processing	837 321	2 012 801
Financial intermediaries	540 465	624 550
Oil and gas	516 385	2 449 802
Energy	422 927	351 794
Construction	398 653	572 615
Agencies of state administrations	308 324	4 008 103
Transport	172 165	437 324
Pharmaceutics	3 034	18 095
Other	738 130	834 119
Loans to customers	**9 552 617**	**17 394 725**
Less – Allowance for impairment (Note 16)	(547 605)	(1 115 409)
Loans to customers (net of allowance for impairment)	**9 005 012**	**16 279 316**

As of 31 December 2004 the Group had six borrowers with aggregated loan amounts above RR 150 000 thousand each. The aggregate amount of these loans is RR 1 353 578 thousand or 14% of the gross loan portfolio (2003: RR 4 232 205 thousand or 24%).

As of 31 December 2004 the Group has entered into reverse repurchase agreements with certain companies. The subjects of these agreements are promissory notes issued by Russian companies with market value of RR 31 250 thousand (2003: RR 49 225 thousand). Refer to Note 6.

The Group's loan portfolio has been extended to the following types of enterprises:

	31 December 2004	31 December 2003
Private companies	7 754 917	11 886 372
Individuals	1 064 360	566 908
Regional state enterprises and local authorities	306 315	4 087 968
Federal state enterprises and federal authorities	255 083	575 794
Private entrepreneurs	171 942	277 683
Loans to customers	**9 552 617**	**17 394 725**

The aggregate amount of overdue loans as of 31 December 2004 is RR 669 755 thousand, the allowance for impairment created against overdue loans is RR 326 979 thousand (2003: RR 557 344 thousand and RR 507 761 thousand, respectively). Included in the aggregate amount of overdue loans as of 31 December 2004 are non-accrual loans with aggregate amount RR 437 998 thousand (2003: RR 497 248 thousand).

Loans to customers include promissory notes issued by third parties in the total (gross) amount of RR 276 417 thousand as of 31 December 2004 (2003: RR 121 649 thousand).

Geographical, currency, maturity and interest rate analyses of loans to customers are disclosed in Note 23. The information on related party balances is disclosed in Note 26.

(Thousands of Russian Rubles)

10. Tangible Fixed Assets

The movements of tangible fixed assets during 2004 and 2003 were as follows:

	Land and buildings	Fixture and equipment	Total
Cost			
31 December 2003	**195 553**	**674 153**	**869 706**
Additions	44 000	149 753	193 753
Disposals	(2 704)	(33 883)	(36 587)
31 December 2004	**236 849**	**790 023**	**1 026 872**
Accumulated depreciation			
31 December 2003	**8 218**	**295 285**	**303 503**
Charge for the period	4 269	88 707	92 976
Disposals	(828)	(22 076)	(22 904)
31 December 2004	**11 659**	**361 916**	**373 575**
Net book value			
31 December 2003	**187 335**	**378 868**	**566 203**
31 December 2004	**225 190**	**428 107**	**653 297**

11. Goodwill and Other Intangible Assets

The movements of goodwill and other intangible assets during 2004 and 2003 were as follows:

	Goodwill	Software and licences	Total
Costs of acquisition			
31 December 2003	**11 630**	**172 397**	**184 027**
Additions	-	23 871	23 871
31 December 2004	**11 630**	**196 268**	**207 898**
Accumulated amortization			
31 December 2003	**2 326**	**35 330**	**37 656**
Charge for the period	2 326	21 966	24 292
31 December 2004	**4 652**	**57 296**	**61 948**
Net book value			
31 December 2003	**9 304**	**137 067**	**146 371**
31 December 2004	**6 978**	**138 972**	**145 950**

(Thousands of Russian Rubles)

12. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	31 December 2004	31 December 2003
Correspondent accounts	870 443	726 262
Time deposits	154 098	1 218 284
Securities borrowed	138 279	1 458 320
Amounts due to credit institutions	**1 162 820**	**3 402 866**

Geographical, currency, maturity and interest rate analyses of amounts due to credit institutions are disclosed in Note 23. The estimated fair value of amounts due to credit institutions is disclosed in Note 25. The information on related party balances is disclosed in Note 26.

13. Amounts Due to Customers

Amounts due to customers comprise:

	31 December 2004	31 December 2003
Current accounts	19 023 667	14 743 447
Time deposits	3 233 747	3 192 773
Securities borrowed	-	68 670
Amounts due to customers	**22 257 414**	**18 004 890**

Amounts due to customers by industries comprise:

	31 December 2004	31 December 2003
Energy trade	9 297 329	4 204 987
Individuals	4 486 416	5 304 676
Trading enterprises	2 047 696	2 090 788
Oil and gas	1 738 455	1 426 475
Financial intermediaries	1 324 480	339 201
Manufacturing	1 005 390	1 859 213
Construction	616 579	614 421
Chemical and petrochemical	528 869	1 101 941
Transport	473 515	217 915
Other	738 685	845 273
Amounts due to customers	**22 257 414**	**18 004 890**

As of 31 December 2004 customer accounts of RR 22 121 thousand (2003 - RR 42 358 thousand) were held as colleteral for letters of credit (refer to Note 24).

As of 31 December 2004 customer accounts of RR 15 612 thousand (2003 - nil) were held as deposits of customers in respect of currency control requirements of the currency law.

(Thousands of Russian Rubles)

13. Amounts Due to Customers (continued)

As of 31 December 2004 customer accounts included current accounts of JSC ”Oil Company “YUKOS” and its related companies in the amount of RR 8 621 051 thousand, out of which RR 1 312 696 thousand are current accounts of a restricted nature. As of 31 December 2004 JSC “Oil Company “YUKOS” and its related companies were not related parties of the Group. As of 31 December 2004 the total amount of current accounts of a restricted nature included in customer accounts was RR 4 765 632 thousand.

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

	31 December 2004	31 December 2003
Private companies	17 429 841	12 139 107
Individuals	4 486 416	5 304 676
State companies and local authorities	341 157	492 437
Securities borrowed	-	68 670
Amounts due to customers	**22 257 414**	**18 004 890**

Geographical, currency, maturity and interest rate analyses of amounts due to customers are disclosed in Note 23. The estimated fair value of amounts due to customers is disclosed in Note 25. The information on related party balances is disclosed in Note 26.

14. Debt Securities Issued

Debt securities issued represent promissory notes and deposit certificates issued by the Group to customers and denominated in Rubles, US Dollars and Euros.

	31 December 2004	31 December 2003
Promissory notes	1 815 788	1 743 137
Deposit certificates	339 468	4 689 823
Debt securities issued	**2 155 256**	**6 432 960**

Geographical, currency, maturity and interest rate analyses of debt securities issued are disclosed in Note 23. The estimated fair value of debt securities issued is disclosed in Note 25. The information on related party balances is disclosed in Note 26.

15. Share Capital

The share capital of the Group has been contributed by shareholders in Rubles. Shareholders are entitled to dividends and capital distributions in Rubles.

As of 31 December 2004 the authorized number of shares is 677 000 000 of ordinary stock (with par value of 5 Rubles each) and 100 000 of preferred stock.

As of 31 December 2004 the Group has 294 538 047 ordinary shares issued, outstanding and fully paid by shareholders and no preferred stock issued.

(Thousands of Russian Rubles)

16. Provision for Impairment and Other Provisions

The movements in the provision for impairment for interest earning assets during 2004 and 2003 were as follows:

	Due from credit institutions	Loans to customers	Investment in leases	Held-to-maturity securities	Total
31 December 2002	**6 389**	**1 182 604**	**19 828**	**20 905**	**1 229 726**
Provision (recoveries)	(6 389)	(54 695)	24 218	(5 966)	(42 832)
Write-offs	-	(12 500)	-	-	(12 500)
31 December 2003	**-**	**1 115 409**	**44 046**	**14 939**	**1 174 394**
Recoveries of provisions	-	(513 555)	(34 965)	(14 939)	(563 459)
Write-offs	-	(54 249)	-	-	(54 249)
Disposal of subsidiary	-	-	(9 081)	-	(9 081)
31 December 2004	**-**	**547 605**	**-**	**-**	**547 605**

The movements in the provision for impairment for available-for-sale securities, other assets and provisions for other risks during 2004 and 2003 were as follows:

	Available-for-sale securities	Other assets	Other risks	Total
31 December 2002	**3 019**	**4 643**	**-**	**7 662**
Provision (recoveries)	(234)	1 163	79 375	80 304
31 December 2003	**2 785**	**5 806**	**79 375**	**87 966**
Provision (recoveries)	(2 785)	13 471	(59 382)	(48 696)
Write-offs		(1 083)		(1 083)
31 December 2004	**-**	**18 194**	**19 993**	**38 187**

Provisions for impairment are deducted from the related assets. Provisions for other risks are recorded as liabilities.

The estimated provision for impairment includes consideration of specific loss exposures identified with respect to individual credits as well as judgmental consideration of risk factors unique to the Bank's loan portfolio and the industry sector in which borrowers operate. Included in risk factors considered by the Bank in estimating the impairment provision are the concentration of loans to a limited number of borrowers, and the limited sources of liquidity in the market which reduces borrowers opportunity to obtain alternative financing.

In accordance with the Russian legislation, loans may only be written off with the approval of the Shareholders' Council and with the respective decision of the Court.

(Thousands of Russian Rubles)

17. Interest Income and Expense

	2004	2003
Interest income		
Loans to customers	1 732 925	3 625 689
Debt securities	491 651	1 021 061
Amounts due from credit institutions	179 285	143 871
Finance lease income	86 328	58 112
Total interest income	**2 490 189**	**4 848 733**
Interest expense		
Amounts due to customers	698 867	986 794
Debt securities issued	469 708	1 178 169
Amounts due to credit institutions	130 991	206 173
Total interest expense	**1 299 566**	**2 371 136**
Net interest income	**1 190 623**	**2 477 597**

18. Fee and Commission Income and Expense

	2004	2003
Fee and commission income		
Settlements operations	505 854	479 452
Cash operations	230 490	255 950
Currency control agent functions	29 917	25 726
Guarantees issued	26 096	28 192
Safekeeping and securities operations	6 724	37 806
Other	59 293	71 234
Fee and commission income	**858 374**	**898 360**
Fee and commission expense		
Settlements operations	105 467	112 796
Cash operations	32 140	34 115
Other	8 086	540
Fee and commission expense	**145 693**	**147 451**
Net fee and commission income	**712 681**	**750 909**

(Thousands of Russian Rubles)

19. Dealing gains less losses

	2004			2003		
	Fair value adjustment	**Sale and redemption**	**Total**	**Fair value adjustment**	**Sale and redemption**	**Total**
Trading securities	43 523	(1 716)	41 807	(30 505)	265 935	235 430
Precious metals	-	10 396	10 396	(8 935)	22 414	13 479
Dealing gains less losses	**43 523**	**8 680**	**52 203**	**(39 440)**	**288 349**	**248 909**

20. Salaries and Benefits and Administrative Expenses

	2004	**2003**
Salaries and employment benefits		
Salaries and other compensation	860 305	1 251 116
Social security costs	186 307	218 710
Other	58 627	27 867
Salaries and employment benefits	**1 105 239**	**1 497 693**
Administrative expenses		
Rental fees	225 920	172 002
Business development	124 547	242 628
Occupancy	113 743	136 108
Security	106 710	96 942
Communication	66 846	76 899
Operating taxes	45 233	179 086
Other	88 129	41 993
Administrative expenses	**771 128**	**945 658**

21. Taxation

Income tax expense comprises:

	2004	**2003**
Current tax expense	485 803	140 845
Deferred tax movement	41 105	111 499
Income tax expense	**526 908**	**252 344**

Russian legal entities must file individual tax declarations. The tax rate for banks for profits other than on state securities was 24% for 2004 and 2003. The tax rate for interest income on state securities is 15% for federal taxes. The tax rates for the Group's consolidated subsidiaries range from 4.25% to 10% based on the jurisdiction in which they are located.

(Thousands of Russian Rubles)

21. Taxation (continued)

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

	2004	2003
Profit before taxation	**855 977**	**1 035 119**
Statutory tax rate	24%	24%
Theoretical income tax expense at the statutory rate	**205 434**	**248 429**
Tax effect of items taxed in different jurisdictions	18 050	(83 404)
State securities income taxed at 15%	(21 459)	(27 408)
Change in unrecognized deferred tax assets	(127 789)	(26 281)
Non-deductible expenditures, net of non-taxable income	23 553	48 522
Provision for tax claims	435 749	-
Other permanent differences	(6 630)	92 486
Income tax expense	**526 908**	**252 344**

Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of deductible temporary differences. Deferred tax liabilities are the amounts of profit taxes payable in future periods in respect of taxable temporary differences. Deferred tax assets and liabilities comprise:

	2003	Disposal of subsidiaries	Recognized in consolidated statement of income	2004
Tax effect of deductible temporary differences				
Provision for impairment	162 387	(2 179)	(158 062)	2 146
Interest expense accrued	18 925	(48 924)	50 637	20 638
Depreciation of tangible and intangible assets	18 644	(7 772)	5 335	16 207
Adjustments to fair value	3 340	-	1 939	5 279
Other	346	-	3 490	3 836
Gross deferred tax assets	**203 642**	**(58 875)**	**(96 661)**	**48 106**
Unrecognized deferred tax assets	(129 968)	2 179	127 789	-
Deferred tax assets	**73 674**	**(56 696)**	**31 128**	**48 106**
Tax effect of taxable temporary differences				
Interest income accrued	(77 683)	-	77 683	-
Hyperinflationary impact on non-monetary assets	(13 930)	-	(33 905)	(47 835)
Capitalised expenses related to tangible assets	-	-	(18 267)	(18 267)
Other	-	55 779	(97 744)	(41 965)
Deferred tax liabilities	**(91 613)**	**55 779**	**(72 233)**	**(108 067)**
Net deferred tax liability	**(17 939)**	**(917)**	**(41 105)**	**(59 961)**

(Thousands of Russian Rubles)

21. Taxation (continued)

Tax assets and liabilities consist of the following:

	2004	2003
Current tax assets	144 337	111 744
Tax assets	**144 337**	**111 744**
Current tax liabilities	451 951	-
Deferred tax liabilities	59 961	17 939
Tax liabilities	**511 912**	**17 939**

The Russian Federation currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, profit tax, a number of turnover based taxes and social tax, together with others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations (like the Ministry of Taxes and Levies and its various inspectorates); thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Group is in full compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant.

As of 31 December 2004 the Group was engaged in litigation proceedings with tax authorities related to claims against the Bank to pay additional taxes and corresponding fines for the total amount of RR 726 249 thousand as the result of tax audits of the income tax periods of 2000, 2001 and 2002. The Bank has appealed these claims in court. Management believes that the Group has a supportable legal position, but there is a risk that tax authorities' view will prevail. As at 31 December 2004 the provision for potential tax liabilities of RR 435 749 thousand (2003: nil) in relation to these claims was recorded. Management believes that this provision is the best estimate of potential tax losses.

22. Reserves

The Group's distributable reserves are determined by the amount of its reserves as disclosed in the accounts of the Bank prepared in accordance with RAL. As of 31 December 2004 the statutory accounts of the Group disclosed distributable reserves of RR 1 298 271 thousand and non-distributable reserves of RR 97 532 thousand (2003: RR 1 228 866 thousand and RR 84 155 thousand, respectively).

Non-distributable reserves include the 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 Bank has created the general reserves to achieve an amount of not less than 15% of the Bank's share capital in accordance with the Bank's statutes by transferring not less than 5% of the net statutory income per year.

23. Risk Management Policies

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 fluctuations in interest rates and foreign exchange rates. A description of the Group's risk management policies in relation to those risks follows.

Credit Risk

The Group is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Group 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 segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by borrower and product are approved monthly by the Group's Assets and Liabilities Management Committee.

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 which is called 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 capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed 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 Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions.

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

(Thousands of Russian Rubles)

23. Risk Management Policies (continued)

The geographical concentration of the Group's assets and liabilities is set out below:

	2004				2003			
	Russia	**OECD**	**CIS and other countries**	**Total**	**Russia**	**OECD**	**CIS and other countries**	**Total**
Assets								
Cash and cash equivalents	9 541 200	4 591 446	52 707	14 185 353	4 314 386	624 227	29 678	4 968 291
Obligatory reserve with the CBR	591 355	-	-	591 355	2 138 564	-	-	2 138 564
Trading securities	4 517 234	138 890	-	4 656 124	5 645 606	-	-	5 645 606
Amounts due from credit institutions	5 312	-	-	5 312	15 621	29 480	-	45 101
Investment securities	119 754	-	-	119 754	573 794	705	-	574 499
Loans to customers	9 005 012	-	-	9 005 012	15 731 281	290	547 745	16 279 316
Investment in leases	-	-	-	-	481 306	-	-	481 306
All other assets	1 013 829	552	137 329	1 151 710	1 040 132	5 959	1 781	1 047 872
Total assets	**24 793 696**	**4 730 888**	**190 036**	**29 714 620**	**29 940 690**	**660 661**	**579 204**	**31 180 555**
Liabilities								
Amounts due to credit institutions	993 143	12 614	157 063	1 162 820	2 518 991	880 257	3 618	3 402 866
Amounts due to customers	21 783 811	341 834	131 769	22 257 414	17 832 531	24 292	148 067	18 004 890
Debt securities issued	1 315 735	10 009	829 512	2 155 256	6 246 383	-	186 577	6 432 960
All other liabilities	564 085	6 554	23 460	594 099	116 823	6 650	404	123 877
Total liabilities	**24 656 774**	**371 011**	**1 141 804**	**26 169 589**	**26 714 728**	**911 199**	**338 666**	**27 964 593**
Net balance sheet position	**136 922**	**4 359 877**	**(951 768)**	**3 545 031**	**3 225 962**	**(250 538)**	**240 538**	**3 215 962**

Market Risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Group manages market risks through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements

(Thousands of Russian Rubles)

23. Risk Management Policies (continued)

Currency Risk

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group'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 the Russian Federation. The Group's exposure to foreign currency exchange rate risk follows.

	2004			2003		
	Rubles	**Freely convertible**	**Total**	**Rubles**	**Freely convertible**	**Total**
Assets						
Cash and cash equivalents	9 183 261	5 002 092	14 185 353	3 682 178	1 286 113	4 968 291
Obligatory reserve with the CBR	591 355	-	591 355	2 138 564	-	2 138 564
Trading securities	3 918 359	737 765	4 656 124	4 607 489	1 038 117	5 645 606
Amounts due from credit institutions	5 312	-	5 312	5 312	39 789	45 101
Investment securities	119 030	724	119 754	573 794	705	574 499
Loans to customers	6 568 216	2 436 796	9 005 012	13 040 071	3 239 245	16 279 316
Investment in leases	-	-	-	221 254	260 052	481 306
All other assets	984 766	166 944	1 151 710	1 023 397	24 475	1 047 872
Total assets	**21 370 299**	**8 344 321**	**29 714 620**	**25 292 059**	**5 888 496**	**31 180 555**
Liabilities						
Amounts due to credit institutions	151 199	1 011 621	1 162 820	918 688	2 484 178	3 402 866
Amounts due to customers	16 148 767	6 108 647	22 257 414	13 958 204	4 046 686	18 004 890
Debt securities issued	1 251 539	903 717	2 155 256	6 211 503	221 457	6 432 960
All other liabilities	567 482	26 617	594 099	101 637	22 240	123 877
Total liabilities	**18 118 987**	**8 050 602**	**26 169 589**	**21 190 032**	**6 774 561**	**27 964 593**
Net balance sheet position	**3 251 312**	**293 719**	**3 545 031**	**4 102 027**	**(886 065)**	**3 215 962**
Net off-balance sheet position	**-**	**-**	**-**	**(1 252 499)**	**1 252 499**	**-**

Foreign currencies represent mainly US Dollar amounts but also include currencies from other OECD and non-OECD countries.

The off-balance sheet currency position represents the difference between the notional amounts of foreign currency derivative instruments, which are principally used to reduce the Group's exposure to currency movements, and their fair values reported on the balance sheet.

The Group has extended loans denominated in foreign currencies. Although these loans are generally funded by the same currencies, their appreciation against the Ruble can adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

(Thousands of Russian Rubles)

23. Risk Management Policies (continued)

Liquidity Risk

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

Maturity grouping of monetary assets and liabilities based on the remaining period at the balance date to the contractual maturity date (except for trading securities) was as follows.

	2004							
	On demand	**Less than 1 month**	**1 to 3 month**	**3 month to 1 year**	**1 to 5 years**	**Over 5 years**	**Overdue / No stated maturity**	**Total**
Assets								
Cash and cash equivalents	9 956 612	4 228 741	-	-	-	-	-	14 185 353
Obligatory reserve with the CBR	464 486	42 296	24 151	46 785	6 404	7 233	-	591 355
Trading securities	4 656 124	-	-	-	-	-	-	4 656 124
Amounts due from credit institutions	-	-	-	-	-	5 312	-	5 312
Investment securities	-	9 742	-	92 000	18 012	-	-	119 754
Loans to customers	50 586	1 295 013	2 140 968	3 417 851	1 084 625	673 193	342 776	9 005 012
Tax assets	-	-	-	144 337	-	-	-	144 337
Other assets	189 204	18 922	-	-	-	-	-	208 126
Total assets	**15 317 012**	**5 594 714**	**2 165 119**	**3 700 973**	**1 109 041**	**685 738**	**342 776**	**28 915 373**
Liabilities								
Amounts due to credit institutions	865 792	146 206	-	-	150 822	-	-	1 162 820
Amounts due to customers	14 273 649	1 031 903	757 754	1 085 410	30 662	312 404	4 765 632	22 257 414
Debt securities issued	183 435	651 166	286 761	937 995	95 479	420	-	2 155 256
Tax liabilities	-	-	-	451 951	59 961	-	-	511 912
Other liabilities	-	41 847	23 908	16 432	-	-	-	82 187
Total liabilities	**15 322 876**	**1 871 122**	**1 068 423**	**2 491 788**	**336 924**	**312 824**	**4 765 632**	**26 169 589**
Net position	**(5 864)**	**3 723 592**	**1 096 696**	**1 209 185**	**772 117**	**372 914**	**(4 422 856)**	**2 745 784**
Accumulated liquidity gap	**(5 864)**	**3 717 728**	**4 814 424**	**6 023 609**	**6 795 726**	**7 168 640**	**2 745 784**	

(Thousands of Russian Rubles)

23. Risk Management Policies (continued)

	2003							
	On demand	**Less than 1 month**	**1 to 3 month**	**3 month to 1 year**	**1 to 5 years**	**Over 5 years**	**Overdue / No stated maturity**	**Total**
Assets								
Cash and cash equivalents	4 382 842	528 084	57 365	-	-	-	-	4 968 291
Obligatory reserve with the CBR	-	1 446 783	226 392	373 753	90 020	1 616	-	2 138 564
Trading securities	5 645 606	-	-	-	-	-	-	5 645 606
Amounts due from credit institutions	-	-	39 789	-	5 312	-	-	45 101
Investment securities	100 565	-	7 056	189 074	277 804	-	-	574 499
Loans to customers	89 405	2 010 338	4 551 233	7 619 841	1 612 952	345 964	49 583	16 279 316
Tax assets	-	-	-	111 744	-	-	-	111 744
Investment in leases	-	20 839	46 143	190 059	224 265	-	-	481 306
Other assets	10 056	16 814	56 148	140 536	-	-	-	223 554
Total assets	**10 228 474**	**4 022 858**	**4 984 126**	**8 625 007**	**2 210 353**	**347 580**	**49 583**	**30 467 981**
Liabilities								
Amounts due to credit institutions	726 262	2 395 866	87 454	177 057	16 227	-	-	3 402 866
Amounts due to customers	14 743 447	1 012 150	1 027 668	1 202 059	18 093	1 473	-	18 004 890
Debt securities issued	357 840	419 285	1 559 361	3 068 898	1 010 587	16 989	-	6 432 960
Tax liabilities	-	-	-	-	17 939	-	-	17 939
Other liabilities	-	74 037	21 775	10 126	-	-	-	105 938
Total liabilities	**15 827 549**	**3 901 338**	**2 696 258**	**4 458 140**	**1 062 846**	**18 462**	**-**	**27 964 593**
Net position	**(5 599 075)**	**121 520**	**2 287 868**	**4 166 867**	**1 147 507**	**329 118**	**49 583**	**2 503 388**
Accumulated liquidity gap	**(5 599 075)**	**(5 477 555)**	**(3 189 687)**	**977 180**	**2 124 687**	**2 453 805**	**2 503 388**	

The maturity of the loan portfolio shows the remaining period from the balance sheet date to the contractual maturity, except for loans held for sale as to which the maturity is shown as less than one month. Long-term credits 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. Accordingly, the effective maturity of a loan portfolio may be longer than indicated by the classification based on contractual terms.

As disclosed in Note 13, at 31 December 2004 amounts due to customers include current accounts of a restricted nature in amount of RR 4 765 632 thousand.

While trading securities are shown as on demand, realizing such assets is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects.

As of 31 December 2004 the contractual maturities of trading securities were: RR 232 293 thousand in “No stated maturity”, RR 30 465 thousand in “On demand”, RR 210 471 thousand in “Less than one month”, RR 534 043 thousand in “From 1 to 3 month”, RR 449 259 thousand in “From 3 month to 1 year”, RR 2 921 796 thousand in “From 1 to 5 years”, RR 277 797 thousand in “Over 5 years”.

As of 31 December 2003 the contractual maturities of trading securities were: RR 65 790 thousand in “No stated maturity”, RR 1 044 063 thousand in “Less than one month”, RR 471 118 thousand in “From 1 to 3 month”, RR 709 481 thousand in “From 3 month to 1 year”, RR 3 115 136 thousand in “From 1 to 5 years”, RR 240 018 thousand in “Over 5 years”.

(Thousands of Russian Rubles)

23. Risk Management Policies (continued)

Interest Rate Risk

The Group 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 Group's expected repricing and maturity dates do not differ significantly from the contractual 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 Group'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.

The Group's interest rate policy is reviewed and approved by the Group's Assets and Liabilities Management Committee. As of 31 December the effective average interest rates by currencies for interest earning/bearing monetary financial instruments were as follows:

	2004		**2003**	
	Rubles	**Freely convertible**	**Rubles**	**Freely convertible**
Trading securities	10.3%	4.9%	10.9%	6.2%
Amounts due from credit institutions	0.5%	2.3%	10.0%	1.0%
Investment securities	10.1%	-	7.2%	-
Loans to customers	15.5%	12.2%	16.1%	12.4%
Amounts due to credit institutions	0.0%	3.5%	6.4%	5.8%
Amounts due to customers	3.2%	2.8%	9.9%	7.4%
Debt securities issued	6.6%	7.4%	13.0%	7.6%

24. Commitments and Contingencies

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. In addition, as of 31 December 2004 the Group was engaged in litigation proceedings with tax authorities as described in Note 21. Management believes that it has made adequate provision in respect of these matters.

Insurance

The Group has not currently obtained insurance coverage related to property owned, except for certain premises and vehicles, nor liabilities arising from errors or omissions.

Credit related commitments

The credit related financial commitments comprise:

	31 December 2004	**31 December 2003**
Undrawn loan commitments	2 636 234	5 515 030
Guarantees	712 820	1 687 152
Letters of credit	681 055	114 359
Total financial commitments	**4 030 109**	**7 316 541**
Less - Cash security held as security against letters of credit	(22 121)	(42 358)
Total financial commitments, net of cash security held	**4 007 988**	**7 274 183**

(Thousands of Russian Rubles)

24. Commitments and Contingencies (continued)

In the normal course of business, the Group makes commitments to grant loans at a specified rate of interest during a fixed period of time. Substantially all loan contracts contain clauses that set out certain conditions including changes in market rates, under which the interest rate could be reconsidered or possibility to draw the loan could be cancelled. Therefore such undrawn loan commitments were not treated as options issued by the Bank to borrowers to obtain loans at a specified interest rates.

Operating lease commitments
In the normal course of business, the Group enters into operating lease agreements for office equipment and premises. After 31 December 2004 and 2003 future minimum payments under non-cancellable operating leases are as follows:

	31 December 2004	31 December 2003
Not later than 1 year	71 261	143 203
Later than 1 year but not later than 5 years	167 455	120 902
Later than 5 years	139 995	93 325
Total operating lease commitments	**378 711**	**357 430**

25. Fair Value of Financial Instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Bank’s financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and 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 table summarizes the carrying amounts and fair values of the Group's financial assets and liabilities:

	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	14 185 353	14 185 353	4 968 291	4 968 291
Obligatory reserve with the CBR	591 355	591 355	2 138 564	2 138 564
Trading securities	4 656 124	4 656 124	5 645 606	5 645 606
Amounts due from credit institutions	5 312	5 312	45 101	45 101
Held-to-maturity securities	8 336	8 336	473 934	445 016
Available-for-sale securities	111 418	111 418	100 565	100 565
Investment in leases	-	-	481 306	481 306
Amounts due to credit institutions	1 162 820	1 162 820	3 402 866	3 402 866
Amounts due to customers	22 257 414	22 257 414	18 004 890	18 006 219
Debt securities issued	2 155 256	2 155 256	6 432 960	6 438 422

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

Cash and cash equivalents and Obligatory reserves with the CBR
For liquid instruments, the carrying amount is a reasonable estimate of fair value. Reserve deposits with the Central Bank of the Russian Federation are non-interest bearing and are estimated to mature as the underlying deposits and other balances in respect of which those deposits are maintained mature. As the underlying deposits and other balances are relatively short-term in nature, the carrying value of these reserve deposits is a reasonable estimate of their fair value.

25. Fair Values of Financial Instruments (continued)

Trading securities
Trading securities are stated at fair value. The fair value of trading securities is determined with reference to an active market.

Amounts Due from and Due to Credit Institutions
For assets maturing within one month, 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.

Held-to-maturity securities
The fair value of held-to-maturity securities is based on discounted cash flows using effective yield method.

Available-for-sale securities
Available-for-sale securities are represented by marketable securities and unquoted equity shares. The total carrying amount of these securities approximates their fair values.

Amounts Due to Customers
For balances maturing within one month, 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.

Debt securities issued
Debt securities issued are issued at interest rates approximate to market rates and consequently the carrying amount of certified debts is a reasonable estimate of their fair value.

Loans to Customers
The fair value of 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 impairment 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. Due to the lack of liquidity and published "indicator interest rates" in the Russian markets, it is not possible to reliably estimate the fair value of loans.

26. Related Party transactions

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

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

(Thousands of Russian Rubles)

26. Related party transaction (continued)

As of 31 December 2004 and 2003 the Group had the following transactions outstanding with related parties:

	2004		2003	
	Related party transactions, gross of provisions	**Total category**	**Related party transactions, gross of provisions**	**Total category**
Cash and cash equivalents	1 839	14 185 353	121 008	4 968 291
Trading securities	276 763	4 656 124	6 076	5 645 606
Due from credit institutions	5 312	5 312	5 312	45 101
Held-to-maturity investment securities	8 336	8 336	488 873	488 873
Available-for-sale securities	102 080	111 418	1 418	103 350
Loans to customers	680 618	9 552 617	1 634 952	17 394 725
Due to credit institutions	464 506	1 162 820	1 506 273	3 402 866
Amounts due to customers	764 577	22 257 414	3 194 006	18 004 890
Debt securities issued	1 106	2 155 256	4 506 898	6 432 960
Credit related commitments given	-	4 030 109	67 119	7 316 541
Guarantees received	-	5 836 719	5 475 589	18 689 131

It is the policy of the Bank to conduct all transactions with related parties under terms consistent with those applied to other counter parties. In the opinion of management, the majority of the transactions above were entered into under normal commercial and banking terms and conditions.

The existing accounting system of the Bank does not accumulate the amounts of income and expenses from related party transactions. Management of the Bank believes that the majority of these amounts are proportionate to the average balances of the corresponding balance sheet captions.

The significant change in outstanding balances with the related parties in 2004 in comparison with 2003 is due to change in shareholders (Note 1).

27. Principal Consolidated Subsidiaries

The consolidated financial statements include the financial statements of the Bank and the following subsidiaries:

Name	**Country**	**% Equity interest as of 31 December 2004 and 2003**
TIB Holding S.A. (formerly MENATEP Finance S.A.)	Switzerland	100%
Fiennes Investments Limited	Cyprus	100%
TIB Financial Services Limited (formerly MSPB Financial Services Limited)	Cyprus	100%

TIB Holding S.A. (formerly MENATEP Finance S.A.) is a closed joint stock company under the laws of Switzerland. The company's principal activity is providing financial and administrative services, consulting and trust activities.

Fiennes Investments Limited is a closed joint stock company under the laws of Cyprus. The company's principal activity is international trading and investments. The company has permission of the Central Bank of Cyprus for financial operations except for the following: (a) assuming any obligations to the public; (b) professional trustee activity; and (c) providing any financial services other than to its shareholders and the Group's companies.

TIB Financial Services Limited (formerly MSPB Financial Services Limited) is a closed joint stock company under the laws of Cyprus. The company's principal activity is financial services and investments.

(Thousands of Russian Rubles)

28. Disposal of subsidiaries

Disposal of CJSC "Regionservice" and LLC "Dana Plus Group"

On 10 November 2004 the Group disposed of 100% of the share capital of CJSC "Regionservice" and LLC "Dana Plus Group". The disposed subsidiaries contributed operating loss of RR 33 795 thousand to the Group for the period from 1 January 2004 to 10 November 2004. The details of the assets and liabilities disposed and disposal consideration are as follows:

	10 November 2004
Cash and cash equivalents	27 166
Net investments in leases	318 928
Fixed assets	13 090
Tax assets	13 053
Other assets	351 178
Amounts due to credit institutions	(310 482)
Amounts due to customers	(68 127)
Tax liabilities	(12 137)
Other liabilities	(352 997)
Total carrying amount of net liabilities disposed	**(20 328)**
Total disposal consideration	40
Less: fair value of receivable arising on disposal	(40)
Less: cash and cash equivalents in subsidiary disposed	(27 166)
Cash outflow on disposal	**(27 166)**

The Group has recorded gain from disposal of subsidiaries in the amount of RR 20 368 thousand.