VOZROZHDENIYE BANK

Consolidated Financial Statements and Auditors' Report

31 December 2004

Contents

PRICEWATERHOUSECOOPERS

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AUDITORS' REPORT

To the Supervisory Council of Vozrozhdeniye Bank:

1 We have audited the accompanying consolidated balance sheet of Vozrozhdeniye Bank and its subsidiary (the "Bank" as defined in Note 1 to the consolidated financial statements) as at 31 December 2004, and the related consolidated statements of income, of cash flows and of changes in shareholders' equity 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.

2 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 Management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at 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.

Moscow, Russian Federation
24 May 2005

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(in millions of Russian Roubles)

	Note	2004	2003 (restated)
Assets			
Cash and cash equivalents	5	3 964	5 464
Mandatory cash balances with the Central Bank of the Russian Federation		579	1 548
Trading securities	6	523	325
Due from other banks	7	946	413
Loans and advances to customers	8	22 055	16 753
Other assets	9	869	585
Premises and equipment	10	1 691	1 687
Total assets		**30 627**	**26 775**
Liabilities			
Due to other banks	11	323	93
Customer accounts	12	24 414	22 465
Debt securities in issue	13	2 187	877
Other liabilities		274	523
Subordinated loans	15	698	469
Exchangeable convertible preference shares	16	127	123
Total liabilities		**28 023**	**24 550**
Minority interest		**-**	**65**
Shareholders' equity			
Share capital	16	4 371	4 371
Share premium	16	1 610	1 610
Revaluation reserve		-	26
Accumulated deficit	17	(3 377)	(3 847)
Total shareholders' equity		**2 604**	**2 160**
Total liabilities and shareholders' equity		**30 627**	**26 775**

Approved for issue on 24 May 2005.

D.L. Orlov
President

A.A. Novikova
Chief Accountant

(in millions of Russian Roubles)

	Note	2004	2003 (restated)
Interest income	18	3 528	2 227
Interest expense	18	(1 474)	(1 094)
Net interest income		**2 054**	**1 133**
Provision for loan impairment	8	(467)	(307)
Net interest income after provision for loan impairment		**1 587**	**826**
Gains less losses arising from securities		38	119
Gains less losses arising from investment securities held to maturity		-	139
Gains less losses arising from trading in foreign currencies		87	141
Fee and commission income	19	1 048	717
Fee and commission expense	19	(65)	(49)
Losses on origination of assets at rates below market	8	(15)	-
Gains on origination of liabilities at rates below market	15	33	-
Other operating income		162	182
Operating income		**2 875**	**2 075**
Operating expenses	20	(2 258)	(1 823)
Losses resulting from restructuring of other borrowed funds	14	-	(149)
Gains from disposal of subsidiary	28	17	-
Losses from disposal of loans and advances to customers	8	(111)	-
Profit before tax		**523**	**103**
Income tax expense	21	(50)	(20)
Profit after tax		**473**	**83**
Minority interest		(17)	6
Net profit		**456**	**89**
Basic earnings per share (expressed in RR per share)	**22**	**27**	**6**
Diluted earnings per share (expressed in RR per share)	**22**	**25**	**6**

(in millions of Russian Roubles)

	Note	2004	2003
Cash flows from operating activities			
Interest received		3 525	2 168
Interest paid		(1 400)	(1 020)
Net income received from dealing in trading securities		30	117
Income received from trading in foreign currencies		87	141
Fees and commissions received		1 050	683
Fees and commissions paid		(65)	(49)
Other operating income received		144	86
Operating expenses paid		(2 130)	(1 432)
Income tax paid		(14)	(2)
Cash flows from operating activities before changes in operating assets and liabilities		**1 227**	**692**
Changes in operating assets and liabilities			
Net decrease/(increase) in mandatory cash balances with the Central Bank of the Russian Federation		969	(561)
Net (increase)/decrease in trading securities		(208)	929
Net (increase)/decrease in due from other banks		(553)	956
Net increase in loans and advances to customers		(6 173)	(8 481)
Net increase in other assets		(176)	(28)
Net increase/(decrease) in due to other banks		233	(993)
Net increase in customer accounts		2 220	11 790
Net increase/(decrease) in debt securities in issue		1 331	(384)
Net decrease in other liabilities		(260)	(80)
Net cash (used in)/from operating activities		**(1 390)**	**3 840**
Cash flows from investing activities			
Acquisition of investment securities available for sale		(53)	-
Proceeds from disposal of investment securities available for sale		9	23
Proceeds from disposal of investment securities held to maturity		-	1 098
Acquisition of premises and equipment	10	(276)	(306)
Dividend income received		16	4
Net cash (used in)/from investing activities		**(304)**	**819**
Cash flows from financing activities			
Issue of ordinary shares	16	-	990
Repayment of CBRF stabilisation loans	14	-	(450)
Repayment of credit facilities from Ministry of Finance of the RF	14	-	(1 098)
Receipt of subordinated loan	15	290	-
Dividends paid	23	(12)	(9)
Net cash from/(used in) financing activities		**278**	**(567)**
Effect of exchange rate changes on cash and cash equivalents		**(84)**	**(80)**
Net (decrease)/increase in cash and cash equivalents		**(1 500)**	**4 012**
Cash and cash equivalents as at the beginning of the year		5 464	1 452
Cash and cash equivalents as at the end of the year	5	**3 964**	**5 464**

Note: The effect of the revaluation of foreign currency balances was eliminated from the above consolidated statement of cash flows. The effect of fair value adjustments was eliminated from the above consolidated statement of cash flows.

(in millions of Russian Roubles)

	Share capital	Share premium	Revaluation reserve	Accumulated Deficit (restated)	Total shareholders' equity (restated)
Balance at 31 December 2002 (restated) (Note 3)	**4 316**	**675**	**-**	**(3 946)**	**1 045**
Revaluation of premises and equipment, net of taxation, related to subsidiary	-	-	26	-	26
Net profit for the year (restated) (Note 3)	-	-	-	89	89
Share issue (Note 16)					
- Nominal value	55	-	-	-	55
- Share premium	-	935	-	-	935
Other movements (Note 28)	-	-	-	19	19
Dividends declared and paid on ordinary and preference shares (Note 23)	-	-	-	(9)	(9)
Balance at 31 December 2003 (restated)	**4 371**	**1 610**	**26**	**(3 847)**	**2 160**
Disposal of subsidiary	-	-	(26)	26	-
Net profit for the year	-	-	-	456	456
Dividends declared and paid on ordinary and preference shares (Note 23)	-	-	-	(12)	(12)
Balance at 31 December 2004	**4 371**	**1 610**	**-**	**(3 377)**	**2 604**

1 Principal Activities

These consolidated the financial statements include the financial statements of Vozrozhdeniye Bank (OAO) (the "Bank") and the results of its former subsidiary, Moscow Reinsurance Company (the "Company") for the first six months of 2004 up to the date of cessation of consolidation of the Company by the Bank in June 2004. Starting from 1 July 2004 the Company was included into these consolidated financial statements as an associate. The Bank and its subsidiary together are referred to as "the Bank" (refer to Note 28).

The Bank is an open joint stock commercial bank owned by shareholders whose liability is limited. It has operated under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 1991. The Bank's principal business activity is commercial and retail banking operations within the Russian Federation. In April 2004 the Bank applied for participation in the state deposit insurance scheme, which was introduced by the Federal Law No.177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. In October 2004 the Bank was inspected by the CBRF to assess its compliance with the criteria set for the state deposit insurance scheme and in accordance with the decision of the CBRF, the Bank was accepted to the state deposit insurance scheme on December 2004.

As at 31 December 2004 the Bank had 59 (2003: 59) branches within the Russian Federation, the majority of which are in Moscow and Moscow region. The Bank's Head office is located at the following address: Luchnikov pereulok, 7/4, Moscow, Russia, 101999. The number of the Bank's employees as at 31 December 2004 was 4 506 (2003: 4 195).

Moscow Reinsurance Company is a limited liability company registered in the Russian Federation in 1996. The principal activity of the Company is provision of reinsurance services within the Russian Federation. The Company operates under a reinsurance license issued by the Ministry of Finance of the Russian Federation. As at 31 December 2004 the Bank owned 20% (2003: 61%) of the Company (refer to Note 28).

As at 31 December 2004 550 000 (2003: 550 000) ordinary shares of the Bank were circulating at the international exchange markets through Level One American Depository Receipts (ADR). Refer to Note 16.

2 Operating Environment of the Bank

Whilst there have been improvements in economic trends in the country, the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

The banking sector in the Russian Federation is particularly sensitive to adverse fluctuations in confidence and economic conditions. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in the Russian Federation.

In 2004, following a general fall in confidence in the Russian banking system, the Russian banking sector experienced a reduction in liquidity. Management cannot predict possible effects of further significant deteriorations, if any, in the liquidity or confidence in the Russian banking system. Refer to Note 25 for description of policies and practices that Management has in place to address financial risks of the Bank.

3 Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Bank maintains its accounting records in accordance with Russian banking, insurance and accounting regulations. These consolidated financial statements have been prepared from those accounting records and adjusted as necessary in order to be in accordance with IFRS.

These consolidated financial statements have been measured and presented in the national currency of the Russian Federation, Russian Roubles ("RR"). 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. Accounting for the effects of hyperinflation prior to 1 January 2003 is detailed in Note 4.

(in millions of Russian Roubles)

3 Basis of Preparation (Continued)

The preparation of these consolidated financial statements requires the use of estimates and assumptions that effect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

In 2004 the Bank has early adopted IAS 8 (Revised) "Accounting Policies, Changes in Accounting Estimates and Errors" ("IAS 8"). The 2003 consolidated financial statements have been amended as required, in accordance with the relevant requirements.

As at 31 December 2004 the Bank did not apply the following standards, which have been issued, but were not yet in effect.

IAS 1 (revised 2003)	Presentation of Financial Statements
IAS 10 (revised 2003)	Events after the Balance Sheet Date
IAS 16 (revised 2003)	Property, Plant and Equipment
IAS 17 (revised 2003)	Leases
IAS 21 (revised 2003)	The Effect of Changes in Foreign Exchange Rates
IAS 24 (revised 2003)	Related Party Disclosures
IAS 27 (revised 2003)	Consolidated and Separate Financial Statements
IAS 28 (revised 2003)	Investments in Associates
IAS 31 (revised 2003)	Interests in Joint Ventures
IAS 32 (revised 2003)	Financial Instruments: Disclosure and Presentation
IAS 33 (revised 2003)	Earning per Share
IAS 39 (revised 2003)	Financial Instruments: Recognition and Measurements
IAS 40 (revised 2003)	Investment Property
IFRS 2 (issued 2004)	Share-based Payments
IFRS 3 (issued 2004)	Business Combinations
IAS 36 (revised 2003)	Impairment of Assets
IAS 38 (revised 2003)	Intangible Assets
IFRS 5 (issued 2004)	Non-current Assets Held for Sale and Discontinued Operations

All the above standards are effective from 1 January 2005.

Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current year.

Restatement of prior period financial data. The consolidated financial statements of the Bank for the year ended 31 December 2003 prepared in accordance with IFRS contained a mathematical error, which necessitated a restatement in accordance with IAS 8 and IAS 16 "Property, Plant and Equipment". This mathematical error was revealed in the process of implementation of a new system with more detailed accounting for premises and equipment. Accumulated depreciation of premises and equipment as at 31 December 2003 and 31 December 2002 was overstated by RR 158 million. As a result of this restatement the following adjustments have been made to the consolidated financial statements of the Bank as at 31 December 2003 and 31 December 2002:

31 December 2003	**Balance sheet item/Statement of income item as previously reported**	**Adjustment**	**Balance sheet item/Statement of income item as restated**
Premises and equipment	1 529	158	1 687
Accumulated deficit	(4 005)	158	(3 847)
Shareholder's equity	2 002	158	2 160
Income tax expense	(45)	25	(20)
Net profit	64	25	89

31 December 2002	**Balance sheet item/Statement of income item as previously reported**	**Adjustment**	**Balance sheet item/Statement of income item as restated**
Deferred tax liability	-	(31)	(31)
Accumulated deficit	(4 079)	133	(3 946)
Shareholder's equity	912	133	1 045

4 Significant Accounting Policies

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Bank, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over financial and operating policies. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Bank controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Bank and are removed from consolidation from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Intercompany transactions, balances and unrealised gains on transactions between the Bank and its subsidiaries are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

Minority interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Minority interest in the consolidated balance sheet is recorded separate from liabilities and shareholders' equity and is affected by the foreign currency translation adjustment applicable to the minority shareholders' interest in the subsidiary. Minority interest related to the net results of the current year is recorded in the consolidated statement of income.

Associates. Associates are entities over which the Bank has between 20% and 50% of the voting rights, or over which the Bank has significant influence, but which it does not control. Investments in associates are accounted for using the equity method of accounting. Under this method, the Bank's share of the post-acquisition profits or losses of associates is recorded in the consolidated statement of income (within other income), and its share of post-acquisition movements in reserves is recorded in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investments. Unrealised gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Bank's investment in associates includes goodwill (net of accumulated amortisation) on acquisition. The Bank's investment in associates is included within other assets in these consolidated financial statements. When the Bank's share of losses in an associate equals or exceeds its interest in the associate, the Bank does not recognise further losses unless the Bank has incurred obligations or made payments on behalf of the associate.

Cash and cash equivalents. Cash and cash equivalents are items, which can be converted into cash within one business day. All short term interbank placements, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Mandatory cash balances with the CBRF. Mandatory cash balances with the CBRF represent mandatory reserve deposits which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated cash flow statement.

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio, in which a pattern of short-term trading exists. The Bank classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within 1 year.

Trading securities are initially recorded at cost (which includes transaction costs) and subsequently remeasured at fair value based on their market value or after the application of various valuation methodologies, including assumptions as to the future realisability of these securities. In determining market value, all trading securities are valued at the last bid price.

All related realized and unrealised gains and losses are recorded within gains less losses arising from trading securities in the consolidated statement of income in the period, in which the change occurs. Interest earned on trading securities is reflected in the consolidated statement of income within interest income. Dividends received are included in dividend income within other operating income.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Bank commits to purchase or sell the asset. Otherwise such transactions are treated as derivative instruments until settlement occurs.

4 Significant Accounting Policies (Continued)

Originated loans and advances and provisions for loan impairment. Loans originated by the Bank by providing money directly to the borrower, other than those that are originated with the intent of being sold immediately or in the short-term which are recorded as trading assets, are categorised as originated loans.

Originated loans and advances are recorded when cash is advanced to borrowers. Initially, originated loans and advances are recorded at cost, which is the fair value of the consideration given, and subsequently are carried at amortised cost less provision for loan impairment. Amortised cost is based on the fair value of cash consideration given to originate those loans determinable by reference to market prices at origination date. Third party expenses, such as legal fees incurred in securing a loan are treated as part of the cost of the transaction.

Loans originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar loans. The difference between the fair value and the nominal value at origination is credited or charged to the consolidated statement of income as gains on origination of assets at rates above market or losses on origination of assets at rates below market. Subsequently, the carrying amount of such loans is adjusted for amortisation of the gains/losses on origination and the related income is recorded as interest income within the consolidated statement of income using the effective yield method.

A credit risk provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect the amounts due according to original contractual terms. The amount of the provision is the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the instrument's original effective interest rate.

The provision for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings assigned to the borrowers and reflect the current economic environment, in which the borrowers operate.

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the consolidated statement of income.

If the amount of the provision for loan impairment subsequently decreases due to an event occurring after the write-down, the release of the provision decreases the amount of provision for loan impairment for the year in the consolidated statement of income.

The Bank does not enter into transactions for purchases of loans with third parties.

Financial results from disposal of originated loans and advances are calculated as the difference between the carrying amount of the originated loan and its net selling price. Financial result of disposal is disclosed in "Losses from disposal of loans and advances to customers" in the consolidated statement of income.

Other credit related commitments. In the normal course of business, the Bank enters into other credit related commitments, including letters of credit and guarantees. Specific provisions are recorded against other credit related commitments when losses are considered probable.

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

Investment securities available for sale. This classification includes investment securities which Management intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Management determines the appropriate classification of its investment securities at the time of purchase.

Investment securities available for sale are initially recorded at cost (which includes transaction costs) and subsequently remeasured to fair value based on quoted bid prices. Certain investment securities available for sale for which there is no available external independent quotation have been fair valued by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies. Investment securities available for sale are included in other assets within the consolidated balance sheet. Realised and unrealised gains and losses arising from changes in the fair value of investment securities available for sale are included in the consolidated statement of income in the period in which they arise.

4 Significant Accounting Policies (Continued)

Interest earned on investment securities available for sale is reflected in the consolidated statement of income within interest income. Dividends received are included in other operating income within the consolidated statement of income.

All regular way purchases and sales of investment securities available for sale are recorded at trade date, which is the date that the Bank commits to purchase or sell the asset. All other purchases and sales are recorded as derivative forward transactions until settlement.

Investment securities held to maturity. This classification includes investment securities with fixed maturity, which Management has both the intent and the ability to hold to maturity. Management determines the appropriate classification of its investment securities at the time of the purchase.

Investment securities held to maturity are initially recorded at cost (which includes transaction costs) and subsequently are carried at amortised cost, using the effective yield method, less any provision for impairment, calculated as the difference between the carrying amount and the present value of expected future cash flows discounted at the instrument's original effective interest rate.

Interest earned whilst holding investment securities held to maturity is recorded in the consolidated statement of income within interest income.

All regular way purchases of investment securities held to maturity are recorded at trade date, which is the date that the Bank commits to purchase the asset. All other purchases are recorded as derivative forward transactions until settlement.

Premises and equipment. Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble as at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required.

Premises and equipment of subsidiaries are initially recorded in the consolidated balance sheet at their estimated fair value at the date of commencement of consolidation.

Construction in progress is carried at cost, restated to the equivalent purchasing power of the Russian Rouble as at 31 December 2002 for assets acquired prior to 1 January 2003, less provision for impairment, where required. Upon completion, assets are transferred to premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

At each reporting date the Bank assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, the Bank estimates the recoverable amount, which is determined as the higher of an asset's net selling price or its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the consolidated statement of income, unless it has previously been revalued, in which case the revaluation surplus is eliminated first and any additional loss is charged in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and are taken into account in determining profit/(loss). Repairs and maintenance are charged to the consolidated statement of income when the expenditure is incurred.

Depreciation. Depreciation is applied on a straight line basis over the estimated useful lives of the assets, using the following rates:

Premises 2% per annum; and

Office and computer equipment 15-20% per annum.

Operating leases. Where the Bank is the lessee, the total lease payments, including those on expected termination, are charged by the lessee to the consolidated statement of income on a straight-line basis over the period of the lease.

4 Significant Accounting Policies (Continued)

Borrowings, including convertible preference shares. Borrowings are recorded initially at "cost", being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the consolidated statement of income over the period of the borrowings, using the effective yield method.

Borrowings originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar borrowings. The difference between the fair value and the nominal value at origination is credited or charged to the consolidated statement of income as gains on origination of liabilities at rates below market or losses on origination of liabilities at rates above market. Subsequently, the carrying amount of such borrowings is adjusted for amortization of the gains/losses on origination and the related expense is recorded as interest expense within the consolidated statement of income, using the effective yield method.

Convertible preference shares that may be exchanged with the Bank for debt are classified as financial liabilities. Dividends on these preference shares are recognised in the consolidated statement of income as interest expense on an amortised cost basis, using the effective yield method.

If the Bank purchases its own debt, this debt is removed from the consolidated balance sheet and the difference between the carrying amount of a liability and the consideration paid is included in gains/(losses) resulting from restructuring of debt in the consolidated statement of income.

Debt securities in issue. Debt securities in issue include promissory notes and certificates of deposit issued by the Bank. Debt securities in issue are recorded initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, debt securities in issue are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the consolidated statement of income over the period of the security issue, using the effective yield method.

If the Bank purchases its own debt securities in issue, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains/(losses) resulting from restructuring of debt in the consolidated statement of income.

Accrued interest income and accrued interest expense. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount, are included in the carrying values of related balance sheet items.

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

Preference shares. Preference shares that are not redeemable and upon which dividends are declared as stated in the Charter, are classified as equity.

Dividends. Payments of dividends are recorded as the movement in consolidated statement of shareholders' equity in the period, in which they are declared. Dividends declared after the balance sheet date are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

Income taxes. Taxation has been provided for in the consolidated financial statements in accordance with Russian legislation currently in force. The income tax charge in the consolidated statement of income the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the year, using the tax rates enacted at the balance sheet date. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recorded to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax asset is included in other assets within the consolidated balance sheet. Deferred tax liabilities are included in other liabilities within the consolidated balance sheet.

4 Significant Accounting Policies (Continued)

Income and expense recognition. Interest income and expense are recorded in the consolidated statement of income for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment option) but does not consider future credit losses. The calculation includes all fees and points paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recorded based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Loan commitment fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recorded as an adjustment to the effective interest on the loan. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recorded on completion of the underlying transaction.

Foreign currency translation. Transactions denominated in foreign currency are recorded at the official CBRF exchange rate ruling on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the consolidated statement of income, using the official CBRF exchange rate ruling on that date.

Monetary assets and liabilities denominated in foreign currency are translated into Russian Roubles at the official exchange rate of the CBRF at the consolidated balance sheet date. Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange translation gains and losses. Translation differences on non-monetary items such as equity securities held for trading or available for sale are recorded as part of the fair value gain or loss.

As at 31 December 2004 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 27.7487 (2003: USD 1 = 29.4545). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a freely convertible currency in most countries outside of the Russian Federation.

Derivative financial instruments. Derivative financial instruments including foreign exchange contracts, deliverable forward agreements on precious metals and other derivative financial instruments are initially recorded in the consolidated balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, or using the spot rate at the year end as the basis as appropriate. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivative instruments are included in gains less losses arising from trading in foreign currencies and other operating income depending on the related contracts.

Fiduciary assets. Assets and liabilities held by the Bank in its own name, but on the account of third parties, are not reported on the consolidated balance sheet. Commissions received from such business are shown in fee and commission income within the consolidated statement of income.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention of the parties involved to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). Accordingly, prior to 1 January 2003 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the Russian Rouble in accordance with IAS 29.

(in millions of Russian Roubles)

4 Significant Accounting Policies (Continued)

IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. IFRS indicates that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

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. Accordingly, the amounts expressed in the measuring unit current at as 31 December 2002 are treated as the basis for the carrying amounts in these consolidated financial statements.

The restatement was calculated, using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992. The CPI used to restate the consolidated financial statements is based on 1988 prices using 100 as the base index. The CPI for the five years ended 31 December 2002 and the respective conversion factors are the following:

	CPI	Conversion Factor
1998	1 216 400	2.2444
1999	1 661 481	1.6432
2000	1 995 937	1.3679
2001	2 371 572	1.1512
2002	2 730 154	1.0000

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

Staff costs and related contributions. The Bank's contributions to the Russian Federation state pension and social insurance in respect of the salary of its employees are expensed as incurred and included into staff costs.

Segment reporting. A segment is a distinguishable component of the Bank that is engaged either in providing products or services within a particular economic environment (geographical segment) or in providing products or services (business segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten per cent or more of all the segments are reported separately. Geographical segments of the Group have been reported separately within these consolidated financial statements based on the domicile of the Bank's branches.

5 Cash and Cash Equivalents

	2004	2003
Cash on hand	2 039	1 451
Cash balances with the CBRF (other than mandatory reserve deposits)	921	2 768
Correspondent accounts and overnight placements with other banks		
- Russian Federation	29	15
- Other countries	975	1 230
Total cash and cash equivalents	**3 964**	**5 464**

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 25. The information on related party balances is disclosed in Note 29.

(in millions of Russian Roubles)

6 Trading Securities

	2004	2003
Corporate bonds	201	5
Corporate shares	163	145
Corporate Eurobonds	153	-
Municipal bonds	6	109
Municipal Eurobonds	-	42
VneshEconomBank 3% coupon bonds (VEB bonds)	-	24
Total trading securities	**523**	**325**

Corporate bonds are interest bearing securities denominated in RR, issued by large Russian companies. These bonds mature in 2006 and 2007, have an annual coupon rates of approximately 8% to 16% and a yield to maturity from 9% to 16% as at 31 December 2004.

Corporate shares are liquid publicly traded shares of Russian companies denominated in RR.

Corporate Eurobonds are interest bearing securities denominated in USD, issued by large Russian companies, and are freely tradable internationally. These bonds have maturity dates from September 2009 to April 2014, coupon rate of approximately 7% to 9% and a yield to maturity from 7% to 9% as at 31 December 2004.

Municipal bonds are interest bearing securities denominated in RR, issued by Russian municipal authorities. These bonds mature in 2009 (2003: maturity 2006), have an annual coupon rate of 11% (2003: 17%) and yield to maturity of 9% (2003: 15%).

Geographical, currency, maturity and interest rate analyses of trading securities are disclosed in Note 25.

The Bank has unlimited licenses as a professional participant of the securities market issued by the Federal Commission on Securities Markets of the Russian Federation.

7 Due from Other Banks

	2004	2003
Current term placements with other banks	946	389
Reverse sale and repurchase agreements with other banks	-	24
Total due from other banks	**946**	**413**

As at 31 December 2003 securities purchased under reverse sale and repurchase agreements were municipal and corporate bonds with a fair value of RR 24 million.

As at 31 December 2004 the estimated fair value of due from other banks was RR 946 million (2003: RR 413 million). Refer to Note 27.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 25.

8 Loans and Advances to Customers

	2004	2003
Current loans	22 730	16 667
Overdue loans	781	1 129
Less: Provision for loan impairment	(1 456)	(1 043)
Total loans and advances to customers	**22 055**	**16 753**

(in millions of Russian Roubles)

8 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment are as follows:

	2004	2003
Provision for loan impairment as at 1 January	**1 043**	**745**
Provision for loan impairment during the year	467	307
Loans and advances to customers written off during the year as uncollectable	(54)	(9)
Provision for loan impairment as at 31 December	**1 456**	**1 043**

Economic sector risk concentrations within the customer loan portfolio are as follows:

	2004		2003	
	Amount	%	Amount	%
Manufacturing	7 740	33	4 778	27
Trade	4 343	18	2 913	16
Government bodies and municipal authorities of the Russian Federation	2 805	12	1 796	10
Construction	2 264	10	1 615	9
Finance	1 424	6	3 708	21
Agricultural	1 395	6	1 101	6
Transport	1 057	4	483	3
Individuals	883	4	364	2
Other	1 600	7	1 038	6
Total loans and advances to customers (aggregate amount)	**23 511**	**100**	**17 796**	**100**

Included in loans to customers as at 31 December 2003 were loans issued mainly to government bodies and municipal authorities of the Russian Federation in the amount of RR 1 429 million. These loans were financed from funds attracted from Moscow Region authorities in the amount of RR 1 198 million. Refer to Note 12. The contractual maturity of these loans was January 2004 and the annual interest rate was 15-19% p.a. These loans were repaid at maturity.

At 31 December 2004 the Bank had 14 borrowers with aggregated loan amounts to each borrower above RR 240 million (2003: 19 borrowers with aggregated loan amounts above RR 200 million). The total aggregate amount of these loans is RR 5 528 million or 24% of the gross loan portfolio (2003: RR 6 757 million or 38% of the loan portfolio).

In March 2004 the Bank sold to a third party part of a loan issued to a Russian resident customer and incurred a loss of RR 111 million.

During 2004 a loss on origination of loans and advances to customers issued at rates below market in the amount of RR 15 million (2003: nil) has been recorded in the consolidated statement of income.

As at 31 December 2004 the estimated fair value of loans and advances to customers was RR 22 055 million (2003: RR 16 753 million). Refer to Note 27.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 25. The information on related party balances is disclosed in Note 29.

(in millions of Russian Roubles)

9 Other Assets

	Note	2004	2003
Trade debtors and prepayments		205	127
Investment securities available for sale		167	221
Investment in associate		140	-
Settlements on letters of credit		133	-
Plastic cards receivables		119	47
Deferred tax asset	21	9	-
Debtors on reinsurance operations		-	118
Other		96	72
Total other assets		**869**	**585**

Geographical, currency and maturity analyses of other assets are disclosed in Note 25.

10 Premises and Equipment

	Note	Premises	Office and computer equipment (restated)	Construction in progress	Total (restated)
Net book amount as at 31 December 2003 (restated)		**1 231**	**395**	**61**	**1 687**
Book amount					
Opening balance		1 424	1 376	61	2 861
Disposal of subsidiary		(88)	(17)	-	(105)
Additions		15	228	33	276
Transfers		50	-	(50)	-
Disposals		(28)	(79)	-	(107)
Closing balance		**1 373**	**1 508**	**44**	**2 925**
Accumulated depreciation (restated)					
Opening balance		193	981	-	1 174
Disposal of subsidiary		(1)	(6)	-	(7)
Depreciation charge	20	28	117	-	145
Disposals		-	(78)	-	(78)
Closing balance		**220**	**1 014**	**-**	**1 234**
Net book amount as at 31 December 2004		**1 153**	**494**	**44**	**1 691**

Construction in progress consists mainly of construction of the Bank’s branch premises. Upon completion, assets are transferred to premises.

(in millions of Russian Roubles)

11 Due to Other Banks

	2004	2003
Correspondent accounts and overnight placements of other banks	7	64
Current term placements of other banks	316	29
Total due to other banks	**323**	**93**

As at 31 December 2004 the estimated fair value of due to other banks was RR 323 million (2003: RR 93 million). Refer to Note 27.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 25.

12 Customer Accounts

	2004	2003
State and public organisations		
- Current/settlement accounts	340	3 380
Other legal entities		
- Current/settlement accounts	6 584	4 776
- Term deposits	2 472	3 804
Individuals		
- Current/demand accounts	3 521	2 532
- Term deposits	11 497	7 973
Total customer accounts	**24 414**	**22 465**

Economic sector concentrations within customer accounts are as follows:

	2004		2003	
	Amount	%	Amount	%
Individuals	15 018	62	10 505	47
Trade	3 954	17	1 325	6
Manufacturing	2 780	12	4 249	19
Finance	845	3	1 991	9
Construction	582	2	270	1
Government bodies and municipal authorities of the Russian Federation	340	1	3 380	15
Agriculture	121	0	105	0
Other	774	3	640	3
Total customer accounts	**24 414**	**100**	**22 465**	**100**

Included in customer accounts as at 31 December 2003 are the funds on current account of the Ministry of Finance of Moscow Region in the amount of RR 1 198 million attracted to finance loans mainly to government bodies and municipal authorities of the Russian Federation. Refer to Note 8.

As at 31 December 2004 the Bank has 3 customers with balances equal or above RR 240 million. The aggregate balances of these customers is RR 2 632 million or 11% of total customer accounts. As at 31 December 2003 the Bank had 12 customers with balances equal or above RR 200 million. The aggregate balances of these customers is RR 6 521 million or 29% of total customer accounts.

As at 31 December 2004 the estimated fair value of customer accounts was RR 24 414 million (2003: RR 22 465 million). Refer to Note 27.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 25. The information on related party balances is disclosed in Note 29.

(in millions of Russian Roubles)

13 Debt Securities in Issue

	2004	2003
Promissory notes	1 458	751
Deposit certificates	729	126
Total debt securities in issue	**2 187**	**877**

As at 31 December 2004 the estimated fair value of debt securities in issue was RR 2 187 million (2003: RR 877 million). Refer to Note 27.

Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 25.

14 Other Borrowed Funds

CBRF stabilisation loans. In January and February 2003 the Bank fully repaid stabilization loan. The Bank received two stabilisation loans totaling RR 1 250 million (non-inflated) from the CBRF during 1998-1999 for the purpose of improving the financial and liquidity position of the Bank in post 1998 crisis period.

Credit facilities from the Ministry of Finance of the RF. During 2002 the Ministry of Finance of the Russian Federation, which acted as an agent in providing credit facilities, has restructured the terms of repayment and the amount of credit line facilities granted to the Bank by the International and European Banks for Reconstruction and Development (IBRD and EBRD) to finance the Housing Construction Project and the Financial Institutions Development Program (FIDP).

In November 2003 the Bank sold these credit line facilities to an unrelated party for RR 1 098 million. The amortised cost of these credit line facilities at the date of disposal was RR 949 million and the sale resulted in loss of RR 149 million recorded in the consolidated statement of income.

15 Subordinated Loans

Subordinated loans represent long-term deposits of customers of the Bank, which mature in 2010 to 2012 and bear contractual interest rates ranging from 2.25% to 8%. In 2004 the Bank and its counterparty renegotiated the terms of the subordinated loan obtained at an interest rate of 2.25% - its initial maturity of 2006 was extended to 2011. Consequently the Bank applied the derecognition rules and recorded income of RR 33 million (2003: nil) on new financial liability. In July 2004 the Bank received an additional subordinated loan in the amount of USD 10 000 thousand which matures in July 2012 and bears a contractual interest rate of 8%.

Under the terms of the subordinated loans, in the event of liquidation of the Bank, the repayment of these loans is subordinated to all other creditors of the Bank.

As at 31 December 2004 the estimated fair value of subordinated loans was RR 698 million (2003: RR 500 million). Refer to Note 27.

Geographical, currency, maturity and interest rate analyses of subordinated loans are disclosed in Note 25.

(in millions of Russian Roubles)

16 Share Capital, Share Premium and Convertible Preference Shares

Authorised, issued and fully paid share capital of the Bank comprises:

	2004			2003		
	Number of shares	**Nominal amount**	**Inflation adjusted amount**	**Number of share**	**Nominal amount**	**Inflation adjusted amount**
Ordinary non-documentary shares	16 748 753	167	4 297	16 748 753	167	4 297
Preference non-documentary shares with fixed dividend	1 294 505	13	60	1 294 505	13	60
Preference convertible non-documentary shares	1 999 941	20	33	1 999 941	20	33
Less: exchangeable convertible preference shares recorded as liabilities	(1 176 470)	(12)	(19)	(1 176 470)	(12)	(19)
Total share capital	**18 866 729**	**188**	**4 371**	**18 866 729**	**188**	**4 371**

All ordinary shares have a nominal value of RR 10 per share, rank equally and carry one vote.

In the third quarter of 2003 the Bank issued 5 500 000 ordinary shares with a nominal value of RR 10 per share and at price of RR 180 per share. The Bank received contributions into share capital and share premium in the amount of RR 55 million and RR 935 million respectively.

The movement in share capital and share premium during 2003 is, as follows:

	Number of shares	**Share capital**	**Share premium**
As at 1 January 2003	**13 366 729**	**4 316**	**675**
Share issue	5 500 000	55	935
As at 31 December 2003	**18 866 729**	**4 371**	**1 610**

Preference shares with fixed dividend and convertible preference shares have a nominal value of RR 10 and do not carry voting rights at the General Shareholders' Meeting (GSM), except for the cases stipulated by the Charter of the Bank.

Preference shares with fixed dividend give the holder the right to receive an annual fixed dividend of 20% p.a. of its nominal value. The actual amount of the dividend is to be approved by the GSM. The GSM can decide on non-payment of dividends or on partial payment of dividends. If dividends are not declared, the preference shareholders with fixed dividend obtain the right to vote as common shareholders until such time that the dividend is paid.

In accordance with the Bank's Charter, the convertible preference must be converted into ordinary shares not earlier than five years from the date of registration of the preference shares' issue report (29 March 2000). The conversion will be performed on the following basis: 1 convertible preference share will be converted into 1 ordinary share. In 2005 these convertible preference shares were converted into ordinary shares. Refer to Note 30.

Included in convertible preference shares are 1 176 470 of exchangeable convertible preference shares issued to Canadian Imperial Bank of Commerce ("CIBC"). In accordance with an agreement between the Bank and CIBC dated March 2000, the Bank has agreed to exchange these preference shares into long-term (six year) debt instruments in 2005 at a price of USD 5.10 per share. According to the agreement these should be repaid by the Bank in equal installments during the six years following the date of exchange. CIBC has the right to sell the exchangeable convertible preferred shares to third parties. In the event of such sale, the exchange agreement with the Bank expires. In accordance with IFRS these exchangeable convertible preference shares are recorded in the consolidated balance sheet as a liability and are carried at amortized cost. In 2005 these convertible preference shares were converted into ordinary shares. Refer to Note 30.

(in millions of Russian Roubles)

16 Share Capital, Share Premium and Convertible Preference Shares (Continued)

As at 31 December 2004 the carrying value of exchangeable convertible preference shares recorded as liabilities was RR 127 million (2003: RR 123 million), while the estimated fair value of exchangeable convertible preference shares recorded as liabilities was RR 135 million (2003: RR 134 million). Refer to Note 27. The information on related party balances is disclosed in Note 29.

As at 31 December 2004 550 000 (2003: 550 000) ordinary shares of the Bank were circulating at the international exchange markets through Level One American Depository Receipts (ADR). One ADR corresponds to one ordinary share of the Bank with nominal value RR 10. The Bank of New York is the issuer of the ADRs.

17 Accumulated Deficit

In accordance with Russian legislation, the Bank allocates profits as dividends or transfers them to reserves (fund accounts) on the basis of statutory accounting reports prepared in accordance with Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules as at 31 December 2004 are RR 886 million (2003: RR 505 million).

18 Interest Income and Expense

	2004	2003
Interest income		
Loans and advances to customers	3 450	2 046
Trading securities	47	127
Due from other banks and correspondent accounts and overnight placement with other banks	31	54
Total interest income	**3 528**	**2 227**
Interest expense		
Term deposits of individuals	(981)	(632)
Current/settlement accounts	(149)	(59)
Term deposits of legal entities	(143)	(151)
Debt securities in issue	(137)	(103)
Subordinated loans	(48)	(41)
Exchangeable convertible preference shares	(11)	(11)
Current term placements of other banks	(5)	(28)
Other borrowed funds	-	(69)
Total interest expense	**(1 474)**	**(1 094)**
Net interest income	**2 054**	**1 133**

(in millions of Russian Roubles)

19 Fee and Commission Income and Expense

	2004	2003
Fee and commission income		
Commission on cash transactions	296	214
Commission on plastic cards and cheques settlements	295	173
Commission on settlement transactions	277	213
Commission on cash collection	29	24
Commission on guarantees issued	22	21
Other	129	72
Total fee and commission income	**1 048**	**717**
Fee and commission expense		
Commission on cash transactions	(27)	(25)
Commission on settlement transactions	(20)	(15)
Other	(18)	(9)
Total fee and commission expense	**(65)**	**(49)**
Net fee and commission income	**983**	**668**

20 Operating Expenses

	Note	2004	2003
Staff costs		1 384	956
Administrative expenses		331	286
Depreciation of premises and equipment	10	145	132
Taxes other than on income		99	99
Rent expenses		84	101
Other expenses related to premises and equipment		74	94
Other		141	155
Total operating expenses		**2 258**	**1 823**

21 Income Taxes

Income tax expense comprises the following:

	2004	2003 (restated)
Current tax charge	46	58
Deferred taxation movement due to origination and reversal of temporary differences	(9)	(25)
Deferred tax recorded directly to equity	13	(13)
Income tax expense for the year	**50**	**20**

(in millions of Russian Roubles)

21 Income Taxes (Continued)

The income tax rate applicable to the majority of the Bank's income is 24% (2003: 24%). A reconciliation between the expected and the actual taxation charge is provided below.

	2004	2003 (restated)
IFRS profit before tax	**523**	**103**
Theoretical tax charge at the applicable statutory rate (2004: 24%; 2003: 24%)	126	25
Tax effect of items, which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	(56)	(63)
- Non-deductible expenses	47	25
- Other non temporary differences	(18)	(16)
(Recovery of)/provision for additional tax charge	(49)	49
Income tax expense for the year	**50**	**20**

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24% (2003: 24%), except for income on state securities that is taxed at 15% (2003: 15%).

	2002 (restated)	Movement (restated)	2003 (restated)	Disposal of subsidiary	Movement	2004
Tax effect of deductible temporary differences						
Provision for loan impairment	109	37	146	-	(29)	117
Fair valuation of trading securities	102	(90)	12	-	(4)	8
Fair valuation of investment securities available for sale	6	-	6	-	(6)	-
Accruals	2	(2)	-	-	-	-
Other	-	17	17	(13)	1	5
Gross deferred tax asset	**219**	**(38)**	**181**	**(13)**	**(38)**	**130**
Tax effect of taxable temporary differences						
Premises and equipment	(151)	(10)	(161)	13	71	(77)
Fair valuation of investment securities available for sale	-	-	-	-	(20)	(20)
Restructuring credit facilities from Ministry of Finance of the RF	(99)	99	-	-	-	-
Other	-	(26)	(26)	6	(4)	(24)
Gross deferred tax liability (restated)	**(250)**	**63**	**(187)**	**19**	**47**	**(121)**
Total net deferred tax assets/(liability)	**(31)**	**25**	**(6)**	**6**	**9**	**9**

The net deferred tax asset represents income taxes recoverable through future revenues and is recorded on the consolidated balance sheet within other assets.

(in millions of Russian Roubles)

22 Earnings per Share

Basic earnings per share are calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

	2004	2003 (restated)
Net profit attributable to shareholders	456	89
Less: dividends on preference shares	(4)	(4)
Net profit attributable to ordinary shareholders	**452**	**85**
Weighted average number of ordinary shares in issue (millions)	16.7	13.5
Basic earnings per share (expressed in RR per share)	**27**	**6**

For calculation of the diluted earnings per share the weighted number of shares outstanding as at the year-end is adjusted to assume conversion of all potential dilutive shares. The Bank's convertible preference shares with a nominal value of 10 RR per share (Note 16) should be converted into ordinary shares in 2005. The basis of conversion is 1 preference share to 1 ordinary share. Refer to Note 30.

In the diluted earnings per share calculation all convertible preference shares are assumed to have been converted into ordinary shares.

	2004	2003
Net profit attributable to shareholders	456	89
Less: dividends on preference shares	(4)	(4)
Plus: interest expenses on exchangeable convertible preference shares recorded as liabilities, net of taxation	8	8
Net profit attributable to ordinary shareholders	**460**	**93**
Weighted average number of ordinary shares in issue (millions)	16.7	13.5
Adjustment for assumed conversion of convertible preference shares (millions)	2.0	2.0
Weighted average number of ordinary shares for diluted earnings per share (millions)	**18.7**	**15.5**
Diluted earnings per share (expressed in RR per share)	**25**	**6**

23 Dividends

	2004		2003	
	Ordinary	Preference	Ordinary	Preference
Dividends payable as at 1 January	-	-	-	-
Dividends declared during the year	8	4	5	4
Dividends paid during the year	(8)	(4)	(5)	(4)
Dividends payable as at 31 December	-	-	-	-

All dividends are declared and paid in Russian Roubles.

(in millions of Russian Roubles)

24 Analysis by Segment

The Bank's primary format for reporting segmental information is geographical segment and the secondary format is business segment as the Bank's risks and rates of return are affected predominantly by the fact that it operates in different regions of the Russian Federation.

Geographical segments. Segment information for the main geographical segments of the Bank is set out below for the year ended 31 December 2004:

2004	Head office	Central branch	Branches of Moscow region	Other branches	Unallocated	Total
External revenues	314	1 070	2 069	1 460	-	4 913
External costs	(1 094)	(697)	(1 679)	(920)	-	(4 390)
Profit before tax	(780)	373	390	540	-	523
Income tax expense	-	-	-	-	(50)	(50)
Profit after tax	(780)	373	390	540	(50)	473
Minority interest	-	-	-	-	(17)	(17)
Net profit	**(780)**	**373**	**390**	**540**	**(67)**	**456**
Segment assets	**2 974**	**7 799**	**13 786**	**6 068**	**-**	**30 627**
Segment liabilities	**638**	**7 060**	**13 981**	**6 344**	**-**	**28 023**
Credit related commitments	978	275	936	1 494	-	3 683
Capital expenditure	42	16	151	67	-	276

Business segments. Segment information for the main business segments of the Bank is set out below for the year ended 31 December 2004:

2004	Corporate banking	Retail banking	Other	Total
External revenues	**4 238**	**414**	**261**	**4 913**
Segment assets	**25 359**	**1 239**	**4 029**	**30 627**
Segment liabilities	**11 583**	**15 018**	**1 422**	**28 023**
Credit related commitments	3 683	-	-	3 683
Capital expenditure	-	-	276	276

Comparative information for 2003 is not presented as it is impracticable to do so due to the absence of relevant information.

25 Financial Risk Management

The risk management function in the Bank is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimize operational and legal risks.

Credit risk. The Bank takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay all amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to a quarterly or more frequent review. Limits on the level of credit risk by product, borrower and industry sector are approved quarterly by the Board of Directors and the Assets and Liabilities Management Committee.

(in millions of Russian Roubles)

25 Financial Risk Management (Continued)

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

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

The Bank's maximum exposure to credit risk is primary reflected in the carrying amounts of financial assets on the consolidated balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Board of Directors and the Assets and Liabilities Management Committee set limits on the value of risk that may be accepted, which is monitored on a regular basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Geographical risk. The geographical concentration of the Bank's consolidated assets and liabilities as at 31 December 2004 is set out below:

	Russia	**OECD***	**Non OECD**	**Total**
Assets				
Cash and cash equivalents	2 989	966	9	3 964
Mandatory cash balances with the CBRF	579	-	-	579
Trading securities	523	-	-	523
Due from other banks	838	66	42	946
Loans and advances to customers	21 793	100	162	22 055
Other assets	722	133	14	869
Premises and equipment	1 691	-	-	1 691
Total assets	**29 135**	**1 265**	**227**	**30 627**
Liabilities				
Due to other banks	305	16	2	323
Customer accounts	24 103	-	311	24 414
Debt securities in issue	1 600	-	587	2 187
Other liabilities	274	-	-	274
Subordinated loans	337	-	361	698
Exchangeable convertible preference shares	-	127	-	127
Total liabilities	**26 619**	**143**	**1 261**	**28 023**
Net balance sheet position	**2 516**	**1 122**	**(1 034)**	**2 604**
Credit related commitments (Note 26)	**3 515**	**168**	**-**	**3 683**

* OECD - Organization for Economic Cooperation and Development.

(in millions of Russian Roubles)

25 Financial Risk Management (Continued)

The geographical concentration of the Bank's consolidated assets and liabilities as at 31 December 2003 is set out below:

	Russia (restated)	OECD	Non OECD	Total
Net balance sheet position (restated)	**3 099**	**1 105**	**(1 979)**	**2 225**
Credit related commitments (Note 26)	**2 896**	**-**	**-**	**2 896**

Currency risk. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors and the Assets and Liabilities Management Committee set limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored on a daily basis. The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2004. Included in the table are the Bank's consolidated assets and liabilities at carrying amounts, categorised by currency. As at 31 December 2004, the Bank has the following positions in currencies:

	RR	USD	Euro	Other currencies	Total
Assets					
Cash and cash equivalents	2 464	1 099	367	34	3 964
Mandatory cash balances with the CBRF	579	-	-	-	579
Trading securities	370	153	-	-	523
Due from other banks	602	344	-	-	946
Loans and advances to customers	16 473	5 345	237	-	22 055
Other assets	612	117	124	16	869
Premises and equipment	1 691	-	-	-	1 691
Total assets	**22 791**	**7 058**	**728**	**50**	**30 627**
Liabilities					
Due to other banks	305	3	15	-	323
Customer accounts	17 175	6 395	832	12	24 414
Debt securities in issue	1 514	669	4	-	2 187
Other liabilities	260	8	6	-	274
Subordinated loans	-	698	-	-	698
Exchangeable convertible preference shares	-	127	-	-	127
Total liabilities	**19 254**	**7 900**	**857**	**12**	**28 023**
Net balance sheet position	**3 537**	**(842)**	**(129)**	**38**	**2 604**
Credit related commitments (Note 26)	**2 941**	**318**	**414**	**10**	**3 683**
Off-balance sheet net notional position (Note 26)	**(1 060)**	**1 022**	**38**	**6**	**6**

(in millions of Russian Roubles)

25 Financial Risk Management (Continued)

At 31 December 2003, the Bank had the following positions in currencies:

	RR (restated)	USD	Euro	Other currencies	Total
Net balance sheet position (restated)	**4 351**	**(2 095)**	**(55)**	**24**	**2 225**
Credit related commitments (Note 26)	**2 416**	**228**	**252**	**-**	**2 896**
Off-balance sheet net notional position (Note 26)	**(1 960)**	**1 964**	**-**	**-**	**4**

The Bank has extended loans and advances denominated in foreign currencies. Depending on the revenue stream of the borrower, the appreciation of the currencies against the Russian Rouble may adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Bank 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 cash settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Treasury of the Bank.

The table below shows consolidated assets and liabilities of the Bank as at 31 December 2004 by their remaining contractual maturity. Some of the assets, however, may be of a longer term nature; for example, loans are frequently renewed and, accordingly, short term loans can have a longer term duration. The liquidity position of the Bank as at 31 December 2004 is set out below.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity (restated)	Total
Assets						
Cash and cash equivalents	3 964	-	-	-	-	3 964
Mandatory cash balances with the CBRF	-	-	-	-	579	579
Trading securities	523	-	-	-	-	523
Due from other banks	944	-	2	-	-	946
Loans and advances to customers	2 296	10 115	6 391	3 253	-	22 055
Other assets	400	55	107	-	307	869
Premises and equipment	-	-	-	-	1 691	1 691
Total assets	**8 127**	**10 170**	**6 500**	**3 253**	**2 577**	**30 627**
Liabilities						
Due to other banks	307	-	-	16	-	323
Customer accounts	10 500	5 693	2 373	5 848	-	24 414
Debt securities in issue	489	947	442	226	83	2 187
Other liabilities	156	118	-	-	-	274
Subordinated loans	-	-	-	698	-	698
Exchangeable convertible preference shares	-	7	14	106	-	127
Total liabilities	**11 452**	**6 765**	**2 829**	**6 894**	**83**	**28 023**
Net liquidity gap	**(3 325)**	**3 405**	**3 671**	**(3 641)**	**2 494**	**2 604**
Cumulative liquidity gap as at 31 December 2004	**(3 325)**	**80**	**3 751**	**110**	**2 604**	**-**
Cumulative liquidity gap as at 31 December 2003 (restated)	**234**	**(1 519)**	**(365)**	**704**	**2 225**	**-**

25 Financial Risk Management (Continued)

Overdue assets are fully provided against, and thus, have no impact on the above table. The entire portfolio of trading securities is classified within demand and less than one month as the portfolio is of a dealing nature and Management believe this is a fairer portrayal of its liquidity position.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customers accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customers accounts provide a long-term and stable source of funding for the Bank. However, in accordance with the Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Board of Directors and the Assets and Liabilities Management Committee set limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored on a regular basis. In the absence of any available hedging instruments, the Bank normally seeks to match its interest rate positions.

(in millions of Russian Roubles)

25 Financial Risk Management (Continued)

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's consolidated assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing (restated)	Total
Assets						
Cash and cash equivalents	3 964	-	-	-	-	3 964
Mandatory cash balances with the CBRF	-	-	-	-	579	579
Trading securities	523	-	-	-	-	523
Due from other banks	944	-	2	-	-	946
Loans and advances to customers	2 296	10 115	6 391	3 253	-	22 055
Other assets	400	55	107	-	307	869
Premises and equipment	-	-	-	-	1 691	1 691
Total assets	**8 127**	**10 170**	**6 500**	**3 253**	**2 577**	**30 627**
Liabilities						
Due to other banks	307	-	-	16	-	323
Customer accounts	10 500	5 693	2 373	5 848	-	24 414
Debt securities in issue	489	947	442	226	83	2 187
Other liabilities	156	118	-	-	-	274
Subordinated loans	-	-	-	698	-	698
Exchangeable convertible preference shares	-	7	14	106	-	127
Total liabilities	**11 452**	**6 765**	**2 829**	**6 894**	**83**	**28 023**
Net sensitivity gap	**(3 325)**	**3 405**	**3 671**	**(3 641)**	**2 494**	**2 604**
Cumulative sensitivity gap as at 31 December 2004	**(3 325)**	**80**	**3 751**	**110**	**2 604**	**-**
Cumulative sensitivity gap as at 31 December 2003 (restated)	**234**	**(1 519)**	**(365)**	**704**	**2 225**	**-**

(in millions of Russian Roubles)

25 Financial Risk Management (Continued)

The table below summarises the effective interest rates by major currencies for major monetary financial instruments. The analysis has been prepared based on period-end effective rates used for amortization of respective assets/liabilities.

	2004				2003			
	USD	RR	Euro	Other currencies	USD	RR	Euro	Other currencies
Assets								
Cash and cash equivalents	0%	1%	0%	0%	0%	1%	0%	0%
Trading securities	7%	10%	-	-	3%	17%	11%	17%
Due from other banks	3%	3%	-	-	8%	5%	-	5%
Loans and advances to customers	12%	15%	11%	-	14%	14%	12%	14%
Liabilities								
Due to other banks	0%	4%	4%	-	1%	1%	1%	-
Customer accounts								
- current and settlement accounts	1%	1%	0%	0%	1%	1%	0%	0%
- term deposits	6%	7%	6%	-	6%	7%	-	-
Debt securities in issue	10%	8%	0%	-	7%	9%	5%	-
Subordinated loans	8%	-	-	-	8%	-	-	-
Exchangeable convertible preference shares recorded as liabilities	9%	-	-	-	9%	-	-	-

The sign "-" in the table above means that the Bank does not have the respective assets or liabilities in corresponding currency.

26 Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank are received. On the basis on its own estimates and internal professional advice the Management is of the opinion that no material losses will be incurred in respect of claims and, accordingly, no provision has been made in these consolidated financial statements.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years proceeding the year of review. Under certain circumstances reviews may cover longer periods.

Transfer pricing legislation, which was introduced from 1 January 1999, provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect to all controlled transactions, provided that the transaction price differs from the market price by more than 20%. Controlled transactions include transactions with related parties and transactions with unrelated parties if the price differs on similar transactions with two different counterparties by more than 20%. There is no formal guidance as to how these rules should be applied in practice.

The tax consequence of transactions for Russian taxation purposes is frequently determined by the form in which transactions are documented and the underlying accounting treatment prescribed by Russian Accounting Rules. Accordingly, the Bank structures certain transactions so as to take advantage of such form driven determinations to reduce the overall effective tax rate of the Bank. The consolidated statement of income as presented in these consolidated financial statements includes reclassifications to reflect the underlying economic substance of those company transactions. The effect of these reclassifications does not have an effect on the Bank's profit before taxation or the tax charge recorded in these consolidated financial statements.

The Bank's Management believes that its interpretation of the relevant legislation is appropriate and the Bank's tax, currency and customs positions will be sustained. Accordingly, as at 31 December 2004 no provision for potential tax liabilities has been recorded (2003: RR 49 million).

(in millions of Russian Roubles)

26 Contingencies, Commitments and Derivative Financial Instruments (Continued)

Capital commitments. As at 31 December 2004 the Bank has capital commitments in respect of reconstruction of premises and purchase of office equipment of the Bank's Head Office and branches totaling RR 84 million (2003: RR 37 million). The Bank's Management has already allocated the necessary resources in respect of this commitment. The Bank's Management believes that future net revenues and funding will be sufficient to cover this and any similar such commitments.

Operating lease commitments. Where the Bank is the lessee, the future minimum lease payments under operating leases are as follows:

	2004	2003
Not later than 1 year	74	59
Later than 1 year and not later than 5 years	267	143
Later than 5 years	489	369
Total operating lease commitments	**830**	**571**

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing. Outstanding credit related commitments are as follows:

	2004	2003
Unused limits on granting overdraft loans	1 597	1 063
Guarantees issued	1 014	927
Undrawn credit lines	772	918
Import letters of credit	333	21
Less: Provision for losses on credit related commitments	(33)	(33)
Total credit related commitments	**3 683**	**2 896**

The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Management evaluated the likelihood of possible losses arising from credit related commitments and concluded that a provision of RR 33 million was necessary as at 31 December 2004 (2003: RR 33 million) for the credit related commitments.

The Bank has the right to renegotiate the terms of credit line agreements. At 31 December 2004, the probability of losses arising in connection with these undrawn credit lines is considered remote and, accordingly, no provision has been established.

The total provision for credit related commitments is included in other liabilities. The total outstanding contractual amount of guarantees, letters of credit, undrawn credit lines, and unused limits on granting of overdraft loans does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

(in millions of Russian Roubles)

26 Contingencies, Commitments and Derivative Financial Instruments (Continued)

Movements in the provision for losses on credit related commitments are as follows:

	2004	2003
Provision for losses on credit related commitments as at 1 January	**33**	**47**
Recovery of provision for losses on credit related commitments during the period	-	(14)
Provision for losses on credit related commitments as at 31 December	**33**	**33**

Current derivative financial instruments. Foreign exchange derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions.

The principal amounts of certain types of financial instruments provide a basis for comparison with instruments recorded on the consolidated balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments have potentially favorable (assets) or unfavorable (liabilities) conditions as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or principal amount of derivative financial instruments on hand, the extent to which instruments have favorable or unfavorable conditions and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

	Domestic			Foreign		
	Principal or agreed amount	**Negative fair value**	**Positive fair value**	**Principal or agreed amount**	**Negative fair value**	**Positive fair value**
Deliverable forwards						
Precious metals						
- sale of precious metals	(118)	-	-	-	-	-
- purchase of precious metals	118	-	6	-	-	-
Spot						
Foreign currency						
- sale of foreign currency	(38)	-	-	-	-	-
- purchase of foreign currency	1 092	-	0	6	0	-
Total	**1 054**	**-**	**6**	**6**	**0**	**-**

For deals with foreign currency the Bank has recorded a net gain of RR 6 million which is included within other operating income in the consolidated statement of income.

(in millions of Russian Roubles)

26 Contingencies, Commitments and Derivative Financial Instruments (Continued)

Fiduciary assets. These assets are not included in the Bank's consolidated balance sheet as they are not assets of the Bank. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets fall into the following categories:

	2004 Nominal value	2003 Nominal value
Client VEB securities held on account with Vneshtorgbank	258	278
Deposit certificates held in custody of the Bank	65	32
Promissory notes held in custody of the Bank	59	156
Eurobonds held in custody of the Bank	55	236
Shares in companies held in custody of the Bank	15	39
Municipal bonds held in custody of the Bank	11	8
Client Federal bonds held on account with National Depository Centre	6	56
Corporate bonds held in custody of the Bank	-	71

Assets pledged and restricted. As at 31 December 2004 the Bank does not have assets pledged as collateral (2003: nil). Mandatory cash balances with the CBRF in the amount of RR 579 million (2003: RR 1 548 million) represent mandatory reserve deposit which is not available to finance the Bank's day to day operations.

27 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may not be reflective of the values for financial instruments, which would be determined in an efficient, active market involving willing buyers and willing sellers. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Financial instruments carried at fair value. Cash and cash equivalents, trading securities and investment securities available for sale are carried on the consolidated balance sheet at their fair value. External independent market quotations were not available for certain investment securities available for sale. The fair value of these assets was determined by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies.

Loans originated carried at amortised cost less provision for impairment. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 7 and 8 for the estimated fair values of due from other banks and loans and advances to customers, respectively.

Liabilities carried at amortised cost. The fair value of instruments with a quoted market price is based on quoted market prices. The estimated fair value of instruments with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest rate instruments without a quoted market price is based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 11, 12, 13, 15 and 16 for the estimated fair values of due to other banks, customer accounts, debt securities in issue, subordinated loans and exchangeable convertible preference shares recorded as liabilities, respectively.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of derivative financial instruments is disclosed in Note 26.

(in millions of Russian Roubles)

28 Disposal of Subsidiary

As at 31 December 2003 the Bank owned 61% of Moscow Reinsurance Company. As at 31 December 2002 the investment was recorded as an investment security available for sale within other assets in the consolidated financial statements of the Bank. It was included in the consolidated financial statements on line by line basis, using acquisition accounting method for the first time as at 31 December 2003 due to its materiality to the consolidated financial results of the Bank for 2003.

Net share of reserves of the subsidiary accumulated prior to 1 January 2003 in the amount of RR 19 million was recorded as part of other movements of reserves in the consolidated statement of shareholders equity for the year ended 31 December 2003.

	1 January 2003
Fair value of net assets of subsidiary at the date of consolidation	**77**
Less cost of investment	(58)
Net share of reserves of subsidiary accumulated prior to 1 January 2003	**19**

As at 31 December 2004 the Bank owned 20% of Moscow Reinsurance Company. In June 2004 the Bank's interest in the Company was diluted after the Company issued new shares to a third party. As at 31 December 2004 the investment was recorded as an investment in associate in the consolidated financial statements of the Bank. The consolidated financial statements of the Bank for the year ended 31 December 2004 include the results of the Company up to the date of its disposal as a subsidiary. Income and expenses of the subsidiary were included into the following lines of the consolidated statement of income: interest income, other operating income, operating expenses, income tax expense. Investment in associate is included into other assets, share of results of associate after tax is included into other operating income.

The calculation of the gains from disposal of the Company is as follows:

	RR million
Net assets of subsidiary as at 31 December 2003	163
Less: minority interest	(65)
Share of the Bank in net assets of subsidiary as at 31 December 2003	98
Results of subsidiary in 2004 till the date of its disposal	46
Less: minority interest	(17)
Share of the Bank in net assets of subsidiary before disposal	127
Share of the Bank in net assets after disposal	(144)
Gain from disposal of subsidiary	**17**

(in millions of Russian Roubles)

29 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Banking transactions are entered into in the normal course of business with significant shareholders, directors and other related parties. These transactions include settlements, loans and deposit taking. These transactions are priced predominantly at market rates. The outstanding balances at the year end and interest expense and income for the year with related parties are, as follows:

	2004		2003	
	Shareholders	**Other**	**Shareholders**	**Other**
Correspondent accounts with other banks as at the year end	2	-	2	-
Loans and advances to customers as at the year end				
Loans and advances as at the year end (contractual interest rate: 2004: 5-18%; 2003: 5-21%)	-	33	-	33
Provision for impairment of loans and advance to customers as at the year end	-	(2)	-	(3)
Interest income for the year (based on contractual rates)	-	1	-	5
Customer accounts as at the year end				
Current/settlement accounts as at the year end	-	14	104	-
Term deposits as at the year end (contractual interest rate: 2004: 7%, 2003: 7-10%)	-	14	398	1
Guarantees issued by the Bank as at the year end	-	-	36	-
Exchangeable convertible preference shares recorded as liabilities as at the year end				
Exchangeable convertible preference shares recorded as liabilities outstanding as at the year end (contractual interest rate: 2004: 0%; 2003: 0%)	127	-	123	-
Interest expense for the year (based on effective rates)	11	-	11	-

In 2004 the total remuneration of members of Executive Board, including pension contributions, and discretionary compensation amounts to RR 68 million (2003: RR 26 million).

30 Subsequent Events

In May 2005 the Central Bank of the Russian Federation registered a Report on the results of the additional issue of 1 999 941 ordinary shares with a nominal value of RR 10 per share in the total nominal amount of RR 20 million. These shares were issued by the conversion of exchangeable convertible preference shares with a nominal value of RR 10 per share into ordinary shares. Refer Note 16.