

SBERBANK
(SAVINGS BANK OF THE RUSSIAN FEDERATION)
Financial Statements and Independent Auditors' Report
For the year ended 31 December 2004

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Sberbank
(Savings Bank of the Russian Federation) –

We have audited the accompanying balance sheet of Sberbank (Savings Bank of the Russian Federation) (the "Bank") as of 31 December 2004, and the related statements of income, cash flows, changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

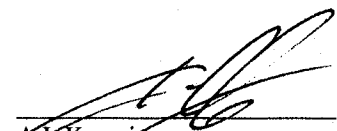

Ernst & Young Vneshaudit

31 May 2005

Sberbank (Savings Bank of the Russian Federation)**Balance Sheets as of 31 December***(Thousands of Russian Rubles, unless otherwise indicated)*

	Note	2004	2003
Assets			
Cash and cash equivalents	5	113,618,380	45,615,928
Mandatory cash balances - Central Bank		44,966,603	98,893,608
Trading securities	6	117,036,694	135,309,528
Due from banks	7	10,576,697	78,629,557
Securities available for sale	8	191,854,830	176,694,073
Loans and advances to customers	9	1,298,006,237	792,363,615
Securities acquired at original issuance	10	57,298,074	73,535,315
Tax asset	26	6,874,988	3,481,131
Premises and equipment	11	72,658,192	66,101,471
Other assets	12	7,477,652	6,877,032
Total assets		1,920,368,347	1,477,501,258
Liabilities			
Due to banks	13	12,949,575	37,889,470
Deposits from individuals	14	1,209,355,538	978,580,839
Customer accounts	14	444,946,152	211,561,162
Own securities issued	15	91,094,905	104,010,365
Other borrowed funds	16	1,981,629	1,053,151
Other liabilities	17	8,573,573	9,533,108
Total liabilities		1,768,901,372	1,342,628,095
Shareholders' equity			
Share capital	18	20,980,583	20,980,583
Share premium		10,016,190	10,016,190
Treasury shares	18	(312)	(312)
Revaluation reserve for premises	11	453,397	474,987
Retained earnings and other reserves		120,017,117	103,401,715
Total shareholders' equity	19	151,466,975	134,873,163
Total liabilities and shareholders' equity		1,920,368,347	1,477,501,258

Signed on behalf of the Board of Directors on 31 May 2005.


A.I. Kazmin
Chairman of the Board and CEO
A.V. Krizhalov
Chief Accountant

Sberbank (Savings Bank of the Russian Federation)
Statements of Income for the Years Ended 31 December
(Thousands of Russian Rubles, unless otherwise indicated)

	Note	2004	2003
Interest income on loans	20	145,956,066	106,236,685
Interest income on securities	20	20,778,218	25,872,758
Interest expense	20	(84,930,051)	(79,642,994)
NET INTEREST INCOME		81,804,233	52,466,449
Impairment of interest earning assets	7, 9	(15,790,772)	(16,509,860)
NET INTEREST INCOME AFTER IMPAIRMENT OF INTEREST EARNING ASSETS		66,013,461	35,956,589
Gains less losses arising from securities and derivatives	21, 31	18,812,828	40,979,241
Gains less losses arising from dealing in foreign currencies		5,100,101	4,274,093
Foreign exchange translation losses, net		(1,598,441)	(6,300,889)
Fee and commission income	22	26,198,106	18,497,331
Fee and commission expense	22	(1,404,036)	(644,722)
Other operating income	23	1,976,777	2,604,506
Net operating income		115,098,796	95,366,149
Payroll and other staff expense	24	(54,917,708)	(50,193,457)
Operating expenses	25	(35,669,946)	(28,981,804)
Provision for credit related commitments		57,232	(30,993)
Profit before taxation		24,568,374	16,159,895
Income tax	26	(5,281,787)	(2,226,382)
Net profit		19,286,587	13,933,513
Earnings per share (expressed in Russian Rubles per share)	27	1,008	727

The accompanying notes are an integral part of these financial statements.

Sberbank (Savings Bank of the Russian Federation)
Statements of Cash Flows for the Years Ended 31 December
(Thousands of Russian Rubles, unless otherwise indicated)

	Note	2004	2003
Cash flows from operating activities			
Interest received on loans		145,789,140	104,712,275
Interest received on securities		27,386,285	30,067,610
Interest paid		(84,562,902)	(72,937,761)
Income received from dealing in securities and derivatives		23,310,972	43,442,442
Income received from dealing in foreign currencies		5,100,101	4,274,093
Fees and commissions received		26,198,106	18,497,331
Fees and commissions paid		(1,404,036)	(644,722)
Other operating income received		1,906,116	2,305,534
Staff costs paid		(55,184,038)	(47,149,134)
Operating expenses		(25,661,247)	(19,696,543)
Income tax paid		(8,668,826)	(4,056,763)
Operating profits before changes in operating assets and liabilities		54,209,671	58,814,362
Cash flows from operating assets and liabilities			
Net (increase)/decrease in assets:			
Mandatory cash balances with the Central Bank of the Russian Federation		53,927,005	(24,084,921)
Trading securities		11,301,301	(15,772,527)
Due from banks		67,327,122	(38,046,455)
Loans and advances to customers		(521,039,725)	(292,737,858)
Securities available for sale		(16,442,494)	(75,830,911)
Securities acquired at original issuance		10,798,147	21,684,994
Other assets		(1,360,932)	(3,232,210)
Net increase/(decrease) in liabilities:			
Due to banks		(22,679,333)	30,707,858
Deposits from individuals		228,215,004	265,228,588
Customer accounts		232,277,968	22,942,794
Own securities issued other than eurobonds		(10,523,126)	17,026,397
Other liabilities		(794,396)	(4,949,074)
Net cash provided by/(used in) operating activities		85,216,212	(38,248,963)
Cash flows used in investing activities			
Purchase of premises and equipment	11	(16,292,706)	(11,836,195)
Proceeds from sale of premises and equipment		822,237	1,061,772
Sales of other investments		–	(53,232)
Dividend income received	23	70,661	110,174
Net cash used in investing activities		(15,399,808)	(10,717,481)
Cash flows from financing activities			
Eurobond issuance		–	29,718,636
Sale of treasury shares		–	99
Other borrowed funds received/(repaid)		925,168	(427,447)
Dividends paid	28	(2,687,215)	(2,177,906)
Net cash (used in)/provided by financing activities		(1,762,047)	27,113,382
Effect of exchange rate changes on cash and cash equivalents		(51,905)	(139,523)
Net increase/(decrease) in cash and cash equivalents		68,002,452	(21,992,585)
Cash and cash equivalents at the beginning of the year		45,615,928	67,608,513
Cash and cash equivalents at the end of the year	5	113,618,380	45,615,928

The accompanying notes are an integral part of these financial statements.

Sberbank (Savings Bank of the Russian Federation)
Statements of Changes in Shareholders' Equity for the Years Ended 31 December
(Thousands of Russian Rubles, unless otherwise indicated)

	Share capital	Share premium	Treasury shares	Revaluation reserve for premises	Retained earnings and other reserves	Total shareholders' equity
Balance at 31 December 2002	20,980,583	10,016,190	(411)	497,605	91,625,529	123,119,496
Net profit	–	–	–	–	13,933,513	13,933,513
Sale of treasury shares, net	–	–	99	–	–	99
Depreciation of revalued premises, net of tax	–	–	–	(22,618)	29,761	7,143
Dividends declared						
- Ordinary shares	–	–	–	–	(2,071,083)	(2,071,083)
- Preference shares	–	–	–	–	(116,005)	(116,005)
Balance at 31 December 2003	20,980,583	10,016,190	(312)	474,987	103,401,715	134,873,163
Net profit	–	–	–	–	19,286,587	19,286,587
Depreciation of revalued premises, net of tax	–	–	–	(21,590)	28,408	6,818
Dividends declared						
- Ordinary shares	–	–	–	–	(2,555,588)	(2,555,588)
- Preference shares	–	–	–	–	(144,005)	(144,005)
Balance at 31 December 2004	20,980,583	10,016,190	(312)	453,397	120,017,117	151,466,975

The accompanying notes are an integral part of these financial statements.

1. Principal Activities

Sberbank (Savings Bank of the Russian Federation) (the “Bank”) is a joint stock commercial bank established in 1841 and has operated in various forms since then. The Bank’s principal shareholder, the Central Bank of the Russian Federation (the “Bank of Russia”), owns 63.76% of ordinary shares or 60.57% of the issued and outstanding shares at 31 December 2004. The Bank is registered in the Russian Federation to conduct banking activities and has operated under a full banking license issued by the Bank of the Russian Federation since 1991. The Bank’s principal business activity is retail and commercial banking operations within the Russian Federation. Deposits of individuals placed with the Bank before October 1, 2004 will continue to be covered by the State guarantee until January 1, 2007. Deposits placed after October 1, 2004 will be covered by the general terms of the deposit insurance system, where the Bank was admitted on January 11, 2005.

The Bank has 17 regional head offices, 994 branches and 19 211 sub-branches within the Russian Federation as at December 31, 2004. The main office of the Bank is located at 19 Vavilova St., 117 997 Moscow. The average number of the Bank’s employees during 2004 was 228 531 (2003: 219,048).

2. Operating Environment

The Bank’s financial position and results of operations are significantly influenced by the economic and social policies of the Russian Federation. The Bank has a significant level of lending operations with companies that are controlled by the State or where the State holds more than 25% of the voting shares. As of 31 December 2004, loans granted to such companies with exposure over 1% of the Bank’s loan portfolio represented 8.95% of the total loan portfolio (2003: 7.95%).

During 2004 Fitch and Standard and Poor’s, the international rating agencies, have assigned Russia an investment grade rating. Nevertheless, the Russian economy continues to display certain features consistent with those of a transitional economy. These attributes have in the past included higher than normal inflation rates and lack of liquidity in capital markets. The continued success and stability of the Russian economy will be significantly impacted by the Government’s continued actions with regard to supervisory, legal, and economic reforms.

Those uncertainties may affect the ability of the banking sector to conduct operations. The Bank could be affected, in the foreseeable future, by these risks and their consequences. As a result, these uncertainties may affect the Bank’s future operations, the recoverability of its assets, and the ability to maintain or pay its obligations as they mature. The Bank’s risk management processes give consideration to these uncertainties (refer to Note 30).

3. Basis of Presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards (“IAS”) and Standing Interpretations Committee interpretations (“SIC”) approved by the International Accounting Standards Committee that remain in effect. The Bank maintains its accounting records in accordance with Russian banking regulations. These financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with IFRS in all material aspects.

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the financial statements date. Actual results, therefore, could differ from these estimates.

The financial statements are presented in the national currency of the Russian Federation, the Russian Ruble (“RR”).

4. Significant Accounting Policies

Cash and cash equivalents. Cash and cash equivalents are items, which can be converted into cash within a day. They include correspondent accounts (including accounts in precious metals) with the CBR, banks and non-banking institutions, as well as deposits that mature not later than the first working day after the reporting date, and cash balances. Other interbank placements are included in due from banks. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents.

Mandatory balances with the Central Bank of the Russian Federation. Mandatory balances with the Bank of Russia represent mandatory reserve deposits that are not available to finance the Bank's day-to-day operations.

Precious metals. Gold and other precious metals are recorded at the balance sheet date at London Fixing. Precious metals are included in cash and cash equivalents.

Trading securities. Trading securities are securities that were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or securities included in a portfolio in which a pattern of short-term profit taking exists. The Bank classifies securities into trading securities if it has an intention to sell them within 180 days after purchase.

Trading securities are initially recognised at cost (which includes transaction costs) and are subsequently re-measured at fair value based on their market value or after the application of various valuation methodologies, including assumptions as to the future ability to realise these securities. In determining market value, trading securities are valued at the last trade price if quoted on an exchange or, if traded over-the-counter, at the last bid price.

Changes in fair values are recorded within gains less losses arising from securities and derivatives in the statements of income in the period in which the change occurs. Interest earned on trading securities are reflected in the statements of income as interest income on securities. Dividends received are included in other operating income.

Securities available for sale. This classification includes securities that the Bank intends to hold for an indefinite period of time but may be sold in response to needs for liquidity or changes in interest rates, exchange rates, or equity prices. The Bank determines the appropriate classification of securities at the time of purchase.

Securities available for sale include other investments, which represent equity investments in non-consolidated subsidiary companies, associated companies and investments held for resale.

Securities available for sale are initially recognised at cost (which includes transaction costs) and subsequently re-measured to fair value based on quoted bid prices. Certain securities available for sale, for which there is no available external independent quotation have been fair valued by the Bank. Fair value has been determined after the application of various valuation methodologies, including assumptions as to amounts to be realised on settlement. Realised and unrealised gains and losses arising from changes in the fair value of securities available for sale are included in the statements of income under gains less losses from securities and derivatives in the period in which they arise. Interest earned on securities available for sale are reflected in the statements of income as interest income on securities. Dividends received are included in other operating income.

Securities acquired at original issuance. The Bank classifies its investment securities acquired at original issuance directly from a debtor, other than those that are purchased with the intent to be sold in the short-term, as "securities acquired at original issuance." Such securities are carried at amortized cost. Income arising from the accretion of these securities' purchase discount are recognized in the statements of income as interest income from securities using the effective interest method.

Sale and repurchase agreements. Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under repos are included in trading securities, securities available for sale or securities acquired at original issuance as appropriate. The corresponding liability is presented within due to banks.

Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to banks or customers, as appropriate.

4. Significant Accounting Policies (continued)

Sale and repurchase agreements (continued). The difference between the sale and repurchase price or purchase and resale price is treated as interest expense or income, respectively, and accrued over the life of the agreements using the effective interest method.

Securities purchased by the Bank under reverse repo are not recognised in the financial statements, unless they are sold to third parties, in which case the purchase and sale are recorded within gains less losses arising from securities and derivatives in the statements of income. The obligation to return them is recorded at fair value as a trading liability.

Originated loans and advances and allowance for loan impairment. Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent at draw down are categorised as loans originated by the Bank and are carried at amortised cost, less allowance for loan impairment.

Loans and advances are recognised when cash is advanced to borrowers. The allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect the amounts due. The allowance is the difference between the carrying value and estimated recoverable amounts based on discounted cash flows.

The allowance 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 the current economic environment in which the borrowers operate.

When a loan cannot be collected, it is written off against the related allowance for loan impairment. Such loans are written off after the necessary legal procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are credited to the related impairment account in the statements of income.

Bills of exchange purchased. The Bank purchases bills of exchange from its customers or on the market. These bills of exchange are included in trading securities, securities available for sale, loans and advances to customers, or in due from banks, depending on their substance and subsequently re-measured and accounted for in accordance with the accounting policies described above for those categories of assets.

Other credit related commitments. In the normal course of business, the Bank enters into other credit related commitments including loan commitments, letters of credit, and guarantees. The accounting policy and allowance methodology are similar to those for originated loans noted above. Specific allowances are raised against other credit related commitments when losses are considered probable.

Premises and equipment. Premises and equipment are stated at revalued amounts, restated to the equivalent purchasing power of the Russian Ruble at 31 December 2002, less accumulated depreciation and allowance for impairment, where required. Where the carrying amount of an asset is greater than its estimated recoverable amount, an allowance is provided to reduce it to the recoverable amount and the related provision is charged to the statements of income. The estimated recoverable amount is the higher of an asset's net selling price and its value in use.

The revaluation reserve represents the difference between the restated net book amount of premises and their market value. The proportion of revaluation reserve, representing the amount depreciated, is transferred annually to retained earnings based on the estimated average useful life of the underlying premises.

Construction in progress is carried at cost. Upon completion, assets are transferred to premises at their carrying value. Construction in progress is not depreciated until the asset is available for use.

Gains and losses on disposal of premises and equipment are determined by reference to their net book value. Repairs and maintenance are charged to the statement of income when the expenditure is incurred.

4. Significant Accounting Policies (continued)

Depreciation and amortisation. Depreciation and amortisation are applied on a straight-line basis over the estimated useful lives of the assets using the following annual rates:

Premises	2.5% - 4.5%;
Equipment and vehicles	18% - 25%;
Intangible assets	25%.

Depreciation and amortisation is calculated starting from the month following the month when the fixed / intangible asset has been placed into operation. Depreciation and amortisation for the reporting period are recorded in the statements of income under operating expenses.

Due to banks and customers. Amounts due to banks and to customers are initially recognized at cost, which amounts to the issue proceeds less transaction costs incurred. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of income over the maturity period of the borrowings using the effective interest method.

Own securities issued. Bills of exchange, deposit certificates, saving certificates and eurobonds are issued by the Bank to its customers and carry a fixed date of repayment. Bills of exchange may be issued against cash deposits or as a payment instrument, which the customer can discount in the over-the-counter secondary market. Own securities issued by the Bank are recognised initially at cost, being their issue proceeds, net of transaction costs incurred. Subsequently, own securities issued are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the statements of income over the period of the security issue using the effective interest method.

Share capital. Share capital is recognized at restated cost reflecting the cumulative impact of inflation indexing through 31 December 2002.

Share premium. Share premium represents the excess of contributions over the nominal value of the shares issued and is recognized at restated cost reflecting the cumulative impact of inflation indexing through 31 December 2002.

Preference shares. Preference shares are not redeemable and attract a guaranteed payment of annual dividends of not less than 15% of their nominal value. Dividend payments in excess of that minimum are determined at the Bank's Annual Shareholders Meeting. Preference shares are classified as a part of equity.

Treasury shares. Shares of the Bank owned and held at the balance sheet date, are defined as treasury shares. The cost of such shares is shown as a reduction in shareholders' equity.

Dividends. Dividends payable are not recognised until they have been ratified at the Bank's Annual Shareholders Meeting. 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 determined in accordance with statutory requirements.

Taxation. Taxation has been provided in accordance with Russian legislation currently in force.

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

Deferred income tax liabilities are recognized for all taxable temporary differences except for taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized except for deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

4. Significant Accounting Policies (continued)

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

The deferred tax liability arising on the revaluation of premises is charged directly to the revaluation reserve. Any tax effect of subsequent impairment of the revaluation reserve is recognised through the statement of changes in shareholders equity; any deferred tax benefit beyond the remaining amount of revaluation reserve is reflected in the statements of income.

Russia also has various operating taxes, that are assessed on the Bank activities. These taxes are included as a component of operating expenses.

Income and expense recognition. Interest income and expense are recognised in the statements of income on an accrual basis calculated using the effective interest method. Interest income on loans is accrued only if delays of interest and principal payments are less than 90 days. Interest income is not recognised where the Bank believes it is not collectible. Loan origination fees for loans granted to customers are deferred and recognized as an adjustment to the effective yield of the loans.

Commissions other than loan origination fees and other income are credited to income when the related transactions are completed. Non-interest expenses are recognised at the time the products are received or the service is provided.

Foreign currency translation. Transactions denominated in foreign currencies are recorded at the CBR exchange rate prevailing on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currencies are included in the statements of income using the CBR official exchange rate prevailing on that date.

Monetary assets and liabilities denominated in foreign currencies are translated into Russian Rubles at the official exchange rate of the Bank of Russia at the balance sheet date. Foreign currency gains and losses arising from the translation of assets and liabilities are reflected in the statements of income as foreign exchange translation gains less losses. As of 31 December 2004, the CBR exchange rate used for translating USD balances was USD 1 = RR 27.7487 (2003: USD 1 = RR 29.4545). Exchange restrictions and controls exist relating to converting Russian Rubles into other currencies. At present, the Russian Ruble is not a convertible currency outside of the Russian Federation.

Derivative financial instruments. Derivative financial instruments including forward foreign exchange contracts, currency swaps, currency options, forwards with securities and precious metals and other derivative financial instruments are initially recognized in the balance sheet at cost (including transaction costs) and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models, or using the spot rate at the year-end, as appropriate. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives are included in gains less losses arising from securities and derivatives.

The Bank does not enter into derivative instruments for hedging purposes.

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

Provisions. Provisions are recognised 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.

4. Significant Accounting Policies (continued)

Social funds costs. The Bank contributes to the Russian Federation state pension, social insurance and obligatory medical insurance funds in respect of its employees. The Bank's funds contributions are expensed as incurred. The contributions are included in staff costs.

Operating leases. Payments made under operating leases are charged against income in equal instalments over the period of the lease.

Segment reporting. A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment) that is subject to risks and rewards that are different from those of other segments. The Bank determined that the primary segments for its activities are business segments (corporate and retail), and the secondary segments are the geographical areas of Russia.

Fiduciary assets. Fiduciary assets are not included in the Bank's balance sheet as they are not assets of the Bank.

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

<i>Amount</i>	<i>Previously reported</i>	<i>As reclassified</i>	<i>Comment</i>
3,599,658	Commission income on lending operations	Interest income on loans	Loan origination fees recognised as part of effective interest yield on loans

5. Cash and Cash Equivalents

	2004	2003
Cash on hand	45,271,165	25,798,913
Cash balances with the Bank of Russia (other than mandatory reserve deposits)	41,667,705	12,327,864
Correspondent accounts and overnight deposits with other banks		
- Russian Federation	1,910,023	4,089,790
- Other countries	21,408,626	738,788
Balances with non-banking settlement organisations	22,535	2,892
Precious metals	3,338,326	2,657,681
Total cash and cash equivalents	113,618,380	45,615,928

6. Trading Securities

	2004	2003
RR denominated securities		
Federal loan bonds (OFZ) and federal short term bonds (GKO)	32,582,435	57,546,097
Municipal bonds	27,286,179	16,556,880
Corporate shares	4,203,023	3,117,173
Corporate bonds	2,008,527	477,274
Bonds of Bank of Russia	904,534	–
Foreign currency denominated securities		
Russian Federation Eurobonds	48,569,256	31,273,191
Federal currency bonds (OVGVZ)	1,482,740	1,319,933
Foreign currency denominated securities sold under repo		
Russian Federation Eurobonds	–	25,018,980
Total trading securities	117,036,694	135,309,528

Stated coupon rates and maturity of trading securities are as follows:

	2004		2003	
	%	Maturity	%	Maturity
Federal loan bonds (OFZ) and federal short term bonds (GKO)	6.00% - 13.00%	2005 - 2018	8.00% - 14.00%	2004 - 2018
Federal currency bonds (OVGVZ)	3.00%	2006 - 2011	3.00%	2006 - 2011
Russian Federation Eurobonds	5.00% - 12.75%	2005 - 2030	5.00% - 12.75%	2004 - 2030
Municipal bonds	8.02% - 16.90%	2005 - 2014	7.48% - 17.00%	2004 - 2011
Corporate bonds	7.58% - 17.00%	2005 - 2009	8.50% - 16.00%	2004 - 2006

7. Due from Banks

	2004	2003
Current loans to banks	8,032,179	47,520,681
Reverse repo deals with Bank of Russia	2,544,518	31,108,876
Overdue loans to banks	1,900	76,900
Less: allowance for loan impairment	(1,900)	(76,900)
Total due from banks	10,576,697	78,629,557

Movement in the allowances for loan impairment is as follows:

	2004	2003
Allowance for loan impairment at 1 January	(76,900)	(81,537)
Reversal of allowance for loan impairment	–	270
Due from banks written off as uncollectible	75,000	4,367
Allowance for loan impairment at 31 December	(1,900)	(76,900)

8. Securities Available for Sale

	2004	2003
Debt securities		
Federal loan bonds (OFZ) and federal short term bonds (GKO)	175,428,620	151,430,367
Russian Federation Eurobonds	5,133,172	15,975,926
Municipal bonds	72,142	–
Corporate bonds	2,582,573	2,440,976
Equity securities		
Investments in non-consolidated subsidiary companies	257,631	257,631
Investments held for sale	8,380,692	6,589,173
Total securities available for sale	191,854,830	176,694,073

Stated coupon rates and maturity of trading securities are as follows:

	2004		2003	
	%	Maturity	%	Maturity
Federal loan bonds (OFZ) and federal short term bonds (GKO)	6.00% - 13.00%	2005 - 2018	8.00% - 14.00%	2004 - 2018
Russian Federation Eurobonds	5.00% - 12.75%	2028 - 2030	5.00% - 12.75%	2004 - 2030
Municipal bonds	13.50%	2006	–	–
Corporate bonds	9.28% - 16.00%	2006 - 2010	8.50% - 16.00%	2004 - 2006

For the year ended 31 December 2004, the majority of subsidiary and associated companies have not prepared financial statements in accordance with IFRS. These investments have not been consolidated with the results of the Bank nor accounted for under equity method, as the effect of consolidation or equity accounting would not materially alter the financial position of the Bank at 31 December 2004 or the results of its operations or cash flows for the year then ended.

9. Loans and Advances to Customers

	2004	2003
Current loans	1,357,637,562	844,855,369
Overdue loans	19,727,722	14,068,226
Total loans and advances to customers, gross	1,377,365,284	858,923,595
Less: allowance for loan impairment	(79,359,047)	(66,559,980)
Total loans and advances to customers	1,298,006,237	792,363,615

Overdue loans and advances to customers represent overdue payments of loan principal.

9. Loans and Advances to Customers (continued)

Movements in the allowances for loan impairment are as follows:

	2004	2003
Allowance for loan impairment at 1 January	(66,559,980)	(51,868,900)
Provision for loan impairment	(15,790,772)	(16,510,130)
Loans and advances to customers written off as uncollectible	2,991,705	1,819,050
Allowance for loan impairment at 31 December	(79,359,047)	(66,559,980)

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

	2004		2003	
	Amount	%	Amount	%
Individuals	300,616,615	21.83%	145,604,017	16.95%
Trade	267,191,542	19.40%	156,013,372	18.16%
Machine-building	125,228,820	9.09%	89,740,231	10.45%
Food and agriculture	120,643,190	8.76%	82,241,174	9.57%
Oil, gas and chemical	109,251,667	7.93%	82,030,021	9.56%
Services	107,192,945	7.78%	53,159,527	6.19%
Metallurgy	81,950,392	5.95%	83,299,731	9.70%
Telecommunications	59,063,106	4.29%	38,925,824	4.53%
Construction	51,140,827	3.71%	39,323,699	4.58%
Energy	49,207,377	3.57%	21,412,462	2.49%
Transport, aviation, space industry	44,278,031	3.21%	30,988,219	3.61%
Timber industry	23,360,609	1.70%	16,157,812	1.88%
Government and municipal bodies	7,884,805	0.58%	15,304,955	1.78%
Other	30,355,358	2.20%	4,722,551	0.55%
Total loans and advances to customers, gross	1,377,365,284	100.00%	858,923,595	100.00%

The Bank's loan portfolio has been extended to the following types of borrowers:

	2004	2003
Limited liability and joint-stock companies	987,548,511	646,570,568
Individuals	300,616,615	145,604,017
State enterprises	63,961,273	39,080,724
Entities of the subjects of the Russian Federation	7,686,476	15,340,316
Municipal bodies	3,269,439	2,648,901
Others	14,282,970	9,679,069
Total loans and advances to customers, gross	1,377,365,284	858,923,595

The Bank's largest ten borrowers constitute RR 297,153,550 or 21.57% of the total loan portfolio (2003: RR 175,567,927 or 20.44%). As of 31 December 2004, the largest borrower is represented by a group of companies that operate under common control with loans of RR 74,066,468 or 5.38% of the total loan portfolio (2003: RR 54,724,886 or 6.37%).

10. Securities Acquired at Original Issuance

	2004			2003		
	Nominal value	Carrying value	Market value	Nominal value	Carrying value	Market value
Russian Federation Eurobonds	47,264,361	38,291,674	67,747,093	82,511,185	71,252,208	102,749,403
Federal loan bonds (OFZ)	17,210,142	17,937,892	18,451,287	2,254,483	2,283,107	2,269,255
Corporate bonds	1,030,000	1,068,508	1,057,297	–	–	–
Total securities acquired at original issuance	65,504,503	57,298,074	87,255,677	84,765,668	73,535,315	105,018,658

Securities acquired at original issuance include securities obtained directly from the issuers – the Ministry of Finance of the Russian Federation and corporate entities, and are not designated for immediate or short-term sale.

The Bank's portfolio of Russian Federation Eurobonds acquired at original issuance consists of two issues with maturity dates of 24 July 2005 and 24 July 2018 and effective yield to maturity 15.45% and 15.76%, respectively (2003: 15.45% and 15.76%, respectively). The annual coupon rate on these bonds ranges from 8.75% to 11.00% (2003: 8.75% and 11.00%), and interest is payable semi-annually. These Eurobonds were received from the Ministry of Finance in July 1998, in exchange for part of the Bank's Russian Ruble denominated state securities portfolio.

OFZ portfolio acquired at original issuance consists of several issues of Federal loan bonds acquired in 2004, with maturity dates varying from 2006 to 2012. Yield to maturity varies from 6.76% to 8.90% (2003: from 19.64% to 31.91%). OFZ securities carry coupon rates during 2004 in the range of 6.00% to 13.00% (2003: from 10.00% to 12.00%).

Corporate bonds portfolio acquired at original issuance is represented by debentures obtained from resident companies at the original issuance. The maturity dates of these bonds vary from 2007 to 2010, yield to maturity ranges from 9.50% to 16.43% (2003: nil). Coupon rates in 2004 were in range from 9.28% to 15.50% (2003: nil).

During 2004, the Bank disposed of certain Russian Federation Eurobonds with par value of USD 1,098,010 thousand (2003: USD 586,100 thousand) and maturity in 2005.

11. Premises and Equipment

	Premises	Office and computer equipment	Vehicles and other equipment	Intangible assets	Construction in progress	Total
Net book amount at 31 December 2003	45,243,072	13,215,152	3,322,118	474,058	3,847,071	66,101,471
Carrying amount at cost or revaluation						
Balance at 31 December 2003	51,689,933	22,104,984	7,408,277	794,113	3,847,071	85,844,378
Additions	3,615,392	8,112,274	909,827	1,841	3,653,372	16,292,706
Transfers	3,031,185	–	–	–	(3,031,185)	–
Disposals	(484,400)	(330,100)	(488,300)	–	(91,813)	(1,394,613)
Balance at 31 December 2004	57,852,110	29,887,158	7,829,804	795,954	4,377,445	100,742,471
Accumulated depreciation and amortisation						
Balance at 31 December 2003	(6,446,861)	(8,889,832)	(4,086,159)	(320,055)	–	(19,742,907)
Depreciation and amortisation charge	(2,299,907)	(5,529,287)	(885,815)	(198,739)	–	(8,913,748)
Disposals	77,982	177,455	316,939	–	–	572,376
Transfers	–	(958,297)	958,297	–	–	–
Balance at 31 December 2004	(8,668,786)	(15,199,961)	(3,696,738)	(518,794)	–	(28,084,279)
Net book amount at 31 December 2004	49,183,324	14,687,197	4,133,066	277,160	4,377,445	72,658,192

Construction in progress consists mainly of construction and refurbishment of Bank premises. Upon completion, assets will be transferred to premises.

Premises were independently appraised as of 31 December 2000. An internationally recognised independent appraisal firm performed the valuation. The basis used for the appraisal was the sales comparison approach. Included in the net book value of premises at 31 December 2004 is RR 453,397 representing revaluation reserve relating to premises of the Bank, net of deferred tax (2003: RR 474,987). The deferred tax liability with respect to this fair value adjustment was recorded directly to revaluation reserve for premises.

12. Other Assets

	2004	2003
Banking cards debtors	3,504,705	2,292,008
Trade debtors and prepayments	1,514,616	866,228
Prepaid operating taxes	1,226,911	1,064,538
Deferred charges	823,569	771,482
Balances arising from derivative financial instruments	233,812	88,130
Settlements on operations with securities and conversion operations	5,839	1,561
Settlements on operations with banknotes with non-resident banks	50	1,472,786
Other	168,150	320,299
Total other assets	7,477,652	6,877,032

13. Due to Banks

	2004	2003
Amounts on “LORO” accounts of other banks		
- Russian Federation	9,070,474	6,823,415
- Other countries	2,776,914	1,996,102
Short term deposits due to banks		
- Russian Federation	1,102,187	683,903
- Other countries	–	28,386,050
Total due to banks	12,949,575	37,889,470

14. Deposits from Individuals and Customer Accounts

	2004	2003
Individuals		
- Current/demand accounts	109,232,229	130,375,539
- Term deposits	1,100,123,309	848,205,300
Total deposits from individuals	1,209,355,538	978,580,839
State and public organisations		
- Current/settlement accounts	45,264,368	39,206,809
- Term deposits	5,567,337	437,843
Other legal entities		
- Current/settlement accounts	310,298,239	154,510,183
- Term deposits	83,816,208	17,406,327
Total customer accounts	444,946,152	211,561,162
Total deposits from individuals and customer accounts	1,654,301,690	1,190,142,001

14. Deposits from Individuals and Customer Accounts (continued)

Economic sector concentrations within customer accounts are as follows:

	2004		2003	
	Amount	%	Amount	%
Individuals	1,209,355,538	73.10%	978,580,839	82.22%
Oil and gas	108,619,166	6.57%	27,480,568	2.31%
Services	63,966,872	3.87%	7,922,546	0.66%
Trade	54,483,794	3.29%	38,371,147	3.22%
Municipal bodies and state organisations	36,254,775	2.19%	10,677,141	0.90%
Metallurgy	34,792,105	2.10%	5,576,048	0.47%
Construction	23,736,721	1.43%	17,468,521	1.47%
Food and agriculture	21,277,570	1.29%	14,700,988	1.24%
Equipment manufacturing	17,436,191	1.05%	8,602,025	0.72%
Telecommunications	13,504,905	0.82%	7,741,794	0.65%
Energy	10,847,072	0.66%	4,363,940	0.37%
Transport, aviation and space	10,595,718	0.64%	7,302,412	0.61%
Other	49,431,263	2.99%	61,354,032	5.16%
Total deposits from individuals and customer accounts	1,654,301,690	100.00%	1,190,142,001	100.00%

Included in customer accounts are deposits of RR 25,156,811 (2003: RR 9,776,039) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 31.

15. Own Securities Issued

	2004	2003
Bills of exchange	58,849,276	70,283,192
Eurobonds	27,781,693	29,429,729
Savings certificates	3,460,216	1,695,309
Deposit certificates	1,003,720	2,602,135
Total own securities issued	91,094,905	104,010,365

In October 2003, the Bank issued floating rate (three month LIBOR + 1.75%) notes maturing in three years. The bonds have par value of USD 1,000,000 thousand, and carry 12 quarterly coupons. The bonds are accounted for at amortised cost of USD 1,001,189 thousand, or RR 27,781,693 (2003: USD 999,159 thousand, or RR 29,429,729). The transaction was structured as an issue of notes by UBS Luxembourg S.A., for the purpose of financing a loan to the Bank.

16. Other Borrowed Funds

As of 31 December 2004, the Bank had borrowings of USD 38,479 thousand carried at USD 39,088 thousand, or RR 1,084,633 (2003: borrowings of USD 32,740 thousand carried at USD 33,204 thousand, or RR 977,998), and borrowings of EUR 23,584 thousand carried at EUR 23,724 thousand, or RR 896,996 (2003: EUR 2,038 thousand carried at EUR 2,041 thousand, or RR 75,153). The borrowings are attracted in the form of special purpose lines of credit from international and foreign banking institutions. The contractual maturities of the borrowings vary from one to 85 months (2003: from one to 66 months), the annual interest rate for USD borrowings ranges from LIBOR + 0.5% to LIBOR + 1.95% (2003: LIBOR + 0.99% to LIBOR + 1.95%) and for EUR borrowings ranges from EURIBOR + 0.75% to EURIBOR + 0.875% (2003: EURIBOR + 0.875%).

17. Other Liabilities

	2004	2003
Accrued compensation expenses	4,347,164	5,441,370
Operating taxes payable	2,586,684	2,792,845
Funds in settlement	540,586	295,576
Trade creditors	385,949	520,917
Banking card creditors	177,935	138,434
Balances arising from derivative financial instruments	145,168	44,435
Other accruals and deferred income	70,230	4,171
Dividends payable	35,980	23,602
Settlements on conversion operations and operations with securities	25,220	97,232
Provision for credit related commitments	–	57,232
Other	258,657	117,294
Total other liabilities	8,573,573	9,533,108

18. Share Capital

As of 31 December 2004, authorised share capital of the Bank amounted to RR 1,000,000, comprising 19,000,000 ordinary shares and 50,000,000 preference shares. Share capital issued and fully paid comprised:

	2004			2003		
	Number of shares	Nominal value	Inflation adjusted amount	Number of share	Nominal value	Inflation adjusted amount
Ordinary shares	19,000,000	950,000	19,525,646	19,000,000	950,000	19,525,646
Preference shares	50,000,000	50,000	1,454,937	50,000,000	50,000	1,454,937
Less: Treasury shares						
Ordinary shares	(1,787)	(89)	(243)	(1,770)	(89)	(226)
Preference shares	(1,382)	(1)	(69)	(1,780)	(2)	(86)
Total share capital	68,996,831	999,910	20,980,271	68,996,450	999,909	20,980,271

Ordinary shares have a nominal value of 50 Russian Rubles per share, rank equally and carry one vote.

18. Share capital (continued)

The preference shares have a nominal value of 1 Russian Ruble and carry no voting rights, but rank ahead of the ordinary shares in the event of liquidation of the Bank. Preference shares are not subject to obligatory redemption. They carry a minimum annual dividend equal to 15% of their nominal value.

19. Shareholders' Equity

Shareholders' equity and net profit are reconciled between Russian statutory books and IFRS as follows:

	2004		2003	
	Shareholders' equity	Net profit	Shareholders' equity	Net profit
Russian statutory books	194,636,837	52,021,631	157,392,208	38,816,378
Inflation impact on non-monetary items	39,570,486	–	39,539,689	–
Premises revaluation reserve	(36,554,970)	–	(36,593,231)	–
Additional allowance for impairment	(24,857,666)	(3,612,961)	(21,244,705)	(329,321)
Depreciation and amortisation	(14,479,360)	(4,434,681)	(10,044,679)	(3,748,727)
Fair value adjustment for securities	3,406,489	(5,667,614)	9,074,103	(2,691,122)
Accrued staff costs and administrative expenses	(8,324,468)	(276,936)	(8,047,532)	(2,395,438)
Deferred tax	6,685,802	3,612,510	3,073,292	2,841,336
Accrued interest income and expense, net	(8,037,312)	(9,726,374)	1,689,062	(10,687,166)
Expenses booked directly to shareholders' funds	–	(11,992,478)	–	(7,922,551)
Current tax	–	–	–	–
Other	(578,863)	(636,510)	34,956	50,124
International Financial Reporting Standards	151,466,975	19,286,587	134,873,163	13,933,513

In accordance with Russian banking regulations, the Bank must distribute profits as dividends or transfer them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules as of 31 December 2004 were RR 107,359,300 (2003: RR 79,963,340) (non-inflated).

20. Interest Income and Expense

	2004	2003
Interest income		
Loans and advances to customers	139,869,305	101,064,751
Interbank loans	6,086,761	5,171,934
Securities	20,778,218	25,872,758
Total interest income	166,734,284	132,109,443
Interest expense		
Term deposits from individuals	(74,882,057)	(68,674,149)
Current/settlement accounts	(4,974,070)	(3,928,430)
Term deposits of legal entities	(1,514,932)	(1,253,296)
Own securities issued	(2,332,952)	(5,359,259)
Term placements of banks and other borrowed funds	(1,226,040)	(427,860)
Total interest expense	(84,930,051)	(79,642,994)
Net interest income	81,804,233	52,466,449

As of 31 December 2004, the Bank had RR 20,805,779 of loans (2003: RR 16,608,757) that have been placed on non-performing status as to contractual interest in accordance with the Bank's accounting policy. As of 31 December 2004, interest income not recognised for non-performing loans was RR 2,318,757 (2003: RR 2,924,851).

Interest income on loans and advances to customers includes RR 4,125,451 (2003: RR 3,599,658) of loan origination fees that are recognized as part of effective interest income on loans and advances provided.

21. Gains less Losses Arising from Securities and Derivatives

	2004			2003		
	Adjusting to fair value	Realized revaluation income and income from redemption	Total	Adjusting to fair value	Realized revaluation income and income from redemption	Total
Derivative financial instruments	44,948	593,949	638,897	(19,713)	1,647,488	1,627,775
Trading securities and securities available for sale	(4,543,092)	22,717,023	18,173,931	10,574,170	28,777,296	39,351,466
Total gains less losses arising from securities and derivatives	(4,498,144)	23,310,972	18,812,828	10,554,457	30,424,784	40,979,241

22. Fee and Commission Income and Expense

	2004	2003
Commission on cash transactions	18,176,535	13,397,918
Commission on settlement transactions	3,510,475	2,267,094
Commission related to operations with foreign currency	2,370,050	1,355,047
Commission on cash collection	1,350,799	975,930
Commission on transactions with securities	432,320	320,647
Commission on guarantees issued	65,329	61,210
Other	292,598	119,485
Total fee and commission income	26,198,106	18,497,331
Commission related to operations with foreign currency	(884,538)	(295,278)
Commission on settlement transactions	(220,412)	(130,990)
Commission on transactions with securities	(119,431)	(117,871)
Commission on cash collection	(90,068)	(75,317)
Commission on cash transactions	(1,174)	(914)
Other	(88,413)	(24,352)
Total fee and commission expense	(1,404,036)	(644,722)
Net fee and commission income	24,794,070	17,852,609

In 2004, the Bank collected RR 8,385,838 of loan origination fees on loans and advances extended to customers. Such income is treated as part of effective interest income and is amortised over the life of the respective instrument. Accordingly, RR 4,260,387 of loan origination fees were deferred to future periods.

23. Other Operating Income

	2004	2003
Leasing and other income on premises and equipment	841,858	449,409
Late charges on loans and other penalties	571,203	519,801
Recoveries of amounts previously written off	160,372	932,325
Gains less losses arising from dealing in precious metals	97,185	188,798
Dividends received	70,661	110,174
Other	235,498	403,999
Total other operating income	1,976,777	2,604,506

24. Payroll and Other Staff Expenses

	2004	2003
Payroll expenses	(44,053,594)	(40,319,744)
Unified social tax expenses	(10,864,114)	(9,873,713)
Total payroll and other staff expenses	(54,917,708)	(50,193,457)

25. Operating Expenses

	2004	2003
Administrative expenses	(9,292,549)	(6,516,071)
Depreciation and amortisation	(8,913,748)	(6,348,592)
Taxes other than income tax	(7,849,462)	(6,488,433)
Other expenses related to premises and equipment	(4,673,145)	(3,953,789)
Advertising and marketing	(1,021,386)	(674,354)
Expenses related to clients claims and court expenses	(213,156)	(198,768)
Professional services	(31,924)	(129,475)
Other	(3,674,576)	(4,672,322)
Total operating expenses	(35,669,946)	(28,981,804)

26. Income Taxes

Income tax expense is comprised of the following:

	2004	2003
Current tax expense	(8,894,962)	(5,067,718)
Deferred tax benefit	3,613,175	2,841,336
Income tax expense	(5,281,787)	(2,226,382)

Russian legal entities must individually report taxable income and remit profit taxes thereon to the appropriate tax authorities. The income tax rate for banks other than on state securities was 24%. The tax rate for interest income on state securities was 15% for Federal taxes.

26. Income Taxes (continued)

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

	2004	2003
IFRS profit before taxation	24,568,374	16,159,830
Statutory income tax rate	24%	24%
Theoretical tax charge at the applicable statutory rate	(5,896,410)	(3,878,359)
Income exempt from taxation	41,893	160,648
Income on government securities taxed at different rates	2,746,237	2,857,530
Other non-temporary differences	(758,039)	(251,825)
Tax resulting from transition to the Tax Code in 2002	(304,398)	(304,398)
Non-deductible expenses	(604,139)	(262,533)
Transfer-pricing adjustment for securities operations	(506,931)	(547,445)
Income tax expense	(5,281,787)	(2,226,382)

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

	2003	Change	2004
Tax effect of deductible temporary differences			
Allowance for impairment of interest earning assets	7,275,270	(725,575)	6,549,695
Premises and equipment depreciation and amortisation	1,522,469	718,326	2,240,795
Accruals	2,505,709	(372,128)	2,133,581
Deferred income	–	1,022,493	1,022,493
Low value items written-off	562,360	130,384	692,744
Other	51,859	188,222	240,081
Deferred tax asset	11,917,667	961,722	12,879,389
Tax effect of taxable temporary differences			
Fair valuation of securities	(5,478,483)	2,430,013	(3,048,470)
Premises and equipment	(3,063,169)	(15,188)	(3,078,357)
Other	(310,206)	243,446	(66,760)
Deferred tax liability	(8,851,858)	2,658,271	(6,193,587)
Net deferred tax asset	3,065,809	3,619,993	6,685,802

The tax effect of the movement in temporary differences for premises and equipment includes deferred tax reductions in respect of the depreciation of revalued premises of RR 6,818 (2003: RR 7,143). These amounts are recorded directly to revaluation reserve for premises.

The Bank's current tax asset related to prepaid income taxes is RR 189,186 (2003: RR 415,322).

27. 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 outstanding during the year, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares.

The Bank has no potentially diluted ordinary shares; therefore, the diluted earnings per share equal basic earnings per share.

	2004	2003
Net profit attributable to shareholders	19,286,587	13,933,513
Less: dividends on preference shares	(144,005)	(116,005)
Net profit attributable to ordinary shareholders	19,142,582	13,817,508
Weighted average number of ordinary shares outstanding (thousands)	18,998	18,998
Basic and diluted earnings per share (expressed in Russian Rubles per share)	1,008	727

28. Dividends

	2004		2003	
	Ordinary	Preference	Ordinary	Preference
Dividends payable at 1 January	22,350	1,252	13,647	773
Dividends declared during the year	2,555,588	144,005	2,071,083	116,005
Dividends paid during the year	(2,549,900)	(137,315)	(2,062,380)	(115,526)
Dividends payable at 31 December	28,038	7,942	22,350	1,252
Dividends per share declared during the year (expressed in Russian Rubles per share)	134.50	2.88	109.00	2.32

Dividends are declared and paid in Russian Rubles.

29. Analysis by Segment and Geography

Geographical analysis. The geographical analysis of the Bank's assets and liabilities as of 31 December 2004 is presented below:

	Russia	Other countries	Total
Assets			
Cash and cash equivalents	92,209,754	21,408,626	113,618,380
Mandatory cash balances - Central Bank	44,966,603	–	44,966,603
Trading securities	117,036,694	–	117,036,694
Due from banks	10,484,596	92,101	10,576,697
Securities available for sale	191,854,830	–	191,854,830
Loans and advances to customers	1,297,763,760	242,477	1,298,006,237
Securities acquired at original issuance	57,298,074	–	57,298,074
Tax asset	6,874,988	–	6,874,988
Premises and equipment	72,658,192	–	72,658,192
Other assets	7,477,652	–	7,477,652
Total assets	1,898,625,143	21,743,204	1,920,368,347
Liabilities			
Due to banks	(10,172,661)	(2,776,914)	(12,949,575)
Deposits from individuals	(1,205,257,309)	(4,098,229)	(1,209,355,538)
Customer accounts	(411,177,671)	(33,768,481)	(444,946,152)
Own securities issued	(63,313,212)	(27,781,693)	(91,094,905)
Other borrowed funds	–	(1,981,629)	(1,981,629)
Other liabilities	(8,573,573)	–	(8,573,573)
Total liabilities	(1,698,494,426)	(70,406,946)	(1,768,901,372)
Net balance sheet position at 31 December 2004	200,130,717	(48,663,742)	151,466,975
Net balance sheet position at 31 December 2003	197,187,218	(62,314,055)	134,873,163

Other countries consist primarily of OECD member countries.

29. Analysis by Segment and Geography (continued)

Segment reporting. In accordance with requirements of IAS 14 “Segment reporting”, the Bank defined that its primary segments are business (corporate and retail). The secondary segments are geographical based on Russia regions where the Bank operates. Segment reporting per business segments as of 31 December 2004 follows:

	Corporate Sector	Retail Sector	Unallocated	Total
Assets				
Trading securities	117,036,694	–	–	117,036,694
Due from banks	10,576,697	–	–	10,576,697
Securities available for sale	191,854,830	–	–	191,854,830
Loans and advances to customers	1,005,686,249	292,319,988	–	1,298,006,237
Securities acquired at original issuance	57,298,074	–	–	57,298,074
Unallocated assets	–	–	245,595,815	245,595,815
Total Assets	1,382,452,544	292,319,988	245,595,815	1,920,368,347
Liabilities				
Due to banks	(12,949,575)	–	–	(12,949,575)
Deposits from individuals	–	(1,209,355,538)	–	(1,209,355,538)
Customer accounts	(444,946,152)	–	–	(444,946,152)
Own securities issued	(82,699,000)	(8,395,905)	–	(91,094,905)
Other borrowed funds	(1,981,629)	–	–	(1,981,629)
Unallocated liabilities	–	–	(8,573,573)	(8,573,573)
Total Liabilities	(542,576,356)	(1,217,751,443)	(8,573,573)	(1,768,901,372)
Interest income on loans	106,905,100	39,050,966	–	145,956,066
Interest income on securities	20,778,218	–	–	20,778,218
Fee and commission income	17,344,964	8,853,142	–	26,198,106
Fee and commission expense	(1,404,036)	–	–	(1,404,036)

29. Analysis by Segment and Geography (continued)

Segment reporting (continued). Segment reporting per business segments as of 31 December 2003 follows:

	Corporate Sector	Retail Sector	Unallocated	Total
Assets				
Trading securities	135,309,528	–	–	135,309,528
Due from banks	78,629,557	–	–	78,629,557
Securities available for sale	176,694,073	–	–	176,694,073
Loans and advances to customers	651,171,267	141,192,348	–	792,363,615
Securities acquired at original issuance	73,535,315	–	–	73,535,315
Unallocated assets	–	–	220,969,170	220,969,170
Total Assets	1,115,339,740	141,192,348	220,969,170	1,477,501,258
Liabilities				
Due to banks	37,889,470	–	–	37,889,470
Deposits from individuals	–	978,580,839	–	978,580,839
Customer accounts	211,561,162	–	–	211,561,162
Own securities issued	95,782,043	8,228,322	–	104,010,365
Other borrowed funds	1,053,151	–	–	1,053,151
Unallocated liabilities	–	–	9,533,108	9,533,108
Total Liabilities	346,285,826	986,809,161	9,533,108	1,342,628,095
Interest income on loans	86,114,965	20,121,720	–	106,236,685
Interest income on securities	25,872,758	–	–	25,872,758
Fee and commission income	12,059,091	6,438,240	–	18,497,331
Fee and commission expense	(644,722)	–	–	(644,722)

29. Analysis by Segment and Geography (continued)

Segment reporting (continued). Geographical segment reporting is based on the Bank's activity among its central head office and 17 regional head offices. The Bank has defined five geographical segments:

Geographical segment	Name of territorial bank	Location of the regional head offices
Moscow	Central head office	Moscow
European Russia	Severny	Yaroslavl
	Severo-Zapadny	Saint-Petersburg
	Tsentralno-Chernozemny	Voronezh
	Volgo-Vyatsky	Nizhniy Novgorod
	Povolzhsky	Samara
	Srednerussky	Moscow
	Severo-Kavkazsky	Stavropol
Ural	Yugo-Zapadny	Rostov-on-Don
	Zapadno-Uralsky	Perm
Western Siberia	Uralsky	Ekaterinburg
	Sibirsky	Novosibirsk
	Altaisky	Barnaul
Eastern Siberia and Far East	Zapadno-Sibirsky	Tumen
	Severo-Vostochny	Magadan
	Dalnevostochny	Khabarovsk
	Vostochno-Sibirsky	Krasnoyarsk
	Baikalsky	Irkutsk

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29. Analysis by Segment and Geography (continued)

Segment reporting (continued). The Bank's reporting by geographical segments as of 31 December 2004 follows:

	Moscow	European Russia	Ural	Western Siberia	Eastern Siberia and Far East	Unallocated	Total
Assets:							
Cash and cash equivalents	78,314,803	24,035,233	4,300,871	3,333,940	3,633,533	–	113,618,380
Trading securities	63,064,009	37,343,038	4,897,952	4,068,097	7,663,598	–	117,036,694
Due from banks	10,576,697					–	10,576,697
Securities available for sale	116,559,941	51,933,721	6,228,550	5,870,367	11,262,251	–	191,854,830
Loans and advances to customers	482,558,694	497,413,864	125,212,229	103,387,656	89,433,794	–	1,298,006,237
Securities acquired at original issuance	17,356,170	27,807,850	4,286,121	2,798,482	5,049,451	–	57,298,074
Premises and equipment	15,612,883	35,641,014	7,176,813	7,800,193	6,427,289	–	72,658,192
Unallocated assets	–	–	–	–	–	59,319,243	59,319,243
Total assets	784,043,197	674,174,720	152,102,536	127,258,735	123,469,916	59,319,243	1,920,368,347
Liabilities:							
Due to banks	(8,689,361)	(1,320,165)	(1,703,778)	(979,750)	(256,521)	–	(12,949,575)
Deposits from individuals	(340,015,477)	(576,225,941)	(103,191,941)	(91,408,206)	(98,513,973)	–	(1,209,355,538)
Customer accounts	(240,743,634)	(127,348,324)	(31,080,830)	(23,126,887)	(22,646,477)	–	(444,946,152)
Own securities issued	(44,749,769)	(23,738,650)	(11,159,244)	(7,918,664)	(3,528,578)	–	(91,094,905)
Other borrowed funds	(1,981,629)	–	–	–	–	–	(1,981,629)
Unallocated liabilities	–	–	–	–	–	(8,573,573)	(8,573,573)
Total liabilities	(636,179,870)	(728,633,080)	(147,135,793)	(123,433,507)	(124,945,549)	(8,573,573)	(1,768,901,372)
Income Statement							
	Moscow	European Russia	Ural	Western Siberia	Eastern Siberia and Far East		Total
Interest income on loans	40,418,497	62,997,638	16,036,834	14,789,181	11,713,916		145,956,066
Interest income on securities	10,103,245	7,602,484	1,132,205	850,042	1,090,242		20,778,218
Interest expense	(32,176,378)	(34,686,023)	(6,854,869)	(5,666,900)	(5,545,881)		(84,930,051)
Gains less losses arising from securities and derivatives	20,170,579	(780,261)	(342,957)	(129,506)	(105,027)		18,812,828
Gains less losses arising from dealing in foreign currencies	1,833,947	2,225,193	313,919	285,995	441,047		5,100,101
Foreign exchange translation gains less losses	(1,098,961)	(344,002)	(66,163)	(63,435)	(25,880)		(1,598,441)
Fee and commission income	5,020,122	12,902,586	2,520,660	2,782,208	2,972,530		26,198,106
Fee and commission expense	(1,265,357)	(65,058)	(15,201)	(18,729)	(39,691)		(1,404,036)
Other operating income	594,051	791,351	133,623	165,299	292,453		1,976,777
Acquired premises and equipment	3,784,674	7,814,822	1,573,623	1,710,308	1,409,279		16,292,706

29. Analysis by Segment and Geography (continued)

Segment reporting (continued). The Bank's reporting by geographical segments as of 31 December 2003 follows:

	Moscow	European Russia	Ural	Western Siberia	Eastern Siberia and Far East	Unallocated	Total
Assets:							
Cash and cash equivalents	21,969,883	14,833,773	4,363,452	2,107,196	2,341,624	–	45,615,928
Trading securities	73,430,220	43,538,426	6,783,415	5,360,631	6,196,836	–	135,309,528
Due from banks	78,626,610	2,947	–	–	–	–	78,629,557
Securities available for sale	107,337,827	48,799,881	7,602,711	6,007,862	6,945,792	–	176,694,073
Loans and advances to customers	304,909,766	294,220,945	74,076,365	67,657,164	51,499,375	–	792,363,615
Securities acquired at original issuance	39,299,286	24,088,878	3,752,894	2,965,635	3,428,622	–	73,535,315
Premises and equipment	12,839,124	34,296,240	6,331,978	6,830,713	5,803,416	–	66,101,471
Unallocated assets	–	–	–	–	–	109,251,771	109,251,771
Total assets	638,412,716	459,781,090	102,910,815	90,929,201	76,215,665	109,251,771	1,477,501,258
Liabilities:							
Due to banks	33,999,040	1,745,882	1,135,217	816,375	192,956	–	37,889,470
Deposits from individuals	263,237,951	469,477,799	87,222,495	77,394,316	81,248,278	–	978,580,839
Customer accounts	78,284,327	84,799,661	21,264,680	11,745,529	15,466,965	–	211,561,162
Own securities issued	48,200,993	28,986,992	13,757,251	9,492,559	3,572,570	–	104,010,365
Other borrowed funds	1,053,151	–	–	–	–	–	1,053,151
Unallocated liabilities	–	–	–	–	–	9,533,108	9,533,108
Total liabilities	424,775,462	585,010,334	123,379,643	99,448,779	100,480,769	9,533,108	1,342,628,095
	Moscow	European Russia	Ural	Western Siberia	Eastern Siberia and Far East	Total	
Interest income on loans	33,186,805	43,881,411	10,518,952	10,415,692	8,233,825	106,236,685	
Interest income on securities	11,876,152	9,775,343	1,609,899	1,301,214	1,310,150	25,872,758	
Interest expense	(25,884,663)	(35,382,260)	(7,026,050)	(5,767,114)	(5,582,907)	(79,642,994)	
Gains less losses arising from securities and derivatives	30,601,875	7,719,215	875,758	922,214	860,179	40,979,241	
Gains less losses arising from dealing in foreign currencies	1,324,558	1,958,444	265,813	268,566	456,712	4,274,093	
Foreign exchange translation gains less losses	(2,999,442)	(2,236,906)	(542,973)	(313,159)	(208,409)	(6,300,889)	
Fee and commission income	2,578,698	9,351,997	1,867,496	2,275,572	2,423,568	18,497,331	
Fee and commission expense	(513,475)	(50,334)	(14,218)	(20,885)	(45,810)	(644,722)	
Other operating income	261,569	1,359,576	507,162	234,065	242,134	2,604,506	
Acquired premises and equipment	2,298,986	6,141,119	1,133,810	1,223,115	1,039,165	11,836,195	

30. Interest Rate, Currency, Liquidity, Market and Credit Risks

Segment reporting (continued). The Bank's risk management processes give consideration to various uncertainties. The evaluation of these risks is based on balance sheet modelling and analysis of various scenarios. The results of such testing are measured by the exposure of the Bank's equity capital to loss based upon the scenarios modelled.

Interest rate risk. The Bank is exposed to interest rate pricing risk, principally as a result of lending to customers and other banks, at fixed interest rates in amounts and for periods, which differ from those of term deposits and other borrowed funds 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 often renegotiated to reflect current market conditions.

The table below summarises the effective average year-end interest rate, by major currencies, for monetary financial instruments outstanding as of 31 December 2004. The analysis has been prepared on the basis of weighted average interest rates for the various financial instruments using year-end effective rates.

	2004		2003	
	RR	Other currencies	RR	Other currencies
Assets				
Cash and cash equivalents	0.29%	1.00%	0.40%	0.70%
Due from banks	6.52%	4.87%	0.90%	1.50
Trading securities	7.67%	5.44%	6.50%	5.62%
Securities available for sale	6.31%	7.16%	7.28%	7.47%
Loans and advances to customers	14.36%	8.38%	15.31%	8.51%
Securities acquired at original issuance	8.36%	15.76%	25.62%	15.64%
Liabilities				
Due to banks	0.14%	1.95%	1.30%	2.80%
Deposits from individuals	7.20%	5.07%	8.70%	5.00%
Customer accounts	1.85%	2.18%	1.93%	3.61%
Own securities issued	3.71%	3.37%	5.67%	3.25%
Other borrowed funds	–	3.36%	–	3.01%

The sign “–” in the table above means, that the Bank does not have the respective assets or liabilities in the corresponding currency.

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Bank's interest rate sensitivity analysis based on the re-pricing of the Bank's assets and liabilities does not differ significantly from the maturity analysis disclosed in the table below. For certain interest sensitive instruments the Bank establishes limits of their respective maturities. The Bank evaluates its risk exposure under negative market conditions and considers these results in interest rate risk and asset and liability management. Interest rate limits and decisions in respect of interest rate policy are made by the Bank's Committee on Interest Rates and Limits.

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. Liquidity risk management at the Bank is performed on the basis of measuring liquidity surplus/deficit and liquidity ratios that are calculated using scenario analysis. Liquidity ratios limits are approved by the Committee on Interest Rates and Limits of the Bank at least once a year. The Bank has also developed an action plan to deal with liquidity issues in the event of an economic crisis. The table below shows assets and liabilities as of 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 matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank.

30. Interest Rate, Currency, Liquidity, Market and Credit Risks (continued)

Liquidity risk (continued). It is unusual for banks ever to be completely matched since business transactions are 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.

The liquidity position of the Bank as of 31 December 2004 is set out below.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Overdue / no stated maturity	Total
Assets							
Cash and cash equivalents	113,618,380	–	–	–	–	–	113,618,380
Mandatory cash balances - Central Bank	–	–	–	–	–	44,966,603	44,966,603
Trading securities	117,036,694	–	–	–	–	–	117,036,694
Due from banks	3,180,574	6,452,667	–	943,456	–	–	10,576,697
Securities available for sale	–	9,803,698	10,494,156	74,997,973	87,920,680	8,638,323	191,854,830
Loans and advances to customers	116,026,243	335,740,039	312,370,780	331,982,976	199,886,835	1,999,364	1,298,006,237
Securities acquired at original issuance	–	106,171	–	6,972,116	50,219,787	–	57,298,074
Tax asset	–	–	–	–	–	6,874,988	6,874,988
Premises and equipment	–	–	–	–	–	72,658,192	72,658,192
Other assets	4,326,224	1,388,303	693,711	729,852	198,442	141,120	7,477,652
Total assets	354,188,115	353,490,878	323,558,647	415,626,373	338,225,744	135,278,590	1,920,368,347
Liabilities							
Due to banks	(12,949,575)	–	–	–	–	–	(12,949,575)
Deposits from individuals	(243,544,271)	(381,472,642)	(195,161,400)	(299,449,674)	(89,727,551)	–	(1,209,355,538)
Customer accounts	(369,914,159)	(46,649,038)	(6,829,976)	(21,469,926)	(83,053)	–	(444,946,152)
Own securities issued	(46,495,606)	(13,031,764)	(3,038,812)	(28,519,210)	(9,513)	–	(91,094,905)
Other borrowed funds	(27,000)	(32,777)	(113,263)	(1,292,749)	(515,840)	–	(1,981,629)
Other liabilities	(6,369,197)	(668,422)	(388,952)	(96,270)	(198,643)	(2,089)	(8,573,573)
Total liabilities	(679,299,808)	(441,854,643)	(205,532,403)	(351,677,829)	(90,534,600)	(2,089)	(1,768,901,372)
Net liquidity gap	(325,111,693)	(88,363,765)	118,026,244	63,948,544	247,691,144	135,276,501	151,466,975
Cumulative liquidity							
gap at 31 December 2004	(325,111,693)	(413,475,458)	(295,449,214)	(231,500,670)	16,190,474	151,466,975	
Cumulative liquidity							
gap at 31 December 2003	(234,033,111)	(345,413,003)	(380,625,591)	(246,161,809)	(40,756,793)	134,873,163	

The entire portfolio of trading securities is classified within demand and less than one month as the portfolio is of a dealing nature and the Bank believes this is the proper presentation of its liquidity position. Overdue loans and advances to customers represent overdue payments of loan principal.

30. Interest Rate, Currency, Liquidity, Market and Credit Risks (continued)

Liquidity risk (continued). The Bank believes that in spite of a substantial portion of deposits from individuals being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these deposits provide a long-term and stable source of funding for the Bank. Further, the Bank's available-for-sale securities portfolio is presented above according to the contractual maturities of the securities. These securities represent an additional source of liquidity for the Bank in managing its cumulative liquidity gap.

Currency risk. Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. At year end the Bank had balances in RR and other currencies. Other currencies represent mainly amounts in US Dollars and Euro.

At 31 December 2004, the Bank has the following positions in currencies:

	RR	USD	Euro	Other currencies	Total
Assets					
Cash and cash equivalents	78,635,983	13,473,206	17,225,371	4,283,820	113,618,380
Mandatory cash balances -					
Central Bank	44,966,603	–	–	–	44,966,603
Trading securities	66,984,698	49,428,074	623,922	–	117,036,694
Due from banks	8,971,876	1,604,821	–	–	10,576,697
Securities available for sale	186,721,658	5,133,172	–	–	191,854,830
Loans and advances to customers	1,034,419,224	243,896,576	18,809,024	881,413	1,298,006,237
Securities acquired at original					
issuance	19,006,400	38,291,674	–	–	57,298,074
Tax asset	6,874,988	–	–	–	6,874,988
Premises and equipment	72,658,192	–	–	–	72,658,192
Other assets	7,195,651	227,055	50,701	4,245	7,477,652
Total assets	1,526,435,273	352,054,578	36,709,018	5,169,478	1,920,368,347
Liabilities					
Due to banks	(11,495,749)	(1,206,397)	(240,791)	(6,638)	(12,949,575)
Deposits from individuals	(975,062,574)	(190,168,113)	(42,705,395)	(1,419,456)	(1,209,355,538)
Customer accounts	(311,728,700)	(106,031,786)	(26,667,065)	(518,601)	(444,946,152)
Own securities issued	(56,072,640)	(34,252,993)	(769,272)	–	(91,094,905)
Other borrowed funds	–	(1,084,633)	(896,996)	–	(1,981,629)
Other liabilities	(8,216,368)	(292,547)	(64,360)	(298)	(8,573,573)
Total liabilities	(1,362,576,031)	(333,036,469)	(71,343,879)	(1,944,993)	(1,768,901,372)
Net balance sheet position	163,859,242	19,018,109	(34,634,861)	3,224,485	151,466,975
Off-balance sheet net notional position	(5,514,608)	(24,959,768)	28,925,183	1,637,837	88,644
Credit related commitments	108,810,989	37,350,414	5,783,007	564,887	152,509,297

30. Interest Rate, Currency, Liquidity, Market and Credit Risks (continued)

Currency risk (continued). At 31 December 2003, the Bank had the following positions in currency:

	RR	USD	EUR	Other currencies	Total
Net balance sheet position	114,292,619	41,121,277	(23,119,266)	2,578,533	134,873,163
Off-balance sheet net notional position	(2,364,478)	(22,451,134)	22,670,696	2,188,612	43,696
Credit related commitments	78,278,914	34,131,946	8,551,237	13,408	120,975,505

Market risk. The Bank takes an exposure to market risk due to price fluctuations in financial, currency and precious metals markets. The Bank sets limits on the value at risk that may be accepted in respect of the open positions in various financial products. The stop-loss limits are set by the Bank to prevent excessive losses when market conditions change significantly. Limits are monitored on a daily basis. Market risk limits are approved by the Committee on Interest Rates and Limits of the Bank. However, the use of this approach does not fully prevent losses outside of these limits in the event of more significant market movements.

Credit risk. The Bank takes an exposure to credit risk, which is the risk that a counterparty may not be able to pay amounts in full when due. The Bank has implemented an internal risk rating system in respect of its largest borrowers to assess probability of default on loans to these borrowers. To manage the level of credit risk, the Bank sets limits by one borrower, or a group of related borrowers, geographical and industry segments. Credit risk limits are approved by the Loans and Investments Committee, Interest rates and Limits Committee, and Credit Committees of regional head offices or branches within their authority. Procedures of risk limits setting, monitoring, usage, and control are governed by internal regulations. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review: limits for resident banks are reviewed monthly, for non-resident banks and foreign countries – not less than once a year, for corporate borrowers and subjects of the Russian Federation – at least twice a year. In certain cases defined by internal regulations, the Bank can perform an unscheduled review of established limits. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate or personal guarantees as well as by providing for loan losses.

The Bank's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the 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.

31. 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. The Bank is of the opinion that no material losses will be incurred and accordingly no provision has been made in these financial statements.

Tax legislation. Since Russian tax legislation is subject to varying interpretations, and considering the existing practice of arbitrary judgement made by tax authorities with regard to business activities, the Bank's interpretation of business activities may differ from that of the tax authorities.

The tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it becomes probable that transactions and activities that have not been challenged in the past may be challenged. As such, 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 preceding the year of review. Under certain circumstances reviews may cover longer periods.

31. Contingencies, Commitments and Derivative Financial Instruments (continued)

Tax legislation (continued). The tax authorities performed a comprehensive examination of tax compliance by the Bank during 2001 and 2002 in relation to substantially all types of taxes. In 2003 and 2004, the tax authorities performed numerous examinations in the regional outlets of the Bank. Additionally, the Bank's tax returns are subject to desk examinations by tax authorities upon their submission. None of these examinations identified any instance of material non-compliance by the Bank.

As of December 31, 2004, management believes that its interpretation of the relevant legislation is appropriate and there is minimal risk that additional taxes and penalties will be assessed by the relevant authorities.

Capital commitments. As of 31 December 2004, the Bank had capital commitments in respect of construction and computer equipment installation totalling RR 2,891,486 (2003: RR 2,785,341). The Bank has already allocated the necessary resources in respect of this commitment. The Bank believes that future net revenues and funding will be sufficient to cover this and any similar commitments.

Operating lease commitments. In the course of its business the Bank enters into a number of lease agreements. The majority of these lease agreements are cancellable. Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2004	2003
Not later than 1 year	2,445	109
Later than 1 year and not later than 5 years	488	372
Later than 5 years	1,270	729
Total operating lease commitments	4,203	1,210

Credit related commitments. The credit related commitments comprise loan commitments, letters of credit and guarantees. The contractual amount of these commitments represents the value at risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless. In general, most of the Bank's import letters of credit are collateralised with cash deposits or collateral pledged to the Bank and accordingly the Bank normally assumes minimal risk. Outstanding credit related commitments are as follows:

	2004	2003
Undrawn credit lines and commitments to extend credit	126,232,206	107,725,413
Import letters of credit	26,657,808	10,546,724
Export letters of credit	19,211,309	8,410,654
Guarantees issued	4,595,583	2,861,601
Letters of credit for domestic settlements	969,202	1,264,384
Less: cash deposits held as collateral	(25,156,811)	(9,776,039)
Less: provision for losses on credit related commitments	–	(57,232)
Total credit related commitments	152,509,297	120,975,505

31. Contingencies, Commitments and Derivative Financial Instruments (continued)

Derivatives. The Bank enters into derivative agreements that include forward, option and swap agreements with foreign currency, forward agreements with securities and precious metals and other derivatives. Currency-based and other derivatives are usually traded on the over-the-counter market on the basis of the standard contracts.

The table below includes contracts with a maturity date subsequent to 31 December 2004. These contracts were entered into in 2004 and are short term in nature.

	Domestic				Foreign			
	Principal or agreed amount of asset purchased	Principal or agreed amount of asset sold	Unrealised loss	Unrealised gain	Principal or agreed amount of asset purchased	Principal or agreed amount of asset sold	Unrealised loss	Unrealised gain
Spot transactions								
Foreign currency								
- purchase	–	–	–	–	29,236,892	29,208,997	(69)	27,964
- sale	302,052	302,483	(431)	–	192,264	192,239	(39)	64
Precious metals								
- purchase	–	–	–	–	16,957	16,855	(3)	105
Term deals								
Foreign currency								
- purchase	554,974	553,400	–	1,574	83,246	82,853	–	393
- sale	18,878	18,905	(28)	–	–	–	–	–
Precious metals								
- purchase	4,972,502	4,961,207	(144,598)	155,894	–	–	–	–
- sale	–	–	–	–	3,236,529	3,188,711	–	47,818
Total	5,848,406	5,835,995	(145,057)	157,468	32,765,888	32,689,655	(111)	76,344

Unrealised gains or losses in the table above reflect the fair value adjustment of outstanding derivatives as of each year-end. The Bank has recorded a net gain of RR 88,644 (2003: RR 43,695), which is included in gains less losses arising from securities and derivatives.

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

	2004 Nominal value	2003 Nominal value
Shares in companies held in other custodies	11,123,338	11,318,763
Debt securities of municipal authorities of RF	2,318,829	2,574,936
OVGVZ	1,472,818	1,595,698
Bills of exchange	1,400,591	1,495,452
GKO and OFZ	292,724	408,049
RF Eurobonds	2,775	2,945
Other securities	2,428,756	2,915,417

Assets pledged. As of 31 December 2004, the Bank has pledged securities with fair value of RR 41,885,229 as collateral against overnight interbank borrowings that the Bank takes on a regular basis from the Bank of Russia (2003: RR 36,938,861).

32. 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 a 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. 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 taking into account the existing volume of operations on the Russian financial markets.

The Bank has estimated that the fair value of certain balance sheet instruments is not materially different than their recorded values. These balance sheet instruments include cash, nostro accounts and term deposits, placements with banks and other financial institutions, securities held for trading or available for sale purposes, loans and advances to customers, deposits from banks and other financial institutions, current accounts and deposits from customers, certificates of deposit and bills of exchange and other short-term assets and liabilities which are of a contractual nature. The Bank believes that the carrying amount of these particular financial assets and liabilities approximates their fair value, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions (refer to Note 30). Fair values of securities acquired at original issuance have been disclosed in Note 10.

As set out in Note 4, external independent market quotations were not available for certain securities available for sale. These were fair valued by the Bank using relevant factors such as discounted cash flows and financial information of the underlying investments.

The fair values of equity securities in associated and subsidiary companies, share capital, premises and equipment, and other assets and liabilities which are not of a contractual nature are not calculated as they are not considered financial instruments under IAS 32, "Financial Instruments: Disclosure and Presentation".

33. Related Party Transactions

For the purposes of these 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, subsidiaries and companies with which the Bank has significant shareholders in common. These transactions include settlements, loans, deposit taking, trade finance and foreign currency transactions. These transactions are priced predominantly at market rates.

33. Related Party Transactions (continued)

The outstanding balances at the year-end and interest expense and income as well as other transactions for the year with related parties other than the Central Bank of the Russian Federation are as follows:

	2004	2003
Correspondent accounts and overnight deposits with other banks	–	2,617
Due from banks		
Interest income	788	3,264
Other income	688,426	404,192
Loans and advances to customers		
Loans outstanding	12,746,217	2,960,739
Allowance for loan impairment	(635,252)	(1,203,242)
Other funds due from customers	5,010	–
Interest income	266,310	171,958
Other income	54,692	114,790
Due to banks		
Correspondent accounts and overnight deposits of other banks	–	6,092
Interest expense	398	782
Other expense	1,315	20,192
Customer deposits		
Current/settlement accounts	991,808	200,265
Interest expense	10,144	6,519
Other expense	67,308	71,788

The Bank of Russia is the majority shareholder of the Bank. As noted in the financial statements, the Bank maintains a number of balances, and carries out a range of transactions with the Bank of Russia, which are not included in the above analysis. These transactions included settlements, deposit placement and deposit taking, transfer of funds to the mandatory cash balances in accordance with the Russian banking regulations. These transactions were priced predominantly at market rates, where applicable. Other transactions with the State or state enterprises are disclosed in Notes 6-10, 14.

The outstanding balances at the year-end and interest income and expense as well as other transactions for the year with the Bank of Russia are stated in the table below:

	2004	2003
Mandatory cash balances with the Bank of Russia as of year end	44,966,603	98,893,608
Account with the Bank of Russia as of year end (other than mandatory cash balances)	41,667,705	12,327,864
Loans and advances to the Bank of Russia as of year end (including reverse repo transactions with the Bank of Russia)	3,760,936	74,215,323
Interest income	2,357,852	4,680,894
Other income	29	74
Interest expense	(119,965)	(64,073)
Other expense	(181,240)	(151,552)

34. Capital Adequacy

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

As of 31 December 2004 and 2003, the Bank's international risk based capital adequacy ratio exceeded the minimum ratio of 8% recommended by the Basle Accord:

	2004	2003
Core capital adequacy ratio (Tier 1)	10.11%	12.71%
Total capital adequacy ratio (Tier 1 and Tier 2)	11.03%	13.75%

35. Subsequent events

In February 2005, the Bank issued 6.23% Loan Participation Notes due 2015 with interest rate step-up in 2010. The bonds were priced at par. The bonds have par value of USD 1,000,000 thousand with semi-annually interest payments from the issue date to the reset date. The transaction was structured as an issue of notes by UBS Luxembourg S.A., for the purpose of financing a subordinated loan to the Bank.