"Bank "St Petersburg" PLC Group

Consolidated Financial Statements and Auditors' Report

31 December 2004

Contents

PRICEWATERHOUSECOOPERS

ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya nab. 52/5
115054 Moscow
Russian Federation
Telephone +7 (095) 967 6000
Facsimile +7 (095) 967 6001

AUDITORS' REPORT

To the Board of Directors of "Bank "St Petersburg" PLC:

1 We have audited the accompanying consolidated balance sheet of "Bank "St Petersburg" PLC and its subsidiaries (the "Group" as defined in Note 1 to the consolidated financial statements) as at 31 December 2004, and the related consolidated statements of income, of cash flows and of changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Group's Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

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

Moscow, Russian Federation
24 June 2005

(in thousands of Russian Roubles)

	Note	2004	2003
Assets			
Cash and cash equivalents	5	1 678 978	1 843 995
Mandatory cash balances with the Central Bank of the Russian Federation		288 660	776 333
Trading securities	6	2 080 419	1 098 754
Due from other banks	7	320 217	221 488
Loans and advances to customers	8	10 395 170	6 282 572
Investment securities available for sale	9	729 339	500 518
Other assets	10	203 888	172 247
Investment in property held for resale	11	-	130 979
Premises and equipment	12	914 421	908 462
Total assets		**16 611 092**	**11 935 348**
Liabilities			
Due to other banks	13	623 833	646 903
Customer accounts	14	11 910 586	8 191 588
Debt securities in issue	15	2 017 234	1 639 467
Other borrowed funds	16	91 232	102 081
Other liabilities	17	75 194	251 741
Total liabilities		**14 718 079**	**10 831 780**
Minority share	18	-	**8 611**
Shareholders' equity			
Share capital	19	3 281 105	3 277 980
Share premium	20	1 628 031	1 131 156
Revaluation reserve for premises and equipment		224 461	194 896
Negative minority interest in subsidiary transferred to the Group	31	(2 620)	-
Accumulated deficit	21	(3 237 964)	(3 509 075)
Total shareholders' equity		**1 893 013**	**1 094 957**
Total liabilities, minority interest and shareholders' equity		**16 611 092**	**11 935 348**

Approved for issue by the Board of Directors and signed on its behalf on 24 June 2005.

A.V. Saveliev
Chairman of the Board

N.G. Tomilina
Chief Accountant

ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО "БАНК "САНКТ-ПЕТЕРБУРГ" • ОГРН 1027800000140 • ИНН 7831000027 • Банк "Санкт-Петербург" (ОАО) • Санкт-Петербург

(in thousands of Russian Roubles)

	Note	2004	2003
Interest income	22	1 467 106	1 050 490
Interest expense	22	(575 664)	(352 679)
Net interest income		**891 442**	**697 811**
Provision for loan impairment	7, 8	(190 993)	(144 561)
Net interest income after provision for loan impairment		**700 449**	**553 250**
Gains less losses arising from trading securities		79 898	76 838
Gains less losses arising from investment securities available for sale	9	30 844	91 251
Gains less losses arising from dealing in foreign currencies		97 226	51 279
Foreign exchange translation losses less gains		(38 615)	(30 646)
Fee and commission income	23	317 484	226 244
Fee and commission expense	23	(18 684)	(14 379)
Losses on origination of assets at rates below market	8	(15 665)	(2 920)
Net losses on origination of liabilities at rates above/below market	15	-	(1 891)
Provision for impairment of investment in property held for resale		-	(92 115)
Loss on disposal of investment in property held for resale	11	(16 139)	-
Gain on disposal of investments in subsidiaries	31	94 937	-
(Provision)/ recovery of provision for losses on credit related commitments	28	(851)	4 184
Net result from insurance activities		(82 513)	58 801
Other operating income		37 158	25 620
Operating income		**1 185 529**	**945 516**
Operating expenses	24	(933 314)	(753 953)
Profit before tax		**252 215**	**191 563**
Income tax credit	25	10 010	51 928
Profit after tax and before minority interest		**262 225**	**243 491**
Minority interest	18	10 635	535
Net profit		**272 860**	**244 026**

(in thousands of Russian Roubles)

	Note	2004	2003
Cash flows from operating activities			
Interest income received on loans and advances to customers		1 320 187	864 761
Interest income received on securities		139 685	148 494
Interest expense paid on deposits		(387 355)	(211 794)
Interest expense paid on securities		(124 915)	(53 611)
Income received from dealing in securities		67 480	114 457
Income received from dealing in foreign currencies		94 486	51 215
Fees and commissions received		317 484	226 244
Fees and commissions paid		(18 684)	(14 379)
Income received from insurance activities		379 176	58 803
Other operating income received		32 511	18 378
Operating expenses paid		(863 107)	(680 256)
Income tax paid		(63 342)	(12 457)
Cash flows from operating activities before changes in operating assets and liabilities		**893 606**	**509 855**
Changes in operating assets and liabilities			
Net decrease/ (increase) in mandatory cash balances with the Central Bank of the Russian Federation		487 673	(306 042)
Net increase in due from other banks		(113 701)	(119 331)
Net increase in loans and advances to customers		(4 414 121)	(3 122 820)
Net increase in trading securities		(977 034)	(139 803)
Net increase in other assets		(233 055)	(126 539)
Net increase/ (decrease) in due to other banks		758	(75 955)
Net increase in customer accounts		3 766 082	3 595 833
Net increase in debt securities in issue		377 658	939 546
Net decrease in other liabilities		23 822	102 946
Net cash (used in)/ provided from operating activities		**(188 312)**	**1 257 690**
Cash flows from investing activities			
Cash outflow from sale of share in subsidiaries	31	(141 600)	-
Acquisition of premises and equipment	12	(113 354)	(114 865)
Proceeds from sale of premises and equipment		39 442	(20 494)
Acquisition of investment securities available for sale	9	(230 828)	(34 855)
Proceeds from disposal and redemption of investment securities available for sale		-	42 406
Dividend income received		4 652	947
Net cash used in investing activities		**(441 688)**	**(126 861)**
Cash flows from financing activities			
Issue of ordinary shares		500 000	200 000
Decrease of other borrowed funds		(14 424)	(20 739)
Dividends paid	26	(1 633)	(1 949)
Net cash from financing activities		**483 943**	**177 312**
Effect of exchange rate changes on cash and cash equivalents		**(18 960)**	**(3 536)**
Net (decrease)/increase in cash and cash equivalents		**(165 017)**	**1 304 605**
Cash and cash equivalents as at the beginning of the year		1 843 995	539 390
Cash and cash equivalents as at the end of the year	5	**1 678 978**	**1 843 995**

During the 2004 the Group had several significant non-cash transactions relating to the sale of investment property held for resale and investments in subsidiaries. Refer to Notes 11 and 31.

(in thousands of Russian Roubles)

	Note	Share capital	Share premium	Revaluation reserve for premises	Accumulated deficit	Total shareholders' equity
Balance as at 1 January 2003		**3 277 180**	**931 956**	**163 209**	**(3 756 927)**	**615 418**
Decrease of revaluation reserve related to premises disposed		-	-	(5 618)	5 618	-
Deferred tax asset related to decrease of revaluation reserve		-	-	1 348	-	1 348
Release of impairment charge related to revaluation of premises		-	-	47 312	-	47 312
Deferred tax liability related to release of impairment charge		-	-	(11 355)	-	(11 355)
Share issue	19					
- Nominal value		800	-	-	-	800
- Share premium		-	199 200	-	-	199 200
Net profit for the year		-	-	-	244 026	244 026
Dividends declared	26					
- Ordinary shares		-	-	-	(1 571)	(1 571)
- Preference shares		-	-	-	(221)	(221)
Balance as at 31 December 2003		**3 277 980**	**1 131 156**	**194 896**	**(3 509 075)**	**1 094 957**
Release of impairment charge related to revaluation of premises	12	-	-	38 901	-	38 901
Deferred tax liability related to release of impairment charge	12, 25	-	-	(9 336)	-	(9 336)
Share issue	19					
- Nominal value		3 125	-	-	-	3 125
- Share premium		-	496 875	-	-	496 875
Negative minority interest in subsidiary charged to the Group	18,31	-	-	-	(2 620)	(2 620)
Net profit for the year		-	-	-	272 860	272 860
Dividends declared	26					
- Ordinary shares		-	-	-	(1 528)	(1 528)
- Preference shares		-	-	-	(221)	(221)
Balance as at 31 December 2004		**3 281 105**	**1 628 031**	**224 461**	**(3 240 584)**	**1 893 013**

(in thousands of Russian Roubles)

1 Principal Activities

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

Bank "St Petersburg" (the "Bank") is a commercial bank owned by shareholders whose liability is limited. The Bank's principal business activity is commercial banking operations with legal entities and retail customers within the Russian Federation. The Bank was formed in 1990 as an open joint stock company under the Laws of the Russian Federation as result of the privatization process of the former Leningrad regional office of Zhilsotsbank. The Bank has operated under a full banking licence issued by the Central Bank of the Russian Federation ("CBRF") since 1997. In May 2004 the Bank applied for participation in the state deposit insurance scheme, which was introduced by the Federal Law №177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. In May 2004 the Bank was inspected by the CBRF to assess its compliance with the criteria set for the state deposit insurance scheme and in accordance with the decision of the CBRF, the Bank was accepted to the state deposit insurance scheme on 25 November 2004.

The Bank has 9 branches within the Russian Federation: 8 branches are located in the North-West region of Russia and one branch is located in Moscow. (2003: 8 branches: 7 branches located in the the North-West region of Russia and one branch is located in Moscow)

The Bank's office is located at the following address: 193167, Russian Federation, Saint-Petersburg, Nevskiy prospect, 178.

The average number of the Group's employees during the year was 1218 (2003: 1 693).

Subsidiaries of the Bank included in these consolidated financial statements are:

No	Name	Activity	Country of registration	Legal form	% of equity controlled as at 31 December 2004	% of equity controlled as at 31 December2003
1	Leasing Company "St Petersburg"	Leasing	Russia	Limited Liability Company	52.00	100.00
2	Insurance Company "Gaide"	Insurance	Russia	Open Joint Stock Company	-	62.66
3	"General Insurance Company"	Insurance	Russia	Open Joint Stock Company	-	100.00

All the consolidated subsidiaries are owned through a number of special purpose entities. In 2004 the Group has disposed 48.00% of equity of subsidiary Leasing Company "St Petersburg" and the entire shareholding in remaining two subsidiaries. Refer to Note 31.

In January 2004, the Group together with its shareholder created a joint venture which established joint control over the investment property. Joint venture discontinued its operation in December 2004 upon the sale of item of investment property. Refer to Note 11.

2 Operating Environment of the Group

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

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

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

In 2004, following a general fall in confidence in the Russian banking system, the Russian banking sector experienced a reduction in liquidity. Management is unable to predict what effect, if any, any further significant deterioration in the liquidity or confidence in the Russian banking system could have on the financial position of the Group.

3 Basis of Preparation

Basis of Preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board, including International Accounting Standards ("IAS") issued by the International Accounting Standards Committee and Interpretations issued by the Standing Interpretations Committee. The Group maintains its accounting records in accordance with Russian banking and accounting regulations. These consolidated financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with IFRS.

These consolidated financial statements have been measured and presented in the national currency of the Russian Federation, Russian Roubles ("RR"). As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accounting for the effects of hyperinflation prior to 1 January 2003 is detailed in Note 4.

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

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

4 Significant Accounting Policies

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

Minority interest is that part of the net results of operations and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Minority interest in the consolidated balance sheet is recorded separate from liabilities and shareholders' equity. Minority interest related to operational results of the current year is recorded in the consolidated income statement.

Joint venture A joint venture is a contractual arrangement whereby Group together with other party undertakes an economic activity which is subject to joint control. Investment in joint venture is accounted using proportional method as described below.

The application of proportionate consolidation means that the consolidated balance sheet of the Group includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. The consolidated income statement of the Group includes its share of the income and expenses of the jointly controlled entity.

The Group discontinues the use of proportionate consolidation from the date on which it ceases to share in the control of a jointly controlled entity: when the venturer disposes of its interest, when joint venture ceases its operations or when such external restrictions are placed on the jointly controlled entity that the venturer no longer has joint control.

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

4 Significant Accounting Policies (Continued)

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

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

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

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

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

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included into trading securities. The corresponding liability is presented within due to other banks or customer accounts. Securities purchased under agreements to resell ("reverse repo agreements") are recorded as loans and advances to customers. The difference between the sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

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

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

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

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

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

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

4 Significant Accounting Policies (Continued)

Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the consolidated income statement.

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

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

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

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

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

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

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

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

Premises of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The revaluation reserve for premises included in shareholders' equity is transferred directly to accumulated deficit when the surplus is realised, i.e. on the retirement or disposal of the asset.

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

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

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

4 Significant Accounting Policies (Continued)

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

Premises – 2% per annum;

Office and computer equipment – 20% per annum;

Leasehold improvements – over the term of the underlying lease;

Assets in finance lease – over the term of finance lease agreement;

Intangible assets – 30% per annum.

Computer software development costs. Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Group and will probably generate economic benefits exceeding costs beyond one year, are recorded as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recorded as a capital improvement and added to the original cost of the software.

Investment in property held for resale. Property held for resale, which is not occupied by the Group, is classified in these consolidated financial statements as investment in property held for resale.

Investment in property held for resale comprises freehold land and buildings. Investment in property held for resale is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as discounted cash flow projections or recent prices on less active markets. The cost of investment in property held for resale is its cost less impairment at the date when construction or development is completed.

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

Finance leases. Where the Group is the lessor, upon inception of a finance lease, the present value of the lease payments ("net investment in leases") is recorded within due from other banks or loans and advances to customers depending on type of the lessee. Lease income is recorded over the term of the lease using the net effective yield method.

The inception of a lease is considered to be the date of the lease agreement, or commitment if earlier. For purposes of this definition, a commitment should be in writing, signed by the parties with an interest in the transaction, and should specifically set forth the principal terms of the transaction.

Initial direct costs incurred by lessors include amounts such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease. For finance leases initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

Any advance payments made by the lessee prior to commencement of the lease reduces the net investment in the leases. Finance income from leases is recorded within other operating income in the consolidated income statement.

When impaired, provisions against net investment in leases are created. A financial lease is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the original effective interest rate of the financial lease receivable.

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

4 Significant Accounting Policies (Continued)

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

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

If the Group purchases its own debt securities in issue, they are removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in other operating income.

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

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

Preference shares. Preference shares that are not redeemable and upon which dividends are declared at the discretion of Management, are classified as equity.

Insurance operations

- **Premiums written.** Upon inception of a contract, premiums are recorded as written and are earned primarily on a pro-rata basis over the term of the related policy coverage.

- **Provision for unearned premiums.** Provision for unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force as at the balance sheet date, calculated on a time apportionment basis. Provision for unearned premiums of subsidiaries purchased (sold) are included (excluded) as of the date of the transaction.

- **Claims paid.** Claims paid including claims handling expenses are charged to the consolidated income statement as incurred.

- **Loss provision.** Loss provision represents the accumulation of estimates for ultimate losses and includes outstanding claims provision ("OCP") and provision for losses incurred but not yet reported ("IBNR"). Estimates of claims handling expenses are included in both OCP and IBNR. OCP is provided in respect of claims reported, but not settled as at the balance sheet date. The estimation is made on the basis of information received by the Group during investigation of insurance cases after the balance sheet date less regresses. IBNR is actuarially determined by the Group by line of business, and includes assumptions based on prior years' claims and claims handling experience. The methods of determining such estimates and establishing the resulting provisions are continually reviewed and updated. Resulting adjustments are reflected in the consolidated income statement as they arise. The loss reserves are estimated on an undiscounted basis due to the relatively quick pattern of claims notification and payment.

- **Unexpired risk provision.** Unexpired risk provision ("URP") is recognised when unearned premiums are insufficient to meet claims and expenses, which may be incurred after the end of the financial year. To estimate the unexpired risk provision the Group uses historical experience and forward looking assumptions of ultimate loss ratios (including claims handling expenses) and the level of in-force portfolio maintenance expenses. The expected claims are calculated having regard to events that have occurred prior to the balance sheet date.

4 Significant Accounting Policies (Continued)

Reinsurance. The Group assumes and cedes reinsurance in the normal course of business. Ceded reinsurance contracts do not relieve the Group from its obligations to policyholders. Reinsurance assets include balances due from reinsurance companies for paid claims, including claims handling expenses, and premiums ceded to the Group. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance payables are obligations of the Group for the transfer of reinsurance premiums to reinsurers and of the Group's share in claims in respect of insurance cases reinsured by the Group.

Deferred acquisition costs. Acquisition costs, representing commissions, salaries and certain other underwriting expenses, which vary with and are incurred in connection with the acquisition or renewal of insurance policies, are deferred and amortised over the period in which the related written premiums are earned. Deferred acquisition costs are calculated separately for each line of business and are reviewed by line of business at the time of the policy issue and at the end of each accounting period to ensure they are recoverable based on future estimates.

Payables. All payables are accounted for on the accruals basis. Reinsurance receivables and payables are offset where the legal right for this offset exists.

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

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

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

Deferred income tax relating to the fair value remeasurement of loans and advances provided to shareholders at interest rates different from market rates, which is charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recorded in the consolidated income statement when the gain or loss is realised.

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

Fees and other income and expense items are generally recorded on an accrual basis when the service has been provided. Loan commitment fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recorded as an adjustment to the effective interest on the loan.

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

Monetary assets and liabilities denominated in foreign currency are translated into Russian Roubles at the official exchange rate of the CBRF at the balance sheet date. Translation differences on debt securities and other monetary

(in thousands of Russian Roubles)

4 Significant Accounting Policies (Continued)

financial assets measured at fair value are included in foreign exchange translation gains and losses. Translation differences on non-monetary items such as equity securities held for trading or available for sale are recorded as part of the fair value gain or loss.

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

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

Changes in the fair value of derivative instruments are included in gains less losses arising from dealing in foreign currency. The Group does not apply hedge accounting.

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

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

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

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

As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at as 31 December 2002 are treated as the basis for the carrying amounts in these consolidated financial statements.

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

The CPI for the five years ended 31 December 2002 and the respective conversion factors are the following:

	CPI	Conversion Factor
1998	1 216 400	2.24
1999	1 661 481	1.64
2000	1 995 937	1.37
2001	2 371 572	1.15
2002	2 730 154	1.00

(in thousands of Russian Roubles)

4 Significant Accounting Policies (Continued)

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

Staff costs and related contributions. The Group's contributions to the Russian Federation state pension and social insurance funds in respect of the salary of its employees are expensed as incurred and included into staff costs. These payments have defined contribution nature.

5 Cash and Cash Equivalents

	2004	2003
Cash on hand	752 612	481 183
Cash balances with the CBRF (other than mandatory reserve deposits)	691 388	905 854
Correspondent accounts and overnight placements with other banks		
- Russian Federation	63 787	349 221
- Other countries	153 435	88 549
Settlement accounts with trading systems	17 756	19 188
Total cash and cash equivalents	**1 678 978**	**1 843 995**

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 27. The information on related party balances is disclosed in Note 30.

6 Trading Securities

	2004	2003
Municipal bonds	723 391	558 099
Federal loan bonds (OFZ bonds)	710 733	120 984
Corporate bonds	331 188	-
Russian Federation Eurobonds	202 800	283 155
Corporate shares	112 307	65 200
Promissory notes	-	65 346
Deposit certificates	-	5 970
Total trading securities	**2 080 419**	**1 098 754**

Municipal bonds are Russian Federation Rouble denominated securities issued by the municipal administrations of Moscow and St. Petersburg and Volgograd Region. Bonds are issued at a discount to nominal value, have maturity dates from 18 May 2006 to 6 August 2014, coupon of 9 – 14.5% p.a. in 2004 and yield to maturity from 7.1% to 10.3% p.a. as at 31 December 2004, depending on the type of bond issue.

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds are issued at a discount to face value, have maturity dates from 2 August 2006 to 29 August 2018, coupon rate of 10 - 14% p.a. in 2004 and yield to maturity from 5.1% to 7.8% p.a. as at 31 December 2004, depending on the type of bond issue.

Corporate bonds are interest bearing Rouble denominated securities, issued by Russian companies, and are freely tradable at the Russian market. These bonds have maturity dates from 18 January 2007 to 19 April 2007, coupon rate of 8 - 10% p.a. and yield to maturity from 7.4% to 10.7% p.a. as at 31 December 2004, depending on the type of bond issue.

Russian Federation Eurobonds are interest bearing securities denominated in USD, issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. These bonds have maturity date of 31 March 2010, coupon rate of 8.25% p.a. and yield to maturity 4.67% p.a. as at 31 December 2004.

Corporate shares are shares of Russian companies.

(in thousands of Russian Roubles)

6 Trading Securities (Continued)

As at 31 December 2004 included in trading securities are municipal bonds pledged under sale and repurchase agreements whose fair value is RR 427 298 thousand (2003: RR 365 309 thousand). Refer to Notes 14 and 28.

Geographical, currency, maturity and interest rate analyses of trading securities are disclosed in Note 27.

The Bank is licensed by the Federal Commission on Securities Markets for trading in securities.

7 Due from Other Banks

	2004	2003
Current term placements with other banks	321 683	221 425
Overdue placements with other banks	3 752	3 982
Net investment in lease	1 611	3 039
Less: Provision for loan impairment	(6 829)	(6 958)
Total due from other banks	**320 217**	**221 488**

As at 31 December 2004 the Group had issued a short-term loan to a Russian bank, related party, in the amount of RR 153 848 thousand (2003: RR 111 051 thousand) that constituted 47% (2003: 49%) of the gross amount of due from other banks. The loan is repayable on 20 January 2005.

Movements in the provision for impairment of due from other banks are as follows:

	Note	2004	2003
Provision for loan impairment as at 1 January		**6 958**	**6 086**
(Recovery of)/provision for loan impairment during the year		(129)	872
Provision for loan impairment as at 31 December		**6 829**	**6 958**

As at 31 December 2004 the estimated fair value of due from other banks was RR 320 217 thousand (2003: RR 221 488 thousand). Refer to Note 29.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 27. The information on related party balances is disclosed in Note 30.

(in thousands of Russian Roubles)

8 Loans and Advances to Customers

	2004	2003
Current loans	10 971 203	6 737 236
Overdue loans	83 399	98 834
Reverse sale and repurchase agreements	75 532	159 550
Net investment in lease	111 370	34 192
Less: Provision for loan impairment	(846 334)	(747 240)
Total loans and advances to customers	**10 395 170**	**6 282 572**

As at 31 December 2004 included in current loans is a loan in the amount of RR 171 146 thousand issued to a company controlled by the Group's management. This loan was issued at a rate lower than market rates prevailing at the date of the loan issue. As at 31 December 2004 the effect of remeasurement of loan to its fair value at origination, in accordance with the provisions of IAS 39, has resulted in a negative adjustment of RR 14 440 thousand which is recorded in the consolidated income statement.

During 2004 a loss on origination of loans issued to other customers at rates below market in the amount of RR 1 225 thousand was recorded in the consolidated income statement.

During 2003 a loss on origination of loans at rates below market in the amount of RR 4 436 thousand and a gain on origination of loans at rates above market in the amount of RR 1 516 thousand were recorded on a net basis in the consolidated income statement as net loss on origination of assets at rates below market in the amount of RR 2 920 thousand.

As at 31 December 2004 securities purchased under reverse sale and repurchase agreements are municipal and corporate bonds with a fair value of RR 84 922 thousand (2003: corporate promissory notes with a fair value of RR 159 550 thousand).

(in thousands of Russian Roubles)

8 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment are as follows:

	2004	2003
Provision for loan impairment as at 1 January	747 240	603 584
Provision for loan impairment during the year	191 122	143 689
Loans and advances to customers written off during the year as uncollectable	(92 028)	(33)
Provision for loan impairment as at 31 December	**846 334**	**747 240**

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

	2004		2003	
	Amount	**%**	**Amount**	**%**
Trade	2 542 381	22.6	1 664 094	23.7
Heavy machinery	2 487 904	22.1	1 064 139	15.1
Construction	2 105 258	18.7	1 147 297	16.3
Leasing and financial services	833 808	7.4	746 052	10.6
Real estate operations	480 881	4.3	127 391	1.8
Project financing	459 665	4.1	404 710	5.8
City administrations and municipalities	419 590	3.7	448 647	6.4
Consumer goods and food industry	355 068	3.2	228 792	3.3
Chemical industry	214 471	1.9	159 397	2.3
Energy	169 382	1.5	91 091	1.3
Individuals	148 278	1.3	113 583	1.6
Mass media	62 297	0.6	-	-
Water supply and servicing	26 598	0.2	149 732	2.1
Transport	19 298	0.2	115 000	1.6
Other	916 625	8.2	569 887	8.1
Total loans and advances to customers (aggregate amount)	**11 241 504**	**100.0**	**7 029 812**	**100.0**

As at 31 December 2004 the Group had 12 borrowers with aggregated loan amounts above RR 190 000 thousand. The total aggregate amount of these loans was RR 3 680 918 thousand or 33% of the gross loan portfolio.

As at 31 December 2003 the Group had 11 borrowers with aggregated loan amounts above RR 110 000 thousand. The total aggregate amount of these loans was RR 1 918 455 thousand or 27% of the gross loan portfolio.

As at 31 December 2004 the estimated fair value of loans and advances to customers was RR 10 193 057 thousand (2003: RR 6 424 212 thousand). Refer to Note 29.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 27. The information on related party balances is disclosed in Note 30.

(in thousands of Russian Roubles)

9 Investment Securities Available for Sale

	2004	2003
VneshEconomBank 3% coupon bonds (VEB)	717 881	496 682
Other equity investments	11 458	3 836
Total investment securities available for sale	**729 339**	**500 518**

VEB bonds are interest bearing securities denominated in USD and issued by the Ministry of Finance of the Russian Federation. The bonds are purchased at a discount to nominal value and carry an annual coupon of 3% p. a. The bonds have maturity dates from 14 May 2008 to 14 May 2011 and a yield to maturity from 5.2% to 5.9% p.a. as at 31 December 2004, depending on the type of bond issue.

Other equity investments are represented by the shares of Russian companies and participation rights.

The movements in investment securities available for sale are as follows:

	2004	2003
Carrying amount as at 1 January	**500 518**	**466 813**
Accrued interest income on investment securities available for sale	4 184	(7 394)
Movement in fair value of investment securities available for sale during the year	30 844	91 251
Acquisition of investment securities available for sale	230 828	34 855
Disposal of investment securities available for sale	-	(35 723)
Exchange differences relating to debt investment securities	(37 035)	(49 284)
Carrying amount as at 31 December	**729 339**	**500 518**

Geographical, currency, maturity and interest rate analyses of investment securities available for sale are disclosed in Note 27.

10 Other Assets

	Note	2004	2003
Debtors on sale of investment in property held for resale	11	132 672	-
Trade debtors and prepayments		24 844	104 656
Prepaid taxes		17 708	6 953
Plastic cards debtors		15 141	11 998
Debtors on sale of investments in subsidiaries	31	6 137	-
Fair value of derivative financial instruments	28	2 832	95
Settlements on conversion operations		596	20 212
Settlements on insurance operations		-	24 775
Prepaid expenses		-	2 324
Other		3 958	1 234
Total other assets		**203 888**	**172 247**

Settlements on insurance operations represent amount due from policyholders under insurance contracts, amounts due from reinsurers under reinsurance agreements and deferred acquisition costs.

Geographical, currency and maturity analyses of other assets are disclosed in Note 27.

(in thousands of Russian Roubles)

11 Investment in property held for resale

Investment in property held for resale represents an investment in the construction of Hotel 'Severnaya Korona' (JSC Interhotel-Petrograd), St Petersburg. The Group has been involved in this project since 1994. The construction was not completed due to a dispute with constructor.

In January 2004, the Group together with its shareholder created a joint venture which established joint control over the investment property and agreed to share sale proceeds in proportion of 62.2% for the shareholder of the Group and 37.8% for the Group. The purpose for creating the joint venture was to sell investment property using the know-how and contacts of both parties. The cost of investment in property held for resale less impairement provision as at 31 December 2003 was RR 130 979 thousand. The Group transferred to the joint venture the investment property with a fair value of RR 589 090 thousand (equivalent of USD 20 000 thousand) as at the date of transfer together with all the related obligations due to construction company and amounts payable to the shareholder (Refer to Note 28), where the shareholder of the Group had contributed towards the settlement with the constructor and had also subsidised maintenance costs. At the end of 2004, the participants joint venture disposed the investment property held for resale for RR 350 705 thousand. Based on the agreement between the venturers, the revenue received from the sale was used to settle the amount of USD 1 700 thousand due to constructor and the remaining financial result was divided between the Group and its shareholder in the agreed proportion. As a result, the Group has recognised its part of the loss on sale of investment in property in the joint venture in the amount of RR 16 139 thousand in these consolidated statement of income.

Group has reflected its proportional share of the assets and liabilities of the joint venture. Accordingly, trade debt on sale of investment in property held for resale is disclosed within other assets in the amount of RR 132 672 thousand. The corresponding liability representing the balances due to constructor in the amount of RR 17 831 thousand is disclosed within other liabilities. The debtors on sale of investment in property held for resale was substantially repaid in June 2005. Refer to Notes 10, 17 and 28.

12 Premises and Equipment

	Note	Premises	Office and computer equipment	Construction in progress	Intangible assets	Total
Net book amount as at 31 December 2003		**737 930**	**127 623**	**36 771**	**6 138**	**908 462**
Book amount at cost or valuation						
Opening balance		879 738	265 948	36 771	13 846	1 196 303
Additions		21 574	82 325	9 441	14	113 354
Transfers		-	7 971	(7 971)	-	-
Disposals		(1 982)	(11 312)	(26 149)	-	(39 443)
Disposal of subsidiaries		(22 683)	(30 323)	(2 371)	(14)	(55 391)
Closing balance		**876 647**	**314 609**	**9 721**	**13 846**	**1 214 823**
Accumulated depreciation						
Opening balance		141 808	138 325	-	7 708	287 841
Depreciation charge	24	21 646	42 238	-	2 538	66 422
Release of impairment		(38 901)	-	-	-	(38 901)
Disposals		(185)	(8 337)	-	-	(8 522)
Disposal of subsidiaries		(750)	(5 688)	-	-	(6 438)
Closing balance		**123 618**	**166 538**	**-**	**10 246**	**300 402**
Net book amount as at 31 December 2004		**753 029**	**148 071**	**9 721**	**3 600**	**914 421**

Construction in progress consists mainly of construction and refurbishment of branch premises and equipment. Upon completion, assets are transferred to the premises, office and computer equipment categories.

(in thousands of Russian Roubles)

12 Premises and Equipment (Continued)

The premises of the Group were revalued at 31 December 2002. The revaluation was performed by an independent professional real estate appraisal company, which is registered in St. Petersburg. The basis for the appraisal was market value of the premises.

The release of impairment charge in the amount of RR 38 901 thousand (2003: RR 41 696 thousand) relates to the release of a previously created provision for impairment recorded in the consolidated statement of changes in shareholders' equity. The release of provision was made based on Management assessment of the fair value of the premises of the Group. As at 31 December 2004 a deferred tax liability of RR 9 336 thousand (2003: RR 10 007 thousand) related to the release of impairment provision has been recorded as the movement in the consolidated statement of changes in shareholder's equity in accordance with the applicable accounting standards. Refer to Note 25.

As at 31 December 2004 included in premises and equipment are premises with net book value of RR 87 182 thousand (2003: RR 224 022 thousand) pledged to guarantee the payments related to the judgement of the Supreme Court of Switzerland. Refer to Note 28.

13 Due to Other Banks

	2004	2003
Correspondent accounts and overnight placements of other banks	19 680	792
Current term placements of other banks	604 153	646 111
Total due to other banks	**623 833**	**646 903**

As at 31 December 2004 the estimated fair value of due to other banks was RR 623 833 thousand (2003: RR 646 903 thousand). Refer to Note 29.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 27. The information on related party balances is disclosed in Note 30.

14 Customer Accounts

	2004	2003
State and public organisations		
- Current/settlement accounts	2 093 192	2 082 843
- Term deposits	166 750	197 711
Other legal entities		
- Current/settlement accounts	3 356 334	2 306 980
- Term deposits	998 560	486 362
- Sale and repurchase agreements	409 770	360 379
Individuals		
- Current/demand accounts	882 209	506 523
- Term deposits	4 003 771	2 250 790
Total customer accounts	**11 910 586**	**8 191 588**

As at 31 December 2004 included in customer accounts are sale and repurchase agreements with legal entities. Securities sold under these sale and repurchase agreements are municipal bonds with the fair value of RR 427 298 thousand (2003: RR 365 309 thousand). As at 31 December 2004 these securities had been recorded in the consolidated balance sheet as municipal bonds within trading securities. Refer to Notes 6 and 28.

(in thousands of Russian Roubles)

14 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

	2004		2003	
	Amount	%	Amount	%
Individuals	4 885 980	41.0	2 757 314	33.7
Financial services	1 357 005	11.4	727 467	8.9
Manufacturing	798 919	6.7	404 729	4.9
Cities and municipalities	712 702	6.0	1 742 334	21.3
Art, science and education	621 200	5.2	413 333	5.0
Real estate	619 796	5.2	44 915	0.5
Construction	606 950	5.1	549 995	6.7
Trade	570 104	4.8	501 577	6.1
Transport	507 342	4.3	271 189	3.3
Medical institutions	317 802	2.7	125 628	1.5
Communications	14 474	0.1	62 942	0.8
Energy	13 815	0.1	27 270	0.3
Other	884 497	7.4	562 895	7.0
Total customer accounts	**11 910 586**	**100.0**	**8 191 588**	**100.0**

As at 31 December 2004 the Group had two customers with balances above RR 190 000 thousand. The aggregate balance of these customers was RR 762 815 thousand or 6.4% of total customer accounts.

As at 31 December 2003 the Group had two customers with balances above RR 110 000 thousand, including one customer with aggregate balance over RR 1 300 000 thousand. This balance has maturity "on demand and within 30 days" and represents 23.1% of all customer accounts balances with maturity on demand and less than 30 days. The aggregate balance of these customers was RR 1 457 058 thousand or 17.8% of total customer accounts.

There are no deposits held as collateral for irrevocable commitments under import letters of credit. Refer to Note 28.

As at 31 December 2004 the estimated fair value of customer accounts was RR 11 910 586 thousand (2003: RR 8 191 588 thousand). Refer to Note 29.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 27. The information on related party balances is disclosed in Note 30.

15 Debt Securities in Issue

	2004	2003
Promissory notes	1 501 556	1 324 667
Deposit certificates	515 678	314 800
Total debt securities in issue	**2 017 234**	**1 639 467**

During 2003 net loss on origination of debt securities at rates above/below market in the amount of RR 1 891 thousand was recorded in the consolidated income statement.

As at 31 December 2004 the estimated fair value of debt securities in issue was RR 2 017 234 thousand (2003: RR 1 639 467 thousand). Refer to Note 29.

Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 27. The information on debt securities in issue held by related parties is disclosed in Note 30.

(in thousands of Russian Roubles)

16 Other Borrowed Funds

	2004	2003
Funds attracted from Ministry of Finance and Ministry of Construction of the Russian Federation under Housing facility program	41 664	56 388
Subordinated loan	41 947	34 982
Funds attracted from Ministry of Finance of the Russian Federation under FIDP facility	7 621	10 711
Total other borrowed funds	**91 232**	**102 081**

As at 31 December 2004 the Group had USD 1 501 thousand, equivalent of RR 41 664 thousand (2003: USD 1 914 thousand, equivalent of RR 56 388 thousand) of funds attracted from Ministry of Finance and Ministry of Construction of the Russian Federation under a facility of World Bank for Reconstruction and Development. The facility was provided for financing construction of houses and development of construction industry in Russia in 1996. As at 31 December 2004 the loan carried variable interest rates from 8.53% to 10.87% depending on tranche (2003: from 3.87% to 10.87% depending on tranche) and should be repaid by 15 January 2008 in equal semi-annual instalments starting July 1998.

In 2000 the Group attracted a subordinated loan from a Russian company. The loan has nominal value of RR 50 000 thousand and its amortised cost as at 31 December 2004 amounts to RR 41 947 thousand (2003: RR 34 982 thousand). The loan matures in December 2005 and bears zero nominal interest rate. The loan is not collateralised. The obligation to repay the loan in the event of liquidation of the Group is subordinated to the rights of other creditors and depositors of the Group.

As at 31 December 2004 the Group has USD 275 thousand, equivalent of RR 7 621 thousand (2003: USD 364 thousand, equivalent of RR 10 711 thousand) of funds attracted from Ministry of Finance of the Russian Federation. These funds were provided to the Group under Financial Institution Development Program in 1995. The funds obtained under this facility bear variable interest rate from 5.01% to 6.27% as at 31 December 2004 depending on tranche (2003: from 4.14% to 6.46% depending on tranche) and should be repaid by 15 July 2007 in equal instalments starting from July 1999 semi-annually.

As at 31 December 2004 the estimated fair value of other borrowed funds was RR 94 472 thousand (RR 106 456 thousand). Refer to Note 29. Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 27.

17 Other Liabilities

	Note	2004	2003
Deferred tax liability	25	29 894	30 780
Due to construction company	11	17 831	-
Trade creditors		11 501	39 696
Taxes payable		5 231	6 202
Plastic cards creditors		4 007	2 778
Provision for losses on credit related commitments	28	1 587	736
Settlements on conversion operations		1 549	660
Dividends payable	26	438	322
Unearned premiums reserve net of reinsurers share		-	97 916
Loss reserves net of reinsurers share		-	67 219
Other		3 156	5 432
Total other liabilities		**75 194**	**251 741**

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 27. The information on related party balances is disclosed in Note 30.

(in thousands of Russian Roubles)

18 Minority interest

The table below represents the movements in minority interest of the Group:

	Note	2004	2003
Minority interest as at 1 January		**8 611**	**-**
Share of net loss of subsidiary		(10 635)	(535)
Acquisition of subsidiaries		-	9 146
Partial disposal of subsidiary		(2 620)	-
Disposal of Insurance Company "Gaide"	31	(686)	-
Negative minority interest in partially disposed subsidiary charged to the Group		2 620	-
Share issue of subsidiary		2 710	-
Minority interest as at 31 December		**-**	**8 611**

19 Share Capital

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

	2004			2003		
	Number of shares	Nominal amount	Inflation adjusted amount	Number of share	Nominal amount	Inflation adjusted amount
Ordinary shares	17 015 000	17 015	3 121 744	13 890 000	13 890	3 118 619
Preference shares	2 010 000	2 010	159 361	2 010 000	2 010	159 361
Total share capital	**19 025 000**	**19 025**	**3 281 105**	**15 900 000**	**15 900**	**3 277 980**

All ordinary shares have a nominal value of RR 1 per share, rank equally and carry one vote.

Preference shares have a nominal value of RR 1 and carry no voting rights, but rank ahead of the ordinary shares in the event of liquidation of the Bank. They carry a minimum annual dividend of 11%. These shares are not redeemable. Dividends are declared at the discretion of shareholders. If dividends are not declared, the preference shareholders obtain the right to vote as common shareholders until the time that the dividend is paid. Dividend payments on preference shares for the periods where preference shares were given the right to vote are not subsequently compensated from future profits of the Bank.

On 28 December 2004 the Central Bank of Russian Federation registered the issue of 3 125 000 ordinary shares of the Bank. The shares were sold for RR 160 each resulting in increase of share capital in the amount of RR 3 125 thousand and share premium in the amount of RR 496 875 thousand. This increase in share capital was received in cash.

On 29 September 2003 the Central Bank of Russian Federation registered the issue of 800 000 ordinary shares of the Bank. The shares were sold for RR 250 each resulting in an increase of share capital in the amount of RR 800 thousand and share premium in the amount of RR 199 200 thousand. This increase in share capital was received in cash.

20 Share Premium

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

In respect of shares subscribed in foreign currency before 1 July 1997, the share premium was the difference between the nominal value of the shares and the Russian Rouble value of foreign currency contributions to the share capital translated at the official exchange rate of the CBRF ruling on the date of the contributions.

(in thousands of Russian Roubles)

21 Accumulated Deficit

In accordance with Russian legislation, companies-members of the Group distribute profits as dividends or allocate them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Group's unaudited reserves under Russian Accounting Rules as at 31 December 2004 are RR 616 246 thousand (2003: RR 357 027 thousand (unaudited)).

22 Interest Income and Expense

	2004	2003
Interest income		
Loans and advances to customers	1 280 122	882 796
Trading securities	121 627	127 438
Due from other banks	35 663	25 194
Investment securities available for sale	25 324	12 329
Correspondent accounts with other banks	4 370	2 733
Total interest income	**1 467 106**	**1 050 490**
Interest expense		
Term deposits of individuals	290 086	128 535
Debt securities in issue	140 012	83 758
Term deposits of legal entities	73 049	36 198
Current/settlement accounts	33 705	71 262
Term placements of other banks	26 832	20 888
Correspondent accounts of other banks	4 361	7 378
Other borrowed funds	7 619	4 660
Total interest expense	**575 664**	**352 679**
Net interest income	**891 442**	**697 811**

23 Fee and Commission Income and Expense

	2004	2003
Fee and commission income		
Commission on settlement transactions	158 279	107 433
Commission on cash transactions	58 422	53 274
Commission on plastic cards & cheques settlements	47 648	22 778
Commission on cash collection	26 627	18 702
Commission on transactions with foreign currency	14 534	12 774
Commission on guarantees issued	6 218	600
Commission on transactions with securities	1 135	3 355
Other	4 621	7 328
Total fee and commission income	**317 484**	**226 244**
Fee and commission expense		
Commission on plastic cards & cheques settlements	10 325	6 035
Commission on banknote transactions	4 119	5 180
Commission on settlement transactions	3 669	2 861
Commission on cash collection and cash transactions	298	303
Other	273	-
Total fee and commission expense	**18 684**	**14 379**
Net fee and commission income	**298 800**	**211 865**

(in thousands of Russian Roubles)

24 Operating Expenses

	Note	2004	2003
Staff costs		381 750	328 868
Administrative expenses		193 291	105 088
Depreciation of premises and equipment	12	66 422	56 925
Property rent expenses		53 353	45 561
Taxes other than on income		49 022	45 695
Other expenses related to premises and equipment		42 829	50 143
Maintenance expenses		36 292	43 817
Security expenses		35 195	28 906
Advertising and marketing		15 099	11 393
Professional services		2 691	517
Charity expenses		2 198	3 008
Other		55 172	34 032
Total operating expenses		**933 314**	**753 953**

25 Income Taxes

Income tax expense comprises the following:

	2004	2003
Current tax charge	57 521	2 447
Deferred taxation movement due to origination and reversal of temporary differences	(58 195)	(44 368)
Less: Deferred tax liability, recorded directly as the movement in the statement of changes in shareholders' equity (Note 12)	(9 336)	(10 007)
Income tax credit for the year	**(10 010)**	**(51 928)**

The income tax rate applicable to the majority of the Group's income is 24% (2003: 24%).

As at 31 December 2004 a deferred tax liability has been charged directly as a movement in the consolidated statement of changes in shareholders' equity in amount of RR 9 336 thousand (2003: net deferred tax liability in amount of RR 10 007 thousand) relating to the release of impairment charge for premises. Refer to Note 12.

	2004	2003
IFRS profit before tax	**252 215**	**191 563**
Theoretical tax charge at the applicable statutory rate (2004: 24%; 2003: 24%)	60 532	45 975
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income, which is exempt from taxation	(26 820)	(96 397)
- Non deductible expenses	3 533	3 345
- Non-taxable gain on disposal of subsidiaries	(38 841)	-
- Income on government securities taxed at different rates	(11 991)	(10 572)
- Other non temporary differences	3 577	5 721
Income tax credit for the year	**(10 010)**	**(51 928)**

(in thousands of Russian Roubles)

25 Income Taxes (Continued)

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

	2002	Movement	2003	Movement	Disposal of subsidiaries	2004
Tax effect of deductible temporary differences						
Loan impairment provision	-	62 369	62 369	(24 851)	-	37 518
Debtors on sale of investment in property held for resale	10 987	22 108	33 095	3 873	-	36 968
Premises and equipment: depreciation and impairement provision	75 417	(37 198)	38 219	(8 825)	-	29 394
Accrued income	-	-	-	27 356	1 043	28 399
Debtors on sale of subsidiaries	-	-	-	16 057	-	16 057
Fair valuation of loans and advances	5 299	(5 299)	-	2 128	(294)	1 834
Insurance reserves	-	-	-	55 989	(55 989)	-
Fair valuation of securities	31 343	(23 311)	8 032	(8 032)	-	-
Other	16 597	(13 981)	2 616	305	(2 143)	778
Net deferred tax asset	**139 643**	**4 688**	**144 331**	**64 000**	**(57 383)**	**150 948**
Tax effect of taxable temporary differences						
Revaluation of premises and equipment	(184 177)	21 017	(163 160)	(3 171)	-	(166 331)
Fair valuation of securities	-	-	-	(10 516)	75	(10 441)
Fair valuation of attracted funds	(8 482)	5 791	(2 691)	758	-	(1 933)
Fair valuation of loans and advances	-	(3 960)	(3 960)	3 960	-	-
Loan impairment provision	(19 168)	19 168	-	-	-	-
Other	(2 964)	(2 336)	(5 300)	3 163	-	(2 137)
Gross deferred tax liability	**(214 791)**	**39 680**	**(175 111)**	**(5 806)**	**75**	**(180 842)**
Total net deferred tax liability of the Bank	**(75 148)**	**44 368**	**(30 780)**	**886**	**-**	**(29 894)**
Total net deferred tax asset of subsidiaries	**-**	**-**	**-**	**57 308**	**(57 308)**	**-**

26 Dividends

	2004		2003	
	Ordinary	Preference	Ordinary	Preference
Dividends payable as at 1 January	322	-	215	264
Dividends declared during the year	1 528	221	1 571	221
Dividends paid during the year	(1 412)	(221)	(1 464)	(485)
Dividends payable as at 31 December	**438**	**-**	**322**	**-**

All dividends are declared and paid in Russian Roubles. Dividends payable are recorded within other liabilities on the consolidated balance sheet. Refer to Note 17.

27 Financial Risk Management

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

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

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

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

The Group's maximum exposure to credit risk is primary 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 Group uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

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

(in thousands of Russian Roubles)

27 Financial Risk Management (Continued)

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

	Russia	OECD countries*	Non-OECD countries	Total
Assets				
Cash and cash equivalents	1 525 543	151 925	1 510	1 678 978
Mandatory cash balances with the Central Bank of the Russian Federation	288 660	-	-	288 660
Trading securities	2 080 419	-	-	2 080 419
Due from other banks	297 941	22 276	-	320 217
Loans and advances to customers	10 395 170	-	-	10 395 170
Investment securities available for sale	729 339	-	-	729 339
Other assets	203 888	-	-	203 888
Premises and equipment	914 421	-	-	914 421
Total assets	**16 435 381**	**174 201**	**1 510**	**16 611 092**
Liabilities				
Due to other banks	19 680	360 135	244 018	623 833
Customer accounts	11 820 526	44 722	45 338	11 910 586
Debt securities in issue	2 017 234	-	-	2 017 234
Other borrowed funds	49 568	41 664	-	91 232
Other liabilities	75 194	-	-	75 194
Total liabilities	**13 982 202**	**446 521**	**289 356**	**14 718 079**
Net balance sheet position	**2 453 179**	**(272 320)**	**(287 846)**	**1 893 013**
Credit related commitments (Note 28)	**97 810**	**-**	**-**	**97 810**

* OECD countries – Countries being members of the Organization for Economic Cooperation and Development.

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

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

	Russia	OECD countries	Non-OECD countries	Total
Net balance sheet position	**1 379 200**	**(265 309)**	**(10 323)**	**1 103 568**
Credit related commitments (Note 28)	**5 957**	**-**	**-**	**5 957**

(in thousands of Russian Roubles)

27 Financial Risk Management (Continued)

Currency risk. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Assets and Liabilities Management Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk as at 31 December 2004. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet gap represents the difference between the notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Group's exposure to currency movements, and their fair values.

As at 31 December 2004, the Group has the following positions in currencies:

	RR	USD	Euro	Other currencies	Total
Assets					
Cash and cash equivalents	1 296 514	241 638	100 445	40 381	1 678 978
Mandatory cash balances with the Central Bank of the Russian Federation	288 660	-	-	-	288 660
Trading securities	1 877 619	202 800	-	-	2 080 419
Due from other banks	258 260	61 957	-	-	320 217
Loans and advances to customers	7 668 660	2 477 215	249 295	-	10 395 170
Investment securities available for sale	11 458	717 881	-	-	729 339
Other assets	68 949	134 633	306	-	203 888
Premises and equipment	914 421	-	-	-	914 421
Total assets	**12 384 541**	**3 836 124**	**350 046**	**40 381**	**16 611 092**
Liabilities					
Due to other banks	91 403	530 120	1 053	1 257	623 833
Customer accounts	8 969 596	2 077 215	842 693	21 082	11 910 586
Debt securities in issue	1 670 354	314 219	32 661	-	2 017 234
Other borrowed funds	41 947	49 285	-	-	91 232
Other liabilities	57 363	17 831	-	-	75 194
Total liabilities	**10 830 663**	**2 988 670**	**876 407**	**22 339**	**14 718 079**
Net balance sheet position	**1 553 878**	**847 454**	**(526 361)**	**18 042**	**1 893 013**
Credit related commitments (Note 28)	**97 810**	**-**	**-**	**-**	**97 810**
Off-balance sheet net notional position (Note 28)	**458 379**	**(909 271)**	**453 724**	**-**	**2 832**

At 31 December 2003, the Group had the following positions in currency

	RR	USD	Euro	Other currencies	Total
Net balance sheet position	**1 109 955**	**154 082**	**(164 573)**	**4 104**	**1 103 568**
Credit related commitments (Note 28)	**4 896**	**1 061**	**-**	**-**	**5 957**
Off-balance sheet net notional position	**247 524**	**(338 770)**	**92 060**	**(719)**	**95**

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

(in thousands of Russian Roubles)

27 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Assets and Liabilities Management Committee.

The table below shows assets and liabilities as at 31 December 2004 by their remaining contractual maturity, unless there is evidence that any of these assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement is used. Some of the assets, however, may be of a longer term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer term duration.

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

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	1 678 978	-	-	-	-	1 678 978
Mandatory cash balances with the Central Bank of the Russian Federation	288 660	-	-	-	-	288 660
Trading securities	2 080 419	-	-	-	-	2 080 419
Due from other banks	320 217	-	-	-	-	320 217
Loans and advances to customers	1 057 526	3 486 421	3 758 225	2 092 998	-	10 395 170
Investment securities available for sale	717 881	-	-	-	11 458	729 339
Other assets	43 396	154 355	6 137	-	-	203 888
Premises and equipment	-	-	-	-	914 421	914 421
Total assets	**6 187 077**	**3 640 776**	**3 764 362**	**2 092 998**	**925 879**	**16 611 092**
Liabilities						
Due to other banks	95 374	528 459	-	-	-	623 833
Customer accounts	8 866 605	2 907 524	136 320	137	-	11 910 586
Debt securities in issue	589 126	1 138 014	290 094	-	-	2 017 234
Other borrowed funds	1 290	-	41 947	47 995	-	91 232
Other liabilities	10 106	35 179	15	29 894	-	75 194
Total liabilities	**9 562 501**	**4 609 176**	**468 376**	**78 026**	**-**	**14 718 079**
Net liquidity gap	**(3 375 424)**	**(968 400)**	**3 295 986**	**2 014 972**	**925 879**	**1 893 013**
Cumulative liquidity gap as at 31 December 2004	**(3 375 424)**	**(4 343 824)**	**(1 047 838)**	**967 134**	**1 893 013**	
Cumulative liquidity gap as at 31 December 2003	**(927 280)**	**(1 926 955)**	**(1 310 160)**	**91 070**	**1 103 568**	

27 Financial Risk Management (Continued)

Debt securities issued with expired maturity are classified within the "demand and less than 1 month" column. Overdue assets are fully provided against, and thus, have no impact on the above table. The entire portfolio of trading securities is classified within demand and less than one month as the portfolio is of a trading nature and Management believes this is a fairer portrayal of its liquidity position. Mandatory cash balances with the CBRF are included within demand and less than one month as the majority of liabilities to which this balance relates to are also included within this category.

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

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

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

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

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

The Assets and Liabilities Management Committee sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions.

(in thousands of Russian Roubles)

27 Financial Risk Management (Continued)

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

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing	Total
Assets						
Cash and cash equivalents	1 678 978	-	-	-	-	1 678 978
Mandatory cash balances with the Central Bank of the Russian Federation	288 660	-	-	-	-	288 660
Trading securities	1 968 112	-	-	-	112 307	2 080 419
Due from other banks	320 217	-	-	-	-	320 217
Loans and advances to customers	1 057 526	3 486 421	3 758 225	2 092 998	-	10 395 170
Investment securities available for sale	717 881	-	-		11 458	729 339
Other assets	-	-	-	-	203 888	203 888
Premises and equipment	-	-	-	-	914 421	914 421
Total assets	**6 031 374**	**3 486 421**	**3 758 225**	**2 092 998**	**1 242 074**	**16 611 092**
Liabilities						
Due to other banks	95 374	528 459	-	-	-	623 833
Customer accounts	8 866 605	2 907 524	136 320	137	-	11 910 586
Debt securities in issue	589 126	1 138 014	290 094	-	-	2 017 234
Other borrowed funds	1 290	-	41 947	47 995	-	91 232
Other liabilities	-	-	-	-	75 194	75 194
Total liabilities	**9 552 395**	**4 573 997**	**468 361**	**48 132**	**75 194**	**14 718 079**
Net sensitivity gap	**(3 521 021)**	**(1 087 576)**	**3 289 864**	**2 044 866**	**1 166 880**	**1 893 013**
Cumulative sensitivity gap as at 31 December 2004	**(3 521 021)**	**(4 608 597)**	**(1 318 733)**	**726 133**	**1 893 013**	
Cumulative sensitivity gap as at 31 December 2003	**(1 753 403)**	**(2 719 773)**	**(2 102 978)**	**(701 748)**	**1 103 568**	

(in thousands of Russian Roubles)

27 Financial Risk Management (Continued)

The table below summarises the effective interest rates by major currencies for major monetary financial instruments. The analysis has been prepared based on period-end effective rates used for amortisation of the respective assets/liabilities as adjusted for remeasurement of the effect of non market interest rates at origination.

	2004				2003			
	USD	RR	Euro	Other currencies	USD	RR	Euro	Other currencies
Assets								
Cash and cash equivalents	0.00	0.30	0.00	0.00	0.00	0.40	0.00	0.00
Mandatory cash balances with the CBRF	-	0.00	-	-	-	0.00	-	-
Debt trading securities	4.65	7.55	-	-	8.50	8.20	-	-
Due from other banks	5.73	9.53	-	-	4.40	-	-	3.75
Loans and advances to customers	14.60	15.50	16.70	-	13.56	20.63	12.12	-
Debt investment securities available for sale	5.78	-	-	-	4.03	3.00	-	-
Liabilities								
Due to other banks	4.98	6.50	0.00	0.00	4.16	23.00	-	0.00
Customer accounts								
- current and settlement accounts	0.03	0.12	0.03	0.00	0.00	1.30	0.00	0.00
- term deposits	7.40	8.54	6.97	-	8.08	12.57	8.04	-
Debt securities in issue	9.23	8.38	8.08	-	6.57	12.56	6.20	-
Other borrowed funds	5.75	19.85	-	-	4.80	19.90	-	-

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

28 Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings. From time to time and in the normal course of business, claims may be received from third parties against companies within the Group. On the basis of own estimates and in-house professional legal advice the Management is of the opinion that no material losses will be incurred and, accordingly, no provision has been made in these consolidated financial statements.

In accordance with the decision of the Supreme Court, held in 2002, of Switzerland the Group had to pay USD 13 681 thousand to a construction company for the construction of a hotel in St Petersburg, Russia and SF 140 thousand of penalties charged on the principal amount of the debt. These liabilities were later transferred by the Group to the joint venture established between the Group and one of its shareholders in January 2004 (Refer to Note 11). During the period of 2002 to 2003 an amount of USD 7 500 thousand (equivalent of RR 220 908 thousand as at 31 December 2003) was paid by the Group and reimbursed by a shareholder of the Group. Therefore the balance due to the construction company under the decision of the Supreme Court decreased to USD 6 181 thousand and SF 140 thousand as at 31 December 2003 (equivalent of RR 185 362 thousand). In accordance with terms of a separate agreement with the construction company, the Group also has agreed to pay additional USD 1 760 thousand for the receipt of construction design documentation after cancellation of the construction contract; USD 60 thousand (equivalent of RR 1 767 thousand as at 31 December 2003) was paid by the Group and reimbursed by the shareholder in 2003. The main objective of the joint venture was to sell the property and to use the proceeds of the sale to settle the outstanding obligation in the amount of USD 1 700 thousand and the balance has to be shared between the venturers in the agreed proportion. All obilgations to construction companies, except for amount of USd 1 700 thousanf, were settled in second quarter 2005. Refer to Notes 10, 11 and 17.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of companies-members of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

(in thousands of Russian Roubles)

28 Contingencies, Commitments and Derivative Financial Instruments (Continued)

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

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

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

Capital commitments. As at 31 December 2004 the Group has no significant capital commitments. (2003: nil)

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

	2004	2003
Not later than 1 year	42 988	53 433
Later than 1 year and not later than 5 years	150 645	167 000
Later than 5 years	167 737	172 865
Total operating lease commitments	**361 370**	**393 298**

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

Outstanding credit related commitments are as follows:

	Note	2004	2003
Letters of credit settlements between residents		60 000	-
Guarantees issued		39 397	6 693
Less: Provision for losses on credit related commitments	17	(1 587)	(736)
Total credit related commitments		**97 810**	**5 957**

(in thousands of Russian Roubles)

28 Contingencies, Commitments and Derivative Financial Instruments (Continued)

The total outstanding contractual amount of letters of credit and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

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

	Note	2004	2003
Provision for losses on credit related commitments as at 1 January		736	4 920
Provision for losses on credit related commitments during the period		851	(4 184)
Provision for losses on credit related commitments as at 31 December	**17**	**1 587**	**736**

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

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

The principal or agreed amounts and fair values of derivative instruments held are set out in the following table. This table reflects gross position before the netting of any counterparty position by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2004. These contracts were entered into in December 2004 and are short term in nature.

	Domestic counterparties		
	Principal or agreed amount	**Negative fair value**	**Positive fair value**
Deliverable forwards			
Foreign currency			
- sale of foreign currency	(1 040 442)	-	214
- purchase of foreign currency	849 626	-	4 532
Spot			
Foreign currency			
- sale of foreign currency	(395 949)	(2 225)	311
- purchase of foreign currency	131 219	-	-
Total	**455 546**	**(2 225)**	**5 057**

For these deals the Group has recorded a net gain of RR 2 832 thousand (2003: net gain of RR 95 thousand) which is included within gains less losses arising from dealing in foreign currency in the consolidated income statement.

(in thousands of Russian Roubles)

28 Contingencies, Commitments and Derivative Financial Instruments (Continued)

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

	2004 Nominal value	2003 Nominal value
Corporate shares held in custody of:		
- Bank St Petersburg	171 083	11 814
- Petersburg Central Registration Company	34 473	19 513
- Depository Clearing Company	82	576
- National Depository Center	70	24 133
OFZ held in custody of:		
- National Depository Center	403	13 786
MKO held in custody of:		
- St. Petersburg Settlement-Depository Center	227	127 682
Russian Federation Eurobonds held in custody of:		
- National Depository Center	28	30
- Vneshtorgbank	-	29 455
Other	8 137	12 599

In accordance with the common business practices no insurance cover was provided for these fiduciary assets.

Assets pledged and restricted. As at 31 December the Group had the following assets pledged as collateral:

	Notes	2004 Asset pledged	2004 Related liability	2003 Asset pledged	2003 Related liability
Trading securities	6, 14	427 298	409 770	365 309	359 225
Premises and equipment	12	87 182	-	224 022	-
Total		**514 480**	**409 770**	**589 331**	**359 225**

In 2003 the Group has pledged its real estate with net book value of RR 87 182 thousand (2003: RR 224 022 thousand) to guarantee the payments related to the judgement of the Supreme Court of Switzerland. Refer to Note 11.

Also, mandatory cash balances with the CBRF in the amount of RR 288 660 thousand (2003: RR 776 333 thousand) represent a mandatory reserve deposit which is not available to finance the Group's day to day operations.

29 Fair Value of Financial Instruments

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

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

Financial instruments carried at fair value. Cash and cash equivalents, trading securities and investment securities available for sale are carried on the consolidated balance sheet at their fair value. As set out in Note 9, external independent market quotations were not available for certain investment securities available for sale. The fair value of these assets was determined by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies.

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

Liabilities carried at amortised cost. The fair value of instruments with a quoted market price is based on quoted market prices. The estimated fair value of instruments with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest rate instruments without a quoted market price is based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 13, 14, 15 and 16 for the estimated fair values of due to other banks, customer accounts, debt securities in issue and other borrowed funds, respectively.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of derivative financial instruments is disclosed in Note 28.

30 Related Party Transactions

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

Banking transactions are entered into in the normal course of business with companies controlled by shareholders of the Group, directors and companies controlled by the management of the Group. These transactions include settlements, loans, deposit taking, guarantees, trade finance and other transactions. These transactions are priced predominantly at market rates. The outstanding balances at the year end and income and expense items for the year with related parties are as follows:

(in thousands of Russian Roubles)

30 Related Party Transactions (Continued)

	2004			2003		
	Companies under common control	Management of the Group	Companies controlled by the management of the Group	Companies under common control	Management of the Group	Companies controlled by the management of the Group
Correspondent accounts and overnight placements with other banks as at the year end	34 476	-	-	10 533	-	-
Due from other banks						
Term placements as at the year end (contractual interest rate: 2004: 9-11%; 2003: 9-13%)	153 848	-	-	111 051	-	-
Provision for impairment of due from other banks as at the year end	(3 077)	-	-	(2 177)	-	-
Interest income for the year (based on contractual rates)	422	-	-	7 623	-	-
Interest income for the year (based on effective rates used for amortisation)	422	-	-	7 623	-	-
Loans and advances to customers						
Loans and advances as at the year end (contractual interest rate: 2004: 1-12%; 2003: 1-12%)	-	-	408 768	4 524	23 034	-
Loans and advances as at the year end (contractual interest rate: 2004: 12-21%; 2003: 12-21%)	-	4 665	66 087	-	-	414 562
Reverse sale and repurchase agreements as at the year end (contractual interest rate: 2004: -; 2003: 2%)	-	-	-	100 070	-	-
Provision for impairment of loans and advance to customers as at the year end	-	(247)	(64 744)	(282)	(1 668)	(48 672)
Interest income for the year (based on contractual rates)	-	624	19 202	383	1 131	31 281
Interest income for the year (based on effective rates used for amortisation)	-	624	19 788	383	1 314	31 281
Losses on origination of loans and advances to customers at rates above/below market for the year	-	-	(14 440)	-	(869)	-
Due to other banks						
Correspondent accounts and overnight placements of other banks as at the year end	9 723	-	-	16	-	-
Term placements with other banks as at the year end (contractual interest rate: 2004: - ; 2003: 2-17.6%)	-	-	-	20 758	-	-
Interest expense for the year (based on contractual rates)	-	-	-	(3 971)	-	-
Interest expense for the year (based on effective rates used for amortisation)	-	-	-	(3 971)	-	-
Customer accounts						
Current/settlement accounts as at the year end	1	3 320	48 167	-	-	2 363
Term deposits outstanding as at the year end (contractual interest rate: 2004: 11-13%; 2003: 7-18%)	-	71 533	-	-	54 113	-
Interest expense for the year (based on contractual rates)	(2 509)	(7 659)	(2 147)	-	(1 188)	-
Interest expense for the year (based on effective rates used for amortisation)	(2 509)	(7 659)	(2 147)	-	(1 188)	-

(in thousands of Russian Roubles)

30 Related Party Transactions (Continued)

	2004 Companies under common control	2004 Management of the Group	2004 Companies controlled by the management of the Group	2003 Companies under common control	2003 Management of the Group	2003 Companies controlled by the management of the Group
Guarantees received by the Group as at the year end	-	-	28 728	-	-	26 045
Fee and commission income for the year	-	-	181	-	-	18

In 2004 the total remuneration of members of the Board of Directors, including pension contributions and discretionary compensation amounted to RR 24 534 thousand (2003: RR 22 695 thousand).

31 Disposals

On 31 December 2004 the Group disposed of the entire shareholding in Insurance Company "Gaide" and "General Insurance Company" and 48% of shares of Leasing Company "St Petersburg". The disposed subsidiaries contributed operating loss of RR 173 998 thousand to the Group (net of minority interest) for the period from 1 January 2004 to 31 December 2004 which is reflected within the consolidated statement of income for the year ended 31 December 2004. The details of the assets and liabilities of subsidiaries at the date of disposal of shares and disposal consideration are as follows:

	Note	"General Insurance Company"	"Insurance Company "Gaide"	Leasing Company "St Petersburg"	Total
Cash and cash equivalents		96 890	42 654	2 057	141 601
Due from other banks		5 901	5 095	111 881	122 877
Loans and advances to customers		123 320	27 062	-	150 382
Trading securities		-	9 874	-	9 874
Investment securities available for sale		8 899	13 675	-	22 574
Other assets		35 013	13 940	97	49 050
Deferred tax asset		130 329	38 190	10 901	179 420
Due to other banks		48 065	9 243	-	57 308
Other liabilities		(535 884)	(157 759)	(130 393)	(824 036)
Net assets/(liabilities) of subsidiary		**(87 467)**	**1 974**	**(5 457)**	**(90 950)**
Less: disposed minority interest	18	-	(686)	-	(686)
Total carrying amount of assets / (liabilities) disposed		**(87 467)**	**1 288**	**(2 620)**	**(88 799)**
Total disposal consideration		**5 453**	**684**	**1**	**6 138**
Less: fair value of receivable arising on disposal	10	(5 453)	(684)	-	(6 137)
Less: cash and cash equivalents in subsidiary disposed		(96 890)	(42 654)	(2 057)	(141 601)
Cash outflow on disposal		**(96 890)**	**(42 654)**	**(2 056)**	**(141 600)**

The Group has recorded net gain from disposal of its share in subsidiaries in the amount of RR 94 937 thousand in the consolidated income statement. The balance of negative minority in the amount of RR 2 620 thousand was recorded as part of consolidated shareholder's equity of the Group.

32 Subsequent Events

On 19 May 2005 the Annual General Meeting of Shareholders declared a dividend on ordinary shares in the amount of RR 2 382 thousand (RR 0.14 per ordinary share) and a dividend on preference shares in the amount of RR 221 thousand (RR 0.11 per preference share or 11 % of the nominal value of the underlying preference shares).

On 17 April 2005 the Bank registered with Central Bank of Russian Federation a new share issue for 3 125 000 shares at 160 RR each. The total volume of share issue (including share premium) is equal to RR 500 000 thousand.

The trade debt on sale of investment in property held for resale was substantially repaid in June 2005.