GROUP OF RUSSIAN AGRICULTURAL BANK

Consolidated Financial Statements for the Year Ended December 31, 2004 together with Independent Auditors' Report

Contents

BDO Unicon
Auditors and Consultants

Closed joint-stock company

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Independent auditors' report

To the Directors, Supervising Council and Shareholders of «Russian Agricultural Bank» (Open Joint-Stock Company)

We have audited the accompanying consolidated balance sheet of Joint-Stock Commercial Bank - «Russian Agricultural Bank» (Open Joint-Stock Company) (the Bank) and its subsidiary (the Group) as at December 31, 2004, and the related consolidated statements of income, changes in equity and cash flows 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. The consolidated financial statements for the year ended December 31, 2003 were audited by another auditor who expressed an unqualified opinion in its report dated July 30, 2004.

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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Elena I. Kopanyova
ACCA
Engagement Partner

June 20, 2005

(in thousands of Russian Roubles)

	Note	2004	2003
Assets			
Cash and cash equivalents	5	3 746 533	3 820 351
Mandatory cash balances with the Central Bank of the Russian Federation		235 991	275 093
Trading securities	6	1 778 269	1 371 595
Due from other banks	7	4 451 536	62
Loans and advances to customers	8	13 583 683	7 353 086
Investment securities available for sale	9	939 785	1 965
Deferred tax asset	22	56 179	80 578
Other assets	10	110 140	84 377
Premises and equipment	11	366 544	307 828
Total assets		**25 268 660**	**13 294 935**
Liabilities			
Due to other banks	12	1 103 726	584 105
Customer accounts	13	12 316 792	6 563 024
Promissory notes issued	14	3 793 825	1 143 665
Bonds issued	14	3 017 010	-
Other borrowed funds	15	171 169	228 162
Other liabilities	16	30 957	12 909
Total liabilities		**20 433 479**	**8 531 865**
Minority interest	17	**379**	**243**
Shareholders' equity			
Share capital	18	5 398 833	5 398 833
Accumulated deficit		(564 031)	(636 006)
Total shareholders' equity		**4 834 802**	**4 762 827**
Total liabilities, minority interest and shareholders' equity		**25 268 660**	**13 294 935**

Signed on behalf of the Board of Directors on June 20, 2005

Yu.V. Trushin
Chairman of the Board of Directors

O.V. Nikonov
Chief Accountant

(in thousands of Russian Roubles)

	Note	2004	2003
Interest income	19	2 281 330	1 567 587
Interest expense	19	(652 593)	(298 483)
Net interest income		**1 628 737**	**1 269 104**
Provision for loan impairment	7, 8	(153 831)	(197 520)
Net interest income after provision for loan impairment		**1 474 906**	**1 071 584**
Gains less losses arising from trading securities		33 134	35 987
Gains less losses arising from investment securities available for sale		(40 820)	-
Gains less losses arising from dealing in foreign currency		26 890	(55 923)
Foreign exchange translation gains less losses		12 694	20 412
Fee and commission income	20	291 673	183 549
Fee and commission expense	20	(11 765)	(7 922)
Provision for losses on credit related commitments and other provisions	10, 25	(19 873)	-
Other operating income		68 225	13 064
Operating income		**1 835 064**	**1 260 751**
Operating expenses	21	(1 706 226)	(1 254 323)
Profit before taxation		**128 838**	**6 428**
Income tax (charge)/recovery	22	(46 034)	1 137
Profit after taxation		**82 804**	**7 565**
Minority interest	17	(136)	(201)
Net profit		**82 668**	**7 364**

(in thousands of Russian Roubles)

	Note	2004	2003
Cash flows from operating activities			
Interest received on loans		2 171 007	1 400 524
Interest received on securities		91 954	121 167
Interest paid on customer accounts and due to other banks		(234 212)	(165 207)
Interest paid on securities		(255 486)	(81 431)
Income received on dealing in foreign currency		25 174	(55 923)
Income received on operations with securities		(61)	27 812
Fees and commissions received		291 673	183 549
Fees and commissions paid		(11 765)	(7 922)
Other operating income received		63 436	12 963
Operating expenses paid		(1 625 478)	(1 221 783)
Income tax paid		(24 016)	(41 038)
Cash flows from operating activities before changes in operating assets and liabilities		**492 226**	**172 711**
Changes in operating assets and liabilities			
Net (increase)/decrease in mandatory cash balances with the Central Bank of the Russian Federation		39 102	(51 686)
Net (increase)/decrease in due from other banks		(4 490 728)	1 127 320
Net (increase) in loans and advances to customers		(6 360 369)	(3 678 105)
Net (increase)/decrease in trading securities		(476 701)	495 239
Net increase/(decrease) in other assets		(44 842)	28 527
Net increase/(decrease) in due to other banks		549 011	(390 408)
Net increase in customer accounts		5 739 849	3 019 135
Net increase in promissory notes issued		2 521 725	771 245
Net increase/(decrease) in other liabilities		20 714	(15 445)
Net cash from/(used in) operating activities		**(2 010 013)**	**1 478 533**
Cash flows from investing activities:			
Acquisition of premises and equipment	11	(138 568)	(114 998)
Disposal of premises and equipment		1 909	18 038
Acquisition of investment securities available for sale		(1 025 147)	-
Proceeds from disposal of investment securities available for sale		168 316	3 438
Acquisition of shares in the subsidiary bank less cash acquired		-	(645)
Net cash from investing activities		**(993 490)**	**(94 167)**
Cash flows from financing activities:			
Proceeds from bonds issued	14	3 000 000	-
Dividends paid	23	(10 693)	(42 600)
Ordinary shares issued		-	850 000
Repayment of other borrowed funds		(55 500)	(23 338)
Net cash from financing activities		**2 933 807**	**784 062**
Effect of exchange rate changes on cash and cash equivalents		**(4 122)**	**20 412**
Net increase in cash and cash equivalents		**(73 818)**	**2 188 840**
Cash and cash equivalents as at the beginning of the year		3 820 351	1 631 511
Cash and cash equivalents as at the end of the year	5	**3 746 533**	**3 820 351**

(in thousands of Russian Roubles)

	Note	Share capital	Accumulated deficit	Total shareholders' equity
Balance as at December 31, 2002		**4 548 833**	**(620 990)**	**3 927 843**
Net profit		-	7 364	7 364
Shares issued		850 000	-	850 000
Dividends declared		-	(22 380)	(22 380)
Balance as at December 31, 2003		**5 398 833**	**(636 006)**	**4 762 827**
Net profit		-	82 668	82 668
Dividends declared	23	-	(10 693)	(10 693)
Balance as at December 31, 2004		**5 398 833**	**(564 031)**	**4 834 802**

1 Principal Activities

These consolidated financial statements comprise the financial statements of Joint Stock Commercial Bank Russian Agricultural Bank ("the Bank") and its subsidiary bank - CJSC Chelyabinsk Commercial Land Bank (jointly referred to as "the Group"). Information about the subsidiary bank is given in Note 28.

The Bank is established in the form of an open joint stock company on April 24, 2000. The Bank has operated under the General Banking License issued by the Central Bank of the Russian Federation (CBRF) since June 13, 2000. The Russian Fund for Federal Property (Russian state institution) is the sole shareholder of the Bank. The Bank's principal activities are commercial and retail banking operations conducted in the Russian Federation, mainly, crediting of agroindustrial enterprises. The Bank's main tasks are as follows:

- Participation in implementing monetary policy of the Russian Federation in the area of agroindustrial production;
- Development of national credit and finance system to service domestic agricultural producers in the area of agroindustrial production;
- Participation in providing efficient and sustained functioning of settlement system in agroindustrial complex over the entire territory of the Russian Federation.

As at December 31, 2004 the Group has 62 branches (2003: 62 branches) in the Russian Federation. The Bank is registered at the following address: 3, Gagarinski pereulok, Moscow, 119034, Russia. As at December 31, 2004 the number of the Group's employees was 3 856 (2003: 3 245).

The Group's operations include deposit taking and commercial lending in Russian Roubles, foreign exchange transactions, cash settlements and securities trading. The Group operates mainly in Russia.

Significant events occurred in the activities of the Group in 2004 include:

- Pursuant to Directive of the Chairman of the Russian Government significant changes occurred in the membership of the Bank's Supervisory Committee, namely, five out of seven members of the Committee were replaced.
- There were changes in the membership of the Bank's Board of Directors, namely, the Chairman and one Deputy Chairman of the Board were replaced. The Chairman of the Board took office in accordance with the Directive of the Deputy Chairman of the Russian Government. Three new employees were appointed as Deputy Chairmen of the Board subject to directives of the Chairman of the Russian Government. This brought about quantitative changes in the membership of the Bank Board (8 members).
- In December 2004 the Bank placed its first bond loan to the amount of RUR 3 000 000 thousand for the term of 3.5 years.

2 Operating Environment of the Group

Whilst there have been improvements in recent years in the economic situation in the Russian Federation, the economy of the Russian Federation continues to display some 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.

Recently, following a general fall in confidence in the Russian banking system, the Russian banking sector has 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.

The banking sector in the Russian Federation is particularly sensitive to adverse currency fluctuations 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.

3 Basis of Presentation

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS). The Group maintains accounting records in compliance with Russian banking regulations. These consolidated financial statements have been prepared from those accounting records and adjusted as necessary in order to comply, in all material respects, with IFRS.

These consolidated financial statements are presented in the national currency of the Russian Federation, the Russian Rouble (RUR). As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from January 1, 2003 the Group no longer applies the provisions of IAS 29 “Financial reporting in hyperinflationary economies”. The methodology of accounting for hyperinflation prior to January 1, 2003 is set out in Note 4.

The preparation of consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the 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.

4 Significant Accounting Policies

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 in preparing the consolidated statement of cash flows.

Mandatory cash balances with the Central Bank of Russian Federation (CBRF). Mandatory cash balances with the CBRF represent mandatory reserve deposits, which are not available to finance the Bank's day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

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 as trading securities if it has the intention to sell them within six months after purchase.

Trading securities are initially recognised at cost (which includes transaction costs) and subsequently remeasured at fair value. The fair value of securities is calculated either based on their market quotations or using various valuation procedures based on the assumption as to the future realisability of these securities:

- as market quotations for securities traded in the organised securities market (OSM) the Group used market prices calculated by MICEX in accordance with the procedure approved by Resolution of FCSM No. 03-52/ps of December 24, 2003 "On approval of procedure for calculating market value of issued securities and investment units of Unit Investment Funds permitted for circulation through trade organisers and setting limits on market price fluctuations";

- for securities traded in the over-the-counter market the Group uses the latest market quotations for the purchase of this (or similar) security.

All related realised and unrealised gains and losses are recorded within gains less losses arising from trading securities in the consolidated statement of income in the period in which the change occurs. Interest earned on trading securities is reflected in the consolidated statement of income as interest income on securities. Dividends received are included within other operating income in the consolidated statement of 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 recognised at trade date, which is the date that the Group commits to purchase or sell the asset. Otherwise such transactions are treated as derivatives until settlement.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale

4 Significant Accounting Policies (continued)

and repurchase agreements are included into trading securities or investment securities available for sale as appropriate. The corresponding liability is presented within due to other banks or customer accounts. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest method.

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

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. Subsequently, they 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 interest rates at origination date.

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

A 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 original effective interest rate on this loan.

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

4 Significant Accounting Policies (continued)

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

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

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 by the Group against other credit related commitments when losses are considered probable.

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

Investment securities available for sale. This category includes investment securities which management intends to hold for an indefinite period of time, that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group's management determines the appropriate classification of investment securities at the time of purchase.

Investment securities available for sale are initially recognised at cost (which includes transaction costs) and are subsequently remeasured to fair value based on quoted bid prices. Certain investments available for sale for which there is no available independent quotation have been fair valued by the Group's management on the basis of results of recent sales of equity investments to 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 statement of income in the period in which they arise. Interest earned on investment securities available for sale is reflected in the statement of income as interest income on investment securities available for sale. Dividends received are included as other operating income within the consolidated statement of income.

All regular way purchases and sales of investment securities available for sale are recognised at trade date, which is the date that the Group commits to purchase or sell the asset. All other purchases and sales are recognised as 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 December 31, 2002 (for assets acquired prior to January 1, 2003) less accumulated depreciation and impairment provision where required. 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

4 Significant Accounting Policies (continued)

recognised in the statement of income. The estimated recoverable amount is determined as higher of an asset's net realisable value and its value in use.

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

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

Premises – 4.9% per annum;

Equipment – 4.9% - 20% per annum; and

Intangible assets - 20% per annum.

Operating lease. Where the Group is the lessee, payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

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

Promissory notes and bonds issued. Promissory notes and bonds issued are recognised initially at cost, being their issue proceeds (the fair value of consideration received) net of transaction costs incurred. Subsequently, promissory notes and bonds issued are stated at amortised cost and any difference between the net proceeds and the redemption value is recognised in the consolidated statement of income over the life of the security using the effective yield method.

If the Group purchases its own promissory notes or bonds, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised as gains arising from early retirement of debt in the consolidated statement of income.

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

4 Significant Accounting Policies (continued)

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 as subsequent events. 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 expenses are recorded in the consolidated financial statements in accordance with the Russian legislation currently in force. The income tax charge in the consolidated statement of income 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 income tax, are recorded within operating expenses.

Deferred income tax is provided, using the balance sheet asset and liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying values 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 at the balance sheet date.

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 yield method based on the actual purchase price. Interest income includes coupons earned on fixed income securities and accrued discount and premium on promissory notes and other discounted instruments. 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.

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

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

As at December 31, 2004 the principal rate of exchange used for translating foreign currency balances was RUR/USD 27.7487 (as at December 31, 2003: RUR/USD 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.

4 Significant Accounting Policies (continued)

Derivative financial instruments. Derivative financial instruments including foreign exchange contracts 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 spot rates at the end of the reporting year as the basis. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivative instruments are included in gains less losses arising from trading in foreign currency within the consolidated statement of income.

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

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

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention 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 January 1, 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 are 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 losses 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 January 1, 2003 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current as at December 31, 2002 are treated as the basis for the carrying values 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

(in thousands of Russian Roubles)

4 Significant Accounting Policies (continued)

the financial statements is based on 1988 prices using 100 as the base index. The CPI for the five years ended December 31, 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

Monetary assets and liabilities are not restated.

Non-monetary assets and liabilities (those balance sheet items that are not expressed in terms of the monetary unit current as at December 31, 2002) are restated from their historical cost by applying the change in the general price index from the date the non-monetary item was originated to December 31, 2002.

Premises and equipment are restated applying the change in the CPI from the date of acquisition. Where indexation is applied, an assessment is made of the potential impairment in the carrying value of these assets and, where applicable, such assets are reduced to their recoverable amounts.

Components of shareholders' equity are restated by applying the change in the CPI from the date of the transactions resulting in the movement in equity.

Provisions. Provisions are recorded when the Group has an obligation (legal or arising from the existing business practice) incurred prior to the reporting date, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the 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 its employees are expensed as incurred and included into staff costs in the statement of income.

5 Cash and Cash Equivalents

	2004	2003
Cash on hand	320 039	215 478
Cash balances with the CBRF (other than mandatory reserve deposits)	2 581 176	1 792 070
Correspondent accounts and overnight placements with banks		
- Russian Federation	804 667	1 786 314
- other countries	37 611	26 489
Settlements with non-banking settlement organisations	3 040	-
Total cash and cash equivalents	**3 746 533**	**3 820 351**

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 24.

(in thousands of Russian Roubles)

6 Trading Securities

	2004	2003
Promissory notes	1 200 933	996
Corporate bonds	336 191	241 454
Russian Federation Eurobonds	143 197	584 822
Corporate Eurobonds	57 450	355 726
Corporate shares	37 542	-
Municipal bonds	2 956	72 372
Federal loan bonds (OFZ)	-	116 225
Total trading securities	**1 778 269**	**1 371 595**

Promissory notes in the Group's portfolio are represented by promissory notes of the following companies:

- LLC RGSN, nominal value of a promissory note is RUR 302 186 thousand, maturity date is January 25, 2005, yield to maturity is 9.50% p.a.;

- JSC Impexbank, total nominal value of promissory notes is RUR 305 200 thousand, maturity date is April 29, 2005, yield to maturity is 4.99% p.a.;

- JSC RosBR , total nominal value of promissory notes is RUR 611 967 thousand, maturity date is March 29, 2005, yield to maturity is 8.00% p.a.

Corporate bonds are securities denominated in Russian Roubles, issued by Russian companies of different forms of ownership. Corporate bonds are traded at a discount or premium to nominal value, carry a coupon accrued on nominal value of a bond and paid quarterly, half-yearly or yearly depending on the type of bond issue and issuer. As at December 31, 2004 corporate bonds in the Group's portfolio have maturity dates from June 2005 to February 2009, coupon rates from 8.11 to 17.50% in 2004 and yield to maturity from 6.64 to 14% depending on the type of bond issue and issuer.

Russian Federation Eurobonds are securities, issued by the Ministry of Finance of the Russian Federation, and are freely tradable domestically and internationally. The portfolio of Russian Federation Eurobonds includes OVGVZ, which are bearer USD-denominated interest-bearing securities guaranteed by the Russian Ministry of Finance. OVGVZ are purchased at a discount or premium to nominal value and carry an annual coupon of 3%. As at December 31, 2004 these bonds have maturity in May 2011, and yield to maturity of 5.7%.

Corporate Eurobonds are represented by interest-bearing securities denominated in USD, issued by large Russian companies and freely tradable internationally and domestically. As at December 31, 2004, corporate Eurobonds in the Group's portfolio have maturity in October 2010, coupon income of minimum 8.375% in 2004 and yield to maturity of 7.55%.

Corporate shares are shares of Russian companies tradable on the stock exchange and having market value.

Municipal bonds (Moscow Government) are Rouble-denominated securities. Municipal bonds are traded at a discount or premium to nominal value, carry a coupon accrued on

(in thousands of Russian Roubles)

6 Trading Securities (continued)

nominal value of a bond and paid quarterly, half-yearly or yearly depending on the type of bond issue (twice a year - for securities in the Group's portfolio). As at December 31, 2004 municipal bonds in the Group's portfolio have maturity in June 2008, coupon income of 10% in 2004 and yield to maturity of 7.20%.

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

Geographical, currency, maturity and interest rate analyses of trading securities are disclosed in Note 24.

7 Due from Other Banks

	2004	2003
Due from other banks	4 489 973	62
Accrued interest income	1 964	-
Due from other banks (gross)	**4 491 937**	**62**
Less: provision for impairment of due from other banks	(40 401)	-
Total due from other banks	**4 451 536**	**62**

As at December 31, 2004 the estimated fair value of due from other banks amounted to RUR 4 451 536 thousand (December 31, 2003: RUR 62 thousand). Refer to Note 26.

Below is the analysis of movements in the provision for impairment of due from other banks for the year:

	2004	2003
Provision for impairment of due from other banks as at January 1	**-**	-
Charge for provision for impairment of due from other banks during the year	40 401	-
Provision for impairment of due from other banks as at December 31	**40 401**	-

Below is the analysis of the Group's credit risk concentration related to due from other banks:

	2004	%
JSCB Evrofinance Mosnarbank	1 100 661	25
JSC Alfa-Bank	1 089 481	24
CJSC Nomos-Bank	750 164	17
JSC VBRR	500 219	11
JSC Vneshtorgbank	500 017	11
JSCB Absolut Bank	297 000	6
Total	**4 237 542**	**94**
Due from other banks (gross)	**4 491 937**	**100**

(in thousands of Russian Roubles)

7 Due from Other Banks (continued)

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 24.

8 Loans and Advances to Customers

	2004	2003
Current loans	13 866 462	7 674 394
Overdue loans	302 716	138 140
Accrued interest income	23 771	38 075
Loans and advances to customers (gross)	**14 192 949**	**7 850 609**
Less: provision for impairment of loans and advances to customers	(609 266)	(497 523)
Total loans and advances to customers	**13 583 683**	**7 353 086**

Movements in the provision for impairment of loans and advances to customers are as follows:

	2004	2003
Provision for impairment of loans and advances to customers as at January 1	**497 523**	**301 003**
Charge for provision for impairment of loans and advances to customers during the year	113 430	197 520
Loans and advances to customers written off during the year as uncollectible	(1 687)	(1 000)
Provision for impairment of loans and advances to customers as at December 31	**609 266**	**497 523**

Economic sector risk concentrations within the Group's loan portfolio are as follows:

	2004		2003	
	Amount	%	Amount	%
Agriculture	7 831 081	55	4 066 298	52
Trade	2 879 491	20	1 573 341	20
Industry	2 334 112	17	1 189 273	15
Construction	207 126	1	214 157	3
Government bodies and municipal authorities	125 161	1	-	-
Individuals	167 870	1	557 172	7
Other	648 108	5	250 368	3
Total loans and advances to customers (gross amount)	**14 192 949**	**100**	**7 850 609**	**100**

The Group's credit portfolio is concentrated in the agricultural and food sectors of economy. Such concentration is brought about by the Group's main task defined by the Government of the Russian Federation. The Group's loans to agricultural sector are distributed among its 62 branches located in 62 regions of the Russian Federation.

As at December 31, 2004, the estimated fair value of loans and advances to customers amounted to RUR 13 583 683 thousand (December 31, 2003: RUR 7 353 086 thousand).

(in thousands of Russian Roubles)

8 Loans and Advances to Customers (continued)

Refer to Note 26.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 24. The information on related party balances is disclosed in Note 27.

9 Investment Securities Available for Sale

	2004	2003
Debt securities		
Federal loan bonds (OFZ)	851 084	-
Promissory notes	82 603	-
Bonds of the Russian Federation subject	1 031	-
Equity securities		
Corporate shares	5 067	1 965
Total investment securities available for sale	**939 785**	**1 965**

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds are traded at a discount or premium to nominal value, carry a coupon accrued on nominal value of a bond and paid quarterly, half-yearly or yearly depending on the type of bond issue. As at December 31, 2004, OFZ bonds in the Group's portfolio have maturity dates ranging from April 20, 2005 to August 29, 2018, coupon rates ranging from 10 to 12% in 2004 and yield to maturity from 7.57 to 8.10% depending on the issue and term.

Promissory notes in the Group's portfolio are represented by notes of JSC OMSK-BANK (nominal value of a note is RUR 61 047 thousand, maturity date is November 1, 2005, yield to maturity is 10.00% p.a.) and JSCB BIN (nominal value of a note is RUR 45 785 thousand, maturity date is December 9, 2005, yield to maturity is 10.03% p.a.).

Bonds of the Russian Federation subject (Republic of Mariy El) are Rouble denominated securities. These bonds are traded on the OTC market at a discount or premium to nominal value, carry a coupon accrued on nominal value of a bond and paid quarterly. As at December 31, 2004, the bonds of the Russian Federation subject in the Group's portfolio have maturity on July 9, 2006, coupon income of 13.50% in 2004 and yield to maturity of 13.50%.

Corporate shares are represented by shares of enterprises not tradable on stock exchanges. The fair value of non-marketable securities is determined using methods of valuating a business by comparing it with businesses similar in size and line of activities, which have market quotations, or at acquisition price as it is impossible to evaluate a business based on other criteria.

Geographical, currency, maturity and interest rate analyses of investment securities available

(in thousands of Russian Roubles)

9 Investment Securities Available for Sale (continued)

for sale are disclosed in Note 24.

10 Other Assets

	2004	2003
Prepaid taxes	27 903	7 075
Prepaid expenses	24 226	17 726
Funds transfers	19 733	29 160
Accounts receivable and prepayments	18 561	7 676
Other	25 648	22 740
Other assets (gross)	**116 071**	**84 377**
Less: provision for impairment of other assets	(5 931)	-
Total other assets	**110 140**	**84 377**

Movements in the provision for impairment of other assets are as follows:

	2004	2003
Provision for impairment of other assets as at January 1	**-**	**-**
Charge for provision for impairment of other assets during the year	5 931	-
Provision for impairment of other assets as at December 31	**5 931**	**-**

Geographical, currency and maturity analyses of other assets are disclosed in Note 24.

11 Premises and Equipment

	Buildings	Furniture, equipment and transport facilities	Intangible assets	Total
Net book value as at December 31, 2003	**53 273**	**191 348**	**63 207**	**307 828**
Cost				
Opening balance	55 945	239 649	101 976	397 570
Additions	48 163	70 880	19 525	138 568
Disposals	(837)	(3 507)	(48)	(4 392)
Balance as at December 31, 2004	**103 271**	**307 022**	**121 453**	**531 746**
Accumulated depreciation				
Opening balance	2 672	48 301	38 769	89 742
Depreciation	4 237	49 832	23 175	77 244
Disposals	(59)	(1 718)	(7)	(1 784)
Balance as at December 31, 2004	**6 850**	**96 415**	**61 937**	**165 202**
Net book value as at December 31, 2004	**96 421**	**210 607**	**59 516**	**366 544**

(in thousands of Russian Roubles)

12 Due to Other Banks

	2004	2003
Due to other banks	1 097 166	570 320
Correspondent accounts and overnight deposits of other banks	5 261	11 543
Accrued interest expense	1 299	2 242
Total due to other banks	**1 103 726**	**584 105**

As at December 31, 2004 the estimated fair value of due to other banks equalled RUR 1 103 726 thousand (December 31, 2003: RUR 584 105 thousand). Refer to Note 26.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 24.

13 Customer Accounts

	2004	2003
State and public organisations		
- Current/settlement accounts	740 775	413 360
- Term deposits	58 382	84 800
Other legal entities		
- Current/settlement accounts	6 648 163	4 417 527
- Term deposits	611 911	332 802
- Commitments under sale and repurchase agreements	-	589 230
Individuals		
- Current/settlement accounts	2 234 001	381 720
- Term deposits	1 995 309	337 108
Accrued interest expense	28 251	6 477
Total customer accounts	**12 316 792**	**6 563 024**

Economic sector concentrations within customer accounts are as follows:

	2004		2003	
	Amount	%	Amount	%
Leasing	4 678 605	38	3 191 197	49
Individuals	4 250 959	35	721 628	11
Government bodies and municipal authorities	799 403	6	498 160	7
Agriculture	616 444	5	446 283	7
Insurance	456 391	4	-	-
Construction	440 824	4	314 105	5
Trade	300 276	2	242 356	4
Industry	252 639	2	184 764	3
Finances	-	-	697 226	10
Other	521 251	4	267 305	4
Total customer accounts	**12 316 792**	**100**	**6 563 024**	**100**

For the purposes of this Note, customer accounts in the state and federal ownership are recorded in the line "Government bodies and municipal authorities".

13 Customer Accounts (continued)

As at December 31, 2004 the Group had 1 customer with balances of RUR 4 678 605 thousand, or 38% of total customer accounts (December 31, 2003: RUR 3 191 197 thousand, or 49% of total customer accounts).

As at December 31, 2004 the estimated fair value of customer accounts was RUR 12 316 792 thousand (December 31, 2003: RUR 6 563 024 thousand). Refer to Note 26.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 24. The information on related party balances is disclosed in Note 27.

14 Promissory Notes and Bonds Issued

In the period from June 2001 to December 2004 the Group issued discount and interest-bearing promissory notes with effective interest rates between 1% and 14% p.a. and maturing on demand and up to November 2011.

As at December 31, 2004 the estimated fair value of promissory notes was RUR 3 793 825 thousand (December 31, 2003: RUR 1 143 665 thousand). Refer to Note 26.

In December 2004 the Group successfully placed the first bond loan to the amount of RUR 3 000 000 thousand with maturity on June 4, 2008 and quarterly payment of coupon income (the first coupon rate is 9% p.a.).

As at December 31, 2004 the estimated fair value of bonds makes RUR 3 017 010 thousand. Refer to Note 26.

Geographical, currency, maturity and interest rate analyses of promissory notes and bonds are disclosed in Note 24.

15 Other Borrowed Funds

Other borrowings are represented by funds received by the Group in 2001 from the Agency for Restructuring of Credit Organisations (ARCO – a Russian stated financial institution) to finance main operations of the Group. Due to liquidation of ARCO in December 2004 the rights of claim were assigned to the state corporation Agency for Insurance of Deposits.

Interest rates on these funds range from 3.25% to 4.7% per annum; maturity dates vary from March 2005 to June 2006.

As at December 31, 2004 the estimated fair value of other borrowed funds makes RUR 171 169 thousand (December 31, 2003: RUR 228 162 thousand). Refer to Note 26.

Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 24.

(in thousands of Russian Roubles)

16 Other Liabilities

	2004	2003
Provision for credit related commitments	13 942	-
Taxes payable	11 722	9 477
Accrued staff costs	3 715	886
Other	1 578	2 546
Total other liabilities	**30 957**	**12 909**

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 24.

17 Minority Interest

The table below shows movement in minority interest of the Group:

	2004	2003
Minority interest as at January 1	**243**	**10 623**
Share of net profit	136	201
Acquisition of additional shares from minority shareholders	-	(10 581)
Minority interest as at December 31	**379**	**243**

18 Share Capital

Authorised, issued and fully paid share capital comprises:

	2004			2003		
	Number of shares	Nominal value	Inflation adjusted value	Number of shares	Nominal value	Inflation adjusted value
Ordinary shares	4 649	4 649 000	5 398 833	4 649	4 649 000	5 398 833
Total share capital	**4 649**	**4 649 000**	**5 398 833**	**4 649**	**4 649 000**	**5 398 833**

Ordinary shares have a nominal value of 1 000 Russian Rubles per share, rank equally and carry one vote.

In accordance with Russian legislation, the Group distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules.

(in thousands of Russian Roubles)

19 Interest Income and Expense

	2004	2003
Interest income		
Loans and advances to customers	2 147 224	1 365 511
Investment securities available for sale	70 612	-
Trading securities	54 015	146 215
Due from other banks	8 987	47 416
Correspondent accounts with other banks	492	8 445
Total interest income	**2 281 330**	**1 567 587**
Interest expense		
Promissory notes and bonds issued	(400 931)	(133 053)
Term deposits of individuals	(109 450)	(11 154)
Term deposits of legal entities	(77 239)	(36 707)
Term placements of other banks	(50 996)	(62 568)
Other borrowed funds	(7 557)	(12 357)
Current/settlement accounts	(6 420)	(42 644)
Total interest expense	**(652 593)**	**(298 483)**
Net interest income	**1 628 737**	**1 269 104**

20 Fee and Commission Income and Expense

	2004	2003
Fee and commission income		
Commission on cash transactions	151 673	99 257
Commission on settlement transactions	102 810	49 859
Agency fees	18 488	29 306
Commission on cash collection	1 328	646
Other	17 374	4 481
Total fee and commission income	**291 673**	**183 549**
Fee and commission expense		
Commission on cash collection	(9 688)	(6 032)
Commission on settlement transactions	(2 035)	(1 757)
Commission on cash transactions	(14)	(23)
Other	(28)	(110)
Total fee and commission expense	**(11 765)**	**(7 922)**
Net fee and commission income	**279 908**	**175 627**

(in thousands of Russian Roubles)

21 Operating Expenses

	Note	2004	2003
Staff costs		1 020 598	765 499
Rent expenses		171 015	134 037
Other expenses related to premises and equipment		93 041	69 497
Taxes other than income tax		77 943	76 994
Depreciation of premises and equipment	11	77 244	49 218
Security		75 079	53 432
Utility services		18 900	14 341
Advertising and marketing		12 552	6 943
Stationery		4 730	5 938
Impairment of goodwill		-	6 824
Other		155 124	71 600
Total operating expenses		**1 706 226**	**1 254 323**

22 Income Tax

Income tax expense comprises the following:

	2004	2003
Current tax charge	21 635	36 210
Deferred taxation movement due to:		
- origination and reversal of temporary differences	24 399	(37 347)
Income tax charge/(recovery) for the year	**46 034**	**(1 137)**

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

	2004	2003
IFRS profit before taxation	**128 838**	**6 428**
Theoretical tax (charge)/recovery at the applicable statutory rate (2004: 24%; 2003: 24%)	30 921	1 543
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Tax-exempt income	(842)	(5 081)
- Non-deductible expense	14 762	13 362
- Portion of monetary income and expense relating to non- temporary differences		
- Other non- temporary differences	6 868	(9 186)
- Income on government securities taxable at different rates	(5 675)	(1 775)
Income tax charge/(recovery) for the year	**46 034**	**(1 137)**

Differences between IFRS and statutory taxation regulations of the Russian Federation give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for profits 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%).

(in thousands of Russian Roubles)

22 Income Tax (continued)

	2003	Movement	2004
Tax effect of deductible temporary differences			
Provision for losses on loans and advances	84 540	(56 178)	28 362
Fair valuation of securities	9 585	(3 211)	6 374
Premises and equipment: depreciation	13 075	(10 199)	2 876
Accruals	2 182	42 522	44 704
Other	129	1 083	1 212
Deferred tax asset	**109 511**	**(25 983)**	**83 528**
Tax effect of taxable temporary differences			
Recovery of provision for losses on loans and advances and on other operations	(10 584)	10 584	-
Fair valuation of securities	(3 796)	3 242	(554)
Premises and equipment: cost	(8 544)	(11 888)	(20 432)
Accruals	(6 009)	1 591	(4 418)
Other	-	(1 945)	(1 945)
Deferred tax liability	**(28 933)**	**1 584**	**(27 349)**
Net deferred tax asset	**80 578**	**(24 399)**	**56 179**

	2002	Movement	2003
Tax effect of deductible temporary differences			
Provision for losses on loans and advances	54 258	30 282	84 540
Fair valuation of securities	-	9 585	9 585
Premises and equipment: depreciation	8 910	4 165	13 075
Accruals	1 651	531	2 182
Other	4 123	(3 994)	129
Deferred tax asset	**68 942**	**40 569**	**109 511**
Tax effect of taxable temporary differences			
Recovery of provision for losses on loans and advances and on other operations	(5 968)	(4 616)	(10 584)
Fair valuation of securities	(4 807)	1 011	(3 796)
Premises and equipment: cost	(9 661)	1 117	(8 544)
Accruals	(5 275)	(734)	(6 009)
Deferred tax liability	**(25 711)**	**(3 222)**	**(28 933)**
Net deferred tax asset	**43 231**	**37 347**	**80 578**

The net deferred tax asset represents income tax recoverable through future revenues and is recorded as a deferred tax asset in the consolidated balance sheet. Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit is probable.

(in thousands of Russian Roubles)

23 Dividends

	2004	2003
Dividends payable as at January 1	-	20 220
Dividends declared during the reporting year	10 693	22 380
Dividends paid during the reporting year	(10 693)	(42 600)
Dividends payable as at December 31	**-**	**-**
Dividends per share, declared during the reporting year	**2.3**	**5.9**

All dividends are declared in Russian roubles. Dividends are declared on the basis of retained earnings in accordance with Russian Accounting Rules (refer to Note 18).

24 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 assessment of exposure to risks also serves as a basis for optimal distribution of risk-adjusted capital, transaction pricing and business performance assessment. 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 amounts in full when due. The Group controls the credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of related borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis, the limits being 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 Board of Directors and Resource Committee.

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 primarily 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.

(in thousands of Russian Roubles)

24 Financial Risk Management (continued)

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 Board of Directors sets acceptable risk limits and monitors them on a daily basis. However, the use of this approach does not prevent losses beyond these limits in the event of more significant market movements.

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

	Russia	OECD	Other	Total
Assets				
Cash and cash equivalents	3 708 922	37 611	-	3 746 533
Mandatory cash balances with the CBRF	235 991	-	-	235 991
Trading securities	1 778 269	-	-	1 778 269
Due from other banks	4 451 536	-	-	4 451 536
Loans and advances to customers	13 583 683	-	-	13 583 683
Investment securities available for sale	939 785	-	-	939 785
Deferred tax asset	56 179	-	-	56 179
Other assets	109 468	672	-	110 140
Premises and equipment	366 544	-	-	366 544
Total assets	**25 230 377**	**38 283**	**-**	**25 268 660**
Liabilities				
Due to other banks	992 777	107 806	3 143	1 103 726
Customer accounts	12 316 792	-	-	12 316 792
Promissory notes issued	3 793 825	-	-	3 793 825
Bonds issued	3 017 010	-	-	3 017 010
Other borrowed funds	171 169	-	-	171 169
Other liabilities	30 957	-	-	30 957
Total liabilities	**20 322 530**	**107 806**	**3 143**	**20 433 479**
Net balance sheet position	**4 907 847**	**(69 523)**	**(3 143)**	**4 835 181**
Credit related commitments	**442 710**	**-**	**-**	**442 710**

OECD - the Organisation for Economic Co-Operation and Development.

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

	Russia	OECD	Other	Total
Net balance sheet position	**4 856 327**	**(83 189)**	**(10 068)**	**4 763 070**
Credit related commitments	**180 278**	-	-	**180 278**

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 Board of Directors 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

(in thousands of Russian Roubles)

24 Financial Risk Management (continued)

exposure to foreign currency exchange rate risk as at December 31, 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 contractual and fair values of foreign currency derivative financial instruments, which are principally used to reduce the Group's exposure to currency movements. As at December 31, 2004, the Group has the following positions in currencies:

	RUR	USD	Euro	Other currencies	Total
Assets					
Cash and cash equivalents	3 648 917	80 227	16 747	642	3 746 533
Mandatory cash balances with the CBRF	235 991	-	-	-	235 991
Trading securities	1 577 622	200 647	-	-	1 778 269
Due from other banks	4 451 533	3	-	-	4 451 536
Loans and advances to customers	13 530 356	53 327	-	-	13 583 683
Investment securities available for sale	939 785	-	-	-	939 785
Deferred tax asset	56 179	-	-	-	56 179
Other assets	108 388	1 079	673	-	110 140
Premises and equipment	366 544	-	-	-	366 544
Total assets	**24 915 315**	**335 283**	**17 420**	**642**	**25 268 660**
Liabilities					
Due to other banks	577 396	526 273	57	-	1 103 726
Customer accounts	12 167 614	124 356	24 822	-	12 316 792
Promissory notes issued	3 793 825	-	-	-	3 793 825
Bonds issued	3 017 010	-	-	-	3 017 010
Other borrowed funds	171 169	-	-	-	171 169
Other liabilities	30 583	374	-	-	30 957
Total liabilities	**19 757 597**	**651 003**	**24 879**	**-**	**20 433 479**
Net balance sheet position	**5 157 718**	**(315 720)**	**(7 459)**	**642**	**4 835 181**
Credit related commitments	**439 103**	**3 607**	**-**	**-**	**442 710**
Off-balance sheet net notional position	**16**	**-**	**-**	**-**	**16**

As at December 31, 2003, the Group had the following positions in currency:

	RUR	USD	Euro	Other currencies	Total
Net balance sheet position	**4 703 163**	**48 588**	**10 729**	**590**	**4 763 070**
Credit related commitments	**180 278**	**-**	**-**	**-**	**180 278**
Off-balance sheet net notional position	**738 063**	**(736 363)**	**-**	**-**	**1 700**

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 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

(in thousands of Russian Roubles)

24 Financial Risk Management (continued)

reinvestment of maturing funds can be predicted with a high level of certainty. The liquidity risk is managed by the Treasury Department of the Group.

The table below shows the assets and liabilities as at December 31, 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 December 31, 2004 is set out below.

	On 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	3 746 533	-	-	-	-	3 746 533
Mandatory cash balances with the CBRF	17 878	33 065	176 980	8 068	-	235 991
Trading securities	1 778 269	-	-	-	-	1 778 269
Due from other banks	1 964 394	2 487 142	-	-	-	4 451 536
Loans and advances to customers	919 096	4 998 282	6 551 298	1 115 007	-	13 583 683
Investment securities available for sale	-	-	-	-	939 785	939 785
Deferred tax asset	-	56 179	-	-	-	56 179
Other assets	70 111	2 894	1 132	10 638	25 365	110 140
Premises and equipment	-	-	-	-	366 544	366 544
Total assets	**8 496 281**	**7 577 562**	**6 729 410**	**1 133 713**	**1 331 694**	**25 268 660**
Liabilities						
Due to other banks	912 198	3 006	114 159	74 363	-	1 103 726
Customer accounts	9 902 035	1 356 712	1 043 401	14 644	-	12 316 792
Promissory notes issued	526 024	1 737 571	1 477 788	52 442	-	3 793 825
Bonds issued	-	17 010	-	3 000 000	-	3 017 010
Other borrowed funds	-	6 169	-	165 000	-	171 169
Other liabilities	12 476	16 283	2 081	115	2	30 957
Total liabilities	**11 352 733**	**3 136 751**	**2 637 429**	**3 306 564**	**2**	**20 433 479**
Net liquidity gap	**(2 856 452)**	**4 440 811**	**4 091 981**	**(2 172 851)**	**1 331 692**	**4 835 181**
Cumulative liquidity gap as at December 31, 2004	**(2 856 452)**	**1 584 359**	**5 676 340**	**3 503 489**	**4 835 181**	
Cumulative liquidity gap as at December 31, 2003	**(169 294)**	**779 364**	**3 907 313**	**4 363 826**	**4 763 070**	

The entire portfolio of trading securities is classified within demand and less than one month as the portfolio is of a trading nature and the management believes this is a fairer portrayal of its liquidity position. Mandatory cash balances with the CBRF are allocated in proportion to the related liabilities.

24 Financial Risk Management (continued)

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Group's management. 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 customer 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 customer accounts provide a long-term and stable source of funding for the Group.

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 Board of Directors sets limits on the level of mismatch of interest rate re-pricing 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)

24 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 re-pricing or maturity dates.

	On 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	3 746 533	-	-	-	-	3 746 533
Mandatory cash balances with the CBRF	17 878	33 065	176 980	8 068	-	235 991
Trading securities	1 778 269	-	-	-	-	1 778 269
Due from other banks	1 964 394	2 487 142	-	-	-	4 451 536
Loans and advances to customers	919 096	4 998 282	6 551 298	1 115 007	-	13 583 683
Investment securities available for sale	428 007	424 108	82 603	-	5 067	939 785
Deferred tax asset	-	-	-	-	56 179	56 179
Other assets	-	-	-	-	110 140	110 140
Premises and equipment	-	-	-	-	366 544	366 544
Total assets	**8 854 177**	**7 942 597**	**6 810 881**	**1 123 075**	**537 930**	**25 268 660**
Liabilities						
Due to other banks	912 198	3 006	114 159	74 363	-	1 103 726
Customer accounts	9 902 035	1 356 712	1 043 401	14 644	-	12 316 792
Promissory notes issued	526 024	1 737 571	1 477 788	52 442	-	3 793 825
Bonds issued	-	3 017 010	-	-	-	3 017 010
Other borrowed funds	-	6 169	-	165 000	-	171 169
Other liabilities	-	-	-	-	30 957	30 957
Total liabilities	**11 340 257**	**6 120 468**	**2 635 348**	**306 449**	**30 957**	**20 433 479**
Net sensitivity gap	**(2 486 080)**	**1 822 129**	**4 175 533**	**816 626**	**506 973**	**4 835 181**
Cumulative sensitivity gap as at December 31, 2004	**(2 486 080)**	**(663 951)**	**3 511 582**	**4 328 208**	**4 835 181**	
Cumulative sensitivity gap as at December 31, 2003	**(234 621)**	**715 762**	**3 844 376**	**4 301 231**	**4 763 070**	

(in thousands of Russian Roubles)

24 Financial Risk Management (continued)

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

	2004			2003		
	RUR	USD	Euro	RUR	USD	Euro
Assets						
Cash and cash equivalents	1	3	-	2	1	0
Mandatory cash balances with the CBRF	0	-	-	0	-	-
Trading securities	8	6	-	9	5	-
Due from other banks	2	3		-	-	-
Loans and advances to customers	18	14	-	21	-	-
Investment securities available for sale	8	-	-	0	-	-
Liabilities						
Due to other banks	1	3	0	7	5	-
Customer accounts						
- current and settlement accounts	1	1	0	2	0	0
- term deposits	12	6	4	9	-	-
Promissory notes	10	-	-	13	-	-
Bonds	9	-	-	-	-	-
Other borrowed funds	3	-	-	4	-	-

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

25 Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. Based on its own estimates and internal and external professional advice, the Group's management is of the opinion that no material losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. The Group management's interpretation of such legislation as applied to the transactions and activity 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. 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.

As at December 31, 2004 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.

(in thousands of Russian Roubles)

25 Contingencies, Commitments and Derivative Financial Instruments (continued)

Capital commitments. As at December 31, 2004 the Group had no capital commitments.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, 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 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 direct borrowing. Commitments to make loans at a specific rate of interest during a fixed period of time are accounted for as derivative instruments unless these commitments do not extend beyond the period expected to be needed to perform appropriate underwriting.

Outstanding credit related commitments of the Group are as follows:

	2004	2003
Guarantees issued	6 022	44 315
Undrawn credit lines	244 833	78 349
Unused limits on overdrafts and other exposures	205 797	57 614
Total credit related commitments (gross)	**456 652**	**180 278**
Less: provision for credit related commitments	(13 942)	-
Total credit related commitments	**442 710**	**180 278**

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

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

Contractual amounts of certain financial instruments provide a basis for comparison with instruments recognised in 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 become favourable (assets) or unfavourable (liabilities) 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 are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

(in thousands of Russian Roubles)

25 Contingencies, Commitments and Derivative Financial Instruments (continued)

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 December 31, 2004. These contracts were entered into in December 2004 and are spot transactions.

	Domestic		
	Principal or agreed amount	**Negative fair value**	**Positive fair value**
Spot (non-deliverable)			
Foreign currency			
- sale of foreign currency	55 456	(41)	-
- purchase of foreign currency	55 440	-	57
Total	**110 896**	**(41)**	**57**

For these deals the Group has recorded a net profit of RUR 16 thousand, which is included within gains less losses arising from trading in foreign currency in the consolidated statement of income.

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	**2003**
	Nominal value	**Nominal value**
Promissory notes issued by the Group	70 000	-
Promissory notes and securities of Russian companies	16 911	14 911

26 Fair Value of Financial Instruments

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

The estimated fair values of financial instruments have been determined by the 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 has shown signs of an emerging market with a significant decline in 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. While the 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.

26 Fair Value of Financial Instruments (continued)

Financial instruments carried at fair value. Cash and cash equivalents, trading securities and investment securities available for sale are carried in the consolidated balance sheet at their fair value. As set out in Note 4, some investment securities available for sale have no independent market quotations. The fair value of these assets was determined by the management based on the results of recent sale of securities to unrelated third parties, analysis of other information, such as discounted cash flows and financial information about investees, as well as using other valuation methods.

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 12, 13, 14 and 15 for the estimated fair values of due to other banks, customer accounts 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.

27 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.

In the normal course of business the Group enters into banking transactions with its major shareholders and directors. These transactions include settlements, loans, deposit taking, trade finance and foreign currency transactions. These transactions were priced predominantly at market rates.

(in thousands of Russian Roubles)

27 Related Party Transactions (continued)

The outstanding balances at the year end and interest income and expense as well as other transactions for the period with related parties are as follows:

	2004	2003
Transactions with the Group management		
Loans and advances to customers		
Loans and advances as at the year end	13 140	15 539
Provision for loan impairment as at the year end	(10)	(329)
Interest income for the year	839	3 456
Customer accounts		
Term placements as at the year end	52 104	12 285
Interest expense for the year	2 045	-
Transactions with companies under common control		
Loans and advances to customers		
Loans and advances as at the year end	43 381	-
Provision for loan impairment as at the year end	-	-
Interest income for the year	2 013	-
Customer accounts		
Current/settlement accounts as at the year end	4 678 605	3 191 197
Interest expense for the year	1 917	685

28 Principal Consolidated Subsidiary

Name	Nature of business	Percentage of voting rights	Percentage of ownership	Country of registration
Closed Joint – Stock Company "Chelyabinsky Commercial Land Bank"	Banking	99,47%	99,47%	Russia