

Financial Statements

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Auditors' Report

To the Shareholders and Management of ZAO Raiffeisenbank Austria:

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

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

In our opinion the accompanying financial statements present fairly, in all material respects, the financial position of the Bank 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
8 April 2005

ZAO Raiffeisenbank Austria
Balance Sheet as at 31 December 2004
(expressed in thousands of US dollars - Note 3)

	Note	2004	2003
Assets			
Cash and cash equivalents	5	351 949	522 505
Mandatory cash balances with the Central Bank of the Russian Federation		84 781	103 179
Trading securities	6	144 688	74 725
Due from other banks	7	160 208	157 685
Loans and advances to customers	8	2 120 405	1 130 296
Other assets	9	45 135	11 229
Prepises and equipment	10	38 775	23 543
Total assets		2 945 939	2 023 162
Liabilities			
Due to other banks	11	626 494	829 201
Customer accounts	12	1 693 599	950 978
Other borrowed funds	13	355 429	79 776
Other liabilities		15 270	6 134
Total liabilities		2 690 792	1 866 089
Shareholders' equity			
Share capital	14	196 857	165 000
Share premium	14	368	-
Additional paid-in capital		30 000	30 000
Retained earnings/(accumulated deficit)	15	27 922	(17 927)
Total shareholders' equity		255 147	157 073
Total liabilities and shareholders' equity		2 945 939	2 023 162

Approved for issue by the Board of Directors and signed on its behalf on 8 April 2005.


 Michel Perleth
 President


 Eugene Toutkevitch
 Finance Director

The attached notes form an integral part of these financial statements.

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Statement of Income for the Year Ended 31 December 2004

(expressed in thousands of US dollars – Note 3)

	Note	2004	2003
Interest income	16	134 266	88 212
Interest expense	16	(46 750)	(30 544)
Net interest income		87 516	57 668
Provision for loan impairment	8	(6 983)	(9 053)
Net interest income after provision for loan impairment		80 533	48 615
Fee and commission income	17	36 446	26 980
Fee and commission expense	17	(18 716)	(13 734)
Gains less losses arising from trading securities		2 697	3 306
Gains less losses arising from trading in foreign currencies		40 380	27 125
Foreign exchange translation gains less losses		(4 884)	(421)
Other operating income		529	1 494
Operating income		136 985	93 365
Operating expenses	18	(57 708)	(32 555)
Profit from operations		79 277	60 810
Share of profit of associate after tax	9	2 834	1 222
Profit before tax		82 111	62 032
Income tax expense	19	(16 262)	(12 823)
Net profit		65 849	49 209

Statement of Cash Flows for the Year Ended 31 December 2004

(expressed in thousands of US dollars – Note 3)

	Note	2004	2003
Cash flows from operating activities			
Interest received		141 889	93 025
Interest paid		(45 776)	(30 835)
Fees and commissions received		36 446	26 980
Fees and commissions paid		(18 716)	(13 734)
Gains arising from trading securities		253	3 203
Income received from trading in foreign currencies		41 010	27 401
Other operating income received		524	830
Operating expenses paid		(48 654)	(30 040)
Income tax paid		(19 415)	(16 734)
Cash flows from operating activities before changes in operating assets and liabilities		87 561	60 096
Changes in operating assets and liabilities			
Net decrease/(increase) in mandatory cash balances with the CBRF		23 961	(28 631)
Net increase in trading securities		(61 920)	(22 823)
Net decrease in due from other banks		4 605	44 018
Net increase in loans and advances to customers		(992 927)	(388 056)
Net (increase)/decrease in other assets		(27 587)	576
Net (decrease)/increase in due to other banks		(205 337)	252 842
Net increase in customer accounts		699 196	272 039
Net increase/(decrease) in other liabilities		2 879	(439)
Net cash (used in)/from operating activities		(469 569)	189 622
Cash flows from investing activities			
Acquisition of premises and equipment		(18 103)	(10 389)
Net cash used in investing activities		(18 103)	(10 389)
Cash flows from financing activities			
Proceeds from other borrowed funds		278 110	60 000
Repayment of other borrowed funds		(4 444)	–
Share issue		32 225	–
Dividends paid		–	(3 640)
Net cash from financing activities		305 891	56 360
Effect of exchange rate changes on cash and cash equivalents		11 225	14 208
Net (decrease)/increase in cash and cash equivalents		(170 556)	249 801
Cash and cash equivalents as at the beginning of the year	5	522 505	272 704
Cash and cash equivalents as at the end of the year	5	351 949	522 505

Statement of Changes in Shareholders' Equity for the Year Ended 31 December 2004

(expressed in thousands of US dollars – Note 3)

	Note	Share capital	Share premium	Additional paid-in capital	(Accumulated deficit)/ retained earnings	Total shareholders' equity
Balance as at 31 December 2002		165 000	–	30 000	(83 496)	111 504
Net profit for the year		–	–	–	49 209	49 209
Dividends declared and paid	14	–	–	–	(3 640)	(3 640)
Balance as at 31 December 2003		165 000	–	30 000	(37 927)	157 073
Net profit for the year		–	–	–	65 849	65 849
Share issue	14	31 857	368	–	–	32 225
Balance as at 31 December 2004		196 857	368	30 000	27 922	255 147

Notes to the Financial Statements – 31 December 2004

(expressed in thousands of US dollars – Note 3)

1 Principal Activities

Closed Joint Stock Company Raiffeisenbank Austria (the “Bank”) is a commercial bank owned by shareholders whose liability is limited. The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation (“CBRF”) since 1996. The Bank operates in all banking sectors of the Russian financial markets, including interbank, investment, corporate and retail banking, and provides a complete range of banking services to its clients. In addition, the Bank, through operations of its investees, is also involved in asset management, pension and leasing business. 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 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 2 February 2005. The Bank is licensed by the Federal Commission on Securities Markets for trading in securities.

100% of the shareholders’ capital of the Bank is owned by Raiffeisen International Bank-Holding AG and Raiffeisen-Invest-Gesellschaft m.b.H., subsidiaries of Raiffeisen Zentralbank Österreich AG (the “Parent Bank”).

The Bank’s registered office is located at the following address: 17/1 Troitskaya Str., 129090 Moscow, Russian Federation. As at 31 December 2004 the Bank had 1 branch in Saint Petersburg and 16 outlets and offices in Moscow.

The average number of the Bank’s employees during the year was 794 (2003: 494).

2 Operating Environment of the Bank

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

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

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

In 2004, following a general fall in confidence in the Russian banking system, the Russian banking sector experienced a reduction in liquidity. Management 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 Bank.

3 *Basis of Preparation*

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The national currency of the Russian Federation, where the Bank is domiciled, is the Russian Rouble (“RR”). However, the Bank’s assets and liabilities are mostly denominated in US dollars (“USD”) (refer to Note 20). The US dollar is used to a significant extent in, and has a significant impact on, the operations of the Bank. Based upon these and other factors these financial statements have been measured and presented in US dollars.

The preparation of these financial statements requires the use of estimates and assumptions that effect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities 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 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*

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.

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

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

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 statement of income in the period in which the change occurs. Interest earned on trading securities is reflected in the statement of income 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 Bank commits to purchase or sell the asset. Otherwise such transactions are treated as derivative instruments until settlement occurs.

Sale and repurchase agreements. Sale and repurchase agreements (“repo agreements”) are treated as secured financing transactions. Securities sold under sale 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 other borrowed funds. Securities purchased under agreements to resell (“reverse repo agreements”) are recorded as due from other banks or loans and advances to customers as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest method.

Originated loans and advances and provisions for loan impairment. Loans originated by the Bank 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 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 statement of income using the effective interest method.

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

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

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the 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 Bank enters into other credit related commitments including letters of credit and guarantees. Specific provisions are recorded against other credit related commitments when losses are considered probable.

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. Realised and unrealised gains and losses arising from changes in the fair value of investment securities available for sale are included in the 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 in other operating income within the statement of income.

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

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

Premises and equipment. Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

At each reporting date the Bank assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, the Bank estimates the recoverable amount, which is determined as the higher of an asset's net selling price or its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the statement of income. 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.

Construction in progress is carried at cost less provision for impairment. 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.

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 statement of income when the expenditure is incurred.

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

Premises 2.5% per annum; and

Equipment 15–25% per annum.

Leasehold improvements – over the term of the underlying lease.

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

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 statement of income over the period of the borrowings using the effective interest method.

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

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.

Additional paid-in capital. Additional paid-in capital represents amounts contributed by shareholders in addition to payments for shares.

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

Income taxes. Taxation has been provided for in the financial statements in accordance with Russian legislation currently in force. The income tax charge in the 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 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.

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

Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Loan commitment fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recorded as an adjustment to the effective interest on the loan. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recorded on completion of the underlying transaction. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Asset management fees related to investment funds are recorded ratably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

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

Monetary assets and liabilities denominated in foreign currency are translated into US dollars at the exchange rate as 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 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).

Derivative financial instruments. Derivative financial instruments including foreign exchange contracts and other derivative financial instruments are initially recorded in the 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, options pricing models or using the spot rate at the year end as the basis as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives are included in gains less losses arising from trading in foreign currency or gains less losses arising from trading securities depending on the related contracts.

The Bank does not apply hedge accounting.

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

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

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

Staff costs and related contributions. The Bank's contributions to the Russian Federation state pension and social insurance funds in respect of its employees are expensed as incurred and included into staff costs. Bonuses are recorded when the decision on bonus payment is made by the Parent Bank.

5 Cash and Cash Equivalents

	2004	2003
Cash on hand	106 440	47 304
Cash balances with the CBRF (other than mandatory reserve deposits)	159 183	54 942
Correspondent accounts and overnight placements with other banks		
– Russian Federation	47 832	8 908
– Other countries	38 494	411 351
Total cash and cash equivalents	351 949	522 505

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 20. The information on related party balances is disclosed in Note 23.

6 Trading Securities

	2004	2003
Corporate bonds	60 615	37 804
Russian Federation Eurobonds	28 239	–
Municipal bonds	26 587	31 832
CBRF bonds	17 592	–
Other	11 655	5 089
Total trading securities	144 688	74 725

Corporate bonds are interest bearing securities denominated in Russian Roubles, issued by large Russian companies, and are freely tradable in the Russian Federation. These bonds have maturity dates ranging from 2005 to 2010, coupon rates of approximately 5%–15% in 2004 and a yield to maturity from 7% to 16% as at 31 December 2004, depending on the type of bond issue.

Russian Federation Eurobonds are interest bearing securities denominated in US dollars, issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. These bonds have maturity dates from 2007 to 2030, coupon rates of approximately 5%–12% in 2004 and a yield to maturity from 5% to 13% as at 31 December 2004, depending on the type of bond issue.

Municipal bonds are interest bearing securities denominated in Russian Roubles, issued by the Moscow Government, and are freely tradable in the Russian Federation. These bonds have maturity dates from 2006 to 2008, coupon rates of approximately 10% in 2004 and a yield to maturity of 10% as at 31 December 2004.

Geographical, currency and interest rate analyses of trading securities are disclosed in Note 20.

7 Due from Other Banks

	2004	2003
<i>Term placements with other banks</i>	131 915	157 685
<i>Reverse sale and repurchase agreements with other banks</i>	28 293	–
Total due from other banks	160 208	157 685

As at 31 December 2004 the estimated fair value of due from other banks was USD 160 208 thousand (2003: USD 157 685 thousand). Refer to Note 22.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 20. The information on related party balances is disclosed in Note 23.

8 Loans and Advances to Customers

	2004	2003
<i>Current loans</i>	2 145 990	1 149 627
<i>Overdue loans</i>	857	1 230
<i>Less: Provision for loan impairment</i>	(26 444)	(20 561)
Total loans and advances to customers	2 120 403	1 130 296

Movements in the provision for loan impairment were as follows:

	2004	2003
Provision for loan impairment as at 1 January	20 561	11 508
Provision for loan impairment during the year	6 983	9 053
Balances written off during the year as uncollectable	(1 100)	–
Provision for loan impairment as at 31 December	26 444	20 561

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

	2004		2003	
	Amount	%	Amount	%
Individuals	374 245	17	142 307	12
Heavy industries	303 924	14	187 152	16
Transport, storage and communications	227 488	11	58 275	5
Chemical industry	220 797	10	160 369	14
Trade	215 398	10	120 619	10
Light industries	202 432	10	122 239	11
Mining	179 359	8	121 882	11
Real estate	166 154	8	69 803	6
Financial Services	78 274	4	92 737	8
Other	178 776	8	75 474	7
Total loans and advances to customers	2 146 847	100	1 150 857	100

As at 31 December 2004 the Bank had 9 borrowers with aggregate loan amounts above USD 40 000 thousand. The total aggregate amount of these loans was USD 441 976 thousand or 21% of the gross loan portfolio.

As at 31 December 2004 loans and advances to customers in the amount of USD 216 820 thousand (2003: USD 95 442 thousand) were guaranteed by the Parent Bank.

As at 31 December 2004 the estimated fair value of loans and advances to customers was USD 2 120 403 thousand (2003: USD 1 130 296 thousand). Refer to Note 22.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 20. The information on related party balances is disclosed in Note 23.

9 Other Assets

	Note	2004	2003
Investment securities available for sale		25 556	5 181
Investment in associate		6 587	1 582
Operating prepayments		3 839	3 820
Deferred tax asset	19	2 259	–
Other		6 894	646
Total other assets		45 135	11 229

10 Premises and Equipment

	Note	Premises	Leasehold improvements	Office and computer equipment	Construction in progress	Total
Net book amount as at 31 December 2003		12 151	3 998	6 012	1 382	23 543
Book amount at cost						
Opening balance		13 351	4 933	10 141	1 382	29 807
Additions		2 948	3 081	7 962	4 112	18 103
Disposals		–	–	(72)	–	(72)
Closing balance		16 299	8 014	18 031	5 494	47 838
Accumulated depreciation						
Opening balance		1 200	935	4 129	–	6 264
Depreciation charge	18	368	702	1 783	–	2 853
Disposals		–	–	(54)	–	(54)
Closing balance		1 568	1 637	5 858	–	9 063
Net book amount as at 31 December 2004		14 731	6 377	12 173	5 494	38 775

11 Due to Other Banks

	2004	2003
Term placements of other banks	618 763	756 314
Correspondent accounts and overnight placements of other banks	7 731	72 887
Total due to other banks	626 494	829 201

As at 31 December 2004 the estimated fair value of due to other banks was USD 626 494 thousand (2003: USD 829 201 thousand). Refer to Note 22.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 20. The information on related party balances is disclosed in Note 23.

12 Customer Accounts

	2004	2003
Legal entities		
– Current/settlement accounts	571 481	391 638
– Term deposits	354 359	90 322
Individuals		
– Current/demand accounts	462 101	267 434
– Term deposits	305 658	201 584
Total customer accounts	1 693 599	950 978

Economic sector concentrations within customer accounts were as follows:

	2004		2003	
	Amount	%	Amount	%
Individuals	767 759	45	469 018	49
Manufacturing	518 387	31	183 883	19
Financial services	156 663	9	115 127	12
Real estate and renting	62 575	4	44 341	5
Transport and communications	55 700	3	52 382	6
Trade	54 901	3	32 322	3
Mining	10 495	1	15 637	2
Other	67 119	4	38 268	4
Total customer accounts	1 693 599	100	950 978	100

As at 31 December 2004 the estimated fair value of customer accounts was USD 1 693 599 thousand (2003: USD 950 978 thousand). Refer to Note 22.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 20. The information on related party balances is disclosed in Note 23.

13 Other Borrowed Funds

	2004	2003
<i>Syndicated loan</i>	180 208	-
<i>Loans from the International Finance Corporation</i>	84 867	39 511
<i>Subordinated loans from the Parent Bank</i>	70 131	20 042
<i>Subordinated loan from European Bank for Reconstruction and Development</i>	20 223	20 223
Total other borrowed funds	355 429	79 776

As at 31 December 2004 a syndicated loan from a consortium of large international banks has an outstanding principal amount of USD 180 000 thousand, maturity date of 20 September 2006 and interest is payable semi-annually at a rate of LIBOR plus 1.35% per annum until 20 September 2005 and at a rate of LIBOR plus 2.35% per annum until 20 September 2006.

As at 31 December 2004 loans from the International Finance Corporation consisted of three tranches. The first two loans with outstanding principal amount of USD 37 778 thousand each have maturity date of 15 December 2012 and interest is payable semi-annually at a rate of LIBOR plus 2.5% per annum. The third loan with an outstanding principal amount of USD 10 000 thousand has a maturity date of 15 July 2014 and interest is payable semi-annually at a rate of LIBOR plus 2.5% per annum.

As at 31 December 2004 subordinated loans from the Parent Bank consisted of two tranches. Loan with an outstanding principal amount of USD 50 000 thousand has a maturity date of 15 December 2011 and interest is payable semi-annually at a rate of LIBOR plus 2.75% per annum. Another loan with an outstanding principal amount of USD 20 000 thousand has a maturity date of 15 June 2010 and interest is payable semi-annually at a rate of LIBOR plus 3.5% per annum.

As at 31 December 2004 the subordinated loan from European Bank for Reconstruction and Development has an outstanding principal amount of USD 20 000 thousand, a maturity date of 18 December 2007 and interest is payable semi-annually at a rate of LIBOR plus 2.5% per annum.

As at 31 December 2004 the estimated fair value of other borrowed funds was USD 355 429 thousand (2003: USD 79 776 thousand). Refer to Note 22.

Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 20. The information on related party balances is disclosed in Note 23.

14 Share Capital

As at 31 December 2004 authorised, issued and fully paid share capital of the Bank comprised:

	Number of shares	2004 Nominal amount, RR thousand	Amount, USD thousand	Number of shares	2003 Nominal amount, RR thousand	Amount, USD thousand
Ordinary shares	1 927	1 934 708	196 857	1 000	1 004 000	165 000
Total share capital	1 927	1 934 708	196 857	1 000	1 004 000	165 000

All ordinary shares have a nominal value of RR 1 004 thousand per share, rank equally and carry one vote.

During 2004 the Bank issued 927 shares to Raiffeisen International Bank-Holding AG for USD 32 225 thousand. Share premium relating to the issue amounted to USD 368 thousand.

No dividends were declared during 2004. Dividends in the total amount of USD 3 640 thousand (USD 3.64 thousand per share) were declared and paid during year ended 31 December 2003.

15 Retained Earnings and Other Reserves

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules as at 31 December 2004 were RR 5 045 806 thousand (unaudited) (2003: RR 3 213 992 thousand).

16 Interest Income and Expense

	2004	2003
Interest income		
Loans and advances to customers	114 177	68 127
Due from other banks	11 530	7 955
Securities	8 559	12 130
Total interest income	134 266	88 212
Interest expense		
Term placements of other banks	22 497	19 050
Term deposits of individuals	6 294	4 237
Term deposits of legal entities	5 899	2 582
Current/settlement accounts	5 403	3 402
Other borrowed funds	6 657	1 273
Total interest expense	46 750	30 544
Net interest income	87 516	57 668

17 Fee and Commission Income and Expense

	Note	2004	2003
Fee and commission income			
Commissions on operations with plastic cards		8 076	4 839
Commission on settlement transactions		5 336	2 814
Commission income on foreign exchange operations		5 301	5 534
Commissions on export operations		4 879	3 660
Commissions on documentary business and guarantees		4 732	4 127
Commissions on cash operations		2 811	1 670
Commissions on transactions with securities		2 781	2 742
Other		2 530	1 594
Total fee and commission income		36 446	26 980
Fee and commission expense			
Standby facility fees	20	7 460	6 000
Documentary business commissions		4 362	3 381
Commissions on settlement transactions		4 545	1 428
Commissions on transactions with securities		1 179	1 270
Other		1 170	1 655
Total fee and commission expense		18 716	13 734
Net fee and commission income		17 730	13 246

18 Operating Expenses

	Note	2004	2003
Staff costs		29 540	16 885
Other expenses related to premises and equipment		8 030	3 131
Provision for losses on credit related commitments	21	3 424	-
Depreciation of premises and equipment	10	2 853	1 970
Advertising and marketing		2 845	1 296
Professional services		1 009	651
Taxes other than on income		872	2 411
Other		9 135	6 211
Total operating expenses		57 708	32 555

19 Income Taxes

Income tax expense comprised the following:

	2004	2003
Current tax charge	19 007	14 508
Deferred taxation movement due to origination and reversal of temporary differences	(2 745)	(1 685)
Income tax expense for the year	16 262	12 823

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

	2004	2003
Profit before tax	82 111	62 032
Theoretical tax charge at the applicable statutory rate (2004: 24%; 2003: 24%)	19 707	14 888
Tax effect of items which are not deductible or assessable for taxation purposes:		
– Non temporary elements of translation gains and losses	(2 367)	(1 993)
– Effect of non-deductible expenses	(908)	1 396
– Other	(170)	(1 468)
Income tax expense for the year	16 262	12 823

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	2004
Tax effect of deductible temporary differences					
Impairment provisions	(2 484)	2 252	(232)	1 053	821
Accruals	–	1 119	1 119	1 730	2 849
Tax loss carried forward	1 470	(1 470)	–	–	–
Gross deferred tax asset	(1 014)	1 901	887	2 783	3 670
Tax effect of taxable temporary differences					
Premises and equipment	(1 073)	(17)	(1 090)	6	(1 084)
Valuation of trading securities	(84)	(199)	(283)	(44)	(327)
Gross deferred tax liability	(1 157)	(216)	(1 373)	(38)	(1 411)
Total net deferred tax (liability)/asset	(2 171)	1 685	(486)	2 745	2 259

20 Financial Risk Management

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

Credit risk. The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers. 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 and borrower are approved regularly by the 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 Bank's maximum exposure to credit risk is primary reflected in the carrying amounts of financial assets in the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

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

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank's Asset and Liability Committee and the Supervisory Board set value-at-risk position and stop loss limits for each trading product, which are monitored on a daily basis. Possible losses outside of these limits in the events of extraordinary market movements are mitigated by annual stress testing procedures implemented by the Bank's Risk Management and approved by the Asset and Liability Committee.

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

	<i>Russia</i>	<i>OECD</i>	<i>Non OECD</i>	<i>Total</i>
Assets				
Cash and cash equivalents	313 455	38 159	335	351 949
Mandatory cash balances with the CBRF	84 781	–	–	84 781
Trading securities	144 688	–	–	144 688
Due from other banks	132 132	28 076	–	160 208
Loans and advances to customers	2 046 029	2 643	71 731	2 120 403
Other assets	45 135	–	–	45 135
Premises and equipment	38 775	–	–	38 775
Total assets	2 804 995	68 878	72 066	2 945 939
Liabilities				
Due to other banks	140 502	485 137	855	626 494
Customer accounts	1 589 782	13 742	90 075	1 693 599
Other borrowed funds	–	355 429	–	355 429
Other liabilities	15 270	–	–	15 270
Total liabilities	1 745 554	854 308	90 930	2 690 792
Net balance sheet position	1 059 441	(785 430)	(18 864)	255 147
Credit related commitments	(203 423)	(160)	(2 548)	(206 131)

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from off-shore companies of these Russian counterparties are allocated to the caption "Russia". Cash on hand, precious metals and premises and equipment have been allocated based on the country in which they are physically held.

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

	<i>Russia</i>	<i>OECD</i>	<i>Non OECD</i>	<i>Total</i>
Net balance sheet position	551 048	(321 502)	(72 473)	157 073
Credit related commitments	(170 954)	(5 896)	(123)	(176 973)

Currency risk. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2004. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet gap represents the difference between the notional amounts of foreign cur-

currency derivative financial instruments, which are principally used to reduce the Bank's exposure to currency movements, and their fair values. As at 31 December 2004, the Bank has the following positions in currencies:

	RR	USD	Euro	Other currencies	Total
Assets					
Cash and cash equivalents	244 965	71 821	27 467	7 696	351 949
Mandatory cash balances with the CBRF	84 781	-	-	-	84 781
Trading securities	105 822	32 763	6 103	-	144 688
Due from other banks	118 889	41 319	-	-	160 208
Loans and advances to customers	203 424	1 855 076	61 271	632	2 120 403
Other assets	43 184	1 764	187	-	45 135
Premises and equipment	38 775	-	-	-	38 775
Total assets	839 840	2 002 743	95 028	8 328	2 945 939
Liabilities					
Due to other banks	37 534	572 821	14 598	1 541	626 494
Customer accounts	576 913	881 946	229 327	5 413	1 693 599
Other borrowed funds	-	355 429	-	-	355 429
Other liabilities	12 234	2 737	299	-	15 270
Total liabilities	626 681	1 812 933	244 224	6 954	2 690 792
Net balance sheet position	213 159	189 810	(149 196)	1 374	255 147
Credit related commitments	(13 717)	(96 397)	(96 017)	-	(206 131)
Off-balance sheet net notional position	66 102	(216 552)	152 746	(1 993)	303

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

	RR	USD	Euro	Other currencies	Total
Net balance sheet position	75 803	177 461	(97 741)	1 550	157 073
Credit related commitments	(5 043)	(117 591)	(54 165)	(174)	(176 973)
Off-balance sheet net notional position	115 250	(211 419)	97 766	(1 873)	(276)

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

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

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 Bank as at 31 December 2004 is set out below.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	351 949	–	–	–	–	351 949
Mandatory cash balances with the CBRF	84 781	–	–	–	–	84 781
Trading securities	144 688	–	–	–	–	144 688
Due from other banks	112 386	21 835	25 987	–	–	160 208
Loans and advances to customers	114 971	611 116	399 103	995 213	–	2 120 403
Other assets	7 683	479	–	25 076	11 897	45 135
Premises and equipment	–	–	–	–	38 775	38 775
Total assets	816 458	633 430	425 090	1 020 289	50 672	2 945 939
Liabilities						
Due to other banks	185 242	68 066	28 808	344 378	–	626 494
Customer accounts	1 258 516	327 425	80 469	27 189	–	1 693 599
Other borrowed funds	–	–	–	355 429	–	355 429
Other liabilities	13 349	64	757	1 100	–	15 270
Total liabilities	1 457 107	395 555	110 034	728 096	–	2 690 792
Net liquidity gap	(640 649)	237 875	315 056	292 193	50 672	255 147
Cumulative liquidity gap as at 31 December 2004	(640 649)	(402 774)	(87 718)	204 475	255 147	
Cumulative liquidity gap as at 31 December 2003	(106 489)	(15 923)	82 202	134 016	157 073	

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

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

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

In accordance with Stand-by Facility Agreement dated 1 January 2004 the Parent Bank committed to provide financial support to the Bank in the event of a substantial change in market conditions in the Russian Federation through a revolving loan facility of up to EURO 400 million. A substantial change of market conditions is defined as the impossibility for the Bank to borrow monetary funds on the currency market of the Russian Federation at a rate less than EURIBOR plus 5% per annum. This commitment was valid up to 31 December 2004. During 2004 the Bank paid to the Parent Bank a standby facility fee of 1.5%, or USD 7 460 thousand with respect to this arrangement (2003: USD 6 000 thousand) which was recorded within fee and commission expenses. Similar arrangements were in place in prior years. Refer to Note 24 for details of the Stand-by Credit Facility Agreement dated 15 February 2005.

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

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

The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily. The Bank normally seeks to match its interest rate positions. In cases when it is not possible, the Bank uses available hedging instruments (interest rate swap and foreign currency forward agreements) concluded with the Parent Bank in order to mitigate interest rate mismatch risk.

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank'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	No interest bearing	Total
Assets						
Cash and cash equivalents	351 949	–	–	–	–	351 949
Mandatory cash balances with the CBRF	84 781	–	–	–	–	84 781
Trading securities	144 688	–	–	–	–	144 688
Due from other banks	124 386	15 335	20 487	–	–	160 208
Loans and advances to customers	1 431 786	325 527	95 275	267 815	–	2 120 403
Other assets	7 683	479	–	25 076	11 897	45 135
Premises and equipment	–	–	–	–	38 775	38 775
Total assets	2 145 273	341 341	115 762	292 891	50 672	2 945 939
Liabilities						
Due to other banks	185 242	68 066	28 808	344 378	–	626 494
Customer accounts	1 258 516	327 425	80 469	27 189	–	1 693 599
Other borrowed funds	–	355 429	–	–	–	355 429
Other liabilities	13 349	64	757	1 100	–	15 270
Total liabilities	1 457 107	750 984	110 034	372 667	–	2 690 792
Net sensitivity gap	688 166	(409 643)	5 728	(79 776)	50 672	255 147
Cumulative sensitivity gap as at 31 December 2004	688 166	278 523	284 251	204 475	255 147	
Cumulative sensitivity gap as at 31 December 2003	605 097	618 202	556 038	134 016	157 073	

The table below summarises the effective interest rates by major currencies for major monetary financial instruments. The analysis has been prepared on the basis of weighted average interest rates using period-end effective contractual rates.

	USD	2004 RR	Euro	Other currencies	USD	2003 RR	Euro	Other currencies
Assets								
Correspondent accounts and overnight placements with other banks	0.0%	0.1%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%
Mandatory cash balances with the CBRF	–	0.0%	–	–	–	0.0%	–	–
Debt trading securities	6.2%	7.4%	8.8%	–	–	9.1%	–	–
Due from other banks	3.0%	6.7%	–	–	1.2%	1.9%	0.0%	–
Loans and advances to customers	7.3%	9.0%	7.1%	4.7%	6.6%	12.5%	6.6%	4.6%
Liabilities								
Due to other banks	4.5%	2.6%	2.4%	4.8%	3.5%	0.7%	3.6%	5.0%
Customer accounts								
– current and settlement accounts	0.0%	0.1%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%
– term deposits	2.6%	2.9%	2.2%	4%	2.3%	2.2%	2.7%	0.5%
Other borrowed funds	4.2%	–	–	–	4.1%	–	–	–

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

21 Contingencies, Commitments and Derivative Financial Instruments

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

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management’s interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. 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.

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

Capital commitments. As at 31 December 2004 the Bank had no capital commitments (2003: USD 1 253 thousand).

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

	2004	2003
Not later than 1 year	631	204
Later than 1 year and not later than 5 years	1 757	654
Later than 5 years	340	289
Total operating lease commitments	2 728	1 147

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 Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Outstanding credit related commitments were as follows:

	2004	2003
Guarantees issued	141 821	167 659
Import letters of credit	63 594	8 247
Export letter of credit	4 140	1 067
Less: Provision for losses on credit related commitments	(3 424)	-
Total credit related commitments	206 131	176 973

Derivative financial instruments. Foreign exchange and other 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 Bank'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 are favourable or unfavourable 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.

	Domestic counterparties			Foreign counterparties		
	Principal or agreed amount	Positive fair value	Negative fair value	Principal or agreed amount	Positive fair value	Negative fair value
Deliverable forwards						
<i>Foreign currency</i>						
– sale of foreign currency	306 637	742	(34)	207 119	16	–
– purchase of foreign currency	305 000	19	(361)	133 516	2	(1 014)
<i>Securities</i>						
– sale of securities	148	–	–	–	–	–
– purchase of securities	147	1	–	–	–	–
SWAP agreements						
<i>Foreign currency</i>						
– sale of foreign currency	121 000	39	(41)	185 780	–	–
– purchase of foreign currency	129 000	47	(100)	185 975	488	(16)
<i>Interest rate swap agreements</i>	–	–	–	229 096	810	(78)
Futures						
– sale of securities	–	–	–	47 408	21	(237)
– purchase of securities	–	–	–	290	–	(1)
Total	861 932	848	(536)	989 184	1 337	(1 346)

For the purposes of the analysis above foreign currency is any currency other than Russian Rouble, the national currency of the Russian Federation, where the Bank is domiciled.

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

	2004 Nominal value	2003 Nominal value
<i>Russian Federation Eurobonds held on an account with National Depository Centre</i>	82 936	2 870
<i>Shares in companies held in custody of National Depository Centre</i>	38 402	196
<i>Shares in companies held in custody of DAROSS</i>	29 031	–
<i>Corporate bonds held on an account with National Depository Centre</i>	25 031	15 464
<i>Shares in companies held in other custodies</i>	10 937	1 715
<i>Shares in companies held in custody of Depository Clearing Centre</i>	9 266	23 389
<i>Other</i>	5 491	11 134

Assets pledged and restricted. As at 31 December 2004 and 2003 the Bank had no assets pledged as collateral.

Mandatory cash balances with the CBRF in the amount of USD 84 781 thousand (2003: USD 103 179 thousand) represent mandatory cash reserve deposits which are not available to finance the Bank's day to day operations.

22 Fair Value of Financial Instruments

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

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, 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 balance sheet at their fair value.

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 11, 12 and 13 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. The fair value of derivative financial instruments is disclosed in Note 21.

23 Related Party Transactions

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

Banking transactions are entered into in the normal course of business with the shareholders, companies with which the Bank has significant shareholders in common, directors and other related parties. The balances and transactions included in the table below are mainly with the Parent Bank. These transactions include settlements, loans, deposit taking, guarantees, trade finance and foreign currency 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 were as follows:

	2004	2003
Parent Bank and its subsidiaries		
Correspondent accounts and overnight placements with other banks as at the year end	11 521	385 681
Due from other banks as at the year end	3 937	44 705
Loans and advances as at the year end (contractual interest rate: 2004: 5.0%–8%; 2003: 3.5%)	28 143	20 265
Interest income for the year	1 600	2 677
Customer accounts as at the year end	1 157	269
Due to other banks		
Correspondent accounts and overnight placements of other banks as at the year end	447	456
Term placement as at the year end (contractual interest rate: 2004: 2.0%–8.0%; 2003: 1.3%–7.5%)	386 696	524 230
Other borrowed funds as at the year end (contractual interest rate: 2004: 5.9%–6.2%; 2003: 4.6%)	70 131	20 042
Interest expense for the year	(20 237)	(14 575)
Fee and commission expense for the year	(11 944)	(8 970)
Profit from foreign exchange transactions for the year	7 584	10 852
Unused limit of the standby facility as at the year end (Note 20)	545 040	20 000
Guarantees received by the Bank as at the year end	404 784	150 241
Import letters of credit as at the year end	–	4 202
Interest rate swap agreements as at the year end	229 096	33 134
Deliverable forwards as at the year end		
– sale of foreign currency	204 395	–
– purchase of foreign currency	130 791	–
SWAP agreements as at the year end		
– sale of foreign currency	185 780	–
– purchase of foreign currency	185 975	–
Futures as at the year end		
– sale of securities	47 408	–
– purchase of securities	290	–

In 2004 the total remuneration of senior members of the Management, including pension contributions, and discretionary compensation amounted to USD 2 257 thousand.

24 Subsequent Events

On 2 February 2005 the Bank was accepted to the state deposit insurance scheme. Refer to Note 1.

In accordance with a Stand-by Credit Facility Agreement dated 15 February 2005 the Parent Bank committed to provide financial support to the Bank through a revolving loan facility of up to EURO 200 million. This commitment is valid up to 15 January 2006 and can be extended for further 12 months.

In March 2005 the Bank received USD 199 982 thousand from Raiffeisen International Bank-Holding AG as a pre-payment for an additional 5 378 shares of the Bank with a total nominal value of RR 5 399 512 thousand which are to be issued following completion of necessary legal procedures.