Company Registration No. 2760617 (England and Wales)

EASTLINK LANKER PLC

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

Hazlems Fenton
Chartered Accountants
Palladium House
1-4 Argyll Street
London W1F 7LD

EASTLINK LANKER PLC

COMPANY INFORMATION

Directors	A. Yusfin L. Stulberg M Purits
Secretary	D. Korotkov
Company number	2760617
Registered office	Palladium House 1-4 Argyll Street London W1F 7LD
Auditors	Hazlems Fenton Chartered Accountants Palladium House 1-4 Argyll Street London W1F 7LD
Business address	1st Floor 42 Welbeck Street London W1G 8DU

EASTLINK LANKER PLC

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EASTLINK LANKER PLC

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2004

The directors present their report and financial statements for the year ended 31 December 2004.

Principal activities and review of the business
The principal activity of the company continued to be that of importers and exporters of metal, ferro-alloys and industrial chemicals.

Results and dividends
The results for the year are set out on page 4.

The directors do not recommend payment of an ordinary dividend.

The directors do not recommend payment of a preference dividend.

Directors
The following directors have held office since 1 January 2004:

A. Yusfin
L. Stulberg
M Purits (Appointed 27 October 2005)

Directors' interests
The directors' interests in the shares of the company were as stated below:

	Ordinary shares of £ 1 each	
	31 December 2004	**1 January 2004**
A. Yusfin	8,750	8,750
L. Stulberg	-	-

	Zero Coupon Preference shares of £ 1 each	
	31 December 2004	**1 January 2004**
A. Yusfin	-	-
L. Stulberg	-	-

Creditor payment policy
The company's current policy concerning the payment of trade creditors is to:
- settle the terms of payment with suppliers when agreeing the terms of each transaction;
- ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- pay in accordance with the company's contractual and other legal obligations.

On average, trade creditors at the year end represented 16 (2003- 14) days' purchases.

Auditors
In accordance with section 385 of the Companies Act 1985, a resolution proposing that Hazlems Fenton be reappointed as auditors of the company will be put to the Annual General Meeting.

EASTLINK LANKER PLC

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2004

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

-select suitable accounting policies and then apply them consistently;

-make judgements and estimates that are reasonable and prudent;

-state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

-prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the board

M Purits

Director

27/10/2005

EASTLINK LANKER PLC

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF EASTLINK LANKER PLC

We have audited the financial statements of Eastlink Lanker plc on pages 4 to 15 for the year ended 31 December 2004. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditors

As described in the statement of directors' responsibilities on page 2 the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Hazlems Fenton

Chartered Accountants
Registered Auditor

27th October 2005

Chartered Accountants
Palladium House
1-4 Argyll Street
London W1F 7LD

EASTLINK LANKER PLC

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004 £	2003 £
Turnover	**2**	123,432,889	112,261,478
Cost of sales		(122,345,829)	(110,742,761)
Gross profit		1,087,060	1,518,717
Administrative expenses		(1,148,399)	(1,414,814)
Operating (loss)/profit	**3**	(61,339)	103,903
Other interest receivable and similar income	**4**	129,782	101,426
Interest payable and similar charges	**5**	-	(634)
Profit on ordinary activities before taxation		68,443	204,695
Tax on profit on ordinary activities	**6**	(172,419)	(76,893)
(Loss)/profit on ordinary activities *after taxation*	**14**	(103,976)	127,802

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.

EASTLINK LANKER PLC

BALANCE SHEET
AS AT 31 DECEMBER 2004

	Notes	2004 £	2004 £	2003 £	2003 £
Fixed assets					
Tangible assets	7		45,872		56,130
Investments	8		20,668,875		14,263,916
			20,714,747		14,320,046
Current assets					
Stocks	9	-		679,254	
Debtors	10	4,333,453		3,346,215	
Cash at bank and in hand		14,884,070		9,726,471	
		19,217,523		13,751,940	
Creditors: amounts falling due within *one year*	11	(8,726,844)		(6,462,584)	
Net current assets			10,490,679		7,289,356
Total assets less current liabilities			31,205,426		21,609,402
Capital and reserves					
Called up share capital	13		30,000,000		20,300,000
Profit and loss account	14		1,205,426		1,309,402
Shareholders' funds	15		31,205,426		21,609,402
Equity interests			21,205,426		12,209,402
Non-equity interests			10,000,000		9,400,000
			31,205,426		21,609,402

The financial statements were approved by the Board on 27/10/2005

M Purits
Director

EASTLINK LANKER PLC

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004

		2004		2003
	£	£	£	£
Net cash inflow from operating activities		1,750,123		3,891,620
Returns on investments and servicing of finance				
Interest received	129,782		101,426	
Interest paid	-		(634)	
Net cash inflow for returns on investments and servicing of finance		129,782		100,792
Taxation		-		(321,707)
Capital expenditure and financial investment				
Payments to acquire tangible assets	(16,860)		(6,319)	
Payments to acquire investments	(6,404,959)		-	
Receipts from sales of investments	-		2	
Net cash outflow for capital expenditure		(6,421,819)		(6,317)
***Net cash (outflow)/inflow before management* of liquid resources and financing**		(4,541,914)		3,664,388
Financing				
Issue of ordinary share capital	9,100,000		-	
Issue of preference share capital	600,000		-	
Issue of shares	9,700,000		-	
Decrease in debt	-		-	
Net cash inflow/(outflow) from financing		9,700,000		-
Increase in cash in the year		5,158,086		3,664,388

EASTLINK LANKER PLC

NOTES TO THE CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004

1	**Reconciliation of operating (loss)/profit to net cash inflow from operating activities**	**2004**	**2003**
		£	**£**
	Operating (loss)/profit	(61,339)	103,903
	Depreciation of tangible assets	27,118	35,198
	Decrease in stocks	679,254	3,526,406
	(Increase)/decrease in debtors	(1,025,345)	1,809,813
	Increase/(decrease) in creditors within one year	2,130,435	(1,583,700)
	Net cash inflow from operating activities	1,750,123	3,891,620

2	**Analysis of net funds**	**1 January 2004**	**Cash flow**	**Other non-cash changes**	**31 December 2004**
		£	**£**	**£**	**£**
	Net cash:				
	Cash at bank and in hand	9,726,471	5,157,599	-	14,884,070
	Bank overdrafts	(487)	487	-	-
		9,725,984	5,158,086	-	14,884,070
	Bank deposits	-	-	-	-
	Net funds	9,725,984	5,158,086	-	14,884,070

3	**Reconciliation of net cash flow to movement in net funds**	**2004**	**2003**
		£	**£**
	Increase in cash in the year	5,158,086	3,664,388
	Movement in net funds in the year	5,158,086	3,664,388
	Opening net funds	9,725,984	6,061,596
	Closing net funds	14,884,070	9,725,984

EASTLINK LANKER PLC

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

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1 Accounting policies

1.1 Accounting convention
The financial statements are prepared under the historical cost convention.

1.2 Compliance with accounting standards
The financial statements are prepared in accordance with applicable accounting standards.

1.3 Turnover
Turnover represents amounts receivable for goods and services net of VAT and trade discounts.

1.4 Tangible fixed assets and depreciation
Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Computer equipment	33.3% Straight line
Fixtures, fittings & equipment	15% Straight line

1.5 Leasing
Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

1.6 Investments
Fixed asset investments are stated at cost less provision for diminution in value.

1.7 Stock
Work in progress is valued at the lower of cost and net realisable value.

1.8 Pensions
The pension costs charged in the financial statements represent the contributions payable by the company during the year in accordance with FRS 17.

1.9 Accounting for subsidiary undertakings
The group has taken advantage of the exemption conferred by Financial Reporting Standard (FRS) 2 *Accounting for subsidiary undertakings, not to consolidate the accounts of* Alef-Bank *whose activities are* so disparate that to consolidate would result in the group accounts not showing a true and fair view.

2 Turnover

Geographical market

	Turnover 2004 £	2003 £
United Kingdom	4,119	1,479,736
Europe	122,984,704	108,569,861
United States of America	-	1,470,958
Other	444,066	740,923
	123,432,889	112,261,478

3 Operating (loss)/profit

	2004 £	2003 £
Operating (loss)/profit is stated after charging:		
Depreciation of tangible assets	27,118	35,198
Operating lease rentals	64,799	67,420
Auditors' remuneration	15,000	13,000
Remuneration of auditors for non-audit work	21,676	28,701

4 Investment income

	2004 £	2003 £
Bank interest	129,782	101,426

5 Interest payable

	2004 £	2003 £
On overdue tax	-	634

EASTLINK LANKER PLC

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

6 Taxation

	2004	2003
	£	£
Domestic current year tax		
U.K. corporation tax	22,419	76,893
Adjustment for prior years	150,000	-
Current tax charge	172,419	76,893
Factors affecting the tax charge for the year		
Profit on ordinary activities before taxation	68,443	204,695
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 23.94% (2003: 29.58%)	16,385	60,549
Effects of:		
Non deductible expenses	5,974	13,878
Depreciation add back	6,492	10,403
Capital allowances	(6,432)	(7,937)
Adjustments to previous periods	150,000	-
	156,034	16,344
Current tax charge	172,419	76,893

7 *Tangible fixed assets*

	Computer equipment	Fixtures, fittings & equipment	Total
	£	£	£
Cost			
At 1 January 2004	150,378	102,773	253,151
Additions	16,860	-	16,860
At 31 December 2004	167,238	102,773	270,011
Depreciation			
At 1 January 2004	135,910	61,111	197,021
Charge for the year	14,420	12,698	27,118
At 31 December 2004	150,330	73,809	224,139
Net book value			
At 31 December 2004	16,908	28,964	45,872
At 31 December 2003	14,468	41,662	56,130

8 Fixed asset investments

	Shares in subsidiary undertakings
	£
Cost	
At 1 January 2004	14,263,916
Additions	6,404,959
At 31 December 2004	20,668,875

Holdings of more than 20%
The company holds more than 20% of the share capital of the following companies:

Company	Country of registration or incorporation	Shares held Class	%
Participating interests			
Alef-Bank	Russian Federation	Ordinary	100

The aggregate amount of capital and reserves and the results of these undertakings for the last relevant financial year were as follows:

	Capital and reserves 2004	Profit for the year 2004
	£	£
Alef-Bank	141,066,563	1,413,267

9 Stocks

	2004	2003
	£	£
Finished goods and goods for resale	-	679,254

10 Debtors

	2004	2003
	£	£
Trade debtors	605,247	1,023,481
Amounts owed by parent and fellow subsidiary undertakings	3,298,146	1,666,973
Corporation tax	-	38,107
Other debtors	77,647	112,170
Prepayments and accrued income	352,413	505,484
	4,333,453	3,346,215

11 Creditors: amounts falling due within one year

	2004	2003
	£	£
Bank loans and overdrafts	-	487
Trade creditors	5,292,711	4,237,824
Amounts owed to parent and fellow subsidiary undertakings	483,517	2,122,886
Corporation tax	134,312	-
Other taxes and social security costs	8,836	8,503
Other creditors	-	3,249
Accruals and deferred income	2,807,468	89,635
	8,726,844	6,462,584

12 Pension costs

Defined contribution

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund.

	2004	2003
	£	£
Contributions payable by the company for the year	19,686	13,805

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

13 Share capital	2004	2003
	£	£
Authorised		
20,000,000 Ordinary shares of £1 each	20,000,000	20,000,000
10,000,000 Zero Coupon Preference shares of £1 each	10,000,000	10,000,000
	30,000,000	30,000,000
Allotted, called up and fully paid		
20,000,000 Ordinary shares of £1 each	20,000,000	10,900,000
10,000,000 Zero Coupon Preference shares of £1 each	10,000,000	9,400,000
	30,000,000	20,300,000

14 Statement of movements on profit and loss account	Profit and loss account
	£
Balance at 1 January 2004	1,309,402
Retained loss for the year	(103,976)
Balance at 31 December 2004	1,205,426

15 Reconciliation of movements in shareholders' funds	*2004*	*2003*
	£	£
(Loss)/Profit for the financial year	(103,976)	127,802
Proceeds from issue of shares	9,700,000	-
Net addition to shareholders' funds	9,596,024	127,802
Opening shareholders' funds	21,609,402	21,481,600
Closing shareholders' funds	31,205,426	21,609,402

16 Financial commitments

At 31 December 2004 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	2004	**2003**
	£	**£**
Expiry date:		
Between two and five years	64,900	61,040

17 Directors' emoluments

	2004	**2003**
	£	**£**
Emoluments for qualifying services	32,917	30,000
Company pension contributions to money purchase schemes	1,051	763
	33,968	30,763

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 1 (2003- 1).

18 *Transactions with directors*

The following directors had interest free loans during the year. The movement on these loans are as follows:

	Amount outstanding		Maximum
	2004	**2003**	**in year**
	£	**£**	**£**
A Yusfin (debit bal)	6,898	17,316	17,316

19 Employees

Number of employees
The average monthly number of employees (including directors) during the year was:

	2004 Number	2003 Number
Management and adminstration	12	14

Employment costs

	£	£
Wages and salaries	285,037	308,407
Social security costs	29,005	28,874
Other pension costs	19,686	13,805
	333,728	351,086

20 Control

The ultimate parent company is Lanker Enterprises Limited, a company registered in the British Virgin Islands.

21 Related party transactions

Included within turnover are sales of £76,781,058, and included within cost of sales are purchases of £47,636,449, relating to Lanker Import Export Limited a fellow group subsidiary undertaking.

Cash at bank and in hand includes Russian Rouble bank deposits of £8,874,902 held with Alef-Bank, a subsidiary of Eastlink Lanker Plc . During the period, Eastlink Lanker plc withdrew funds held with Alef-Bank totalling £19,030,609 and deposited funds totalling £28,550,453. Eastlink Lanker plc received interest from Alef-Bank during the period of £53,130.
Included within group creditors is £483,517 owed to the parent company Lanker Enterprises Limited.
Included within group debtors is £3,216,788 owed by Lanker Import Export Limited a fellow group subsidiary and £81,358 by Alef-Bank.

The above transactions were on commercial terms.

22 Post balance sheet events

On 10 Febuary 2005 Eastlink Lanker plc issued 10,000,000 ordinary shares of £1 each and increased the authorised shared capital to 70,000,000 shares.

Closed Joint-Stock Company
"Alef-Bank"

Financial Statements and Auditors' Report

31 December 2004

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Auditors' Report

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AUDITORS' REPORT

To the Shareholders of Closed Joint-Stock Company "Alef-Bank":

1 We have audited the accompanying balance sheet of Closed Joint-Stock Company "Alef-Bank" (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.

2 We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

3 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.

4 Without qualifying our opinion, we draw attention to the following:

- As discussed further in Note 12 to the accompanying financial statements, as at 31 December 2004 the Bank had a significant concentration of customer accounts, where one group of customers represented 80% of all customer accounts balances.

- As discussed further in Note 7 to the accompanying financial statements, as at 31 December 2004 the Bank had a significant concentration of loans to customers, where the three largest borrowers represented 66% of the total gross loan portfolio.

PricewaterhouseCoopers

Moscow, Russia
21 June 2005

(in thousands of Russian Roubles)

	Note	2004	2003
Assets			
Cash and cash equivalents	5	4 168 607	1 680 828
Mandatory cash balances with the Central Bank of the Russian Federation		178 171	109 575
Due from other banks	6	1 888 538	162 334
Loans and advances to customers	7	872 809	546 655
Investment securities available for sale	8	414 364	1 551 288
Other assets	9	4 880	8 343
Office and computer equipment	10	12 928	14 392
Total assets		**7 540 297**	**4 073 415**
Liabilities			
Due to other banks	11	1 509 465	470 590
Customer accounts	12	4 359 297	2 102 189
Debt securities in issue	13	16 789	238 471
Subordinated loans	14	437 970	136 141
Other liabilities	15	11 007	15 851
Total liabilities		**6 334 528**	**2 963 242**
Shareholders' equity			
Share capital	16	1 175 887	1 175 887
Share premium	17	375 460	375 460
Accumulated deficit		(345 578)	(441 174)
Total shareholders' equity		**1 205 769**	**1 110 173**
Total liabilities and shareholders' equity		**7 540 297**	**4 073 415**

Approved for issue by the Board of Directors and signed on its behalf on 21 June 2005.

Y.V. Belik
Chairman of the Executive Board

E.N. Erofeeva
Chief Accountant

(in thousands of Russian Roubles)

	Note	2004	2003
Interest income	19	294 469	139 918
Interest expense	19	(53 741)	(41 817)
Net interest income		**240 728**	**98 101**
Provision for loan impairment	6,7	(83 478)	(16 160)
Net interest income after provision for loan impairment		**157 250**	**81 941**
Gains less losses arising from trading in investment securities available for sale		(30 341)	45 210
Gains less losses arising from trading in foreign currencies		(6 697)	31 432
Foreign exchange translation gains less losses		(22 082)	(108 007)
Fee and commission income	20	134 783	26 946
Fee and commission expense	20	(8 688)	(4 253)
Provision for credit related commitments	24	(232)	(387)
Dividends received		1 094	-
Other operating income		5 159	1 731
Operating income		**230 246**	**74 613**
Operating expenses	21	(119 888)	(85 057)
Profit/(Loss) from operations		**110 358**	**(10 444)**
Income tax expense	22	(37 816)	(13 795)
Net profit/(loss)		**75 542**	**(24 239)**

(in thousands of Russian Roubles)

	Note	2004	2003
Cash flows from operating activities			
Interest received		248 601	133 614
Interest paid		(57 569)	(33 406)
Expenses on trading in financial assets		-	(1 985)
(Loss made)/Income received from trading in foreign currencies		(4 307)	29 715
Fees and commissions received		134 783	26 946
Fees and commissions paid		(8 688)	(4 253)
Other operating income received		5 560	1 731
Operating expenses paid		(114 100)	(62 518)
Income tax paid		(38 583)	(5 684)
Cash flows from operating activities before changes in operating assets and liabilities		**165 697**	**84 160**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(68 596)	(55 877)
Net (increase)/decrease in due from other banks		(1 757 484)	470 579
Net increase in loans and advances to customers		(423 062)	(467 240)
Net decrease in other assets		3 217	4 344
Net increase/(decrease) in due to other banks		988 597	(449 110)
Net increase in customer accounts		2 257 971	1 662 617
Net (decrease)/increase in securities in issue		(224 883)	197 795
Net (decrease)/increase in other liabilities		(7 171)	535
Net cash from operating activities		**934 286**	**1 447 803**
Cash flows from investing activities			
Acquisition of investment securities available for sale		(2 672 073)	(7 284 440)
Proceeds from disposal of investment securities available for sale		3 804 495	5 779 904
Proceeds from disposal of office and computer equipment	10	960	-
Purchase of office and computer equipment		(5 492)	(13 464)
Dividends income received		1 094	-
Net cash from/(used in) investing activities		**1 128 984**	**(1 518 000)**
Cash flows from financing activities			
Proceeds from subordinated loans	14	325 977	-
Contribution from shareholders	21	23 054	-
Net cash from financing activities		**349 031**	**-**
Effect of exchange rate changes on cash and cash equivalents		**75 478**	**(41 140)**
Net increase/(decrease) in cash and cash equivalents		**2 487 779**	**(111 337)**
Cash and cash equivalents at the beginning of the year		1 680 828	1 792 165
Cash and cash equivalents at the end of the year	5	**4 168 607**	**1 680 828**

(in thousands of Russian Roubles)

	Note	Share capital	Share premium	Accumulated deficit	Total shareholders' equity
Balance at 1 January 2003		**1 175 887**	**375 460**	**(432 554)**	**1 118 793**
Net loss for the year		-	-	(24 239)	(24 239)
Contributions from shareholders	21	-	-	15 619	15 619
Balance at 31 December 2003		**1 175 887**	**375 460**	**(441 174)**	**1 110 173**
Net profit for the year		-	-	72 542	72 542
Contributions from shareholders	21	-	-	23 054	23 054
Balance at 31 December 2004		**1 175 887**	**375 460**	**(345 578)**	**1 205 769**

1 Principal Activities

Closed Joint-Stock Company "Alef-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 1992. The Bank's principal business activity is commercial banking operations within the Russian Federation.

At 31 December 2004 the 100% shareholder of the Bank is Eastlink Lanker Plc, United Kingdom. Eastlink Lanker Plc is owned by Lanker Enterprises Ltd, British Virgin Islands (99.96%). Two individual shareholders of the latter company are the ultimate shareholders of the Bank. Each ultimate shareholder owns 50% of the share capital of Lanker Enterprises Ltd.

One of the primary purposes of the Bank is to provide lending and settlement services, and to facilitate trade finance operations of certain significant customers with interests primarily in the oil industry.

The Bank has one branch within the Russian Federation located in the town of Kurgan.

The Bank's registered office is located at the following address: building 1, 20, Dmitriya Ulyianova street, Moscow. The Bank's principal place of business is building 1, 20, Dmitriya Ulyianova street, Moscow, Russian Federation.

The number of the Bank's employees as at 31 December 2004 was 125 (2003: 119).

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 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.

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 Presentation

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

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

3 Basis of Presentation (Continued)

The preparation of the financial statements requires the use of estimates and assumptions that affect 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 ultimately may differ from those estimates.

Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current year. Insurance expense was not material in 2003 and was included in "Other administrative expenses" in Note 21. In 2004 insurance expense became material and was shown in a separate line within Note 21. The comparative data in Note 21 for 2003 was disclosed accordingly.

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.

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 recognised 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 yield method.

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

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

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

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

4 Significant Accounting Policies (Continued)

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

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

Investment securities available for sale. This classification includes investment securities which Management intends to hold for an indefinite period of time, 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 recognised at cost (which includes transaction costs) and subsequently remeasured to fair value based on quoted bid prices. Certain investments available for sale for which there is no available external independent quotation have been fair valued by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies. Realised and unrealised gains and losses arising from changes in the fair value of investment securities available for sale are included in the statement of income in the period in which they arise. Impairment and reversal of impairment of investment securities available for sale is recorded through the statement of income. 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 dividend income within the 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 Bank commits to purchase or sell the asset. All other purchases and sales are recognised as derivative forward transactions until settlement.

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

At each reporting date the Bank assesses whether there is any indication of impairment of office and computer 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.

Gains and losses on disposal of office and computer equipment are determined by reference to their carrying amount and are taken into account in determining profit/(loss). Repairs and maintenance are charged to the 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:

Office and computer equipment - 20% per annum;

Intangible assets – 13%

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

4 Significant Accounting Policies (Continued)

Borrowing (including subordinated loans). Borrowings are recognised 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 recognised in the statement of income over the period of the borrowings using the effective yield method.

Borrowings originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar borrowings. The difference between the fair value and the nominal value at origination is credited or charged to the 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 yield method.

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

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 recognised 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 recognised in the statement of income for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. 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 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. 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 recognised 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 origination 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 yield 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.

(in thousands of Russian Roubles)

4 Significant Accounting Policies (Continued)

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

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

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

Derivative financial instruments. Derivative financial instruments including foreign exchange contracts 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.

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

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

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.

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. Accordingly, prior to 1 January 2003 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the Russian Rouble in accordance with IAS 29.

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

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

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

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

(in thousands of Russian Roubles)

4 Significant Accounting Policies (Continued)

Provisions. Provisions are recorded when the 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.

5 Cash and Cash Equivalents

	2004	2003
Cash on hand	126 769	120 264
Cash balances with the CBRF (other than mandatory reserve deposits)	1 116 670	706 661
Correspondent accounts and overnight placements with other banks		
- Russian Federation	107 302	213 031
- Other countries	2 815 941	616 941
Accounts with stock exchanges	1 925	23 931
Total cash and cash equivalents	**4 168 607**	**1 680 828**

At 31 December 2004 the aggregate amount of balances on correspondent accounts with three European banks comprised 57% of the total cash balance (2003: 33%).

Geographical, currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 23.

6 Due from Other Banks

	2004	2003
Current term placements with other banks	1 888 538	162 334
Total due from other banks	**1 888 538**	**162 334**

44% of due from other banks are represented by a term placement with the Central Bank of the Russian Federation (2003: nil), and 36% of this balance are represented by a term deposit with a European bank (2003: 3%).

As at 31 December 2004 the estimated fair value of due from other banks was RR 1 888 538 thousand (31 December 2003: RR 162 334 thousand). Refer to Note 25.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 23.

7 Loans and Advances to Customers

	2004	2003
Current loans	917 283	572 808
Overdue loans	65 157	
Less: Provision for loan impairment	(109 631)	(26 153)
Total loans and advances to customers	**872 809**	**546 655**

(in thousands of Russian Roubles)

7 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment are as follows:

	2004	2003
Provision for loan impairment at 1 January	**26 153**	**9 993**
Provision for loan impairment during the year	83 478	16 160
Provision for loan impairment at 31 December	**109 631**	**26 153**

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

	2004		2003	
	Amount	**%**	**Amount**	**%**
Oil pipe construction equipment manufacturing	361 704	37	72 412	13
Oil pumps manufacturing	253 074	25	36 000	6
Real estate	229 201	23	126 984	22
Finance	67 696	7	250 000	44
Individuals	44 221	5	46 239	8
Retail and wholesale trade	26 544	3	26 173	5
Food production	-	-	15 000	2
Total loans and advances to customers (aggregate amount)	**982 440**	**100**	**572 808**	**100**

As at 31 December 2004 the Bank had three large borrowers with aggregate loan amounts over RR 100 000 thousand. The total aggregate amount of these loans was RR 645 066 or 66% of total loan portfolio (2003: there were two large borrowers with aggregate loans amounts of RR 367 155, or 64% of the loan portfolio).

As at 31 December 2004 the estimated fair value of loans and advances to customers was RR 872 809 thousand (31 December 2003: RR 546 655 thousand). Refer to Note 25.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 23. The Bank has several balances outstanding from related parties. The relevant information on related party balances is disclosed in Note 26.

8 Investment Securities Available for Sale

	2004	2003
Promissory notes	354 664	1 222 552
Corporate bonds	50 780	-
Corporate shares	8 920	-
Russian Federation Eurobonds	-	198 137
Municipal bonds	-	104 242
Certificates of deposit	-	26 357
Total investment securities available for sale	**414 364**	**1 551 288**

Promissory notes are represented by marketable notes issued by Russian banks and reflected at their fair value.

Russian Federation Eurobonds are interest bearing securities denominated in USD, issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. These bonds had a maturity date in 2030, coupon rate of 5% and yield to maturity of 7.12 % as at 31 December 2003.

Corporate bonds are issued by OAO Gazprom, are denominated in Russian Roubles, have maturity date in January 2007 and bear interest of 8.11% per annum. As at 31 December 2004 yield to maturity was 7.41%.

(in thousands of Russian Roubles)

8 Investment Securities Available for Sale (Continued)

Municipal bonds are represented by bonds issued by the Moscow city government, have a maturity date in 2005, coupon rate of 10% and yield to maturity of 7.74% at 31 December 2003.

Certificates of deposit held by the Bank at 31 December 2003 were represented by certificates, denominated in Russian Roubles, issued by Vneshtorgbank. These instruments had maturity date in February 2004, interest of 16% per annum and effective yield to maturity of 15.4%.

Geographical, currency, maturity and interest rate analyses of investment securities available for sale are disclosed in Note 23.

9 Other Assets

	2004	2003
Intangible assets	2 671	2 745
Settlements with exchanges	555	270
Prepaid taxes	6	5
Trade debtors and prepayments	4	3 026
Settlements on foreign currency deals	-	1 717
Other	1 644	580
Total other assets	**4 880**	**8 343**

Geographical, currency and maturity analyses of other assets are disclosed in Note 23.

10 Office and Computer Equipment

	Note	Office and computer equipment
Net book amount at 31 December 2003		**14 392**
Book amount at cost		
Opening balance		35 233
Additions		5 508
Disposals		(1 791)
Closing balance		**38 950**
Accumulated depreciation		
Opening balance		20 841
Depreciation charge	21	5 595
Disposals		(414)
Closing balance		**26 022**
Net book amount at 31 December 2004		**12 928**

(in thousands of Russian Roubles)

11 Due to Other Banks

	2004	2003
Correspondent accounts and overnight placements of other banks	1 509 465	151 360
Current term placements of other banks	-	319 230
Total due to other banks	**1 509 465**	**470 590**

As at 31 December 2004 the estimated fair value of due to other banks was RR 1 509 465 thousand (31 December 2003: RR 470 590 thousand).

Correspondent accounts balances at 31 December 2004 included RR 1 368 976 thousand in placements made by one bank located in Congo (2003: RR 201 thousand).

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 23.

12 Customer Accounts

	2004	2003
Corporate legal entities		
-Current/settlement accounts	4 264 788	1 935 148
-Term deposits	14 700	72 500
Individuals		
-Current/demand accounts	63 878	77 430
-Term deposits	15 931	17 111
Total customer accounts	**4 359 297**	**2 102 189**

Economic sector concentrations within customer accounts are as follows:

	2004		2003	
	Amount	%	Amount	%
Oil trade	2 014 948	46	109 861	5
Oil-pipe construction	1 506 191	35	1 558 639	74
Financial services	466 079	11	152 672	7
Individuals	79 809	2	94 541	5
Manufacturing	70 617	2	29 646	1
Construction	-	-	62 792	3
Professional services	-	-	21 811	1
Transport	-	-	5 958	0
Other	221 653	4	66 269	4
Total customer accounts	**4 359 297**	**100**	**2 102 189**	**100**

At 31 December 2004 the Bank had two related customers accounts balances in the aggregate amount of RR 3 487 767 thousand, which represented 80% of total customer accounts balances (31 December 2003: the largest aggregate balance of one customer was RR 1 558 639 thousand, which represented 74% of total customer accounts balances).

As at 31 December 2004 included in customer accounts are non-interest bearing deposits of RR 3 495 382 thousand (2003: nil) held as collateral for irrevocable commitments under letters of credit. Refer to Note 24.

(in thousands of Russian Roubles)

12 Customer accounts (continued)

As at 31 December 2004 the estimated fair value of customer accounts was RR 4 359 297 thousand (31 December 2003: RR 2 102 189 thousand). Refer to Note 25.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 23. The Bank has several balances outstanding to related parties. The relevant information on related party balances is disclosed in Note 26.

13 Debt Securities in Issue

Promissory notes denominated in both Russian Roubles and US dollars have been issued during the year primarily to a Russian bank. All outstanding promissory notes as at 31 December 2004 are denominated in Russian Roubles. Average term of these promissory notes varies between 115 and 450 days, average effective yield varies between 3% and 5% depending on the term. See also Note 19.

As at 31 December 2004 the estimated fair value of issued promissory notes was RR 16 789 thousand (31 December 2003: RR 238 471 thousand).

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 23.

14 Subordinated Loans

In 2001 the Bank received a subordinated loan from its shareholder in the amount of USD 6 million. The nominal interest rate of the loan was 2% per annum and maturity in February 2011. Amortized cost of the loan as at 31 December 2004 was RR 132 735 thousand.

In 2004 the Bank received another subordinated loan from its shareholder in the amount of USD 11 million with the nominal interest rate of 3% per annum. Maturity of the loan is on 21 September 2014 and amortized cost as at 31 December 2004 was RR 305 235 thousand.

As at 31 December 2004 the estimated fair value of the two subordinated loans was RR 437 970 thousand (2003: RR 136 141 thousand). Refer to Note 25.

Geographical, currency, maturity and interest rate analyses of subordinated loan is disclosed in Note 23. The relevant information on related party balances is disclosed in Note 26.

15 Other Liabilities

	Note	2004	2003
Deferred tax liability	22	5 964	12 748
Taxation payable		3 061	1 795
Settlements on conversional transactions		673	-
Provision for losses on credit related commitments	24	619	387
Other		690	921
Total other liabilities		**11 007**	**15 851**

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 23.

(in thousands of Russian Roubles)

16 Share Capital

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

	2004			2003		
	Number of shares	**Nominal amount**	**Inflation adjusted amount**	**Number of shares**	**Nominal amount**	**Inflation adjusted amount**
Ordinary shares	68 481 720	684 817	1 175 887	68 481 720	684 817	1 175 887
Total share capital	**68 481 720**	**684 817**	**1 175 887**	**68 481 720**	**684 817**	**1 175 887**

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

17 Share Premium

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

18 Distribution of Profit in Accordance with Russian Accounting Rules

In accordance with Russian Law on Banks and Banking Activity, 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 are RR 59 106 thousand (31 December 2003: RR 52 567 thousand).

19 Interest Income and Expense

	2004	2003
Interest income		
Loans and advances to customers	167 229	45 884
Due from other banks	69 585	24 021
Investment securities available for sale	40 290	24 538
Correspondent accounts and overnight placements with other banks	17 365	45 326
Debt trading securities	-	149
Total interest income	**294 469**	**139 918**
Interest expense		
Promissory notes issued	(37 894)	(4 838)
Subordinated loan	(10 565)	(8 290)
Correspondent accounts and overnight placements of other banks	(2 658)	(16 374)
Term deposits of individuals	(1 067)	(1 346)
Term deposits of legal entities	(821)	(4 453)
Term placements of other banks	(736)	(6 516)
Total interest expense	**(53 741)**	**(41 817)**
Net interest income	**240 728**	**98 101**

During 2004 the Bank has issued US dollar denominated promissory notes to a Russian bank for the term of six months at the rate of 15% per annum. The promissory notes have been repaid before maturity. Total interest expense incurred by the Bank on these promissory notes equalled RR 36 297 thousand.

(in thousands of Russian Roubles)

20 Fee and Commission Income and Expense

	2004	2003
Fee and commission income		
Commissions on trade finance	105 107	2 120
Commission on settlement transactions	14 535	14 206
Commission on cash transactions	6 058	2 261
Commission on foreign exchange transactions	1 219	5 011
Commission on brokerage operations	-	2 404
Other	7 864	944
Total fee and commission income	**134 783**	**26 946**
Fee and commission expense		
Commission on foreign exchange transactions	(5 660)	(2 598)
Commission on settlement transactions	(1 480)	(814)
Commission on cash transactions	(552)	(711)
Other	(996)	(130)
Total fee and commission expense	**(8 688)**	**(4 253)**
Net fee and commission income	**126 095**	**22 693**

21 Operating Expenses

	Note	2004	2003
Staff costs	26	48 696	33 395
Insurance		23 945	197
Administrative expenses		12 205	13 362
Rent expenses		9 951	8 100
Taxes other than on income		7 138	9 703
Professional services		5 667	1 254
Depreciation of office and computer equipment	10	5 595	5 942
Premises repair and maintenance		1 557	8 809
Advertising and marketing		65	67
Other		5 069	4 228
Total operating expenses		**119 888**	**85 057**

Part of staff costs in the amount of RR 23 054 thousand has been funded directly by the shareholders of the Bank (2003: RR 15 619 thousand) and are reflected as contributions from shareholders in the statement of changes shareholders' equity.

22 Income Taxes

Income tax expense comprises the following:

	2004	2003
Current tax charge	44 600	8 939
Deferred taxation movement due to:		
- Origination and reversal of temporary differences	(6 784)	4 856
Income tax expense for the year	**37 816**	**13 795**

(in thousands of Russian Roubles)

22 Income Taxes (Continued)

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

	2004	2003
IFRS loss before taxation	**110 358**	**(10 444)**
Theoretical tax credit at the applicable statutory rate (2004: 24%; 2003: 24%)	26 486	(2 507)
- Income which is exempt from taxation	-	(208)
- Income which is taxed at different rates	(303)	-
- Other non deductible expense	6 264	4 409
- Foreign currency capital translation gains and losses	5 246	12 533
- Other non-temporary differences	123	(432)
Income tax expense for the year	**37 816**	**13 795**

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 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%).

	2002	Movement	2003	Movement	2004
Tax effect of deductible temporary differences					
Loans and advances to customers	3 628	2 132	5 760	(5 760)	-
Office and computer equipment - additional depreciation	4 044	(235)	3 809	618	4 427
Accruals	1 293	4	1 297	(350)	947
Provision for guarantees	-	133	133	55	188
Other	2 711	(1 163)	1 548	1 793	3 341
Gross deferred tax asset	**11 676**	**871**	**12 547**	**(3 644)**	**8 903**
Tax effect of taxable temporary differences					
Due from other banks	(1 704)	1 704	-	-	-
Loan impairment provision	-	-	-	(3 105)	(3 105)
Subordinated loan	(13 682)	3 941	(9 741)	1 639	(8 102)
Fair valuation of securities available for sale	(52)	(11 665)	(11 717)	11 036	(681)
Office and computer equipment – cost inflation	(3 757)	808	(2 949)	-	(2 949)
Due to other banks	-	(400)	(400)	400	-
Accruals	(373)	(115)	(488)	458	(30)
Gross deferred tax liability	**(19 568)**	**(5 727)**	**(25 295)**	**10 428**	**(14 867)**
Total net deferred tax liability	**(7 892)**	**(4 856)**	**(12 748)**	**6 784**	**(5 964)**

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

(in thousands of Russian Roubles)

23 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 all amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to 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.

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

The Bank's maximum exposure to credit risk is primary reflected in the carrying amounts of financial assets on the 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 Executive Board sets limits on the value of risk that may be accepted. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

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

	Russia	OECD	Non OECD*	Total
Assets				
Cash and cash equivalents	1 352 666	2 815 941	-	4 168 607
Mandatory cash balances with the Central Bank of the Russian Federation	178 171	-	-	178 171
Due from other banks	1 218 198	670 340	-	1 888 538
Loans and advances to customers	872 809	-	-	872 809
Investment securities available for sale	414 364	-	-	414 364
Other assets	4 880	-	-	4 880
Office and computer equipment	12 928	-	-	12 928
Total assets	**4 054 016**	**3 486 281**	-	**7 540 297**
Liabilities				
Due to other banks	100 902	-	1 408 563	1 509 465
Customer accounts	4 319 943	5 732	33 622	4 359 297
Debt securities in issue	16 789	-	-	16 789
Other borrowed funds	-	437 970	-	437 970
Other liabilities	11 007	-	-	11 007
Total liabilities	**4 448 641**	**443 702**	**1 442 185**	**6 334 528**
Net balance sheet position	**(394 625)**	**3 042 579**	**(1 442 185)**	**1 205 769**
Credit related commitments	**3 632 776**	-	-	**3 632 776**

* OECD – Organization for Economic Cooperation and Development

(in thousands of Russian Roubles)

23 Financial Risk Management (Continued)

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, office and computer 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:

	Russia	OECD	Non OECD	Total
Net balance sheet position	**654 063**	**477 853**	**(21 743)**	**1 110 173**
Credit related commitments	**70 578**	**-**	**-**	**70 578**

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 Executive Board 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 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 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	1 191 260	933 933	2 043 309	105	4 168 607
Mandatory cash balances with the Central Bank of the Russian Federation	178 171	-	-	-	178 171
Due from other banks	1 107 187	403 247	378 104	-	1 888 538
Loans and advances to customers	860 822	11 987	-	-	872 809
Investment securities available for sale	108 565	111 052	194 747	-	414 364
Other assets	4 880	-	-	-	4 880
Office and computer equipment	12 928	-	-	-	12 928
Total assets	**3 463 813**	**1 460 219**	**2 616 160**	**105**	**7 540 297**
Liabilities					
Due to other banks	77 125	208 396	1 223 837	107	1 509 465
Customer accounts	4 294 234	43 925	19 117	2 021	4 359 297
Debt securities in issue	16 789	-	-	-	16 789
Other borrowed funds	-	437 970	-	-	437 970
Other liabilities	11 007	-	-	-	11 007
Total liabilities	**4 399 155**	**690 291**	**1 242 954**	**2 128**	**6 334 528**
Net balance sheet position	**(935 342)**	**769 928**	**1 373 206**	**(2 023)**	**1 205 769**
Credit related commitments	**3 579 557**	**22 815**	**30 404**	**-**	**3 632 776**
Off-balance sheet net notional position	**(1 247 070)**	**-**	**1 247 743**	**-**	**673**

(in thousands of Russian Roubles)

23 Financial Risk Management (Continued)

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

	RR	USD	Euro	Other currencies	Total
Net balance sheet position	(495 519)	1 410 825	196 779	(1 912)	1 110 173
Credit related commitments	57 358	13 040	-	-	70 578

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

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

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.

(in thousands of Russian Roubles)

23 Financial Risk Management (Continued)

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	4 168 607	-	-	-	-	4 168 607
Mandatory cash balances with the Central Bank of the Russian Federation	178 171	-	-	-	-	178 171
Due from other banks	1 025 823	655 592	-	207 123	-	1 888 538
Loans and advances to customers	7 770	199 410	146 585	519 044	-	872 809
Investment securities available for sale	414 364	-	-	-	-	414 364
Other assets	2 710	-	-	-	2 170	4 880
Office and computer equipment	-	-	-	-	12 928	12 928
Total assets	**5 797 445**	**855 002**	**146 585**	**726 167**	**15 098**	**7 540 297**
Liabilities						
Due to other banks	1 509 465	-	-	-	-	1 509 465
Customer accounts	4 328 663	805	15 126	14 703	-	4 359 297
Debt securities in issue	-	16 789	-	-	-	16 789
Other borrowed funds	-	-	-	437 970	-	437 970
Other liabilities	11 007	-	-	-	-	11 007
Total liabilities	**5 849 135**	**17 594**	**15 126**	**452 673**	**-**	**6 334 528**
Net liquidity gap	**(51 690)**	**837 408**	**131 459**	**273 494**	**15 098**	**1 205 769**
Cumulative liquidity gap at 31 December 2004	**(51 690)**	**785 718**	**917 177**	**1 190 671**	**1 205 769**	**-**
Cumulative liquidity gap at 31 December 2003	**511 105**	**844 027**	**870 761**	**1 105 784**	**1 110 173**	**-**

Overdue assets are fully provided against, and thus, have no impact on the above table.

Mandatory cash balances with the CBRF are included within demand and less than one month as the majority of liabilities to which this balance relates to are also included within this category.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Management of the 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.

(in thousands of Russian Roubles)

23 Financial Risk Management (Continued)

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

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

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

The Executive Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily. In the absence of any available hedging instruments, the Bank normally seeks to match its interest rate positions.

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	Non-interest bearing	Total
Assets						
Cash and cash equivalents	4 168 607	-	-	-	-	4 168 607
Mandatory cash balances with the Central Bank of the Russian Federation	178 171	-	-	-	-	178 171
Due from other banks	1 025 823	655 591	-	207 124	-	1 888 538
Loans and advances to customers	7 770	199 410	146 585	519 044	-	872 809
Investment securities available for sale	414 364	-	-	-	-	414 364
Other assets	-	-	-	-	4 880	4 880
Office and computer equipment	-	-	-	-	12 928	12 928
Total assets	**5 794 735**	**855 001**	**146 585**	**726 168**	**17 808**	**7 540 297**
Liabilities						
Due to other banks	1 509 465	-	-	-	-	1 509 465
Customer accounts	4 328 664	805	15 126	14 702	-	4 359 297
Debt securities in issue	-	16 789	-	-	-	16 789
Other borrowed funds	-	-	-	437 970	-	437 970
Other liabilities	-	-	-	-	11 007	11 007
Total liabilities	**5 838 129**	**17 594**	**15 126**	**452 672**	**11 007**	**6 334 528**
Net sensitivity gap	**(43 394)**	**837 407**	**131 459**	**273 496**	**6 801**	**1 205 769**
Cumulative sensitivity gap at 31 December 2004	**(43 394)**	**794 013**	**925 472**	**1 198 968**	**1 205 769**	-
Cumulative sensitivity gap at 31 December 2003	**399 035**	**731 957**	**758 691**	**993 714**	**1 110 173**	-

(in thousands of Russian Roubles)

23 Financial Risk Management (Continued)

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

	2004			2003		
	RR	**USD**	**Euro**	**RR**	**USD**	**Euro**
Assets						
Cash and cash equivalents	-	-	-	3%	2%	-
Due from other banks	1%	1%	3%	-	5%	-
Loans and advances to customers	10%	13%	-	9%	12%	-
Investment securities available for sale	7%	6%	5%	10%	-	-
Liabilities						
Due to other banks	0%	0%	0%	6%	-	-
Customer accounts						
- term deposits	6%	9%	6%	6%	8%	6%
Debt securities in issue	3%	-	-	5%	-	-
Subordinated loan	-	3%	-	-	6%	-

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

24 Contingencies, Commitments and Derivative Financial Instruments

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, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

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

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

Capital commitments. As at 31 December 2004 the Bank had no capital commitments (31 December 2003: nil).

(in thousands of Russian Roubles)

24 Contingencies, Commitments and Derivative Financial Instruments (Continued)

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

	2004	2003
Not later than 1 year	323	382
Later than 1 year and not later than 5 years	23 839	31 501
Total operating lease commitments	**24 162**	**31 883**

Included in operating lease commitments later than 1 year are commitments in respect of a long term lease of the Head Office building.

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 and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by cash deposits and therefore carry less risk than a direct borrowing. Outstanding credit related commitments are as follows:

	Note	2004	2003
Letters of credit	12	3 467 811	-
Unused limits on granting overdraft loans		96 609	-
Guarantees issued		68 321	70 965
Undrawn credit lines		654	-
Less: Provision for losses on credit related commitments		(619)	(387)
Total credit related commitments		**3 632 776**	**70 578**

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the Bank potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

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

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

	2004	2003
Provision for losses on credit related commitments as at 1 January	**387**	**-**
Provision for losses on credit related commitments during the period	232	387
Provision for losses on credit related commitments as at 31 December	**619**	**387**

(in thousands of Russian Roubles)

24 Contingencies, Commitments and Derivative Financial Instruments (Continued)

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

The principal amounts of certain types of financial instruments provide a basis for comparison with instruments recorded on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the 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 have favourable or unfavourable conditions and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

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

	Domestic			Foreign counterparties		
	Principal or agreed amount	**Negative fair value**	**Positive fair value**	**Principal or agreed amount**	**Negative fair value**	**Positive fair value**
Spot						
Foreign currency						
- sale of foreign currency	-	-	-	-	-	-
- purchase of foreign currency	-	-	-	1 247 743	-	673
Total	**-**	**-**	**-**	**1 247 743**	**-**	**673**

For these deals the Bank has recorded a net gain of RR 673 thousand which is included within gains less losses arising from trading in foreign currencies.

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**
Promissory notes in custody of the Bank under the custody agreement	923 605	-
Shares in companies held in custody, nominal value	28 327	1 118
Securities available for sale on a commission basis	1 284	-
Promissory notes held in custody	1 000	36 692
Other	13	-

Agency transactions. During the year the Bank served as an agent on a significant number and volume of transactions initiated by one of its clients registered in Seychelles. In accordance with the agency agreement the Bank had to transfer this clients' funds, which represented loans from this client to Russian companies, sign the loan agreement on behalf of the client and collect the loan when the borrower transmits repayments. The Bank is charging commission for the above agency transactions. The Bank does not bear any risks related to the borrower's creditworthiness and ultimate loan repayment.

25 Fair Value of Financial Instruments

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

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. 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 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 6 and 7 for the estimated fair values of due from other banks and loans and advances to customers, respectively.

Liabilities carried at amortised cost. The fair value of instruments with a quoted market price is based on quoted market prices. The estimated fair value of instruments with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest rate instruments without a quoted market price is based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 11, 12, 13 and 14 for the estimated fair values of due to other banks, customer accounts, debt securities in issue and subordinated loan, respectively.

26 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.

Related party transactions are represented mainly with the shareholders. A significant part of related party transactions is connected with the attraction of subordinated loans. Other transactions include settlements, loans, deposit taking, guarantees, trade finance and foreign currency transactions. These transactions are priced predominantly at preferential rates. The outstanding balances at the year end and income and expense items for the year with related parties are as follows:

(in thousands of Russian Roubles)

26 Related Party Transactions (Continued)

	2004		2003	
	Shareholders	**Other**	**Shareholders**	**Other**
Loans and advances to customers				
Balances outstanding as at the year end (contractual interest rate: 2004: 8 – 9.5%; 2003: 3%)	-	-		251 835
Provision for impairment of loans and advances to customers as at the year end	-	-	-	(12 500)
Interest income for the year (based on contractual rates 8.5-9%)	-	26 121	-	16 889
Customer accounts				
Current/settlement accounts as at the year end	-	8 196	-	34 447
Interest expense for the year (contractual interest rates 2003: 2-3%)	-	-	-	3 679
Subordinated loan				
Loan balance as at the year end (contractual interest rate: 2004:2%; 2003:2%)	166 492	-	136 141	-
Loan balance as at the year end (contractual interest rate: 2004:3%)	305 234	-	-	-
Interest expense for the year (based on contractual rates)	5 920	-	3 653	-
Interest expense for the year (based on effective rates used for amortisation)	10 523	-	8 290	-
Credit related commitments				
Guarantees issued by the Bank at the year end	-	1 665	-	4 970
Fee and commission income for the year	-	281	-	2 404

Part of staff costs in the amount of RR 23 054 thousand has been funded directly by the shareholders of the Bank (2003: RR 15 619 thousand) and are reflected as contributions from shareholders in the statement of changes shareholders' equity.

In 2004 the total remuneration of members of the Executive Board, including pension contributions, and discretionary compensation amounts to RR 8 375 thousand (2003: RR 4 771 thousand).