

Credit Bank of Moscow

Financial statements  
as of December 31, 2004 and 2003

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## Independent Auditors' Report

To the Council of JSC "Credit Bank of Moscow"

We have audited the accompanying balance sheets of JSC "Credit Bank of Moscow" ("the Bank") as of December 31, 2004 and 2003, and the related statements of income and other comprehensive income, stockholders' equity and other comprehensive income and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*KPMG Limited*

KPMG Limited  
March 23, 2005

**Credit Bank of Moscow**  
**Balance sheets**  
**December 31, 2004 and 2003**  
(thousands of US Dollars)

	Notes	December 31, 2004	December 31, 2003
<b>Assets</b>			
Cash and due from Central Bank	4	48,363	52,061
Due from credit institutions, net	5	37,053	42,903
Trading securities	6	32,711	22,354
Loans to customers, net	7	274,517	257,356
Property and equipment	8	3,430	2,907
Other assets	9	3,470	2,474
<b>Total assets</b>		<b>399,544</b>	<b>380,055</b>
<b>Liabilities</b>			
Deposits by credit institutions	10	49,604	60,279
Deposits by customers	11	125,564	133,168
Promissory notes and certificates of deposit	12	119,810	93,330
Deferred tax liability	22	7,378	5,655
Provisions, accruals and other liabilities		1,738	3,150
<b>Total liabilities</b>		<b>304,094</b>	<b>295,582</b>
<b>Stockholders' equity</b>			
Common stock	13	23,340	23,340
Additional paid-in capital		47,212	47,212
Retained earnings	14	13,677	8,287
Other comprehensive income - cumulative translation adjustment		11,221	5,634
<b>Total stockholders' equity</b>		<b>95,450</b>	<b>84,473</b>
<b>Total liabilities and stockholders' equity</b>		<b>399,544</b>	<b>380,055</b>
Commitments and contingencies	23		

Signed on behalf of the Executive Management Board

Aleksandr L Khrilev  Chairman of the Board - President

Olga I. Melnikova  Chief Accountant



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

**Credit Bank of Moscow**  
**Statements of income and other comprehensive income**  
**For the years ended December 31, 2004 and 2003**  
(thousands of US Dollars)

	Notes	2004	2003
Interest income	15	34,831	29,411
Interest expense	15	(10,590)	(7,371)
Net interest income		24,241	22,040
Provision for credit impairment	16	(2,506)	(8,891)
<b>Net interest income after provision for credit impairment</b>		<b>21,735</b>	<b>13,149</b>
Fees and commissions income	17	10,332	8,438
Securities trading profits, net	18	609	417
Foreign exchange gains, net		1,524	927
Other operating income		950	508
<b>Non interest income</b>		<b>13,415</b>	<b>10,290</b>
Salaries and employment benefits	19	12,943	8,972
Administrative expenses	19	7,580	6,986
Depreciation and amortization		1,116	853
Fees and commissions expenses	20	2,202	581
Other operating expenses	21	3,446	465
<b>Non interest expense</b>		<b>27,287</b>	<b>17,857</b>
<b>Income before income taxes</b>		<b>7,863</b>	<b>5,582</b>
Income taxes	22	(2,473)	(1,045)
<b>Net income</b>		<b>5,390</b>	<b>4,537</b>
Foreign currency translation adjustments		5,587	5,634
<b>Other comprehensive income</b>		<b>5,587</b>	<b>5,634</b>
<b>Comprehensive income</b>		<b>10,977</b>	<b>10,171</b>

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

**Credit Bank of Moscow**  
**Statements of changes in stockholders' equity and other comprehensive**  
**income**  
**For the years ended December 31, 2004 and 2003**  
(thousands of US Dollars)

	Common stock	Additional paid-in capital	Retained earnings	Other comprehensive income - cumulative translation adjustment	Total stockholders' equity
<b>December 31, 2002</b>	<b>21,898</b>	<b>38,558</b>	<b>3,750</b>	<b>-</b>	<b>64,206</b>
Shares issued	1,442	8,654	-	-	10,096
Net income	-	-	4,537	-	4,537
Translation adjustment	-	-	-	5,634	5,634
<b>December 31, 2003</b>	<b>23,340</b>	<b>47,212</b>	<b>8,287</b>	<b>5,634</b>	<b>84,473</b>
Net income	-	-	5,390	-	5,390
Translation adjustment	-	-	-	5,587	5,587
<b>December 31, 2004</b>	<b>23,340</b>	<b>47,212</b>	<b>13,677</b>	<b>11,221</b>	<b>95,450</b>

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

**Credit Bank of Moscow**  
**Statements of cash flows**  
**For the years ended December 31, 2004 and 2003**  
(thousands of US Dollars)

	Notes	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Net income</b>		5,390	4,537
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>			
Provision for credit impairment		2,506	8,891
Depreciation and amortization		1,116	853
Deferred taxes		1,723	492
Accrued interest income		(453)	(270)
Accrued interest expense		86	866
<b>Operating cash flow before changes in operating assets and liabilities</b>		<b>10,368</b>	<b>15,369</b>
<b>(Increase)/decrease in operating assets</b>			
Reserve deposits with the Central Bank of the Russian Federation		5,123	(4,962)
Trading securities		(10,357)	(5,879)
Loans to customers		(21,089)	(129,205)
Other assets		(567)	(821)
<b>Increase/(decrease) in operating liabilities</b>			
Deposits by credit institutions		(10,675)	48,190
Deposits by customers		(7,604)	52,008
Promissory notes and certificates of deposit		26,481	41,677
Provisions, accruals and other liabilities		(79)	(211)
Unrealised translation adjustment		5,587	5,784
<b>Net cash from operations</b>		<b>(2,812)</b>	<b>21,950</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net purchase of property and equipment and intangible assets		(1,615)	(1,715)
<b>Net cash from investing activities</b>		<b>(1,615)</b>	<b>(1,715)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issuances of common stock		-	10,096
<b>Net cash from financing activities</b>		<b>-</b>	<b>10,096</b>
<b>Change in cash and cash equivalents</b>		<b>(4,427)</b>	<b>30,331</b>
Cash and cash equivalents, beginning of the year		83,327	52,996
<b>Cash and cash equivalents, end of the year</b>	24	<b>78,900</b>	<b>83,327</b>
<i>Supplemental information:</i>			
Interest paid during the period		(12,627)	(6,505)
Income taxes paid during the period		(750)	(553)

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

**Credit Bank of Moscow**

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

**NOTE 1 – BACKGROUND****(a) Organization and operations**

Credit Bank of Moscow (the “Bank”) was formed on August 5, 1992 as an open joint stock company, then re-registered as a closed joint stock company under the laws of the Russian Federation. On August 18, 1999 the Bank was reorganized as an open joint stock company. The Bank’s registered legal address is 4, Marshala Rybalko Str., Moscow, Russia. The Bank possesses a general banking license from the Central Bank of Russia (the “CBR”), granted on January 20, 2001. The Bank is among the 60 largest banks in Russia. The Bank’s main office is in Moscow and it has 13 full service branches in Moscow.

At December 31, 2004 the stockholders of the Bank were as follows:

	2004 (voting and ownership rights)
Inform Personal	26%
Centre Servicestroy	15%
Yuriditcheskoye agentstvo	15%
Capital MKB	13%
MKB – Holding	13%
Rossinform	11%
Balansovoye planirovanie	6%
Concern Rossium	1%
<b>Total</b>	<b>100%</b>

**(b) Operating environment**

The Russian Federation has been experiencing political and economic instability change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks which do not typically exist in other markets. The accompanying financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Bank. The future business environment may differ from management’s assessment.

**NOTE 2 – BASIS OF PREPARATION****(a) Statement of compliance**

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

**(b) Reporting currency and translation into US dollars**

Prior to December 31, 2003 Russian economy was considered to be hyperinflationary and the Bank used US Dollar as its functional and reporting currency. Starting January 1, 2003 the Russian economy is no longer considered to be hyperinflationary under Statement of Financial Accounting Standard 52 *Foreign Currency Translation*. Accordingly the Bank has conducted an assessment of its operations and determined the Russian Rouble to be its functional currency. Management of the Bank have elected to use US Dollar as the reporting currency in these financial statements.



**Credit Bank of Moscow**

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

The carrying values of all non-monetary assets, liabilities and equity items were translated and fixed in Russian Rubles at the rates effective at the date of transition to the Russian Ruble as the functional currency, January 1, 2003. Translation from functional to reporting currency was conducted as follows:

- all assets and liabilities are translated from the functional to the reporting currency at the exchange rate, effective at the reporting date;
- equity items are translated from functional to reporting currency at the historical exchange rates. Translation adjustments arising from translation of equity are included in Other Comprehensive Income in accordance with SFAS 52;
- income statement transactions are translated from functional to reporting currency at the approximate rates ruling at the dates of the transactions. Translation adjustments arising from translation of income and expenses are included in Other Comprehensive Income in accordance with SFAS 52.

The closing rate of exchange effective at December 31, 2004 and 2003 was 1 USD to 27.75 Rubles and 1 USD to 29.45 Rubles, respectively.

**(c) Convertibility of the Ruble**

The Russian Ruble is not a convertible currency outside the Russian Federation and, accordingly, any conversion of Russian Ruble amounts to US dollars should not be construed as a representation that Russian Ruble amounts have been, could be, or will be in the future, convertible into US dollars at the exchange rate shown, or at any other exchange rate.

**(d) Going concern**

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The accompanying financial statements do not include any adjustments should the Bank be unable to continue as a going concern.

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following significant accounting policies have been applied in the preparation of the financial statements. These accounting policies have been consistently applied.

***a) Use of estimates***

Management of the Bank has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

**Credit Bank of Moscow**

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

***b) Loans to customers***

The carrying amounts of the Bank's loans are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the loans' recoverable amounts are estimated.

An impairment loss is recognized whenever the carrying amount of a loan exceeds its recoverable amount.

The recoverable amount of loans is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the loan.

***c) Due from credit institutions***

In the normal course of business, the Bank lends or deposits funds for various periods with other credit institutions. Impairment losses for placements with banks and other credit institutions is calculated in accordance with the policy similar to the one applied to loans to customers (refer 3(b) above).

***d) Trading securities***

Trading securities are carried at market value with the gains and losses recognized in the statement of income.

Included in securities trading profits are realized gains and losses from recording the results of sales and unrealized gains and losses resulting from market value adjustments of trading equity securities.

Included in interest income is coupon income, amortization of premiums and discounts and realized and unrealized gains and losses related to trading debt securities.

***e) Repurchase and reverse repurchase agreements***

Repurchase and reverse repurchase agreements are utilized by the Bank as an element of its treasury management and trading business. Repurchase agreements are accounted for as financing transactions. As financing transactions, the related securities are recorded in the Bank's accounts and the related payable is included as an amount due to credit institutions or customers, respectively. Any related expense arising from the pricing spreads for the underlying securities is recognized as interest expense.

Reverse repurchase agreements are accounted for as loans and advances to banks or customers, respectively. Any related income arising from the pricing spreads for the underlying securities is recognized as interest income.

**Credit Bank of Moscow**

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

***f) Property and equipment***

Property and equipment are recorded at historical cost less accumulated depreciation (refer below) and impairment losses (refer accounting policy (h)). Depreciation is provided to write off the cost on a straight-line basis over the estimated useful economic life of the asset. The economic lives are as follows:

	<b>Years</b>
Buildings	50
Furniture and equipment	6
Computers	4
Vehicles	5
Other	5

***g) Intangible assets***

Intangible assets are recorded at historical cost less accumulated amortization and impairment losses (refer accounting policy (h)). Amortization is provided to write off the cost on a straight-line basis over the estimated useful economic life of the asset. The majority of intangible assets is represented by accounting software.

***h) Impairment of property and equipment***

The Bank accounts for long lived assets in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*.

Under this standard the carrying value of the asset is considered to be impaired when the anticipated undiscounted future cash flow from such asset is separately identifiable, and is less than the carrying value.

In that event, an impairment loss is recognized based on the amount by which the carrying value exceeds the fair market value of the asset. Impairment losses are recognized in the income statement. Fair market value is determined primarily using anticipated cash flows discounted at a rate commensurate with the risk involved.

***i) Interest bearing liabilities***

Interest-bearing liabilities are recognized initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, interest-bearing liabilities are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings.

***j) Income and expense recognition***

Income and expenses are recognized on an accrual basis.

***k) Dividends***

Dividends are recognized as a liability in the period in which they are declared.

**Credit Bank of Moscow**

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

***l) Taxes***

Income taxes are accounted for under the asset and liability method in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 109 *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Russia also has various other operating taxes, which are assessed on the Bank’s activities. These taxes are included as a component of non-interest expense.

***m) Statement of cash flows***

The Bank considers cash on hand, correspondent account with the CBR and due from credit institutions with original maturities of three months or less to be cash equivalents.

**NOTE 4 – CASH AND DUE FROM CENTRAL BANK**

Cash and due from Central Bank comprise:

	<b>December 31, 2004</b>	<b>December 31, 2003</b>
Correspondent account with CBR	30,142	29,489
Obligatory reserve deposits with CBR	6,516	11,639
Cash on hand	11,705	10,933
<b>Cash and due from Central Bank</b>	<b>48,363</b>	<b>52,061</b>

The obligatory reserve deposits are mandatory non-interest bearing deposits calculated in accordance with regulations issued by the CBR, the withdrawal of which is restricted, based on either a reduction in the Bank’s deposit base or a reduction in the required level of reserves. The correspondent account with CBR represents balances held with the CBR related to settlement activity, and was available for withdrawal at period end.

Information about the currency breakdown and maturity profile of cash and due from Central Bank is presented in note 28 to these financial statements.

**Credit Bank of Moscow**

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

**NOTE 5 – DUE FROM CREDIT INSTITUTIONS, NET**

Due from credit institutions comprise:

	<b>December 31, 2004</b>	<b>December 31, 2003</b>
Current accounts	9,245	42,830
Time deposits	27,808	75
Less: Provision for losses	-	(2)
<b>Due from credit institutions</b>	<b>37,053</b>	<b>42,903</b>

Information about the currency breakdown, maturity profile and effective interest rates on amounts due from credit institutions is presented in note 28 to these financial statements.

**Concentration of balances due from credit institutions**

As at 31 December 2004 the Bank had 2 banks (31 December 2003: 2 banks) whose balances exceeded 10% of Bank's equity. The gross value of these balances as of 31 December 2004 was USD 21,622 thousand (2003 - USD 28,585 thousand).

**NOTE 6 – TRADING SECURITIES**

Trading securities, at fair value, consist of the following:

	<b>December 31, 2004</b>	<b>December 31, 2003</b>
Debt instruments		
Corporate promissory notes and bonds	21,513	15,655
Fixed income Russian Government debt securities	5,627	1,710
Municipal bonds	5,571	3,619
Marketable equity securities	-	1,370
<b>Trading securities</b>	<b>32,711</b>	<b>22,354</b>

Information about the currency breakdown, maturity profile and effective interest rates on Bank's trading securities is presented in note 28 to these financial statements.

**Credit Bank of Moscow**

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

**NOTE 7 – LOANS TO CUSTOMERS, NET**

The Bank's loan portfolio has been extended to private enterprises and individuals only. Loans to customers are made principally within the Russian Federation to the entities, which operate in the following economic sectors:

	<b>December 31, 2004</b>	<b>December 31, 2003</b>
<b>Corporate banking</b>		
Foods	44,039	42,039
Consumer electronics and computers	34,204	44,771
Light industry	32,213	10,155
Construction materials	31,737	15,025
Sporting goods	19,292	16,699
Furniture	14,258	8,753
Other consumer	11,587	5,086
Machinery	10,504	7,289
Hygiene products and consumer chemicals	8,680	18,304
Metal products	2,282	4,670
Medical goods	2,187	3,806
Paper and stationery	1,800	11,948
Oil products	1,337	3,404
Other corporate	21,179	25,262
	<b>235,299</b>	<b>217,211</b>
<b>Retail banking</b>		
Consumer loans	55,458	52,458
	<b>290,757</b>	<b>269,669</b>
Less – Provision for credit impairment	(16,240)	(12,313)
<b>Loans to customers, net</b>	<b>274,517</b>	<b>257,356</b>

Information about the currency breakdown, maturity profile and effective interest rates on Bank's loan portfolio is presented in note 28 to these financial statements.

Information about the breakdown of the provision for loan impairment by corporate and retail lending is presented in Note 16 to these financial statements.

**Significant credit exposures**

As at December 31, 2004 the Bank had one group of borrowers (December 31, 2003: two) whose loans balances exceeded 10% of equity. The gross value of these loans as of December 31, 2004 was USD 21,179 thousand (December 31, 2003: USD 30,023 thousand).

**Credit Bank of Moscow**

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

**NOTE 8 – PROPERTY AND EQUIPMENT**

Property and equipment comprise:

	<b>December 31, 2004</b>	<b>December 31, 2003</b>
Land and buildings	883	867
Fixtures and fittings	6,162	4,693
	<b>7,045</b>	<b>5,560</b>
Less - accumulated depreciation	(3,615)	(2,653)
<b>Property and equipment</b>	<b>3,430</b>	<b>2,907</b>

**NOTE 9 – OTHER ASSETS**

Other assets comprise:

	<b>December 31, 2004</b>	<b>December 31, 2003</b>
Accrued interest receivable	1,327	874
Prepaid expenses	639	381
Trade debtors and prepayments	351	643
Intangibles	216	241
Other	937	335
<b>Other assets</b>	<b>3,470</b>	<b>2,474</b>

**NOTE 10 – DEPOSITS BY CREDIT INSTITUTIONS**

Deposits by credit institutions comprise:

	<b>December 31, 2004</b>	<b>December 31, 2003</b>
Demand deposits	1,351	20,345
Time deposits	48,253	39,934
<b>Deposits by credit institutions</b>	<b>49,604</b>	<b>60,279</b>

Information about the currency breakdown, maturity profile and effective interest rates on deposits by credit institutions is presented in note 28 to these financial statements.

**Concentration of deposits from credit institutions**

As at December 31, 2004 the Bank had balances of 3 banks (December 31, 2003: 3 banks) whose deposits' balances exceeded 10% of equity. The gross value of these balances as of December 31, 2004 was USD 38,898 thousand – all in respect of time deposits (December 31, 2003: USD 13,582 thousand in respect of demand deposits and USD 15,002 thousand in respect of time deposits).

**Credit Bank of Moscow**

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

**NOTE 11 – DEPOSITS BY CUSTOMERS**

Deposits by customers comprise:

	<b>December 31, 2004</b>	<b>December 31, 2003</b>
Demand deposits	75,573	79,705
Time deposits	49,991	53,463
<b>Deposits by customers</b>	<b>125,564</b>	<b>133,168</b>

Information about the currency breakdown, maturity profile and effective interest rates on deposits by customers is presented in note 28 to these financial statements.

**Concentrations of current accounts and customer deposits**

As at December 31, 2004 and 2003, there were no demand or time deposits from customers, which individually exceeded 10% of equity.

**NOTE 12 – PROMISSORY NOTES AND CERTIFICATES OF DEPOSIT**

Promissory notes and certificates of deposit comprise:

	<b>December 31, 2004</b>	<b>December 31, 2003</b>
Promissory notes issued – nominal value	123,047	59,883
Unamortized discount on promissory notes	(3,237)	(622)
	119,810	59,261
Certificates of deposit	-	34,069
	<b>119,810</b>	<b>93,330</b>

Information about the currency breakdown, maturity profile and effective interest rates on promissory notes and certificates of deposit is presented in note 28 to these financial statements.

**NOTE 13 – COMMON STOCK**

The stockholders' equity of the Bank has been contributed by stockholders in Rubles. Stockholders are entitled to dividends and capital distributions in the currency in which their contribution was made.

Issued, outstanding and paid stock comprised 393,289,502 shares (December 31, 2003: 393,289,502 shares) with par value of 1 RUR per share. For the purposes of these financial statements stockholders' equity was translated into US dollars using the exchange rates ruling at the dates of its contribution.



**Credit Bank of Moscow**

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

**NOTE 14 – RETAINED EARNINGS**

The Bank's distributable reserves are determined according to legislation in the Russian Federation. In accordance with the legislation of the Russian Federation, as of the balance sheet date, net income and retained earnings available for distribution amounted to USD 9,523 thousand (December 31, 2003: USD 5,145 thousand).

**NOTE 15 – NET INTEREST INCOME**

Net interest income comprises:

	<b>December 31, 2004</b>	<b>December 31, 2003</b>
<b>Interest income</b>		
Loans to customers	32,659	25,569
Debt securities	1,943	3,571
Due from credit institutions	229	271
	<u><b>34,831</b></u>	<u><b>29,411</b></u>
<b>Interest expense</b>		
Deposits by customers	(4,842)	(3,447)
Promissory notes and certificates of deposit	(4,412)	(3,517)
Deposits by credit institutions	(1,336)	(407)
	<u><b>(10,590)</b></u>	<u><b>(7,371)</b></u>
<b>Net interest income</b>	<u><u><b>24,241</b></u></u>	<u><u><b>22,040</b></u></u>

**NOTE 16 – PROVISION FOR CREDIT IMPAIRMENT**

Provisions for impairment in the income statement represents the charge required in the current year to establish the total provision for impairment.

The retail loan portfolio is mostly represented by car loans. These loans are fully covered by collateral of cars and additionally secured by car insurance and life insurance of the borrowers. Most of these loans were classified as "standard" as of December 31, 2004, nevertheless given the vast expansion of retail customer base and the absence of reliable credit history for this base, management considers retail lending business higher risk and applies a higher provisioning rate on the "standard" retail loan portfolio as compared to "standard" provisioning rate on loans to corporate customers.

**Credit Bank of Moscow**

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

The breakdown of the credit loss provisions by type is presented in the following table:

	<b>Loans to customers, corporate</b>	<b>Loans to customers, retail</b>	<b>Due from credit institutions</b>	<b>Off balance sheet items</b>	<b>Total allowance</b>
<b>December 31, 2003</b>	<b>9,084</b>	<b>3,229</b>	<b>2</b>	<b>2,121</b>	<b>14,436</b>
Provisions charged / (recovered)	3,943	(16)	(2)	(1,420)	2,506
<b>December 31, 2004</b>	<b>13,027</b>	<b>3,213</b>	<b>0</b>	<b>701</b>	<b>16,942</b>

The estimate of loan losses includes consideration of specific loss exposures identified with respect to individual credits as well as judgmental consideration of risk factors unique to the Bank's loan portfolio and the economy in which the borrowers operate.

**NOTE 17 – FEES AND COMMISSIONS INCOME**

Fees and commissions income comprise:

	<b>2004</b>	<b>2003</b>
Settlements and wire transfers	3,858	3,608
Cash operations	2,474	1,957
Fees on letters of credit	1,689	948
Fees on guarantees issued	351	512
Other	1,960	1,413
<b>Fees and commissions income</b>	<b>10,332</b>	<b>8,438</b>

**NOTE 18 – SECURITIES TRADING PROFITS, NET**

Securities trading profits comprise:

	<b>2004</b>	<b>2003</b>
Gains from operations with equity securities	619	481
Losses from operations with equity securities	(10)	(64)
<b>Securities trading profits, net</b>	<b>609</b>	<b>417</b>

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**NOTE 19 – SALARIES, EMPLOYMENT BENEFITS AND ADMINISTRATIVE EXPENSES**

Salaries, employment benefits and administrative expenses comprise:

	<b>2004</b>	<b>2003</b>
Salaries	12,053	8,659
Social security costs	890	313
<b>Salaries and employment benefits</b>	<b>12,943</b>	<b>8,972</b>
Occupancy	3,165	2,761
Business development	1,309	1,643
Operating taxes	1,442	1,617
Communications	729	581
Other	935	384
<b>Administrative expenses</b>	<b>7,580</b>	<b>6,986</b>

The Bank does not have pension arrangements separate from the State pension system of the Russian Federation. The Russian Federation system requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to the income statement in the period the related compensation is earned by the employee. The Bank does not have any stock option plans.

**NOTE 20 – FEES AND COMMISSIONS EXPENSES**

Fees and commissions expenses comprise:

	<b>2004</b>	<b>2003</b>
Fees on letters of credit paid to other banks	1,286	362
Other	916	219
<b>Fees and commissions expenses</b>	<b>2,202</b>	<b>581</b>

**NOTE 21 – OTHER OPERATING EXPENSES**

Included in other operating expenses in 2004 is a loss related to the disposal of a portion of the customer loan portfolio, supplies expenses, memberships and other expenses.

**NOTE 22 – INCOME TAXES**

The provision for income taxes comprises:

	<b>2004</b>	<b>2003</b>
Current tax charge	750	553
Deferred taxation	1,723	492
<b>Taxation</b>	<b>2,473</b>	<b>1,045</b>

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Russian legal entities must report taxable income and remit income taxes thereon to the appropriate authorities. The current year income tax rate for the Bank is 24%.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the provision for income taxes based on statutory rates with the actual provision for income taxes follows:

	<b>2004</b>	<b>2003</b>
Income before tax	7,863	5,582
Applicable statutory tax rate	24%	24%
Income tax using the applicable tax rate	1,887	1,340
Non-deductible costs/(non-taxable income)	586	(295)
<b>Taxation</b>	<b>2,473</b>	<b>1,045</b>

Accumulated temporary differences between the carrying amounts of assets and liabilities reflected in these financial statements and their bases for local taxation purposes give rise to a net deferred tax liability of USD 7,378 thousand as of December 31, 2004 (2003: USD 5,655 thousand). This deferred tax liability is attributable to the following items, listed below at their tax effected values:

	<b>December 31, 2004</b>	<b>December 31, 2003</b>
Property and equipment	(201)	(51)
<b>Deferred tax assets</b>	<b>(201)</b>	<b>(51)</b>
Provisions	7,407	5,581
Other	173	125
<b>Deferred tax liabilities</b>	<b>7,579</b>	<b>5,706</b>
<b>Net deferred tax liability</b>	<b>7,378</b>	<b>5,655</b>

The applicable deferred tax rate for the Bank is 24% (2003: 24%).

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**NOTE 23 – COMMITMENTS AND CONTINGENCIES**

*a) Financial commitments*

Undrawn loan commitments and guarantees at December 31, 2004 and 2003 comprise:

	<b>December 31, 2004</b>	<b>December 31, 2003</b>
<b>Commitments given</b>		
Undrawn loan commitments	3,692	11,073
Guarantees	18,788	34,127
	<b>22,480</b>	<b>45,200</b>

At December 31, 2004 the Bank provided for potential losses on guarantees in the amount of USD 701 thousand (December 31, 2003: USD 2,121 thousand).

*b) Legal*

Bank management is unaware of any significant actual, pending or threatened claims against the Bank.

*c) Insurance*

The Bank has arranged bankers blanket bond, property and computer crime insurance.

*d) Tax*

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. In addition certain transactions could be treated as inappropriately reducing taxes by the tax authorities. Management believes that it has provided adequately for tax liabilities. However, the relevant tax authorities could take a different position and the effect on these financial statements, if the authorities were successful in enforcing their position, could be significant.

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**NOTE 24 – CASH AND CASH EQUIVALENTS**

Cash and due from Central Bank comprise:

	<b>December 31, 2004</b>	<b>December 31, 2003</b>
Cash on hand	11,705	10,933
Correspondent account with the CBR	30,142	29,489
Due from credit institutions with an original maturity of less than 3 months	<u>37,053</u>	<u>42,905</u>
<b>Cash and cash equivalents</b>	<b><u>78,900</u></b>	<b><u>83,327</u></b>

**NOTE 25 – RELATED PARTIES**

The outstanding balances and related average interest rates as of December 31, 2004 and 2003 with related parties are as follows:

	<b>December 31, 2004</b>		<b>December 31, 2003</b>	
	<b>Amount</b>	<b>Average effective interest rate</b>	<b>Amount</b>	<b>Average effective interest rate</b>
<i>Assets</i>				
Loans to customers, gross	22,298	12.3%	18,764	12.9%
<i>Liabilities</i>				
Deposits by customers	122	2.0%	820	2.1%

Material amounts included in the income statements for years ended December 31, 2004 and 2003 in relation to transactions with related parties are as follows:

	<b>Year ended December 31, 2004</b>	<b>Year ended December 31, 2003</b>
Interest income on loans to customers	2,507	1,661

**NOTE 26 – CAPITAL ADEQUACY**

The Bank's risk based capital adequacy ratio was 28% for December 31, 2004 and 2003, which exceeds the minimum ratio of 8% recommended by the Basle Accord.

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**NOTE 27 – FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS No.107. The Bank has performed an assessment of its financial instruments to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability.

The Bank has concluded that due to the lack of liquidity and published “indicator interest rates” in the Russian markets, and the fact that some of its transactions are with related parties and of a specialized nature, it is not possible to determine the fair value of the obligatory reserve deposits with CBR, loans to customers, deposits by customers, promissory notes and certificates of deposit.

The financial assets and financial liabilities that the Bank does believe it is able to estimate fair values for are as follows:

	December 31, 2004		December 31, 2003	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial Assets</b>				
Cash and correspondent account with CBR	41,847	41,847	40,422	40,422
Due from credit institutions, net	37,053	37,053	42,903	42,903
Trading securities	32,711	32,711	22,354	22,354
<b>Financial Liabilities</b>				
Deposits by credit institutions	49,604	49,604	60,279	60,279

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and correspondent account with CBR, due from credit institutions and deposits by credit institutions: the carrying amounts approximate fair value because of the short maturity of these instruments.

Trading securities: the fair values are based on quoted market prices for these or similar instruments.

This estimate of fair value is intended to approximate the amount at which the above listed assets could be exchanged in a current transaction between willing parties. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate settlement of the instruments.

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**NOTE 28 – RISK MANAGEMENT POLICIES**

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Bank's risk management policies in relation to those risks follows:

**Credit risk**

The Bank is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry and geographical segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

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.

Guarantees and standby letters of credit, 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 authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are frequently fully or partially covered by the funds deposited by customers and therefore usually bear limited credit risk.

With respect to undrawn loan commitments the Bank is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

The geographical concentration of monetary assets and liabilities follows:



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	December 31, 2004				December 31, 2003			
	Russia	OECD	Other non-OECD	Total	Russia	OECD	Other non-OECD	Total
<b>Assets</b>								
Cash and due from CBR	45,860	2,503	-	<b>48,363</b>	49,482	2,579	-	52,061
Due from credit institutions, gross	28,476	8,574	4	<b>37,053</b>	35,210	7,690	3	42,903
Trading securities	32,711	-	-	<b>32,711</b>	22,354	-	-	22,354
Loans to customers, gross	290,735	-	23	<b>290,757</b>	269,639	-	30	269,669
	<b>397,781</b>	<b>11,077</b>	<b>26</b>	<b>408,884</b>	<b>376,685</b>	<b>10,269</b>	<b>33</b>	<b>386,987</b>
<b>Liabilities</b>								
Deposits by credit institutions	28,459	20,824	321	<b>49,604</b>	38,862	17,411	4,006	60,279
Deposits by customers	121,717	1,128	2,719	<b>125,564</b>	131,955	106	1,107	133,168
Promissory notes and certificates of deposit	119,810	-	-	<b>119,810</b>	93,330	-	-	93,330
	<b>269,986</b>	<b>21,952</b>	<b>3,040</b>	<b>294,978</b>	<b>264,147</b>	<b>17,517</b>	<b>5,113</b>	<b>286,777</b>
<b>Net position</b>	<b>127,795</b>	<b>(10,875)</b>	<b>(3,014)</b>	<b>113,906</b>	<b>112,538</b>	<b>(7,248)</b>	<b>(5,080)</b>	<b>100,210</b>

**Currency risk**

The Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currencies. These limits also comply with the minimum requirements of the Central Bank of Russia. The Bank's exposure to foreign currency exchange rate risk is as follows:

	December 31, 2004				December 31, 2003			
	USD	Rubles	Other currencies	Total	USD	Rubles	Other currencies	Total
<b>Assets</b>								
Cash and due from CBR	2,111	45,860	392	<b>48,363</b>	1,886	49,482	693	52,061
Due from credit institutions, gross	6,975	27,800	2,278	<b>37,053</b>	7,274	34,967	662	42,903
Trading securities	52	32,659	-	<b>32,711</b>	48	22,306	-	22,354
Loans to customers, gross	44,219	226,322	20,216	<b>290,757</b>	96,054	165,200	8,415	269,669
	<b>53,357</b>	<b>332,641</b>	<b>22,886</b>	<b>408,884</b>	<b>105,262</b>	<b>271,955</b>	<b>9,770</b>	<b>386,987</b>
<b>Liabilities</b>								
Deposits by credit institutions	1,638	27,033	20,933	<b>49,604</b>	30,520	22,299	7,460	60,279
Deposits by customers	23,802	95,223	6,539	<b>125,564</b>	36,329	89,703	7,136	133,168
Promissory notes and certificates of deposit	16,950	94,893	7,967	<b>119,810</b>	14,284	70,812	8,234	93,330
	<b>42,390</b>	<b>217,148</b>	<b>35,439</b>	<b>294,978</b>	<b>81,133</b>	<b>182,814</b>	<b>22,830</b>	<b>286,777</b>
<b>Net position</b>	<b>10,967</b>	<b>115,492</b>	<b>(12,553)</b>	<b>113,906</b>	<b>24,129</b>	<b>89,141</b>	<b>(13,060)</b>	<b>100,210</b>

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**Liquidity risk**

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs and guarantees. The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Bank's Asset and Liability Management Committee sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The contractual maturities of monetary assets and liabilities as of December 31, 2004 and 2003 are as follows:

**December 31, 2004**

	<b>Less than 1 month</b>	<b>1 – 6 months</b>	<b>6 months to 1 year</b>	<b>Over 1 year</b>	<b>No maturity</b>	<b>Overdue</b>	<b>Total</b>
<b>Assets</b>							
Cash and due from CBR	41,847	-	-	-	6,516	-	<b>48,363</b>
Due from credit institutions, gross	37,053	-	-	-	-	-	<b>37,053</b>
Trading securities	5,393	4,190	9,759	13,369	-	-	<b>32,711</b>
Loans to customers, gross	107,529	114,909	16,403	47,645	-	4,271	<b>290,757</b>
	<b>191,822</b>	<b>119,099</b>	<b>26,162</b>	<b>61,014</b>	<b>6,516</b>	<b>4,271</b>	<b>408,884</b>
<b>Liabilities</b>							
Deposits by credit institutions	35,908	446	70	13,181	-	-	<b>49,604</b>
Deposits by customers	81,350	28,757	14,438	1,020	-	-	<b>125,564</b>
Promissory notes and certificates of deposit	21,501	88,103	10,206	-	-	-	<b>119,810</b>
	<b>138,758</b>	<b>117,306</b>	<b>24,714</b>	<b>14,201</b>	-	-	<b>294,978</b>
<b>Net position</b>	<b>53,064</b>	<b>1,794</b>	<b>1,448</b>	<b>46,813</b>	<b>6,516</b>	<b>4,271</b>	<b>113,906</b>
<i>Accumulated gap</i>	<b>53,064</b>	<b>54,858</b>	<b>56,306</b>	<b>103,119</b>	<b>109,635</b>	<b>113,906</b>	

**December 31, 2003**

	<b>Less than 1 month</b>	<b>1 – 6 months</b>	<b>6 months to 1 year</b>	<b>Over 1 year</b>	<b>No maturity</b>	<b>Overdue</b>	<b>Total</b>
<b>Assets</b>							
Cash and due from CBR	40,422	-	-	-	11,639	-	52,061
Due from credit institutions, gross	42,903	-	-	-	-	-	42,903
Trading securities	1,235	6,624	3,981	9,139	1,375	-	22,354
Loans to customers, gross	58,146	118,953	36,740	55,180	-	650	269,669
	<b>142,706</b>	<b>125,577</b>	<b>40,721</b>	<b>64,319</b>	<b>13,014</b>	<b>650</b>	<b>386,987</b>
<b>Liabilities</b>							
Deposits by credit institutions	38,867	17,504	-	3,908	-	-	60,279
Deposits by customers	85,640	37,659	9,776	93	-	-	133,168
Promissory notes and certificates of deposit	37,046	50,476	5,808	-	-	-	93,330
	<b>161,553</b>	<b>105,639</b>	<b>15,584</b>	<b>4,001</b>	-	-	<b>286,777</b>
<b>Net position</b>	<b>(18,847)</b>	<b>19,938</b>	<b>25,137</b>	<b>60,318</b>	<b>13,014</b>	<b>650</b>	<b>100,210</b>
<i>Accumulated gap</i>	<b>(18,847)</b>	<b>1,091</b>	<b>26,228</b>	<b>86,546</b>	<b>99,560</b>	<b>100,210</b>	

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The maturity gap analysis does not reflect the historical stability of current accounts, whose liquidation has historically taken place over a longer period than that indicated in the table above. The table is based upon these accounts' entitlement to withdraw on demand.

**Interest rate risk**

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. The Bank's expected repricing and maturity dates do not differ significantly from the contract dates, which are disclosed in the liquidity risk table above.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Bank's management. These limits restrict the potential effect of movements in interest rates on interest margin and on the value of interest-sensitive assets and liabilities.

The Bank's interest rate policy is reviewed and approved by the Bank's Assets and Liabilities Management Committee. The Bank's average effective interest rates as at December 31, 2004 and 2003 for interest bearing financial instruments follow:

	December 31, 2004			December 31, 2003		
	US Dollars	Rubles	Other foreign currencies	US Dollars	Rubles	Other foreign currencies
<b>Interest earning assets</b>						
Due from credit institutions	0.2%	3.5%	0.0%	0.1%	0.0%	0.0%
Trading securities – government bonds	6.6%	6.5%	-	7.3%	4.3%	-
Trading securities – corporate notes and municipal bonds	-	7.0%	-	-	9.8%	-
Loans to customers	13.0%	9.1%	7.5%	12.9%	10.7%	8.6%
<b>Interest bearing liabilities</b>						
Deposits by credit institutions	2.6%	3.8%	3.1%	3.0%	0.1%	3.2%
Deposits by customers	5.2%	3.0%	6.3%	5.6%	3.0%	6.9%
Promissory notes and certificates of deposit	3.6%	12.4%	5.8%	6.3%	10.8%	4.6%

**NOTE 29 – EVENTS AFTER THE BALANCE SHEET DATE**

In January 2005 the Bank obtained a 6 month non-revolving syndicated loan from foreign banks in the amount of USD 10 000 thousand.