

Credit Bank of Moscow

Financial statements
as of June 30, 2004

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Independent Accountants' Review Report

To the Council of JSC "Credit Bank of Moscow"

We have reviewed the accompanying balance sheet of JSC "Credit Bank of Moscow" ("the Bank") as of June 30, 2004, and the related statements of income and other comprehensive income, changes in stockholders' equity and other comprehensive income, and cash flow for the six months then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of the Bank.

A review consists principally of inquiries of the Bank personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Moscow, Russian Federation
August 31, 2004



Credit Bank of Moscow
Balance sheets
June 30, 2004 and December 31, 2003
(thousands of US Dollars)

	Notes	June 30, 2004	December 31, 2003
Assets			
Cash and due from Central Bank	4	27,570	52,061
Due from credit institutions, net	5	38,640	42,903
Trading securities	6	3,996	22,354
Loans to customers, net	7	273,704	257,356
Property and equipment	8	3,190	2,907
Other assets	9	3,971	2,474
Total assets		<u>351,071</u>	<u>380,055</u>
Liabilities			
Deposits by credit institutions	10	59,492	60,279
Deposits by customers	11	118,895	133,168
Promissory notes and certificates of deposit	12	73,572	93,330
Deferred tax liabilities	20	6,407	5,655
Provisions, accruals and other liabilities		3,273	3,150
Total liabilities		<u>261,639</u>	<u>295,582</u>
Stockholders' equity			
Common stock	13	23,340	23,340
Additional paid-in capital		47,212	47,212
Retained earnings		12,075	8,287
Other comprehensive income - cumulative translation adjustment		6,805	5,634
Total stockholders' equity		<u>89,432</u>	<u>84,473</u>
Total liabilities and stockholders' equity		<u>351,071</u>	<u>380,055</u>
Commitments and contingencies	21		

Signed on behalf of the Executive Management Board

Alexander L. Khirlev

Chairman of the Executive Management Board

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 6 months ended June 30, 2004 and 2003
(thousands of US Dollars, except per share data)

	Notes	June 30, 2004	June 30, 2003
Interest income		18,246	14,450
Interest expense		(5,644)	(3,704)
Net interest income	15	12,602	10,746
Provision for loan impairment	16	(2,611)	(2,843)
Net interest income after provision for loan impairment		9,991	7,903
Fees and commissions	17	4,886	3,749
Securities trading profits, net	18	379	115
Foreign exchange gains, net		162	191
Other operating income		451	397
Non interest income		5,878	4,452
Salaries and employment benefits	19	6,083	3,911
Administrative expenses	19	3,634	3,326
Depreciation and amortization		484	405
Other operating expenses		737	81
Non interest expense		10,938	7,723
Income before income taxes		4,931	4,632
Income taxes	20	(1,143)	(1,037)
Net income		3,788	3,595
Foreign currency translation adjustments		1,171	3,025
Other comprehensive income		1,171	3,025
Comprehensive income		4,959	6,620
Earnings per share (basic and fully diluted)	14		

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 6 months ended June 30, 2004 and 2003
(thousands of US Dollars)

	Common stock	Additional paid-in capital	Retained earnings	Other comprehensive income - cumulative translation adjustment	Total stockholders' equity
December 31, 2002	21,898	38,558	3,750	-	70,826
Net income	-	-	3,595	-	3,595
Translation adjustment	-	-	-	3,025	3,025
June 30, 2003	21,898	38,558	7,345	3,025	70,826
December 31, 2003	23,340	47,212	8,287	5,634	84,473
Net income	-	-	3,788	-	3,788
Translation adjustment	-	-	-	1,171	1,171
June 30, 2004	23,340	47,212	12,075	6,805	89,432

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

Credit Bank of Moscow
Statements of cash flow
For the 6 months ended June 30, 2004 and 2003
(thousands of US Dollars)

	Notes	June 30, 2004	June 30, 2003
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		3,788	3,595
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>			
Provisions for impairment		2,611	2,843
Deferred taxation		752	935
Depreciation and amortization		484	405
Accrued interest income		(112)	(60)
Accrued interest expense		(233)	289
Operating cash flow before changes in operating assets and liabilities		7,290	8,007
(Increase)/decrease in operating assets			
Reserve deposits with the Central Bank of the Russian Federation		3,010	(2,967)
Trading securities		18,358	(13,915)
Loans to customers		(19,466)	(40,860)
Other assets		(1,423)	(688)
Increase/(decrease) in operating liabilities			
Deposits by credit institutions		(787)	14,152
Deposits by customers		(14,272)	6,155
Promissory notes and certificates of deposit		(19,758)	22,938
Provisions, accruals and other liabilities		865	(389)
Effect of translation on working capital included in other comprehensive income		1,171	3,025
Net cash from operations		(25,012)	(4,542)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net purchase of property and equipment and intangible assets		(733)	(772)
Net cash from investing activities		(733)	(772)
Change in cash and cash equivalents		(25,745)	(5,314)
Cash and cash equivalents, beginning of the period		83,325	52,996
Cash and cash equivalents, end of the period	22	57,580	47,682
<i>Supplemental information:</i>			
Interest paid during the period		(5,364)	(3,415)
Income taxes paid during the period		(391)	(102)

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

Credit Bank of Moscow

Notes to financial statements June 30, 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 11 full-scope operations branches in Moscow.

At June 30, 2004 the stockholders of the Bank were as following:

Inform Personal	26%
Centre Servicestroy	15%
Yuriditcheskoye agentstvo	15%
Capital MKB	13%
MKB – Holding	13%
Rosinform	11%
Balansovoye planirovanie	6%
Concern Rossium	1%
Total	100%

(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. Further in June 2004 the CBR withdrew licenses from a few large and medium sized Russian banks that lead to a weakening in the confidence in the Russian banking system and a high rate of customer deposit withdrawals for many Russian banks. To date the Bank was been able to settle all of its liabilities as they became due and has taken steps to increase its liquidity which included selling a portion of its trading securities and a portion of its retail loan portfolio. 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

The national currency of the Russian Federation is the Russian Rouble (“RUR”), which is the Bank’s functional currency because it reflects the substance of the underlying events and circumstances of the Bank.

Credit Bank of Moscow

Notes to financial statements June 30, 2004

(All amounts in thousands of US Dollars)

Management of the Bank has elected to use US Dollar (“USD”) as the reporting currency since management believes that this currency is more useful for the users of the financial statements. All financial information presented in USD has been rounded to the nearest thousand.

The financial statements have been translated from functional to reporting currency 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 equity are included in Other Comprehensive Income in accordance with SFAS 52.

The closing rate of exchange effective at June 30, 2004 and December 31, 2003 was 1 USD to 29.03 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 June 30, 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 provision 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 are 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. 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 June 30, 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:

	Years
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. Intangible assets under development are not amortized. Amortization of these assets will begin when the related assets are placed in service. 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

Interest income and expense is recognized on an accrual basis. Commissions are recognized when earned. Non-interest expenses are recognized on an accrual basis.

Credit Bank of Moscow

Notes to financial statements June 30, 2004

(All amounts in thousands of US Dollars)

k) Dividends

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

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 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:

	June 30, 2004	December 31, 2003
Correspondent account with CBR	10,039	29,489
Obligatory reserve deposits with CBR	8,629	11,639
Cash on hand	8,902	10,933
Cash and due from Central Bank	27,570	52,061

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 26 to these financial statements.

Credit Bank of Moscow

Notes to financial statements June 30, 2004

(All amounts in thousands of US Dollars)

NOTE 5 – DUE FROM CREDIT INSTITUTIONS, NET

Due from credit institutions comprise:

	June 30, 2004	December 31, 2003
Current deposits	37,273	42,830
Time deposits	1,382	75
Less: Provision for losses	(15)	(2)
Due from credit institutions	38,640	42,903

Information about the currency breakdown, maturity profile and effective interest rates on amounts due from credit institutions is presented in note 26 to these financial statements.

Concentration of balances due from credit institutions

As at 30 June 2004 the Bank maintained current accounts with 2 banks (31 December 2003: 3 banks) whose balances exceeded 10% of Bank's equity. The gross value of these balances as of June 30, 2004 and December 31, 2003 was USD 29,498 thousand and USD 28,585 thousand, respectively.

NOTE 6 – TRADING SECURITIES

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

	June 30, 2004	December 31, 2003
Debt instruments		
Corporate promissory notes and bonds	3,776	15,655
Fixed income state debt securities (OFZ)	46	1,710
Municipal bonds	-	3,619
Marketable equity securities	174	1,370
Trading securities	3,996	22,354

Information about the currency breakdown, maturity profile and effective interest rates on Bank's trading securities is presented in note 26 to these financial statements.

Credit Bank of Moscow

Notes to financial statements June 30, 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 to customers located within the Russian Federation who operate in the following economic sectors:

	June 30, 2004	December 31, 2003
Corporate banking		
Food products	48,575	42,039
Consumer electronics and computers	25,018	44,771
Construction materials	24,103	15,025
Light industry	15,939	10,155
Paper and stationery	15,207	11,948
Hygiene products and consumer chemicals	10,527	18,304
Sporting goods	9,066	16,699
Furniture	8,889	8,753
Machinery	8,719	7,289
Medical goods	5,609	3,806
Metal products	3,425	4,670
Oil products	2,798	3,404
Other customer goods	10,211	5,086
Other corporate	20,906	25,262
	208,992	217,211
Retail banking		
Consumer loans	80,142	52,458
	289,134	269,669
Less – Provision for loan impairment	(15,430)	(12,313)
Loans to customers, net	273,704	257,356

Information about the currency breakdown, maturity profile and effective interest rates on Bank's loan portfolio is presented in note 26 to these financial statements.

Significant credit exposures

As at June 30, 2004 the Bank had 2 groups of borrowers (December 31, 2003: two) whose loans balances exceeded 10% of equity. The gross value of these loans as of June 30, 2004 was USD 29,083 thousand (December 31, 2003: USD 30,023 thousand).

Credit Bank of Moscow

Notes to financial statements June 30, 2004

(All amounts in thousands of US Dollars)

NOTE 8 – PROPERTY AND EQUIPMENT

Property and equipment comprise:

	June 30, 2004	December 31, 2003
Land and buildings	880	867
Fixtures and fittings	5,382	4,693
	6,262	5,560
Less - accumulated depreciation	(3,072)	(2,653)
Property and equipment	3,190	2,907

NOTE 9 – OTHER ASSETS

Other assets comprise:

	June 30, 2004	December 31, 2003
Prepaid expenses	1,363	874
Trade debtors and prepayments	1,201	643
Accrued interest receivable	986	241
Other	214	381
Intangibles	207	335
Other assets	3,971	2,474

NOTE 10 – DEPOSITS BY CREDIT INSTITUTIONS

Deposits by credit institutions comprise:

	June 30, 2004	December 31, 2003
Demand deposits	30,039	20,345
Time deposits	29,453	39,934
Deposits by credit institutions	59,492	60,279

Information about the currency breakdown, maturity profile and effective interest rates on deposits by credit institutions is presented in note 26 to these financial statements.

Concentration of deposits from credit institutions

As at December 31, 2003 the Bank had balances of 2 banks (December 31, 2003: 3 banks) whose deposits' balances exceeded 10% of equity. The gross value of these balances as of June 30, 2004 was USD 29,496 thousand in respect of demand deposits (December 31, 2003: USD 13,582 thousand – demand deposits and 15,002 – time deposits).

Credit Bank of Moscow

Notes to financial statements June 30, 2004

(All amounts in thousands of US Dollars)

NOTE 11 – DEPOSITS BY CUSTOMERS

Deposits by customers comprise:

	June 30, 2004	December 31, 2003
Demand deposits	62,248	79,705
Time deposits	56,647	53,463
Deposits by customers	118,895	133,168

Information about the currency breakdown, maturity profile and effective interest rates on deposits by customers is presented in note 26 to these financial statements.

Concentrations of current accounts and customer deposits

As at June 30, 2004 and December 31, 2003 there were no demand or time deposits from customers, which individually exceeded 10% of equity.

NOTE 12 – PROMISSORY NOTES AND CERTIFICATES OF DEPOSIT

	June 30, 2004	December 31, 2003
Promissory notes issued – nominal value	73,193	59,883
Unamortized discount on promissory notes	(1,171)	(622)
	72,022	59,261
Certificates of deposit	1,550	34,069
	73,572	93,330

Information about the currency breakdown, maturity profile and effective interest rates on Bank's promissory notes and certificates of deposit is presented in note 26 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: 350,289,502 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 June 30, 2004

(All amounts in thousands of US Dollars)

NOTE 14 – EARNINGS PER SHARE

The following table presents the computation of earnings per share based on the provisions of SFAS No. 128 for six months ending June 30, 2004 and 2003:

Basic and fully diluted earnings per share (thousands of US Dollars except for weighted-average shares and net income per share data)	June 30, 2004	June 30, 2003
Net income applicable to common shares	\$3,788	\$3,595
Weighted-average basic shares outstanding	393,289,502	350,289,502
Net income per share	\$0.01	\$0.01

NOTE 15 – NET INTEREST INCOME

Net interest income comprises:

	June 30, 2004	June 30, 2003
Interest income		
Loans to customers	16,853	12,144
Debt securities	1,260	2,190
Due from credit institutions	133	116
	18,246	14,450
Interest expense		
Deposits by customers	2,966	1,451
Promissory notes and certificates of deposit	1,900	2,117
Deposits by credit institutions	778	136
	5,644	3,704
Net interest income	12,602	10,746

NOTE 16 – PROVISION FOR LOAN IMPAIRMENT

Provisions for impairment in the income statement represent the charge required in the current year to establish total provision for impairment. The movement in the allowance for earning assets for the six months ended June 30, 2004 and 2003 was:

	Loans to customers	Due from credit institutions	Off balance sheet items	Total allowance
December 31, 2002	5,359	3	183	5,545
Provisions charged	2,762	(1)	82	2,843
June 30, 2003	8,121	2	265	8,388
December 31, 2003	12,313	2	2,121	14,436
Provisions charged	3,117	13	(519)	2,611
June 30, 2004	15,430	15	1,602	17,047

Credit Bank of Moscow

Notes to financial statements June 30, 2004

(All amounts in thousands of US Dollars)

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 RECEIVED

Fees and commissions received comprise:

	June 30, 2004	June 30, 2003
Settlements and wire transfers	1,975	1,740
Other settlements	1,972	921
Cash operations	771	885
Guarantees issued	168	203
Fees and commissions received	4,886	3,749

NOTE 18 – SECURITIES TRADING PROFITS, NET

Securities trading profits comprise:

	June 30, 2004	June 30, 2003
Gains from operations with equity securities	590	187
Losses from operations with equity securities	(211)	(72)
Securities trading profits, net	379	115

NOTE 19 – SALARIES, EMPLOYMENT BENEFITS AND ADMINISTRATIVE EXPENSES

Salaries, employment benefits and administrative expenses comprise:

	June 30, 2004	June 30, 2003
Salaries	5,846	3,765
Social security costs	237	146
Salaries and employment benefits	6,083	3,911
Occupancy	1,846	1,168
Operating taxes	642	733
Communications	344	243
Business development	369	808
Professional fees	-	173
Other	433	201
Administrative expenses	3,634	3,326

Credit Bank of Moscow

Notes to financial statements June 30, 2004

(All amounts in thousands of US Dollars)

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 –INCOME TAXES

The provision for income taxes comprises:

	June 30, 2004	June 30, 2003
Current tax charge	391	102
Deferred taxation	752	935
Taxation	1,143	1,037

Russian legal entities must report taxable income and remit income taxes thereon to the appropriate authorities. The 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 income tax expense follows:

	June 30, 2004	June 30, 2003
Income before tax	4,931	4,632
Applicable statutory tax rate	24%	24%
Income tax using the applicable tax rate	1,183	1,112
Net non-deductible costs and non-taxable income	(40)	(75)
	1,143	1,037

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 6,407 thousand as of June 30, 2004 (December 31, 2003: USD 5,655 thousand). The net change in the deferred tax liability has been recognised in the income statement. This deferred tax liability is attributable to the following items, listed below at their tax effected values:

Credit Bank of Moscow

Notes to financial statements June 30, 2004

(All amounts in thousands of US Dollars)

	June 30, 2004	December 31, 2003
Property and equipment	(201)	(51)
Deferred tax assets	(201)	(51)
Provisions	6,572	5,581
Other	36	125
Deferred tax liabilities	6,608	5,706
Net deferred tax liability	6,407	5,655

The applicable deferred tax rate for the Bank is 24% (December, 31 2003: 24%).

NOTE 21 – COMMITMENTS AND CONTINGENCIES*a) Financial commitments*

Undrawn loan commitments and guarantees at June 30, 2004 and December 31, 2003 comprise:

	June 30, 2004	December 31, 2003
Commitments given		
Undrawn loan commitments	12,873	11,073
Guarantees	34,487	34,127
	47,360	45,200

At June 30, 2004 the Bank provided for potential losses on guarantees in the amount of USD 1,602 thousand, December 31, 2003: USD 2,121 thousand.

c) Legal

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

d) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

Credit Bank of Moscow

Notes to financial statements June 30, 2004

(All amounts in thousands of US Dollars)

e) Tax

The taxation system in the Russian Federation is relatively new and is characterized by numerous taxes and frequently changing legislation which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in the Russian Federation substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

NOTE 22 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	June 30, 2004	June 30, 2003
Correspondent account with the CBR	10,039	12,270
Due from credit institutions with the original maturity of less than 3 months	38,639	28,937
Cash on hand	8,902	6,475
Cash and cash equivalents	57,580	47,682

NOTE 23 – RELATED PARTIES

The outstanding balances and related average interest rates as of June 30, 2004 and December 31, 2003 with related parties are as follows:

	June 30, 2004		December 31, 2003	
	Amount	Average effective interest rate	Amount	Average effective interest rate
<i>Assets</i>				
Loans to customers, gross	25,083	14.0%	18,764	12.9%
<i>Liabilities</i>				
Deposits by customers	586	2.1%	820	2.1%

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Material amounts included in the income statements for 6 months ended June 30, 2004 in relation to transactions with related parties are as follows:

	June 30, 2004	June 30, 2003
Interest income on loans to customers	1,394	1,037

NOTE 24 – CAPITAL ADEQUACY

The Bank's risk based capital adequacy ratio as at June 30, 2004 and December 31, 2003 was 30% and 28%, respectively, which exceed the minimum ratio of 8% recommended by the Basle Accord.

NOTE 25 – 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:

	June 30, 2004		December 31, 2003	
	Carrying value	Fair value	Carrying value	Fair value
Financial Assets				
Cash and correspondent account with CBR	18,941	18,941	40,422	40,422
Due from credit institutions, net	38,640	38,640	42,903	42,903
Trading securities	3,996	3,996	22,354	22,354
Financial Liabilities				
Deposits by credit institutions	59,492	59,492	60,279	60,279

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

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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.

NOTE 26 – 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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	June 30, 2004				December 31, 2003			
	Russia	OECD	Other non-OECD	Total	Russia	OECD	Other non-OECD	Total
Assets								
Cash and due from CBR	25,956	1,614	-	27,570	49,482	2,579	-	52,061
Due from credit institutions, gross	32,991	5,656	7	38,654	35,210	7,690	5	42,905
Trading securities	3,996	-	-	3,996	22,354	-	-	22,354
Loans to customers, gross	289,108	-	26	289,134	269,639	-	30	269,669
	352,051	7,270	33	359,354	376,685	10,269	35	386,989
Liabilities								
Deposits by credit institutions	33,371	25,953	168	59,492	38,862	17,411	4,006	60,279
Deposits by customers	117,523	220	1,152	118,895	131,955	106	1,107	133,168
Promissory notes and certificates of deposit	62,360	7,937	3,275	73,572	93,330	-	-	93,330
	213,254	34,110	4,595	251,959	264,147	17,517	5,113	286,777
Net position	138,797	(26,840)	(4,562)	107,395	112,538	(7,248)	(5,078)	100,212

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:

	June 30, 2004				December 31, 2003			
	USD	Rubles	Other currencies	Total	USD	Rubles	Other currencies	Total
Assets								
Cash and due from CBR	1,016	25,956	598	27,570	1,886	49,482	693	52,061
Due from credit institutions, gross	5,344	32,667	643	38,654	7,274	34,967	664	42,905
Trading securities	46	3,950	-	3,996	48	22,306	-	22,354
Loans to customers, gross	89,400	184,875	14,859	289,134	96,054	165,200	8,415	269,669
	95,806	247,448	16,100	359,354	105,262	271,955	9,772	386,989
Liabilities								
Deposits by credit institutions	15,036	29,497	14,959	59,492	30,520	22,299	7,460	60,279
Deposits by customers	31,716	81,073	6,106	118,895	36,329	89,703	7,136	133,168
Promissory notes and certificates of deposit	12,795	53,466	7,311	73,572	14,284	70,812	8,234	93,330
	59,547	164,036	28,376	251,959	81,133	182,814	22,830	286,777
Net balance position	36,259	83,412	(12,276)	107,395	24,129	89,141	(13,058)	100,212
Off balance sheet position (spot contracts)	(38,223)	23,512	14,711	-	(22,955)	19,547	3,408	-
Total position	(1,964)	106,924	2,435	107,395	1,174	108,688	9,650	100,212

The Bank concludes term transactions on the currency market in order to hedge the currency position and maintain the foreign exchange risk at an acceptable level. The Bank transacts with highly reliable Russian and foreign banks within credit risk limits set by Assets and Liabilities committee.

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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 June 30, 2004 and December 31, 2003 are as follows:

June 30, 2004							
	Less than 1 month and overdue for less than 1 month	1 – 6 months	6 months to 1 year	Over 1 year	No maturity	Overdue for more than 30 days	Total
Assets							
Cash and due from CBR	18,941	-	-	-	8,629	-	27,570
Due from credit institutions, gross	38,654	-	-	-	-	-	38,654
Trading securities	997	1,949	-	876	174	-	3,996
Loans to customers, gross	80,891	89,945	47,283	68,896	-	2,119	289,134
	139,483	91,894	47,283	69,772	8,803	2,119	359,354
Liabilities							
Deposits by credit institutions	35,015	13,999	-	10,478	-	-	59,492
Deposits by customers	78,157	28,921	11,626	191	-	-	118,895
Promissory notes and certificates of deposit	20,781	48,321	4,470	-	-	-	73,572
	133,953	91,241	16,096	10,669	-	-	251,959
Net position	5,530	653	31,187	59,103	8,803	2,119	107,395
Accumulated gap	5,530	6,183	37,370	96,473	105,276	107,395	
December 31, 2003							
	Less than 1 month and overdue for less than 1 month	1 – 6 months	6 months to 1 year	Over 1 year	No maturity	Overdue for more than 30 days	Total
Assets							
Cash and due from CBR	40,422	-	-	-	11,639	-	52,061
Due from credit institutions, gross	42,905	-	-	-	-	-	42,905
Trading securities	1,235	6,624	3,981	9,139	1,375	-	22,354
Loans to customers, gross	58,146	118,954	36,740	55,180	-	649	269,669
	142,708	125,578	40,721	64,319	13,014	649	386,989
Liabilities							
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
	161,553	105,639	15,584	4,001	-	-	286,777
Net position	(18,845)	19,939	25,137	60,317	13,014	649	100,212
Accumulated gap	(18,845)	1,094	26,231	86,548	99,562	100,211	

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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 June 30, 2004 and December 31, 2003 for interest bearing monetary financial instruments follow.

	June 30, 2004			December 31, 2003		
	US Dollars	Rubles	Other foreign currencies	US Dollars	Rubles	Other foreign currencies
Interest earning assets						
Due from credit institutions	0.1%	0.7%	0.0%	0.1%	0.0%	0.0%
Trading securities – government bonds	-	8.0%	-	7.3%	4.3%	-
Trading securities – corporate notes and municipal bonds	-	11.9%	-	-	9.8%	-
Loans to customers	12.4%	11.6%	7.4%	12.9%	10.7%	8.6%
Interest bearing liabilities						
Deposits by credit institutions	5.8%	0.0%	3.2%	3.0%	0.1%	3.2%
Deposits by customers	4.9%	4.1%	7.2%	5.6%	3.0%	6.9%
Promissory notes and certificates of deposit	5.8%	13.4%	4.8%	6.3%	10.8%	4.6%