

Financial statements and auditors' report

**CJSC Denizbank Moscow**

31 December 2004

**DenizBank Moscow** 

## Contents

Auditors' Report	
Income Statement	1
Balance Sheet	2
Statement of Cash Flows	3
Statement of Changes in Shareholders' Equity	4
Notes to the Financial Statements	5

## Independent Auditors' report

To the Shareholders of  
CJSC Denizbank Moscow  
13, bld.42, 2-nd Zvenigorodskaya st.  
123022, Moscow

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

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

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2004 and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.



Moscow, Russian Federation  
18 January 2005

## Income Statement

	Notes	2004 USD' 000	2003 USD' 000
Interest income	4	2,339	237
Interest expense	4	(510)	(72)
<b>Net interest income</b>		<b>1,829</b>	<b>165</b>
Fee and commission income		364	230
Fee and commission expense		(105)	(54)
<b>Net fee and commission income</b>		<b>259</b>	<b>176</b>
Net income from securities	5	687	186
Net foreign exchange result		1,521	1,230
<b>Operating income</b>		<b>4,296</b>	<b>1,757</b>
General administrative expenses	6	(2,413)	(1,004)
Provision for impairment losses	7	(299)	(18)
<b>Operating expenses</b>		<b>(2,712)</b>	<b>(1,022)</b>
<b>Income before tax</b>		<b>1,584</b>	<b>735</b>
Income tax expense	8	(282)	(304)
<b>Net income</b>		<b>1,302</b>	<b>431</b>

The financial statements were approved by the Board of Management of the Bank on 18 January 2005.

President & CEO



Derya Kumru

Chief Accountant



Shestakova Olga

The income statement is to be read in conjunction with the notes to, and forming part of, the financial statements.



## Balance Sheet

	Notes	31 December 2004 USD' 000	31 December 2003 USD' 000
<b>ASSETS</b>			
Cash		1,115	323
Due from the Central Bank of the Russian Federation	9	1,742	1,595
Placements with banks and other financial institutions	10	16,537	6,427
Financial instruments held for trading	11	28,138	11,749
Loans to customers	12	8,342	711
Other assets	13	99	289
Property and equipment	14	647	127
<b>Total Assets</b>		<b>56,620</b>	<b>21,221</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Deposits and balances from banks and other financial institutions	15	37,140	9,426
Current accounts and deposits from customers	16	10,229	3,992
Other liabilities	17	82	36
Deferred tax liabilities	18	197	97
<b>Total Liabilities</b>		<b>47,648</b>	<b>13,551</b>
<b>Shareholders' Equity</b>			
Share capital	19	14,915	14,915
Accumulated losses		(5,943)	(7,245)
<b>Total Shareholders' equity</b>		<b>8,972</b>	<b>7,670</b>
Commitments and Contingent liabilities	21,22		
<b>Total Liabilities and Shareholders' Equity</b>		<b>56,620</b>	<b>21,221</b>

The balance sheet is to be read in conjunction with the notes to, and forming part of, the financial statements.

## Statement of Cash Flows

	Note	2004 USD' 000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the year		1,302
<b>Adjustments for non-cash items</b>		
Depreciation		64
Interest expense		68
Interest income		(548)
Impairment losses on loans to customers		299
Income tax expense		282
Fair value revaluation of financial instruments held for trading		(545)
		<u>922</u>
<b>(Increase)/decrease in operating assets</b>		
Placements with banks and other financial institutions		27,582
Financial instruments held for trading		(15,442)
Loans to customers		(7,918)
Other assets		335
<b>Increase/(decrease) in operating liabilities</b>		
Current accounts and deposits from customers		6,235
Other liabilities		53
		<u>11,767</u>
<b>Net cash provided from operating activities before income taxes paid</b>		<b>11,767</b>
Income taxes paid		(123)
		<u>11,644</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment, net		(584)
		<u>(584)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<b>Cash flows from financing activities</b>		<b>-</b>
		<u>11,060</u>
<b>Net increase in cash and cash equivalents</b>		<b>11,060</b>
Cash and cash equivalents at beginning of year		8,334
		<u>19,394</u>
<b>Cash and cash equivalents at end of year</b>	24	<b>19,394</b>

The statement of cash flows is to be read in conjunction with the notes, to and forming part of, the financial statements.

## Statement of Changes in Shareholders' Equity

	Share Capital	Accumulated losses	Total
	USD'000	USD' 000	USD' 000
<b>Balance as of 1 January 2003</b>	14,915	(7,676)	<b>7,239</b>
Net profit for the year	-	431	<b>431</b>
<b>Balance as of 1 January 2004</b>	14,915	(7,245)	<b>7,670</b>
Net profit for the year	-	1,302	<b>1,302</b>
<b>Balance as of 31 December 2004</b>	<b>14,915</b>	<b>(5,943)</b>	<b>8,972</b>

The statement of changes in shareholders' equity is to be read in conjunction with the notes, to and forming part of, the financial statements.

## **1. Background**

### **(a) Background**

CJSC Denizbank Moscow (the “Bank”) is part of Zorlu Group, which is a significant financial and industrial group in Turkey specialising in textile, electronics, energy production and financial services. The Bank was re-established on 19 May 2003 through the acquirement of CJSC Iktisat Bank (Moscow) and was re-registered on 19 September 2003.

The Bank’s predecessor, CJSC Iktisat Bank (Moscow) was initially established by Iktisat Bankasi T.A.S. as a joint stock company under the legislation of the Russian Federation and was granted its general banking license in 1998.

As of today the principal activities of the Bank are deposit taking, lending and operations with securities and foreign exchange. The activities of the Bank are regulated by the Central Bank of the Russian Federation (“the CBR”). As of 31 December 2004, the Bank carried out its activities in Moscow.

The average number of persons employed by the Bank during the year was approximately 37 (2003: 26).

### **(b) Russian business environment**

Whilst there have been improvements in recent years in the economic situation in the Russian Federation, the economy of the Russian Federation continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation. Consequently, operations in the Russian Federation involve risks, which do not typically exist in other markets.

The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory and political developments, which are beyond the Bank’s control.

In addition, 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 sellers. Management has therefore used the best available information to adjust market quotations to reflect their best estimate of fair values, where considered necessary. The future business environment may differ from management’s assessment. The impact of such differences on the operations and the financial position of the Bank may be significant.

## **2. Basis of preparation**

### **(a) Statement of compliance**

The Bank maintains its accounting records in accordance with the legislative requirements of the Russian Federation. The accompanying financial statements have been prepared from those accounting records and adjusted as necessary to comply with the requirements of International Financial Reporting Standards (“IFRS”), as adopted by the International Accounting Standards Board (“IASB”), and interpretations as adopted by the International Financial Reporting Interpretations Committee of the IASB.

## **2. Basis of preparation (continued)**

### **(b) Historic cost basis**

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and financial instruments held for trading.

### **(c) Measurement and Reporting currency**

The national currency of the Russian Federation is the Russian rouble. The measurement and reporting currency used in the preparation of these financial statements is United States Dollar ("USD"). The US Dollar has been used as the measurement and presentation currency as management considers that the USD reflects the economic substance of the underlying events and circumstances relevant to the Bank

All amounts in the financial statements have been rounded to the nearest thousand.

The RUR/USD exchange rate as of 31 December 2004 and 31 December 2003 was 27.7487 RUR/USD and 29.4545 RUR/USD respectively.

## **3. Significant accounting policies**

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

### **(a) Foreign currency transactions**

Transactions in foreign currencies are translated to the appropriate measurement currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the measurement currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the measurement currency at the foreign exchange rate ruling at the date of the transaction.

### **(b) Cash and cash equivalents**

The Bank considers cash, balances with Central Bank, placements with banks and financial institutions as well as financial instruments held for trading with original maturity periods of less than one month to be cash and cash equivalents.

### **3. Significant accounting policies (continued)**

#### **(c) Financial instruments**

##### **(i) Classification**

*Trading instruments* are those that the Bank principally holds for the purpose of short-term profit taking. These include investments and derivative contracts that are not designated and effective hedging instruments, and liabilities from short sales of financial instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a financial liabilities held for trading.

*Originated loans and receivables* are loans and receivables created by the Bank providing money to a debtor other than those created with the intention of short-term profit taking. Originated loans and receivables comprise loans and advances to banks and customers other than purchased loans.

*Held-to-maturity assets* are financial assets with fixed or determinable payments and a fixed maturity that the Bank has the intent and ability to hold to maturity.

*Available-for-sale assets* are financial assets that are not held for trading purposes, originated by the Bank, or held to maturity.

##### **(ii) Recognition**

The Bank recognises financial instruments held for trading and available-for-sale on the date it commits to purchase the instruments.

Held-to-maturity assets and originated loans and receivables are recognised on the day they are transferred to or originated by the Bank.

##### **(iii) Measurement**

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all trading instruments and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

### **3. Significant accounting policies (continued)**

#### **(c) Financial instruments (continued)**

##### **(iv) Fair value measurement principals**

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

##### **(v) Gains and losses on subsequent measurement**

Gains and losses arising from a change in the fair value of all trading instruments and available-for-sale securities are recognised in the income statement.

#### **(d) Derecognition**

A financial asset is derecognised when the Bank loses control over contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Bank commits to sell the asset. The Bank uses the specific identification method to determine the gain or loss on derecognition.

Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are transferred by the Bank.

#### **(e) Offsetting**

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

#### **(f) Property and equipment**

##### **(i) Owned assets**

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

### **3. Significant accounting policies (continued)**

#### **(f) Property and equipment (continued)**

##### **(ii) Leased assets**

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases.

Operating leases, the terms of which the Bank does not assume substantially all the risks and rewards of ownership, are expensed.

##### **(iii) Depreciation**

Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of the individual assets. Depreciation commences the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

Leasehold improvements	10 – 50 years
Vehicles	4 years
Fixtures, fittings and other equipment	5 – 10 years

#### **(g) Impairment**

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

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

#### **(h) Interest bearing borrowings**

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

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the income statement.

#### **(i) Provisions**

A provision is recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### **3. Significant accounting policies (continued)**

#### **(j) Dividends**

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the Central Bank of Russia and other Russian legislation.

Dividends in relation to shareholders' equity are reflected as an appropriation of retained earnings as and when declared.

#### **(k) Taxation**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax asset is recognised only to the extent that it is probable that future taxable profits 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 settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

#### **(l) Comparative information**

Comparative information has been restated to conform to changes in presentation in the current year.

These financial statements do not present comparative information in respect of the statement of cash flows for the year 2003 as 31 December 2003 was the first time the Bank has prepared financial statements in accordance with IFRS.

#### **(m) Interest income and interest expense**

Interest income and expense is recognized in the income statement as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

#### **(n) Fee and commission income**

Fee and commission income arises on financial services provided by the Bank including cash management services and asset management services.

#### **(o) Net securities trading income**

Net trading income includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading and available for sale.

#### **4. Interest income and interest expense**

	<b>2004</b> <b>USD' 000</b>	2003 USD' 000
<b>Interest income</b>		
Debt securities	<b>1,561</b>	18
Loans to customers	<b>508</b>	181
Placements with banks and other financial institutions	<b>270</b>	38
<b>Total interest income</b>	<b>2,339</b>	237
<b>Interest expense</b>		
Deposits and balances from banks and other financial institutions	<b>510</b>	72

#### **5. Net securities trading income**

	<b>2004</b> <b>USD' 000</b>	2003 USD' 000
Debt instruments	<b>687</b>	186

#### **6. General administrative expenses**

	<b>2004</b> <b>USD' 000</b>	2003 USD' 000
Employee compensation	<b>1,012</b>	366
Occupancy	<b>359</b>	158
Taxes other than on income	<b>280</b>	180
Repairs and maintenance	<b>205</b>	37
Administrative expenses	<b>138</b>	82
Depreciation	<b>64</b>	31
Other	<b>355</b>	150
<b>Total general administrative expenses</b>	<b>2,413</b>	1,004

#### **7. Provision for impairment losses**

	<b>2004</b> <b>USD' 000</b>	2003 USD' 000
Provision for impairment of loans to customers	<b>299</b>	49
Recovery of impairment of placements with banks and other financial institutions	-	(31)
<b>Net provision for impairment losses</b>	<b>299</b>	18

## 8. Income tax expense

	2004 USD' 000	2003 USD' 000
<i>Current tax expense</i>		
Current year	182	207
<i>Deferred tax expense</i>		
Origination of timing differences	100	97
<b>Total income tax expense</b>	<b>282</b>	<b>304</b>

The Bank's applicable tax rate for 2004 was 24% (2003 – 24%). Deferred tax balances as of 31 December 2004 have been determined using a tax rate of 24% (2003 – 24%).

### Reconciliation of effective tax rate

	2004 USD' 000	2003 USD' 000
Income before tax	1,584	735
Income tax using the applicable tax rate	380	176
Net non-taxable income and non-deductible costs	(98)	128
<b>Total income tax expense</b>	<b>282</b>	<b>304</b>

## 9. Due from the Central Bank of the Russian Federation

	31 December 2004 USD' 000	31 December 2003 USD' 000
Nostro accounts	1,068	1,526
Minimum reserve deposit	674	69
<b>Total due from the Central Bank of the Russian Federation</b>	<b>1,742</b>	<b>1,595</b>

The minimum reserve deposit is a mandatory non-interest bearing deposit calculated in accordance with regulations issued by the CBR and whose withdrawability is restricted. The nostro balances represent balances with the CBR related to settlement activity and were available for withdrawal at year end.

## 10. Placements with banks and other financial institutions

	31 December 2004 USD' 000	31 December 2003 USD' 000
Nostro accounts	10,663	5,748
Loans and deposits	5,874	679
<b>Total placements with banks and other financial institutions</b>	<b>16,537</b>	<b>6,427</b>

### Significant exposures

As of 31 December 2004, the Bank had one counterparty (2003: three counterparties) whose balance exceeded 10% of the placements with banks and other financial institutions. The gross value of this exposure as of 31 December 2004 was 10,041 USD'000 (2003: 6,221 USD'000).

### Analysis of movements in the provision for impairment

	2004 USD' 000	2003 USD' 000
Balance at beginning of year	-	(31)
Net recovery for the year	-	31
<b>Balance at end of year</b>	<b>-</b>	<b>-</b>

## 11. Financial instruments held for trading

	31 December 2004 USD' 000	31 December 2003 USD' 000
<b>Debt instruments</b>		
Corporate bonds	18,299	6,938
Government bonds	5,832	4,811
Private sectors eurobonds	3,936	-
	<b>28,067</b>	<b>11,749</b>
Foreign exchange derivative contracts	71	-
<b>Total financial instruments held for trading</b>	<b>28,138</b>	<b>11,749</b>

## **12. Loans to customers**

Loans and advances to customers are issued primarily to customers located within the Russian Federation who operate in the following economic sectors:

	<b>31 December 2004 USD' 000</b>	<b>31 December 2003 USD' 000</b>
<b>Retail customers</b>	<b>76</b>	-
<b>Commercial customers</b>		
Construction, glass and mining	<b>4,223</b>	260
Consumer durables	<b>2,821</b>	500
Textile and leather	<b>1,383</b>	-
Other	<b>187</b>	-
	<b>8,690</b>	760
Provision for impairment	<b>(348)</b>	(49)
<b>Total loans to customers</b>	<b>8,342</b>	711

### **Analysis of movements in the provision for loan impairment**

	<b>2004 USD' 000</b>	<b>2003 USD' 000</b>
Balance at beginning of year	<b>49</b>	-
Net charge for the year	<b>299</b>	49
<b>Balance at end of year</b>	<b>348</b>	49

### **Significant exposures**

As of 31 December 2004, the Bank had three exposures to companies (2003: two companies), which individually comprised more than 10% of loans to customers. The gross value of this exposures as of 31 December 2004 was 4,650 USD'000 (2003: 750 USD'000).

### 13. Other assets

	<b>31 December 2004 USD' 000</b>	31 December 2003 USD' 000
Tax prepayments	24	-
Other	75	289
<b>Total other assets</b>	<b>99</b>	<b>289</b>

### 14. Property and equipment

<u>In thousands of USD</u>	Leasehold improvements	Fixtures, fittings and other equipment	Vehicles	Total
<b>Cost</b>				
At 1 January 2004	-	122	75	197
Additions	400	168	32	600
Disposals	-	(16)	-	(16)
<b>At 31 December 2004</b>	<b>400</b>	<b>274</b>	<b>107</b>	<b>781</b>
<b>Depreciation</b>				
At 1 January 2004	-	50	20	70
Depreciation charge	11	35	18	64
<b>At 31 December 2004</b>	<b>11</b>	<b>85</b>	<b>38</b>	<b>134</b>
<b>Carrying value</b>				
At 31 December 2003	-	72	55	127
<b>At 31 December 2004</b>	<b>389</b>	<b>189</b>	<b>69</b>	<b>647</b>

## 15. Deposits and balances from banks and other financial institutions

	<b>31 December 2004 USD' 000</b>	<b>31 December 2003 USD' 000</b>
Term deposits	<b>33,248</b>	5,225
Subordinated loans from shareholders	<b>3,700</b>	3,700
Vostro accounts	<b>192</b>	501
<b>Total deposits and balances from banks and other financial institutions</b>	<b>37,140</b>	9,426

### Significant exposures

As of 31 December 2004 there were three exposures, which individually comprised more than 10% of deposits and balances from banks and other financial institutions (2003: five). The gross value of these deposits as of 31 December 2004 was 30,878 USD'000 (2003: 8,925 USD'000).

## 16. Current accounts and deposits from customers

	<b>31 December 2004 USD' 000</b>	<b>31 December 2003 USD' 000</b>
Current accounts and demand deposits	<b>7,194</b>	3,992
Term deposits	<b>3,035</b>	-
<b>Total current accounts and deposits from customers</b>	<b>10,229</b>	3,992

### Significant exposures

As of 31 December 2004 there were five counterparties, which individually comprised more than 10% of current accounts and deposits from customers (2003: three). Total value of these balances as of 31 December 2004 was 7,725 USD'000 (2003: 3,924 USD'000).

## 17. Other liabilities

	<b>31 December 2004 USD' 000</b>	<b>31 December 2003 USD' 000</b>
Taxes payable	<b>33</b>	-
Accounts payable	<b>22</b>	33
Other	<b>27</b>	3
<b>Total other liabilities</b>	<b>82</b>	<b>36</b>

## 18. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

<u>In thousands of USD</u>	<b>Assets 2004</b>	<b>Liabilities 2004</b>	<b>Net 2004</b>
Loans to customers	<b>84</b>	-	<b>84</b>
Financial instruments held for trading	-	<b>(213)</b>	<b>(213)</b>
Property and equipment	-	<b>(81)</b>	<b>(81)</b>
Others	<b>30</b>	<b>(17)</b>	<b>13</b>
<b>Tax assets/(liabilities)</b>	<b>114</b>	<b>(311)</b>	<b>(197)</b>

## 19. Share capital

The authorised, issued and outstanding share capital comprises 42,000 ordinary shares. All shares have a par value of RUR 5,869.

No dividends were declared and paid during 2004 and 2003.

## **20. Risk management**

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to credit exposures, liquidity and movements in interest rates and foreign exchange rates. These risks are managed in the following manner:

### **(i) Credit risk**

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Bank.

The Bank has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Bank's credit risk.

The Bank's credit policy is reviewed and approved by the Board of Management.

### **(ii) Interest rate risk**

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest 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.

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 current earnings and on the value of interest sensitive assets and liabilities.

The Bank's interest rate policy is reviewed and approved by the Board of Management.

See note 26 "Average effective interest rates".

### **(iii) Liquidity risk**

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due.

The Bank's liquidity policy is reviewed and approved by the Board of Management.

See note 27 "Maturity analysis".

### **(iv) Foreign exchange rate risk**

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

The Bank's foreign currency policy is reviewed and approved by the Board of Management.

See note 28 "Currency analysis".

## 21. Commitments

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to 1 year.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

### Commitments on forward contracts

The notional or agreed amounts and fair values of derivative instruments held are set out in the following table. These contracts were entered in December 2004 and mature in January 2005.

	Notional or agreed amount USD'000	Positive fair value USD' 000
<b>Contracted amount</b>		
Derivative foreign exchange contracts to buy US dollars and sell Russian roubles	9,500	4
Derivative foreign exchange contracts to buy EUR and sell Russian roubles	5,655	67
	<b>15,155</b>	<b>71</b>

## 22. Contingencies

### (i) 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.

### (ii) Litigation

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

## **22. Contingencies (continued)**

### **(iii) Taxation contingencies**

The taxation system in the Russian Federation is relatively new and is characterised by numerous taxes and frequently changing legislation, which may be applied retroactively and 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, which 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.

## **23. Related party transactions**

### **Transactions with Zorlu Group**

	<b>31 December 2004 USD'000</b>	<b>Average Interest Rate</b>	<b>31 December 2003 USD' 000</b>	<b>Average Interest Rate</b>
<b>Assets</b>				
Loans to customers	<b>500</b>	<b>7%</b>	-	-
Placements with banks and other financial institutions	<b>10,046</b>	-	1	-
Financial assets held for trading	<b>71</b>	-	-	-
<b>Liabilities</b>				
Deposits and balances from banks and other financial institutions	<b>18,993</b>	<b>2%</b>	4,202	2%
Current accounts and deposits	<b>1,578</b>	-	1,245	-
Other liabilities	<b>62</b>	-	-	-
<b>Commitments</b>				
Letters of credit	<b>1,762</b>	-	-	-
Liabilities on unmatured forward contracts	<b>15,155</b>	-	5,192	-

Amounts included in the income statement in relation to transactions with Zorlu Group are as follows:

	<b>2004 USD'000</b>
Interest income	<b>85</b>
Commission income	<b>114</b>
Interest expense	<b>(440)</b>
Net foreign exchange income	<b>764</b>

## **24. Cash and cash equivalents**

Cash and cash equivalents at the end of the financial year as shown in the consolidated statement of cash flow is composed of the following items:

	<b>31 December 2004 USD' 000</b>	<b>31 December 2003 USD' 000</b>
Cash	<b>1,115</b>	323
Due from the Central Bank of the Russian Federation	<b>1,742</b>	1,595
Placements with banks and other financial institutions	<b>16,537</b>	6,416
<b>Total cash and cash equivalents</b>	<b>19,394</b>	<b>8,334</b>

## **25. Fair value of financial instruments**

The Bank has performed an assessment of its financial instruments, as required by IAS 32 “Financial Instruments: Disclosure and Presentation”, to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability.

The financial assets and financial liabilities that the Bank does believe it is able to estimate fair values for include cash, due from the Central Bank of Russia, financial instruments held for trading, placements with banks and financial institutions, loans to customers, financial instruments held for trading, deposits and balances from banks and other financial institutions. The Bank estimates the fair value of these assets to be not materially different from their carrying values.

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 judgement, the fair value should not be interpreted as being realisable in an immediate sale of the assets.

## 26. Average effective interest rates

The table below displays the Bank's interest bearing assets and liabilities as at 31 December 2004 and their corresponding interest rates range as at that date.

	Value USD' 000	31 December 2004  Interest Rate Range	Value USD' 000	31 December 2003  Interest Rate Range
<b>Interest Bearing Assets</b>				
<b>Due from the Central Bank of the Russian Federation</b>	<b>1,742</b>	-	1,595	-
<b>Placements with banks and other financial institutions</b>				
- Roubles	<b>6,300</b>	<b>0-1%</b>	2,708	0-1%
- USD and other currencies	<b>10,237</b>	-	3,719	-
<b>Financial instruments held for trading</b>				
- Roubles	<b>20,449</b>	<b>9-17%</b>	5,459	9-17%
- USD	<b>7,618</b>	<b>5-13%</b>	6,290	5-13%
<b>Loans to customers</b>				
- Roubles	<b>1,080</b>	<b>8-16%</b>	-	-
- USD	<b>7,262</b>	<b>7-13%</b>	711	7-13%
<b>Interest Bearing Liabilities</b>				
<b>Deposits and balances from banks and other financial institutions</b>				
- Roubles	<b>505</b>	<b>0-1%</b>	-	-
- USD and other currencies	<b>36,635</b>	<b>2-4%</b>	9,426	2-4%
<b>Current accounts and deposits from customers</b>				
- Roubles	<b>6,514</b>	<b>2-7%</b>	2,603	-
- USD and other currencies	<b>3,715</b>	<b>3-5%</b>	1,389	-

## 27. Maturity analysis

The following table shows assets and liabilities by remaining contractual maturity dates as at 31 December 2004. Due to the fact that substantially all the financial instruments of the Bank are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates.

**27. Maturity analysis (continued)**

	Less than 1 month USD'000	1 to 3 months USD' 000	3 months to 1 year USD' 000	More than 1 year USD' 000	Total USD' 000
<b>Assets</b>					
Cash	1,115	-	-	-	1,115
Due from the Central Bank of the Russian Federation	1,432	23	234	53	1,742
Placements with banks and other financial institutions	16,537	-	-	-	16,537
Financial instruments held for trading	205	219	5,590	22,124	28,138
Loans to customers	511	704	2,018	5,109	8,342
Other assets	99	-	-	-	99
Property and equipment	647	-	-	-	647
<b>Total Assets</b>	<b>20,546</b>	<b>946</b>	<b>7,842</b>	<b>27,286</b>	<b>56,620</b>
<b>Liabilities</b>					
Deposits and balances from banks and other financial institutions	18,440	-	15,000	3,700	37,140
Current accounts and deposits from customers	7,194	1,602	1,433	-	10,229
Other liabilities	82	-	-	-	82
Deferred tax liabilities	197	-	-	-	197
<b>Total Liabilities</b>	<b>25,913</b>	<b>1,602</b>	<b>16,433</b>	<b>3,700</b>	<b>47,648</b>
<b>Net position as at 31 December 2004</b>	<b>(5,367)</b>	<b>(656)</b>	<b>(8,591)</b>	<b>23,586</b>	<b>8,972</b>
Net position as at 31 December 2003	(953)	10	1,726	6,887	7,670

## 28. Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2004:

	<b>Roubles</b>	<b>USD</b>	<b>Other currencies</b>	<b>Total</b>
	<b>USD' 000</b>	<b>USD' 000</b>	<b>USD' 000</b>	<b>USD' 000</b>
<b>Assets</b>				
Cash	424	641	50	1,115
Due from the Central Bank of the Russian Federation	1,742	-	-	1,742
Placements with banks and other financial institutions	6,300	10,154	83	16,537
Financial instruments held for trading	20,449	7,689	-	28,138
Loans to customers	1,080	7,262	-	8,342
Other assets	-	32	67	99
Property and equipment	647	-	-	647
<b>Total Assets</b>	<b>30,642</b>	<b>25,778</b>	<b>200</b>	<b>56,620</b>
<b>Liabilities</b>				
Deposits and balances from banks and other financial institutions	505	31,364	5,271	37,140
Current accounts and deposits from customers	6,514	3,068	647	10,229
Other liabilities	82	-	-	82
Deferred tax liabilities	197	-	-	197
<b>Total Liabilities</b>	<b>7,298</b>	<b>34,432</b>	<b>5,918</b>	<b>47,648</b>
<b>Net Position as of 31 December 2004</b>	<b>23,344</b>	<b>(8,654)</b>	<b>(5,718)</b>	<b>8,972</b>
Net Position as of 31 December 2003	8,797	(680)	(447)	7,670