



RUSSIAN BANK FOR DEVELOPMENT

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Address by the Chairperson of the Managing Board

Dear shareholders, members of the Supervisory Board, customers and partners! Ladies and gentlemen!

Allow me to present Russian Bank for Development's Annual Report for the year of 2004.

Last year – the year of our fifth anniversary – was especially important for us. Russian Bank for Development took a well-deserved place in the Russian banking system, strengthened its reputation in the international financial market, and now is facing new tasks which, when solved, will allow it to realize its potential of a national development bank.

As you well know, development banks operate in most developed and emerging countries. These financial institutions play a critical role in the implementation of government economic and investment policies. Development banks finance capital-intensive infrastructure and production modernization projects, promote the growth of scientific potential, and support small business.

Similar tasks were addressed to the Russian Bank for Development,

whose main objective is to facilitate the implementation of government investment policy in priority sectors of the national economy as defined by the Government of the Russian Federation.

Since the moment of its establishment, the Bank has been consistently expanding the scope of its operations, and today it is becoming increasingly involved in the three main areas:

- mid-term and long-term lending support of investment projects implemented by Russian industrial enterprises, and infrastructural projects;
- support of continued development of small businesses;
- operation in the capacity of an Agent of the Government of the Russian Federation for collection of Federal Budget loans extended in 1992-2000.

Let me briefly describe the main results attained by the Bank in these areas during the past year.

In 2004 Russian Bank for Development continued lending to infrastructural and investment projects designed by Russian industrial

enterprises to expand production, build new industrial facilities, and broaden their product ranges. The Bank's corporate loan portfolio increased in 2004 by 25%. More than half of total credit resources were used to finance infrastructural projects, with about third going to modernize existing production facilities. More than 60% of loans extended by the Bank were mid-term and long-term loans.

During the reporting year the trends shaping the structure of the Bank's loan portfolio persisted – the bulk of the funds were channeled into capital-intensive projects in such sectors as transportation, transport infrastructure, machine engineering, metal working and ferrous metallurgy. In addition to that, the Bank extended loans to enterprises involved in provision of telecommunication services, manufacture of chemical and petrochemical products, construction materials, etc.

In 2004, acting in accordance with the provisions of Federal Law No. 186-FZ On Federal Budget for 2004, the Bank proceeded to implement practical measures aimed at provision of state financial support to small businesses.

Within the framework of the Small Business Lending Program developed jointly with the Ministry of Economic Development and Trade of the Russian Federation, in 2004 the Bank entered into loan agreements with 41 regional counterparty banks for a total amount of more than RUR 1.3 billion. Regional counterparty banks extended to the end borrowers – small businesses – more than 450 loans. Most loans were extended to entrepreneurs working in such segments as production of construction materials, trade, construction, and services.

In the end of 2004, the Bank was granted RUR 3 billion sovereign guarantee for its borrowings for the purpose of small business loan support. This will enable the Bank to significantly increase the amount of resources earmarked for provision of support to small businesses. The key principle underlying the Program is that mid-term loans should be made available to small businesses at acceptable interest rates.

Last year, pursuant to Articles 78 and 80 of Federal Law On Federal Budget for 2004, the Bank continued to perform its agency functions, collecting previously extended budget loans on behalf of the Government of the Russian Federation. As a result of the work done by the Bank, the integrated federal budget revenue account of the Chief Division of the Federal Treasury (CDFT) of the Ministry of Finance of the Russian Federation was credited with more than RUR 700 million, and Russian courts issued orders for collection of outstanding loans worth about RUR 1.3 billion.

I would like to concentrate on the financial results of the Bank. The operations of the Russian Bank for Development have been profitable since the time of its establishment more than five years ago. Its overall economic efficiency enabled the Bank to increase its equity by more than 25% and acquire the building housing its head office.

Throughout its lifetime, Russian Bank for Development has been consistently seeking to increase the scope of borrowings to expand its lending to priority sectors of the Russian economy. Last year the Bank made significant progress in its attempts to raise funds in international capital markets. In the beginning of 2004, Moody's Investors Services assigned to Russian Bank for Development a long-term foreign currency deposit rating of Ba3. In Q4 2004, the Bank commenced preparatory work required to obtain its debut syndicated loan managed by Citigroup and ING Bank. This work was successfully completed in early 2005. The loan was heavily oversubscribed, with the order book exceeding the proposed principal amount by more than 4 times, which testifies to the high level of trust in Russian Bank for Development by the leading foreign financial institutions.

On the date of publication of this report, Standard & Poor's assigned Russian Bank for Development a credit rating of BB+, a sub-investment rating only one notch below the sovereign rating of the Russian Federation, thus recognizing the Bank's high reliability and creditworthiness. In its turn, Moody's also upgraded the Bank's long-term rating to a level of Ba1. In 2005 the Bank intends to enter the international debt market as an issuer of Eurobonds.

In conclusion, allow me to express my gratitude to the Supervisory Board, the shareholder of the Bank, our customers, our partners – Russian and foreign financial institutions, and, naturally, all employees of the Bank.

Tatiana M. Ryskina

Chairperson
of the Managing Board
OAO "Russian Bank
for Development"

GENERAL INFORMATION

R U S S I A N B A N K F O R D E V E L O P M E N T

- Established by the Russian Federal Property Fund on July 7, 1999 pursuant to the provisions of Article 128 of Federal Law No. 36-FZ dated February 22, 1999, and Decree of the Government of the Russian Federation No. 391-r dated March 10, 1999.

- 100% of OAO Russian Bank for Development is held by the Russian Federal Property Fund.

- Legal Status: Open Joint Stock Company (OAO).

- The state determines the Bank's strategy and priority areas of operations by participating in the management of the Bank's operations through its representatives in the Supervisory Board.

- The Supervisory Board of the Bank comprises senior officers of the following federal ministries and agencies: Ministry of Economic Development and Trade of the Russian Federation, Russian Federal Property Fund, Ministry of Finance of the Russian Federation, Ministry of Science and Education of the Russian Federation, Federal Industry Agency, Bank of Russia, and others.

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Licenses:

- Banking License No. 3340 issued by the Bank of Russia on January 25, 2000.

- Professional Securities Market Participant Licenses for the conduct of:
 - Dealer operations No. 077-06129-010000 dated July 17, 2002;
 - Broker operations No. 077-06125-100000 dated July 16, 2002;
 - Securities portfolio management operations No. 077-06127-001000 dated July 16, 2002.

Auditor:

- ZAO Deloitte & Touche CIS.

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Credit Ratings:

- Standard&Poor's – 'BB+' long-term and 'B' short-term issuer credit ratings, stable outlook
 “The ratings on RBD reflect strong explicit sovereign support, including a sovereign guarantee on part of the Bank's liabilities, continuous state capital injections, and a clearly defined and strategic public policy role assigned to the Bank by the government of the Russian Federation (foreign currency BBB-/Stable/A-3; local currency BBB/Stable/A-3).” – Extract from Standard&Poor's Press Release

- Moody's Investors Service – ‘Ba1’ long-term deposit rating (positive outlook), ‘E+’ financial strength rating (stable outlook).

«The rating is not constrained by the country ceiling for foreign currency bank deposits, but may follow a potential future upward movement of the ceiling if Moody's sees the bank's systemic importance growing closer to that of larger state-owned banks in Russia.” – Extract from Moody's Press Release

- Moody's Interfax National Scale Credit Rating – Aa1/RUS-11.
 “The rating upgrade reflects the well-established fact that Russian government bodies view Russian Bank for Development as an important government industrial policy tool.” – Extract from Moody's-Interfax Press Release

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Bank Ratings:

- No. 20 among all Russian banks by the amount of equity (The Banker, December 2004)

- No. 15 in the reliability rating of Russian banks as of January 1, 2005 (Profile, March 2005)

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Subsidiaries:

- OAO Leasing Company of the Russian Bank for Development (OAO RosBR-Leasing).

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Mission of the Russian Bank for Development:

- Facilitation of implementation of the state investment policy in priority sectors of the national economy designated by the Government of the Russian Federation.

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Aims and Objectives of the Russian Bank for Development:

- Provision of support to the structural changes in the national economy;

- Provision of long-term and mid-term loan support to the enterprises operating in the real sector of the Russian economy;

- Provision of support to small businesses.

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Priority Financing Areas:

- Infrastructure projects;

- Modernization of Russian industrial enterprises;

- Companies manufacturing value-added products for export;

- Manufacture of import-substituting products.

- Innovative projects implemented in the "new economy" sector;

GENERAL INFORMATION

R U S S I A N B A N K F O R D E V E L O P M E N T

Management of the Bank:

Tatiana M. Ryskina

Chairperson of the Managing Board
Member of the Supervisory Board

Dmitry Y. Golovanov

Senior Vice Executive Chairman of
the Managing Board

Dmitry R. Snimschikov

Chief Accountant

Svetlana B. Biran

Vice Executive Chairperson
of the Managing Board

Oleg I. Dzhus

Vice Executive Chairman
of the Managing Board

Nadezhda V. Martynova

Vice Executive Chairperson
of the Managing Board

Anna V. Zvereva

Vice Executive Chairperson
of the Managing Board
Compliance Controller

Andrey I. Kuznetsov

Advisor to the Chairperson
of the Managing Board

Marina B. Medvedeva

Advisor to the Chairperson
of the Managing Board

Maxim G. Voronin

Advisor to the Chairperson
of the Managing Board

Managers of Structural Subdivisions:

Olesya V. Teploukhova

Director,
Customer Relations Department

Valery E. Opletin

Director,
Budget Loans Collection Department

Igor V. Biryukov

Director, Treasury

Sergey A. Chubarov

Director, Legal Department

Alexander S. Fedorets

Director, Economic Department

Yuri A. Eremeyev

Director, Administrative Department

Vladimir B. Potekhin

Director, Accounting Department

Eugeny P. Ilchenko

Director, Information Department

Alexander A. Mikhailovsky

Director, Financial Institutions

Alexey V. Korneev

Head, Small Business Lending
Division

Vadim A. Fyodorov

Head, Information Technologies

Valentina I. Isachenkova

Head, Settlement Department

Elena A. Krasikova

Head, Public Relations Department

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Management of OAO "Leasing Company of the Russian Bank for Development":

Sergey V. Bystrov

General Director

Margarita M. Miroshnikova

Chief Accountant

OPERATING AND FINANCIAL RESULTS

R U S S I A N B A N K F O R D E V E L O P M E N T

Operating and Financial Results of the Russian Bank for Development in 2004

As of January 1, 2005:

- The Bank's assets amounted to RUR 9,167.9 million (Chart 1). More than 75% of the Bank's total assets were represented by loans extended to Russian industrial enterprises and regional banks within the framework of the Small Business Lending Program. The structure of the Bank's assets is shown in Chart 2.
- The Bank's equity amounted to RUR 5,765.5 million (Chart 3).
- The Bank's charter capital stood at RUR 4,660 million.
- The Bank received RUR 1,089.6 million of income. The movement of interest and non-interest income of the Bank in 2004 is shown in Chart 4.
- The Bank's profit amounted to RUR 394.8 million (Chart 5).
- The value of the Bank's corporate loan portfolio, including active credit lines and outstanding guarantees, was RUR 5,003.7 million. Mid-term and long-term loans accounted for 63.6% of the Bank's total loan portfolio.
- The amount of credit resources made available to regional counterparty banks within the framework of the Small Business Support Program increased 6.5 times.
- The overall value of the Bank's loan portfolio, including the funds provided to regional authorized banks within the framework of the Small Business Support Program, amounted to RUR 5.9 Billion.

Chart 2. Structure of the Bank's Assets as of January 1, 2005

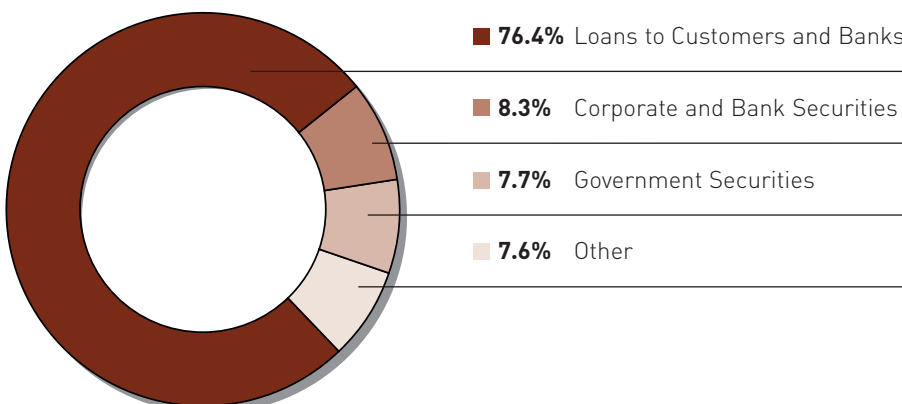
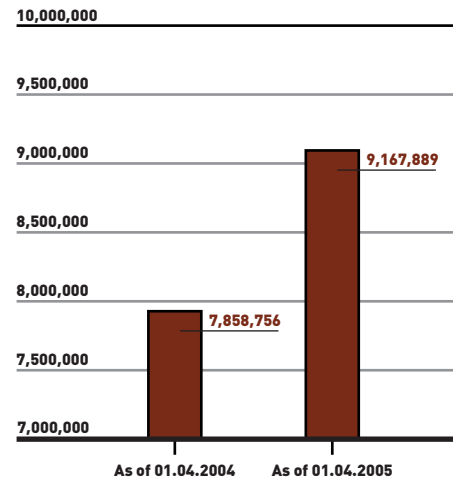


Chart 1. Movement of the Bank's Assets in 2004 (RUR thousand)



OPERATING AND FINANCIAL RESULTS

R U S S I A N B A N K F O R D E V E L O P M E N T

Chart 3.
Movement of the Bank's Equity
in 2004 (RUR thousand)

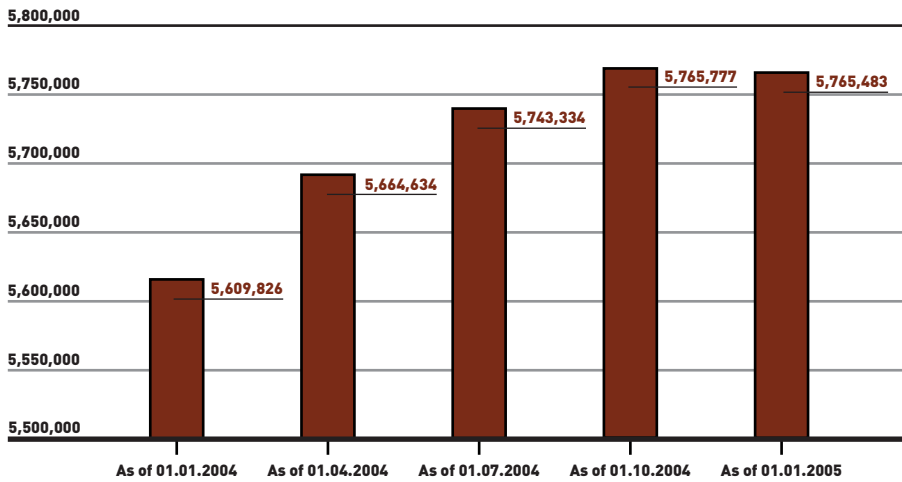


Chart 4.
Movement of the Bank's
Income (RUR thousand)

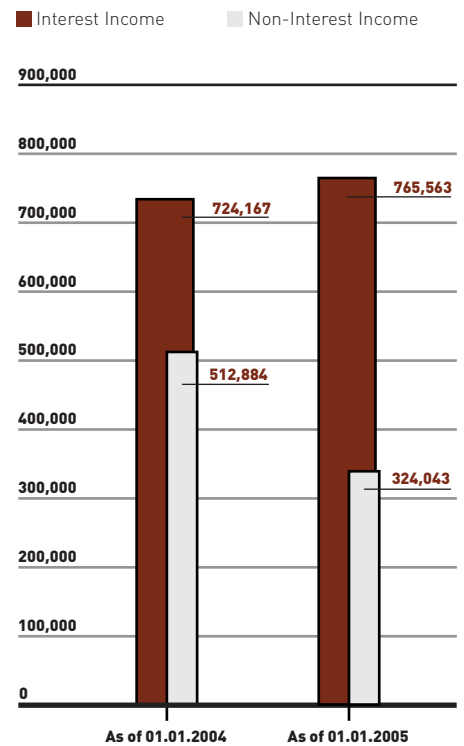
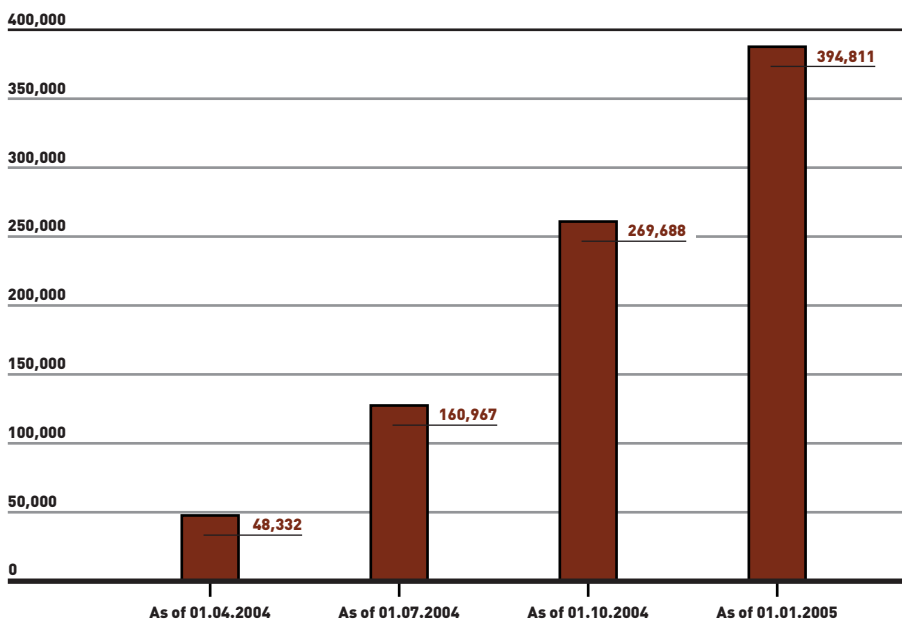


Chart 5.
Movement of the Bank's Profit in 2004 (RUR thousand)



REVIEW OF OPERATIONS

R U S S I A N B A N K F O R D E V E L O P M E N T

Review of Operations of the Russian Bank for Development in 2004

In 2004, the Bank was primarily involved in:

- Provision of mid-term and long-term loan support to enterprises operating in the real sector of the national economy to the extent permitted by the Bank's resource base;
- Provision of loan support to small businesses;
- Interaction with federal executive bodies with a view to involve the Bank in the implementation of investment programs for the support of key branches of the national economy;
- Development of international cooperation with a view to enhance the Bank's potential in terms of financing of investment projects implemented by Russian industrial enterprises;
- Under Articles 78 and 80 of Federal Law "On the Federal Budget for 2004", rendering agency services to the Government of the Russian Federation for the recovery of budget loans extended from the federal budget and extra-budgetary sources to legal entities.

Corporate Lending

The Bank's lending policy is consistent with the main objectives of the state investment policy which is focused primarily on accelerated diversification of the structure of the national economy.

In line with the Bank's development strategy, its target lending areas include the following:

- infrastructural projects;
- projects envisaging modernization of enterprises operating in priority industries;
- export-oriented production creating high value-added products;
- import substituting products;
- innovative projects in the "new economy" sector.

The Bank offers its customers – enterprises operating in diverse sectors of Russian industry – the following types of loan products:

- long-term loans with maturities exceeding 3 years to finance investment projects, including project finance loans, in the following areas:
 - creation of new production facilities;
 - modernization of fixed assets and refurbishment of existing production;
 - development of production and technological infrastructure of industrial enterprises.
- mid-term loans with maturities ranging from 1 year to 3 years to finance projects in the following areas:
 - expansion of existing production;
 - expansion and improvement of existing product ranges;
 - development and implementation of resource-saving technologies.

- short-term loans with maturities of under 1 year extended to industrial enterprises to finance their current operations and replenish their working capital;

- letters of credit issued against opened credit lines;

- guarantees granted against opened credit lines;

- organization of syndicated loans.

In 2004 the Bank continued to increase the volume of its lending operations in priority areas determined by the Government of the Russian Federation. As of January 1, 2005, the value of the Bank's corporate loan portfolio, including outstanding credit lines and guarantees, exceeded RUR 5 billion.

In 2004 the sectoral structure of the Bank's loan portfolio did not sustain any significant changes (Chart 6). About 50% of total loans were extended to enterprises operating in such domestic industrial sectors as heavy engineering and metal working, communications, ferrous metallurgy, production of construction materials, chemical and petrochemical industry. About 30% of borrowed funds were made available to transportation enterprises (to finance, inter alia, projects envisaging development of capital-intensive types of transport), with 8.5% of those being used to finance transportation infrastructure facilities. More than half of the loans extended to transportation enterprises involved various leasing arrangements, which enabled the Bank to minimize its credit risks and increase maturities to up to 8 years.

In 2004 the Bank financed, or participated in the financing of, a series of projects aimed at development of priority sectors of the Russian economy.

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Last year the Bank paid special attention to financing transport infrastructure projects. For example, in 2004 the Bank, jointly with EBRD, continued implementation of a project envisaging creation of a safe navigation system in the North-Western region of Russia. Within the framework of this project, Russian Bank for Development granted EBRD a long-term guarantee securing the obligations of FGU "Maritime Administration of the Saint-Petersburg Port".

The need to modernize Russia's transport infrastructure requires massive reconstruction of highways. In 2004 the Bank took part in financing a number of projects which involved capital repair and reconstruction of existing federal and regional public highways.

During the reporting year, the Bank increased the volume of lending on the heavy engineering and metal

working enterprises. In particular, Russian Bank for Development financed projects envisaging modernization of production of railway rolling stock, aircraft engines, gas turbine and electric power plants, equipment for power stations of different types, high-tech equipment for drilling and capital repair of gas wells, special housing and utilities equipment.

During the past year, Russian Bank for Development commenced co-operation with telecommunications enterprises, whose share in the Bank's loan portfolio amounted to about 10%. The Bank's pilot project in this area was one which envisaged the funding of current expenses of telecommunication companies related to implementation of production modernization programs.

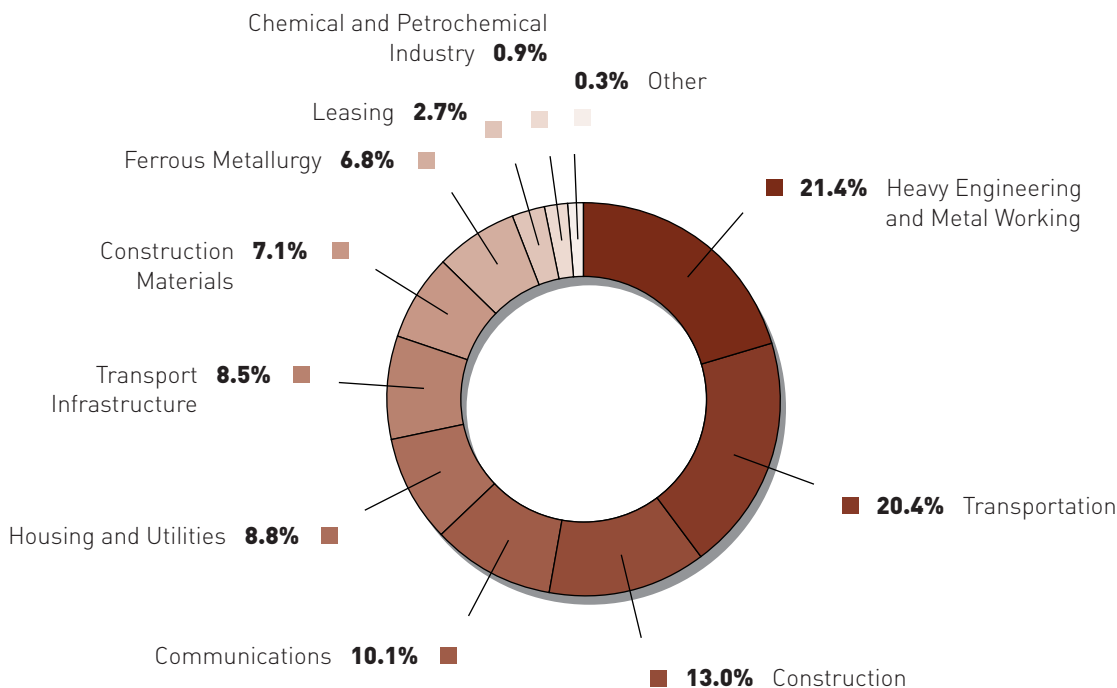
Yet another important area of the Bank's operations involving lending

to the real sector of the economy was the funding of projects which envisaged implementation of new production technologies, and provision of lending support to enterprises with high scientific potential. In 2004 the Bank funded development and implementation of new sheet metal processing technologies, expansion of production of extra-safe gas-cylinder pressure regulators and gas flow controls, production of new-generation fire safety control and management systems and automated radiation control system hardware and software for atomic power stations, etc.

In 2004 the Bank provided financing for numerous projects involving modernization, technical refurbishment and expansion of existing production at enterprises operating in various segments of domestic industry. In particular, the Bank participated in the funding of reconstruction of steel-making

Chart 6.

Sectoral Structure of the Bank's Loan Portfolio as of January 1, 2005



REVIEW OF OPERATIONS

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production at a hardware and metallurgical plant; modernization of production facilities at an assembly manufacturing plant, including construction of a medium-sized castings shop and reconstruction of press-forging and tool-making production facilities; capital repair of Blast Furnace No. 6 at a metallurgical plant, etc.

Therefore, in 2004 the Bank took part in provision of lending support to investment projects designed to create new and modernize existing production, expand operations and the range of products manufactured by the enterprises of the real sector of the economy. More than half of the Bank's credit resources (60%) were directed to finance infrastructural projects, while 30% were used to modernize existing production. The proceeds of the remaining 10% of the loans extended by the Bank were used to finance import substitution and export-oriented production (Chart 7).

Geographically, the Bank's loan portfolio covers 5 federal districts (Chart 8). The bulk of credit resources was made available to enterprises operating in the Central, Volga and Ural Federal Districts.

Chart 7.
The Bank's Priority Lending Targets as of January 1, 2005

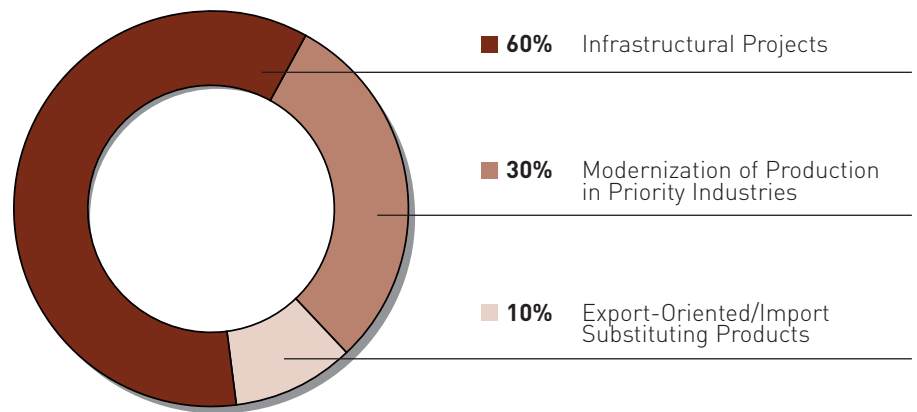
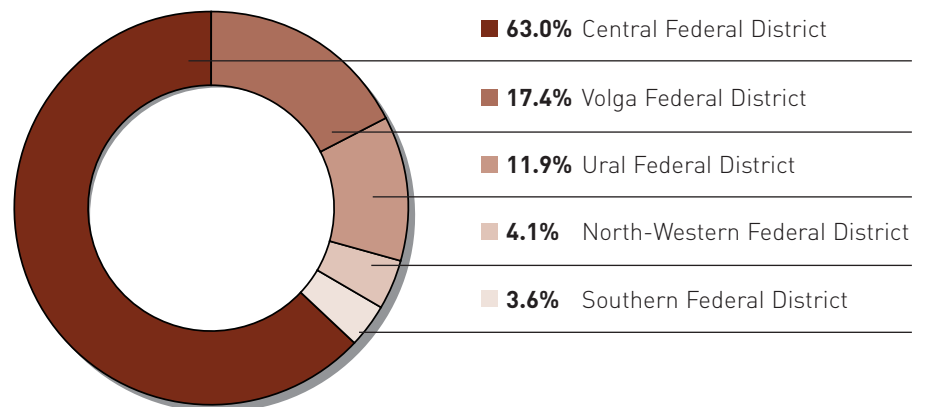


Chart 8.
Geographical Structure of the Bank's Loan Portfolio with a Breakdown by Federal Districts as of January 1, 2005



REVIEW OF OPERATIONS

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In 2004 the Bank's loan portfolio continued to be dominated by loans to private companies (their share stood at more than 55%). The share of loans to federal enterprises did not exceed 15%. In 2004 the Bank's loan portfolio also included loans to enterprises jointly owned by the federal government and constituent entities of the Russian Federation (Chart 9).

During the reporting year, the maturity structure of the Bank's loan portfolio became more balanced. The share of short-term loans (with maturities of less than 1 year) increased to 36%, while the Bank retained priority focus on the funding of mid-term (more than 1 year) and long-term (more than 3 years) projects (Chart 10).

Chart 9.
Structure of the Bank's Loan Portfolio with a Breakdown by Types of Ownership as of January 1, 2005

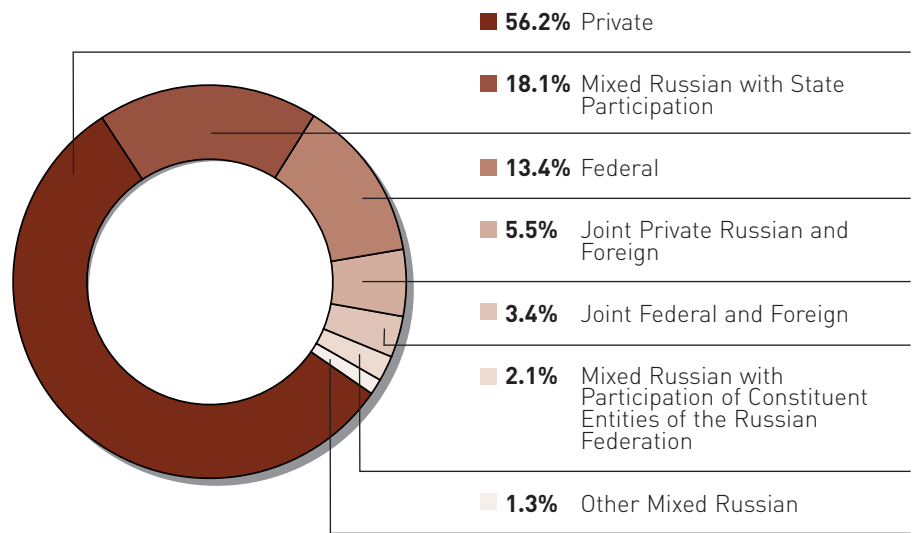
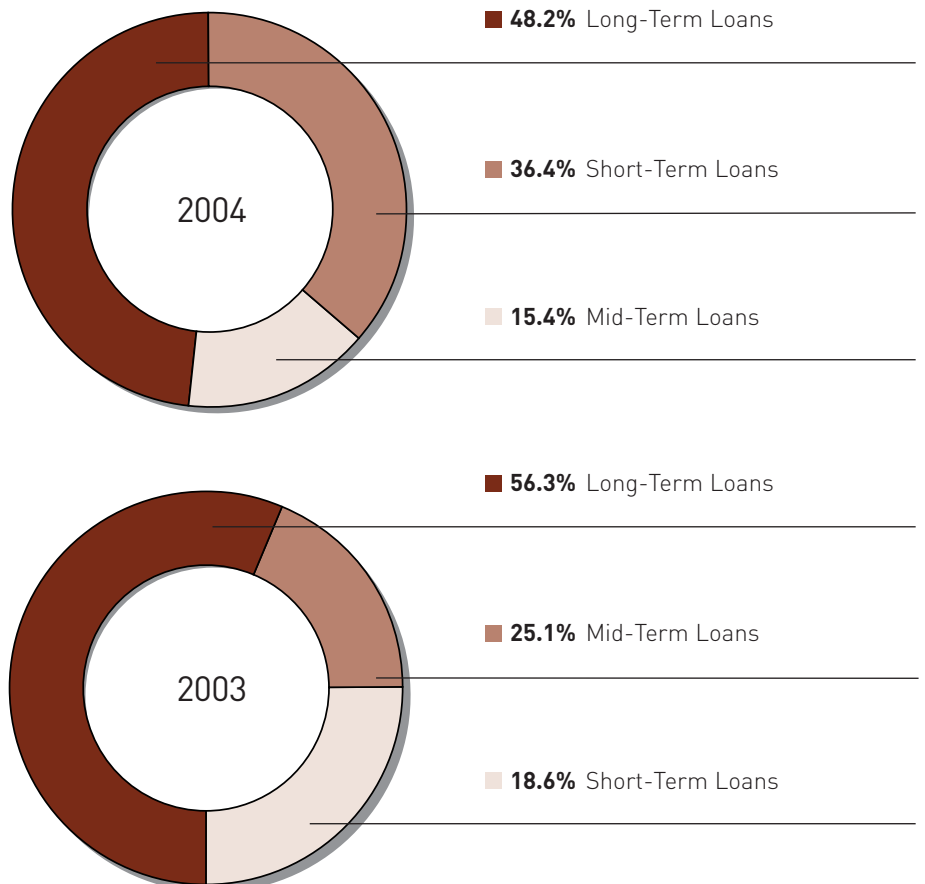


Chart 10.
Maturity Structure of the Bank's Loan Portfolio



REVIEW OF OPERATIONS

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Since the Bank's establishment, the bulk of loans were extended to the borrowers in the national currency of the Russian Federation. This is consistent with the Bank's strategy – to encourage borrowers to acquire Russian goods and services, thus supporting continued development of domestic production. At the beginning of 2005, the share of loans denominated in Rubles, stood at about 90% of total loan portfolio (Chart 11).

In its lending operations, the Bank is guided by standard principles: all loans should be repaid at maturity, and the borrower should provide adequate security and pay interest for the use of credit resources.

The Bank uses a multi-factor risk management model which is tool enabling efficient use of government investment resources for designated purposes and their ultimate recovery. The growth of the Bank's loan portfolio is associated with minimum credit risk.

The Bank's loan portfolio is characterized by diversification, which helps the Bank to minimize its credit risks:

- During the reporting year, the share of loans to 20 largest borrowers decreased by 5%.

The bulk of projects implemented by the Bank are classified as middle-sized – 87% of total customer obligations before the Bank are represented by loans with principal amounts ranging from US\$ 1 million to US\$ 10 million, which is an increase from 81% in the year 2003.

One of the Bank's priorities is to increase the efficiency of selection and expert evaluation of credit applications. Investment projects are subjected to comprehensive analysis which involves evaluation of credit

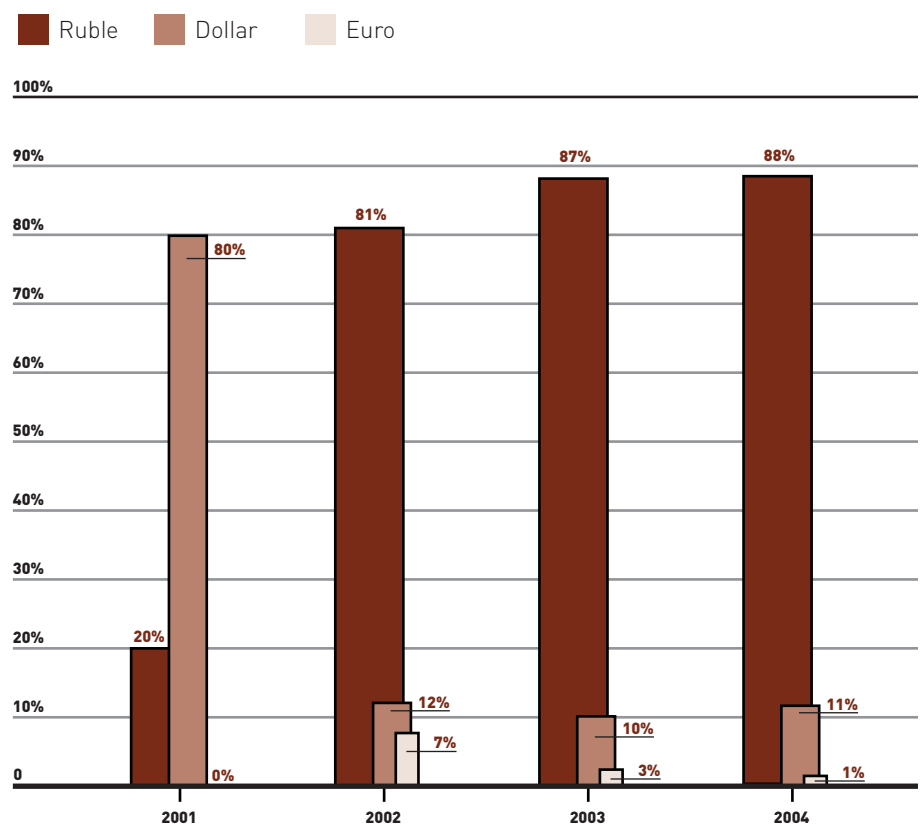
applications, analysis of financial statements, creditworthiness of, and security offered by potential borrowers, and detailed expert evaluation of their business plans. To reduce credit risks and increase investment appeal of the projects, the Bank develops recommendations designed to improve them. The share of projects successfully passing preliminary selection in total value of the Bank's project pipeline amounts to only 10% – since its establishment, the Bank reviewed investment projects worth RUR 97.6 billion and extended loans for RUR 9.6 billion.

Currently the Bank has ready-for-funding investment projects with total value of RUR 11 billion. These projects will become the basis of con-

tinued expansion of the Bank's loan portfolio. In 2005 Russian Bank for Development intends to increase the volume of lending to Russian industrial enterprises operating in priority sectors of the Russian economy.

In an environment of qualitative and quantitative expansion of banking services, the Bank will continue to diversify, and thereby minimize, its operating risks. In line with the growth of the Bank's loan portfolio in terms of the volume and number of loans, the Bank will be seeking to reduce its participation in project funding by extensive use of such financial instruments as co-financing, syndicated loans, guarantees and documentary operations.

Chart 11.
Currency Structure of the Bank's Loan Portfolio



REVIEW OF OPERATIONS

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Small Business Lending Program

One of the key areas of operations of Russian Bank for Development is provision of lending support to Russian small businesses. The Bank's small business support policy is designed to furnish mid-term funding to small businesses operating in the real sector of the economy, primarily in industry and construction.

In 2004, acting in accordance with the provisions of Federal Law No. 186-FZ On Federal Budget for 2004, OAO "Russian Bank for Development" proceeded to implement practical measures aimed at provision of state financial support to small businesses.

According to the Federal Law, small business development projects are to be financed primarily with the funds raised by the Bank against sovereign guarantees of the Russian Federation for a total amount of RUR 3 billion. The Government of the Russian Federation has resolved that state financial support will be provided to small businesses within the framework of two-tier lending scheme, where the Bank makes the funds raised against the sovereign guarantee of the Russian Federation available to regional banks approved by the Ministry of Finance of the Russian Federation for subsequent on-lending to end borrowers.

With a view to define the fundamental principles and procedures for provision, through the Bank, of state financial support to Russian entrepreneurs, the Ministry of Economic Development and Trade of the Russian Federation and the Bank developed a program envisaging extension of loans to small businesses, including small farms.

The main objectives of the Small Business Lending Program include the following:

- granting to small businesses access to mid-term and long-term financial resources;
- encouraging commercial banks to work with small businesses.

Pursuant to the Small Business Lending Program, Russian Bank for Development uses the following mechanisms and instruments to provide credit support to small businesses:

- Two-tier lending scheme, where:
 - the Bank extends target loans to regional banks;
 - regional banks use the proceeds of these loans for on-lending to small businesses;
- Direct loans to small businesses financed with the funds raised against sovereign guarantees of the Russian Federation.

Pursuant to the Program, the bulk of credit resources are made available to small businesses for terms of up to 2 years, such maturity being deemed to be sufficiently long for loans in this segment of the market.

It is expected that, upon completion, the Program will have attained the following objectives:

- small businesses will have better access to mid-term and long-term financial resources;
- commercial banks will become involved in cooperation with small businesses;
- small businesses will expand and modernize their production facilities.

REVIEW OF OPERATIONS

R U S S I A N B A N K F O R D E V E L O P M E N T

By the end of 2004:

- The Program was being implemented throughout the Russian Federation (Charts 12 and 12a).
- Russian Bank for Development accepted and reviewed applications for participation in the Program from more than 200 regional banks.
- The Bank entered into loan agreements with 41 regional counterparty banks from 28 constituent entities of the Russian Federation. The banks participating in the Program include the following: OAO "Baltic Investment Bank", ACB "Togliattikhimbank", OAO ACB "Chuvashkreditprombank", OAO ACB "Spurt", OAO "AICB "Tatfondbank", OAO Bank "Yoshkar-Ola", OAO CB "Bryansky Narodny Bank", OAO AB "Southern Trade Bank", ZAO ACB "Municipal Kamchatprofitbank", OAO CB "Ellipsebank", OAO CB "Altai" and others.

Chart 12.

Credit Lines Made Available by the Bank to Regional Banks for On-Lending to Small Businesses, Breakdown by Federal Districts As of January 1, 2005

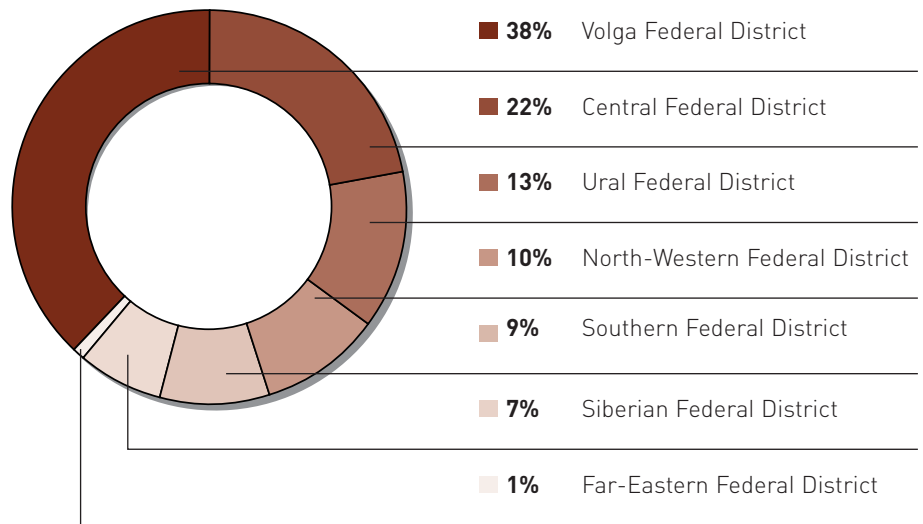
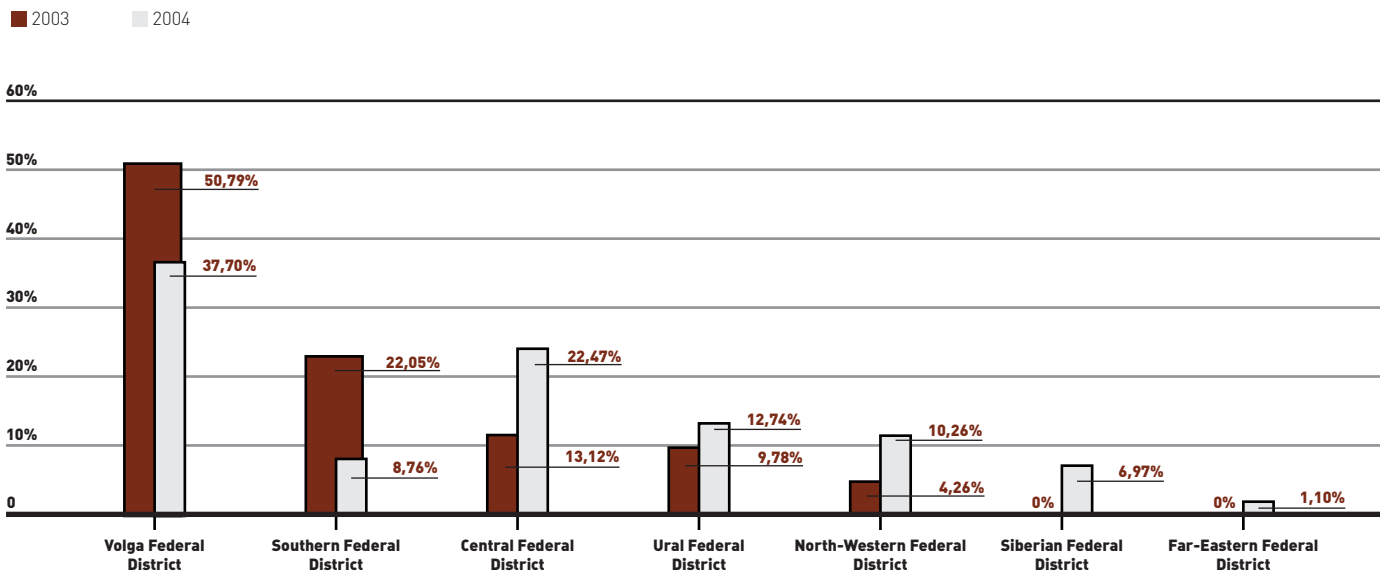


Chart 12a.

Credit Lines Made Available by the Bank to Regional Banks for On-Lending to Small Businesses, Breakdown by Federal Districts, 2004 (as Compared to 2003)



REVIEW OF OPERATIONS

R U S S I A N B A N K F O R D E V E L O P M E N T

- The overall value of credit lines opened by the Bank to counterparty banks amounted to about RUR 1.3 billion.

- Regional counterparty banks extended to the end borrowers – small businesses – more than 450 loans.

- More than 70% of loans were extended to small businesses for up to 2 years (Chart 13).

- In the loan portfolios created by regional banks within the framework of the Program, more than 35% of loan proceeds were used by small businesses to renew their fixed assets.

- The bulk of the loans were extended to small businesses operating in such sectors as trade, services, construction and light industry (Chart 14). In the trade and services sectors, most loans were granted to unincorporated entrepreneurs.

- The Bank entered into cooperation agreements with 29 constituent entities of the Russian Federation to select counterparty banks for participation in the Program. In particular, within the framework of such agreement with the Republic of Mariy El, the Government of the Republic extended its guarantees to Bank “Yoshkar-Ola”, enabling the Bank to increase the amount of credit resources made available to that bank.

- To have access to up-to-date information on high-potential small business projects with innovative components, and to increase availability of credit resources to small businesses involved in research and development, Russian Bank for Development signed a cooperation agreement with the State Fund for Assistance to Small R&D Businesses. The agreement envisages joint selection of high-

Chart 13.
Maturity Structure of the Small Business Loan Portfolio as of January 1, 2005

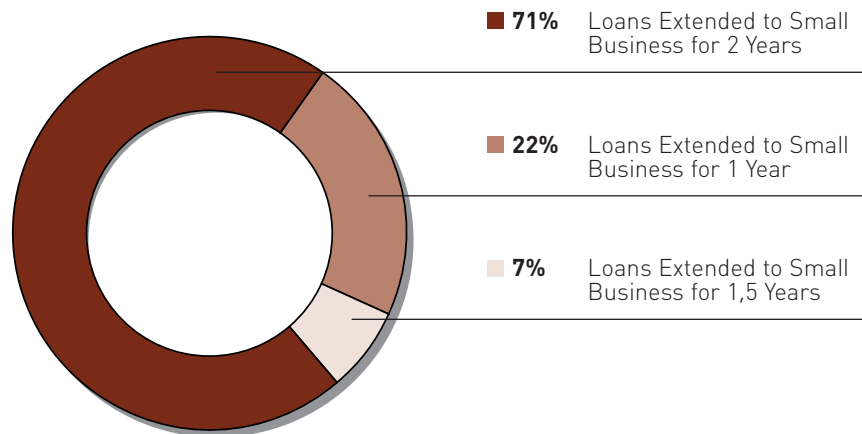
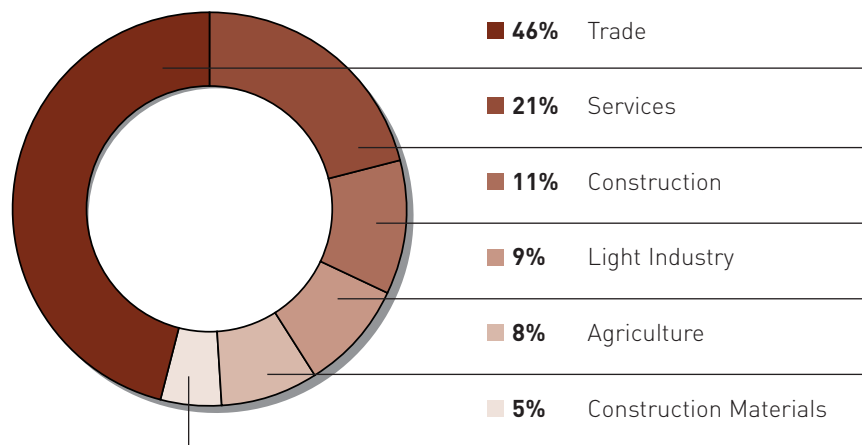


Chart 14.
Sectoral Structure of the Small Business Loan Portfolio as of January 1, 2005



potential innovative small business projects and, possibly, partial subsidization of interest rates charged to end borrowers by the Fund.

- In 2004 the Bank’s employees took part in more than 50 regional events dedicated to supporting small businesses.

In the end of 2004, the Government of the Russian Federation granted to the Bank sovereign guarantees for RUR 3 billion to support borrowings for financing small business loans. This will enable the Bank to significantly increase the amount of resources earmarked for provision of support to small businesses in Russian regions.

REVIEW OF OPERATIONS

R U S S I A N B A N K F O R D E V E L O P M E N T

Corporate Banking Services

In 2004 Russian Bank for Development strengthened its positions in the market for corporate banking services. The Bank's priorities include provision to corporate customers of high-quality services, and adherence to a flexible tariff policy.

During the reporting year, the Bank's corporate customer base continued to grow, and became more diversified in terms of sectoral coverage (Charts 15 and 16).

The Russian Bank for Development offers its customers the full range of banking services, including the following:

- "Bank-Customer" payment system services;
- Money transfers in Russia and CIS countries;
- SWIFT (Alliance Access) international payment services;
- Conversion operations;
- Operations with securities;
- Placement of the customers' cash into Ruble- and F/X-denominated bank deposit accounts;
- Cash processing services, opening of saving, current and settlement accounts in Russian Rubles and foreign currencies;

Chart 15.
Growth of the Bank's Customer Base

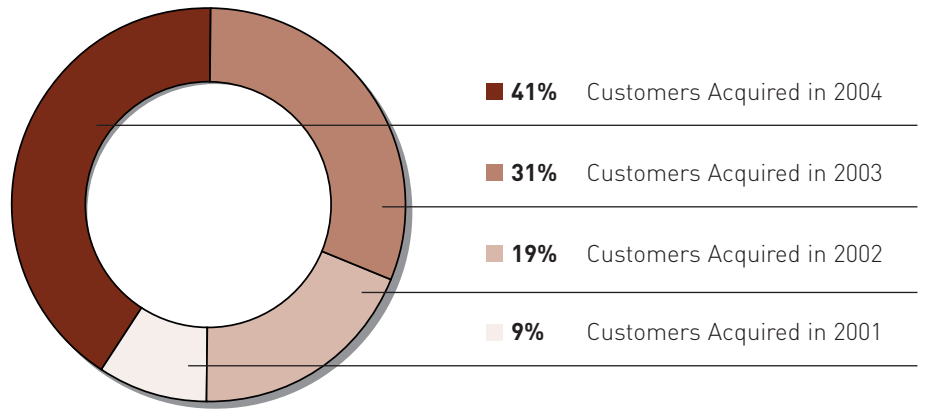
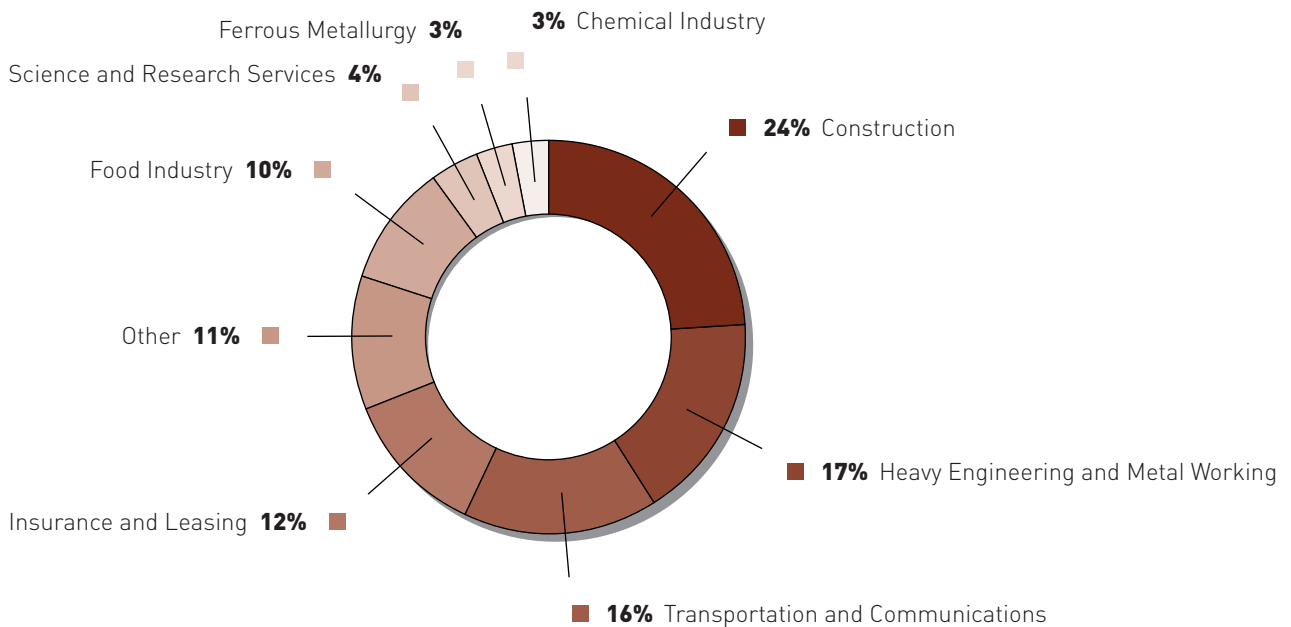


Chart 16.
Sectoral Structure of the Bank's Customer Base



REVIEW OF OPERATIONS

R U S S I A N B A N K F O R D E V E L O P M E N T

- Operations with promissory notes:
 - Performance of the functions of a currency control agent in accordance with the applicable laws and regulations, including:
 - Issuance of export and import transaction compliance certificates;
 - Provision of consultations on the conduct of currency operations;
 - Notification of customers of changes in the existing currency regulations;
- Documentary operations, including:
 - Opening of import documentary letters of credit, including those confirmed by first-class foreign correspondent banks;
 - Advising on, and execution of, export documentary letters of credit;
 - Issuance of all types of bank guarantees and opening of stand-by letters of credit;
 - Documentary collection operations;
- Credit operations:
 - Short-term, medium-term, and long-term loans;
- Project finance;
- Loan syndication;
- Provision of information and consulting services.

Performance of Functions of an Agent of the Government of the Russian Federation for Collection of Budget Loans

Pursuant to Articles 78 and 80 of Federal Law On Federal Budget for 2004, in 2004 Russian Bank for Development acted as an agent of the Government of the Russian Federation for collection from legal entities of previously extended budget loans financed from the federal budget and extra-budgetary sources.

Under Agency Agreement No. 01-01-06/07-569 executed with the Ministry of Finance of the Russian Federation on August 17, 2001, the Bank collects and returns to the federal budget loans extended in 1992-2000 or, if necessary, draws the required write-off documents.

According to the agreement with the Ministry of Finance of the Russian Federation, the Bank is authorized to:

- support claims asserted by the Ministry of Finance of the Russian Federation against recipients of target cash loans extended through authorized banks or by federal budget administrators;

- maintain analytical records of debt obligations owed by recipients of target cash loans extended through authorized banks and legally collectable by the Ministry of Finance of the Russian Federation, and maintain records of amounts receivable from authorized banks;

- collect and return to the federal budget amounts owed by recipients of target cash loans and authorized banks.

As of January 1, 2005, Russian Bank for Development²:

- perfected claims asserted by the Ministry of Finance of the Russian Federation against recipients of target cash loans and authorized banks under 339 agreements for a total amount of RUR 3,010.4 million;
- maintained analytical records of debt obligations under 107 agreements between the Ministry of Finance of the Russian Federation and authorized banks for a total amount of RUR 3,769.9 million;
- submitted to the Ministry of Finance of the Russian Federation documents for the write-off of debts under 15 agreements between

² All data are cumulative.

REVIEW OF OPERATIONS

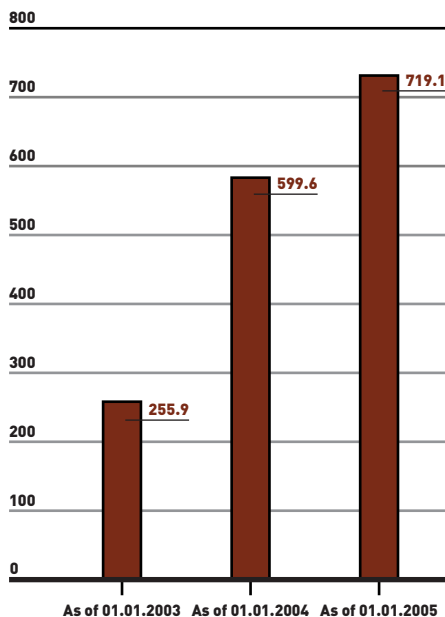
R U S S I A N B A N K F O R D E V E L O P M E N T

the Ministry of Finance of the Russian Federation and authorized banks for a total amount of RUR 299.4 million;

- ensured that authorized banks and recipients of target cash loans transferred RUR 719.1 million to the integrated federal budget revenue account of the Chief Division of the Federal Treasury (CDFT) of the Ministry of Finance of the Russian Federation as partial discharge of their debt obligations before the federal budget (Chart 17);
- filed court suits for collection of amounts owed by budget beneficiaries

Chart 17.

Funds Credited to the Integrated Federal Budget Revenue Account of CDFT of the Ministry of Finance of the Russian Federation in Discharge of Debt Obligations before the Federal Budget as a Result of the Work Done by the Bank (RUR million)

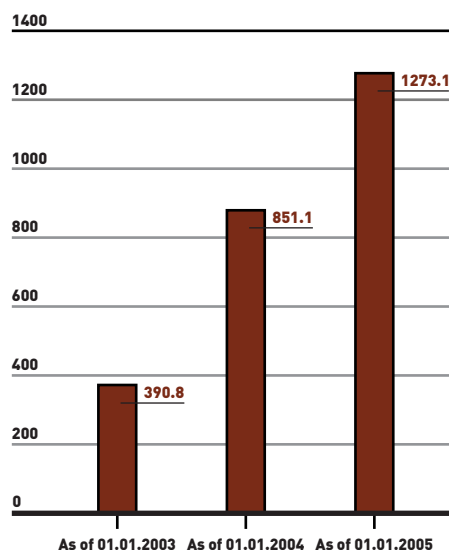


(including enterprises of the Fuel and Power Complex of the Russian Federation under agreements with the Ministry of Power of the Russian Federation) for a total amount of RUR 20,158.7 million;

- obtained court orders for collection of amounts owed by budget beneficiaries (including enterprises of the Fuel and Power Complex of the Russian Federation under agreements with the Ministry of Power of the Russian Federation) for a total amount of RUR 1,273.7 million (Chart 18);
- acting as a representative of the Russian Federation in the capacity of a creditor in bankruptcy proceedings initiated with respect to recipients of budget loans and banks, submitted to the Ministry of Finance

Chart 18.

Value of Previously Extended Budget Loans Subject to Collection as a Result of Claim Administration Work Done by the Bank (RUR million)



of the Russian Federation documents evidencing cash debt obligations for the purposes of assertion and submission to creditor registers of the appropriate debt collection claims for a total amount exceeding RUR 5,331.5 million.

Taking into consideration the results achieved by Russian Bank for Development in this area, the Government of the Russian Federation resolved to renew the Bank's agency mandate for 2005, as provided in Articles 67, 71 and 72 of Federal Law On Federal Budget for 2005.

REVIEW OF OPERATIONS

R U S S I A N B A N K F O R D E V E L O P M E N T

International Cooperation

Establishment of cooperation with international, national and regional development banks, national export credit insurance agencies, and foreign investment agencies is an important factor in increasing success for the Bank's operations. Actively cooperating with international institutions, the Bank performs representative functions, acting as the financial institution responsible for implementation of the state investment policy, and enhances the government's funding capacity by bringing foreign capital to joint projects.

In 2004 the Bank continued its cooperation with:

- European Bank for Reconstruction and Development;
- World Bank;
- Nordic Investment Bank,

national development banks, and specialized foreign finance and credit institutions, such as:

- German Investment and Development Society (DEG);
- French Bank for Development of Small and Medium Enterprises (BDPME);
- Spanish Government Finance Agency (ICO);
- Chinese Development Bank (CDB),

leading international organizations representing the interests of business communities in various countries and regions, such as:

- Business Club APEC (Asia-Pacific Economic Cooperation);

- Russian-French Council for Economic, Financial, Industrial and Trade Issues;

- Italian-Russian Chamber of Commerce,

as well as **leading national export credit insurance agencies from various countries.**

Another direction of international cooperation is increasingly close interaction with national development banks, both in implementation of joint projects and in the area of education programs and international exchanges.

An example of such cooperation is collaboration between Russian Bank for Development and the French Bank for Development of Small and Medium Enterprises (BDPME) which provided to the Bank methodological support in development of the Small Business Lending Program and organized a visit of the Bank's experts to BDPME where they studied small business lending practices.

In 2004 the Bank signed a Cooperation Agreement with the Chinese Development Bank to develop long-term mutually beneficial relations between the two institutions in the market for financial and banking services. The agreement envisages cooperation in such areas as joint loan syndication to finance investment projects, financial consulting, opening of two-way credit lines, organization of equipment leading in the Russian Federation and the People's Republic of China.

During the reporting year, the Bank established partner relations with the Nordic Investment Bank and conducted negotiations on possible implementation of joint projects in the area of transport infrastructure, power industry and development of knowledge-intensive innovative

production in the North-Western Region of Russia.

In 2004 the Bank exchanged information on various aspects and possible forms of future cooperation with investment company DEG (Group Kreditanstalt fuer Wiederaufbau (KfW)), Germany. The German side is interested in joint lending to corporate customers, small businesses, and regional banks, and joint financing of infrastructural projects.

The Bank is also working with other regional and national development banks and specialized foreign finance and credit institutions, such as the European Investment Bank (EIB), Spanish Government Finance Agency (ICO), Investment Fund for Central and Eastern Europe (IFCEE, Denmark), etc.

One of the most important areas of cooperation with foreign financial institutions is provision of trade finance services to the Bank's customers. To this end, in 2002-2005 the Bank established contacts with the following government export credit agencies (ECA):

- HERMES (Germany)
- CESCE (Spain)
- COFACE (France)
- ECGD (Great Britain)
- US EXIMBANK (USA)
- SACE (Italy)
- Gerling NCM (Netherlands)
- EGAP (Czech Republic)
- Eximbanka SR (Slovakia)

In 2004 cooperation with these national export credit agencies enabled the Bank to obtain financing for foreign trade contracts of its customers for terms of up to 5 years. The Bank's status of a national development bank presupposes its active participation in inter-governmental committees on financing of joint investment and infrastructural projects.

REVIEW OF OPERATIONS

R U S S I A N B A N K F O R D E V E L O P M E N T

During the reporting year, Russian Bank for Development continued cooperation with the following inter-governmental committees: Russian-German, Russian-French, Russian-Italian, Russian-Spanish, Russian-Norwegian, Russian-Croatian, Russian-Polish, Russian-Lithuanian, Russian-Cypriot, Russian-Finnish, Russian-Swedish, and Russian-Swiss.

Within the framework of cooperation with various Russian ministries in the area of implementation of Federal Special Purpose Programs and Federal Target Investment Programs, the Bank, together with representatives of the Ministry of Transport of the Russian Federation, conducted negotiations with Investment Group Macquarie (Australia) to enroll a strategic foreign partner in the implementation of a conceptual solution for public-private partnership in the area of transport infrastructure projects. Currently the Bank and Macquarie are discussing the possible signing of a Memorandum of Understanding.

The Bank is a member of a number of national and international public organizations, and is actively participating in events facilitating closer cooperation between business communities of various countries and regions. For example, the Bank is a member of:

- Consultative Council for Foreign Investments in the Russian Federation;
- Italian-Russian Chamber of Commerce;
- Russian-French Council for Economic, Financial, Industrial and Trade Issues;
- Steering Committee of TACIS Project Credit Cooperatives;

- Business Club APEC (Asia-Pacific Economic Cooperation);
- Russian-Arabic Business Council;
- National Economic Council;
- Forum Saint-Petersburg Dialog;
- Russian Economic Forum.

The Bank intends to continue development of international cooperation in the following areas:

- interaction with international financial organizations, national development banks and national export credit agencies;
- business partnership with international financial and credit institutions, other organizations representing the interests of business communities of foreign countries;
- participation in the work of inter-governmental committees on issues related to the Bank's operations.

Correspondent Relations

In 2004 the Bank successfully developed cooperation with Russian and foreign financial institutions. As of January 1, 2005:

- The Bank established correspondent relations with 35 financial institutions in Europe, USA and Asia. The Bank's correspondent banks include first-class foreign financial institutions, such as Citigroup (USA), JP Morgan Chase Bank (USA), Dresdner Bank AG (Germany), ING Group (Netherlands), Bank Austria Creditanstalt (Austria), Banca Intesa (Italy), Banco Bilbao Vizcaya Argentaria (Spain), etc.

■ The Bank signed agreements on general terms and conditions for the conduct of operations in domestic foreign currency and money markets with more than 110 Russian counterparty banks.

■ The overall amount of limits established for the Bank by Russian and foreign credit institutions exceeded US\$ 200 million.

■ The Bank significantly expanded its LORO correspondent accounts network. The total number of LORO correspondent accounts amounted to 80, with 38 of them being opened during the reporting year.

■ Within the framework of the Small Business Lending Program implemented by the Bank, it opened credit lines for 41 counterparty banks in 28 constituent entities of the Russian Federation.

■ The Bank signed with ING Bank NV a RUR 2.5 billion credit line agreement expiring in December 2006. The credit line is guaranteed by the Government of the Russian Federation, and its proceeds are to be used to finance the Small Business Lending Program.

Development of interbank cooperation in 2005 will be aimed at further expansion of the Bank's correspondent network in the Russian Federation and abroad.



INDEPENDENT AUDITORS' REPORT

FOR THE YEAR 2004

To the shareholders and Supervisory Board of Open Joint Stock Company "Russian Bank for Development":

We have audited the accompanying consolidated balance sheets of Open Joint Stock Company "Russian Bank for Development" and its subsidiary (the "Bank") as at December 31, 2004 and 2003 and the related consolidated statements of income, cash flows and shareholders' equity 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 at December 31, 2004 and 2003 and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

March 18, 2005

**Deloitte
& Touche**



CONSOLIDATED BALANCE SHEETS

AT DECEMBER 31, 2004 AND 2003

	Notes	(in US dollars and in thousands)	
		2004	2003
ASSETS:			
Cash and balances with the Central Bank of the Russian Federation	3	4,836	18,189
Loans and advances to banks, less allowance for loan losses	4	104,315	42,436
Loans and advances to customers, less allowance for loan losses	5	138,870	111,021
Securities:			
Trading securities	6	19,211	20,277
Securities available for sale	6	27,911	65,901
Fixed and intangible assets, less accumulated depreciation	7	15,274	9,807
Income tax assets	17	845	—
Other assets	8	4,406	3,930
TOTAL ASSETS		315,668	271,561
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES:			
Deposits from banks	9	67,240	65,211
Customer accounts	10	11,568	10,019
Debt securities issued	11	22,977	415
Provisions	12	557	430
Income tax liabilities	17	104	670
Other liabilities		1,053	230
TOTAL LIABILITIES		103,499	76,975
SHAREHOLDERS' EQUITY:			
Share capital:			
Ordinary shares with a par value of RUR 1 million each; 4,660 shares authorized, issued and outstanding	13	186,101	176,375
Retained earnings		26,068	18,211
TOTAL SHAREHOLDERS' EQUITY		212,169	194,586
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		315,668	271,561

Chairperson of the Managing Board
Tatiana M. Ryskina

Chief Accountant
Dmitry R. Snimshikov

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

		(in US dollars and in thousands)	
	Notes	2004	2003
Interest income	14	27,142	24,111
Interest expense	14	(864)	(780)
NET INTEREST INCOME BEFORE ALLOWANCE FOR LOAN LOSSES		26,278	23,331
Allowance for loan losses	15	(1,016)	(2,514)
NET INTEREST INCOME		25,262	20,817
NON-INTEREST INCOME			
Net gain on trading securities		1,976	5,568
Net gain on foreign exchange operations		158	54
Fee and commission income		412	631
Other income		604	383
TOTAL NON-INTEREST INCOME		3,150	6,636
NON-INTEREST EXPENSE			
Staff costs		(10,778)	(8,856)
Administrative and other operating expenses	16	(6,492)	(3,246)
Depreciation expense	7	(562)	(240)
Fee and commission expense		(92)	(204)
TOTAL NON-INTEREST EXPENSE		(17,924)	(12,546)
INCOME BEFORE OTHER PROVISIONS AND INCOME TAX		10,488	14,907
Provision for other credit losses	15	(127)	(430)
INCOME BEFORE INCOME TAX		10,361	14,477
Income tax	17	(2,997)	(3,209)
NET INCOME FOR THE YEAR		7,364	11,268

Chairperson of the Managing Board
Tatiana M. Ryskina

Chief Accountant
Dmitry R. Snimschikov

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

R U S S I A N B A N K F O R D E V E L O P M E N T

		(in US dollars and in thousands)	
	Notes	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income		7,364	11,268
Adjustments to reconcile net income with cash provided by operating activities:			
Allowance for loan losses		1,016	2,514
Provision for other credit losses		127	430
Depreciation		562	240
Loss on fixed assets disposal		46	52
Net change in current income tax payable		(845)	—
Deferred income tax recovery		(34)	(335)
Net change in interest accruals and amortized discount		(195)	(105)
		8,041	14,064
Decrease/(increase) in securities portfolio		36,496	(19,773)
Increase in other assets		(476)	(3,367)
Increase in other liabilities		823	87
Net cash inflows/(outflows) from operating activity		44,884	(8,989)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Minimum reserve deposit with the Central Bank of the Russian Federation		1,172	(772)
Loans and advances to banks		(60,266)	55,402
Loans and advances to customers		(28,701)	(83,170)
Acquisition of fixed assets		(6,075)	(9,270)
Net cash outflows from investing activities		(93,870)	(37,810)
CASH FLOWS FROM FINANCING ACTIVITY:			
Dividends paid		(293)	(286)
Deposits from banks		2,031	45,164
Customer accounts		1,626	4,006
Debt securities issued		22,538	(1,347)
Net cash inflows from financing activities		25,902	47,537
EFFECT OF FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS		12,198	12,968
NET INCREASE IN CASH AND CASH EQUIVALENTS		(10,886)	13,706
CASH AND CASH EQUIVALENTS, beginning of the year	3	17,286	3,580
CASH AND CASH EQUIVALENTS, end of the year	3	6,400	17,286

Interest paid and received by the Bank during the year ended December 31, 2004 amounted to USD 919 thousand and USD 27,002 thousand, respectively.

Interest paid and received by the Bank during the year ended December 31, 2003 amounted to USD 757 thousand and USD 23,983 thousand, respectively.

Income tax paid by the Bank for the years ended December 31, 2004 and 2003 amounted to USD 3,842 thousand and USD 3,544 thousand, respectively.

The Bank did not have any significant non-cash transactions during the years ended December 31, 2004 and 2003.

Chairperson of the Managing Board
Tatiana M. Ryskina

Chief Accountant
Dmitry R. Snimshikov

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

R U S S I A N B A N K F O R D E V E L O P M E N T

	Share capital	Unrealized holding gain on securities available for sale	Retained earnings	Total shareholders' equity
(in US dollars and in thousands)				
Balance at December 31, 2002	164,778	—	4,019	168,797
Net unrealized holding gain on securities available-for-sale (less income tax of USD 581 thousand)	—	1,839	—	1,839
Dividends paid	—	—	(286)	(286)
Translation gain	11,597	—	1,371	12,968
Net income	—	—	11,268	11,268
Balance at December 31, 2003	176,375	1,839	16,372	194,586
Net realized holding gain on securities available-for-sale (less income tax of USD 535 thousand)	—	(1,694)	—	(1,694)
Net unrealized holding gain on securities available-for-sale (less income tax of USD 3 thousand)	—	8	—	8
Dividends paid	—	—	(293)	(293)
Translation gain	9,726	—	2,472	12,198
Net income	—	—	7,364	7,364
Balance at December 31, 2004	186,101	153	25,915	212,169

Chairperson of the Managing Board
Tatiana M. Ryskina

Chief Accountant
Dmitry R. Snimshikov

NOTES TO THE CONSOLIDATED STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

IN US DOLLARS AND IN THOUSANDS

1. DESCRIPTION OF BUSINESS

OAO "Russian Bank for Development" (the "Bank") is a joint stock bank, which was incorporated in the Russian Federation ("RF") in 1999. The Bank is regulated by the Central Bank of the Russian Federation (the "CBR") and conducts its business under license number 3340 issued on January 25, 2000. The sole shareholder in the Bank is the Russian Federal Property Management Fund. The primary goal of the Bank's activity is to provide financial support to the business lending policy of the RF Government.

The total number of employees of the Bank as at 31 December 2004 and 2003 was 271 and 218, respectively.

The Bank is the principal shareholder in OAO "RBD Leasing Company" ("RBD Leasing") set up in 2002, which is a legal entity incorporated under the laws of the Russian Federation. The principal activity of RBD Leasing is to lease property to third parties. The Bank's share in RBD Leasing's share capital and voting rights controlled by the Bank was 99.99% as at December 31, 2004 and 2003.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation — The accompanying financial statements have been prepared in conformity with the accounting principles generally accepted in the United States of America ("US GAAP") and are presented in US Dollars.

The Bank maintains its accounting records in accordance with Russian law and in Russian Rubles. These financial statements have been prepared from the Bank's accounting records and have been adjusted to conform to the accounting principles generally accepted in the United States of America. The significant accounting policies, which have been applied, are summarized below.

Accounting basis — The financial statements have been prepared on the accrual basis of accounting and under the historical cost convention.

Principles of consolidation — Consolidated financial statements include the financial statements of the subsidiary controlled by the Bank. All significant intercompany balances have been eliminated from the consolidated financial statements at December 31, 2004 and 2003. Results of intercompany operations of the Bank and the subsidiary reflected in their statements of operations for 2004 and 2003 were eliminated from the consolidated financial result for 2004 and 2003.

Use of estimates — The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could

differ from those estimates. Estimates that are particularly susceptible to change relate to the allowance for loan losses and the fair value of financial instruments.

Foreign currency translation — The Bank follows a translation policy in accordance with Statement on Financial Accounting Standards No. 52, "Foreign Currency Translation". As of January 1, 2003 the RF economy was no longer considered to be a hyperinflationary economy for accounting purposes and consequently the functional currency was redesignated from the US Dollar to the national currency in the RF, the Ruble. All amounts were translated from the US Dollar to the Ruble at the exchange rate at this date. All subsequent adjustments due to the translation of amounts from the functional currency (Ruble) into the presentation currency (US Dollar) are shown in the shareholders' equity as adjustments arising from translation.

Prior to January 1, 2003 the RF economy was considered to be a hyperinflationary economy for accounting purposes and consequently the functional currency was designated as the US Dollar.

All foreign currency amounts were translated into US Dollars using the remeasurement method. Monetary assets and liabilities were translated into US Dollars at the rate in effect as of the balance sheet date. Non-monetary balance sheet amounts were translated at the rate prevailing on the date of the transaction. Revenue and expenses were translated at the average rate for the period. Translation gains and losses were included in the statements of operations of the respective years.

NOTES TO THE CONSOLIDATED STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

The exchange rates at December 31, 2004 and 2003 used by the Bank for translation are as follows:

	December 31, 2004	December 31, 2003
US Dollar/Ruble	0.03604	0.03395
US Dollar/Euro	1.36260	1.25019

The Russian Ruble is not a fully convertible currency outside of the territory of the Russian Federation. The translation of Ruble denominated assets and liabilities into US Dollars for the purpose of these financial statements does not indicate that the Bank could realize or settle in US Dollars the reported values of the assets and liabilities. Likewise, it does not indicate that the Bank could return or distribute the reported US Dollar values of capital and retained earnings to its shareholders.

Recognition and measurement of financial instruments — The Bank recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents — Cash and cash equivalents include cash, unrestricted balances with the Central Bank of the Russian Federation, loans and advances to banks in countries included in the Organization for Economic Co-operation and Development ("OECD"), other than those used to guarantee deposits. Cash equivalents are considered to be short

term, highly liquid investments that are readily convertible to known amounts of cash and mature within 90 days from the reporting date. For purposes of determining cash flows, the minimum reserve deposit required by the Central Bank of the Russian Federation is not included as a cash equivalent due to restrictions on its availability (Note 3).

Loans and advances to banks — In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for losses.

Securities — Securities are acquired with the intention of reselling them in the short term (trading securities) or with the intention of selling them at any time (securities available-for-sale). Securities are stated at market value or at fair value estimated by the Bank's management, when it is not possible to determine market value. Securities are transferred from one portfolio to another at fair value. Unrealized income and expenses on trading securities are included in the statement of operations. Unrealized income and expense on securities available for sale (except for permanent diminution in value) are included in share-

holders' equity, net of income tax until they are realized, than they are included in the statement of operations.

Interest income on debt securities is recognized on an accrual basis, unless the recovery is doubtful. Accrued interest income is included in the cost of securities at the year-end.

Originated loans — Loans originated by the Bank are financial assets that are created by the Bank by providing money directly to a borrower or by participating in loan facility, other than those that are originated with the intent to be sold immediately or in the short term, which are classified as trading investments.

Loans originated by the Bank are initially recognized in accordance with the policy stated above. For loans issued at other than market terms, the difference between the nominal amount of consideration given and the fair value, discounting using market rates at inception, is recognized in the period the loan is issued as initial recognition adjustment and included in the statement of operations. Loans with fixed maturities are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Loans and advances are carried net of any allowance for loan losses.

Write off of loans — Loans are written off against allowance for loan losses in case of uncollectibility of loans and advances, including through repossession of collateral. In accordance with the statutory legislation, loans may only be written off with the approval of the Shareholders' Council and, in certain cases, with the respective decision of the Court.

Allowance for loan losses — The determination of the allowance for loan losses is based on an analysis of the loan portfolio and reflects the

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amount which, in the judgment of management, is adequate to provide for losses inherent in the loan portfolio. Specific allowances are made as a result of a detailed appraisal of risk assets. In addition, allowances are carried to cover risks, which although not specifically identified, are present in any portfolio of banking assets.

The change in the allowance for loan losses is included in the statement of operations and the total of the allowance for loan losses is deducted in arriving at loans and advances to customers and banks. Management's evaluation of the allowance is based on the Bank's estimate of losses, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and current economic conditions.

It should be understood that estimates of loan losses involve an exercise of judgment.

While it is possible that in particular periods the Bank may sustain losses, which are substantial relative to the allowance for loan losses, it is the judgment of management that the allowance for loan losses is adequate to absorb losses inherent in the loan portfolio.

Non-accrual loans — Loans are placed on non-accrual status when interest or principal is delinquent for a period in excess of 90 days, except when all amounts due are fully secured by cash or marketable securities and collection proceedings are in process. Interest income is not recognized where recovery is doubtful.

Fixed Assets — Additions of fixed assets are accounted for at cost converted to US Dollars at the date of addition.

Cost includes major expenditures for improvements and replacements

which extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance are charged to the statement of operations as incurred.

Depreciation on fixed assets is included in the statement of operations. Depreciation charges are computed under the straight-line method utilizing estimated useful lives of the assets as follows:

Buildings	40 years
Vehicles	5 years
Computer equipment.....	4 years
Furniture and office equipment.....	5-10 years

Items that are retired or otherwise disposed of are eliminated from the balance sheet at the carrying value of the asset. Any gain or loss resulting from such retirement or disposal is included in the determination of net income of the period.

Intangible assets — Intangible assets mainly include expenses on the purchase of various software. The cost of software is amortized over a 3-year period. The Bank regularly determines whether it is necessary to create an allowance for the impairment of intangible assets.

Finance leases — Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The lease is classified as a finance lease if at least one of the following conditions are met:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;

- the lease term is for the major part of the economic life of the asset (not less than 75%);
- at the inception of the lease the present value of the minimum lease payments amounts to at least 90% of the fair value of the leased asset.

Bank as lessor — The Bank presents leased assets as loans equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are recognized as expenses when incurred.

Foreign currency transactions — Assets and liabilities denominated in foreign currencies are translated at the appropriate spot rates of exchange ruling at the balance sheet date. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

Income taxes — Income taxes have been computed in accordance with laws of the Russian Federation. From January 1, 2002 income tax is paid at the rate of 24%, of which 7.5% is paid to federal budget and 16.5% - to the local budget. Deferred income taxes are accounted for under the liability method and reflect the tax effect of all significant temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements.

A valuation allowance is provided for deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

Deposits from banks and customers — Customer and bank deposits are initially recognized at cost, which amounts to the issue proceeds less transaction costs incurred. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the

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

Debt securities issued — Debt securities issued represent promissory notes issued by the Bank to customers. They are accounted for according to the same principles used for customer and bank deposits.

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

Share capital and share premium — Share capital is recognized at historical cost.

Dividends — Dividends on ordinary shares are recognized in equity in the period in which they are declared. The distributable reserves of the Bank are limited to the amount of the reserves disclosed in the statutory accounts presented in Rubles, which may differ from the reserves presented in these financial statements.

Recognition of income and expense - Interest income and expense are recognized on an accrual basis calculated using the effective yield method. The recognition of interest income is suspended when loans become overdue by more than 90 days. Interest income includes also interest income earned on investment and trading securities. Commissions and other income are credited to income when the related transactions are completed. Non-interest expenses are recognized on an accrual basis.

Retirement and other benefit obligations — The Bank does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

Recent accounting pronouncements — Management believes that there are no recent accounting pronouncements that would have a material impact on the Bank's financial position or results of operations.

Reclassifications — Certain reclassifications have been made to the financial statement as of December 31, 2003 to conform to the presentation as of December 31, 2004.

3. CASH AND CASH EQUIVALENTS

The Bank is required to maintain the minimum reserve deposit placed with the Central Bank of the Russian Federation at all times.

Cash and cash equivalents for the purpose of the statements of cash flows are comprised of the following:

	2004	2003
Cash and balances with the Central Bank of the Russian Federation	4,836	18,189
Loans and advances to banks in OECD countries	1,694	399
Less minimum reserve deposit with the Central Bank of the Russian Federation	(130)	(1,302)
Cash and cash equivalents	6,400	17,286

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4. LOANS AND ADVANCES TO BANKS

	2004	2003
Deposits with banks.....	104,592	43,129
Advances to banks.....	302	204
Accrued interest income on loans and advances to banks.....	273	66
	105,167	43,399
Less allowance for loan losses.....	(852)	(963)
TOTAL LOANS AND ADVANCES TO BANKS, NET.....	104,315	42,436

5. LOANS AND ADVANCES TO CUSTOMERS

Ссуды и средства, предоставленные клиентам, представлены следующим образом:

	2004	2003
Originated loans.....	123,043	96,890
Net investment in finance lease.....	21,081	15,377
Advances on finance lease.....	—	3,156
Accrued interest income on loans and advances to customers.....	287	12
	144,411	115,435
Less allowance for loan losses.....	(5,541)	(4,414)
TOTAL LOANS AND ADVANCES TO CUSTOMERS, NET.....	138,870	111,021

At December 31, 2004 and 2003, the rates of interest on loans in rubles ranged from 5.25% to 20% p.a. and from 11.5% to 19% p.a., respectively, and the rates of interest on loans in foreign currencies ranged from 3% to 12% p.a. and 5.5% to 14% p.a., respectively.

Analysis by type of collateral:

	2004	2003
Loans collateralized by goods in turnover and equipment.....	85,386	80,934
Loans collateralized by guarantees.....	26,464	22,244
Loans collateralized by real estate.....	20,053	12,245
Loans collateralized by securities.....	7,216	—
Unsecured.....	5,005	—
Accrued interest income on loans and advances to customers.....	287	12
	144,411	115,435
Less allowance for loan losses.....	(5,541)	(4,414)
138,870	111,021	

Analysis by industry:

	2004	2003
Construction.....	37,369	26,960
Transportation.....	29,359	10,667
Engineering and metal working.....	22,465	18,145
Finance and leasing.....	13,177	10,941
Agriculture.....	10,801	11,917
Ferrous metallurgy.....	10,155	20,047
Communications.....	10,031	—
Construction materials industry.....	5,982	—
Public utilities.....	2,162	—
Light industry.....	1,768	—
Chemical and petrochemical industries.....	649	16,746
Trade.....	206	—
Accrued interest income on loans and advances to customers.....	287	12
	144,411	115,435
Less allowance for loan losses.....	(5,541)	(4,414)
138,870	111,021	

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The components of net investment in finance lease are as follows:

	2004	2003
Total minimum lease and maintenance payments.....	33,827	26,739
Less executory costs.....	—	(265)
Net minimum lease payments.....	33,827	26,474
Less unearned finance income.....	(12,746)	(11,097)
NET INVESTMENT IN FINANCE LEASE.....	21,081	15,377
Current portion.....	3,919	1,660
Long-term portion.....	17,162	13,717
NET INVESTMENT IN FINANCE LEASE.....	21,081	15,377

The total of future minimum lease payments due from customer under finance lease are as follows:

	2004	2003
2004.....	—	4,307
2005.....	7,451	4,182
2006.....	6,206	3,857
2007.....	5,087	3,473
2008.....	4,183	3,000
2009.....	3,892	2,862
After 2009.....	7,008	4,793
TOTAL FUTURE MINIMUM LEASE PAYMENTS.....	33,827	26,474

6. SECURITIES

	2004	2003
	Fair value	Fair value
TRADING SECURITIES		
OFZ.....	19,211	14,066
Corporate bonds.....	—	6,211
	19,211	20,277
SECURITIES AVAILABLE-FOR-SALE		
Corporate bonds.....	10,518	21,714
OFZ.....	—	17,664
Banks' bonds.....	10,395	9,051
Eurobonds of Russian issuers.....	—	6,214
Eurobonds of the Russian Federation.....	—	7,400
Bonds of municipal authorities.....	6,998	3,858
	27,911	65,901
	47,122	86,178

As at December 31, 2004 and 2003, trading securities included accrued coupon/interest income totaling USD 532 thousand and USD 370 thousand, respectively.

As at December 31, 2004 and 2003, securities available-for-sale included accrued coupon/interest income totaling USD 553 thousand and USD 1,057 thousand, respectively.



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7. FIXED AND INTANGIBLE ASSETS

	2004	2003
Buildings	10,974	8,169
Vehicles	631	628
Computer equipment	1,016	463
Office equipment, furniture, etc.	3,686	1,098
Intangible assets	2	2
	16,309	10,360
Less accumulated depreciation	(1,035)	(553)
TOTAL FIXED AND INTANGIBLE ASSETS	15,274	9,807

As at December 31, 2004 and 2003 included in fixed assets are non-banking usage assets leased to third parties under operating lease agreement of USD 3,228 thousand and USD 710 thousand, respectively. The market value of the Bank's buildings as at December 31, 2004 amounted to USD 19,019 thousand based on an independent appraiser's report.

8. OTHER ASSETS

	2004	2003
VAT receivable	3,751	2,996
Prepaid expenses	293	221
Accounts receivable on other operations	362	713
	4,406	3,930

9. DEPOSITS FROM BANKS

	Balance	2004 Weighted average interest rate	Balance	2003 Weighted average interest rate
Non-interest bearing correspondent accounts of banks	8	—	3	—
Interest bearing correspondent accounts of banks	—	—	15,008	3.00%
Interest bearing term deposits of banks	67,190	3.02%	50,156	4.33%
Accrued interest expense on deposits from banks	42	—	44	—
	67,240		65,211	

As at December 31, 2003 included in term deposits from banks is term deposit of one bank amounting to USD 33,975 thousand which exceeded 10% of the Bank's equity.



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10. CUSTOMER ACCOUNTS

	Balance	2004 Weighted average interest rate	Balance	2003 Weighted average interest rate
Беспроцентные текущие и расчетные Non-interest bearing current and settlement customer accounts	5,962	—	3,132	—
Interest-bearing current and settlement customer accounts	—	—	6,809	7.50%
Interest-bearing current and settlement customer accounts	5,605	3.89%	—	—
Accrued interest expense on deposits from customers ...	1	—	78	—
	11,568		10,019	

As at December 31, 2003, a settlement account of one customer amounting to USD 6,887 thousand accounted for 78% of the customer deposits which represents significant concentration.

As at December 31, 2004 and 2003, customer accounts of USD 249 thousand and RUR 1,159 thousand were held as security against letters of credit issued.

11. DEBT SECURITIES ISSUED

	2004	2003
Discount bearing promissory notes.....	21,865	243
Interest bearing promissory notes.....	432	170
Discount/interest free promissory notes	654	—
Accrued interest expense on debt securities issued	26	2
TOTAL DEBT SECURITIES ISSUED.....	22,977	415

Discount on the promissory notes is amortized over the life of the note and is recorded in interest expense on debt securities issued using the effective interest rate method.

As at December 31, 2004 debt securities issued in the amount of USD 894 thousand were pledged as collateral for loans provided by the Bank and that may be used to repay the borrower's liabilities to the Bank as per the terms and conditions of the loan agreements.

As at December 31, 2003 all debt securities issued were pledged as collateral for loans provided by the Bank and that may be used to repay the borrower's liabilities to the Bank as per the terms and conditions of the loan agreements.

12. PROVISIONS

As at December 31, 2004 and 2003 the Bank made provisions for credit losses relating to off-balance sheet commitments to third parties amounting to USD 557 thousand and USD 430 thousand.



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13. SHARE CAPITAL

As of 31 December 2004 and 2003 share capital issued and fully paid comprised of 4,660 ordinary shares with par value of RUR 1,000 thousand each.

In 2003 the Meeting of shareholders of the Bank declared dividends for 2002 in the total amount of USD 286 thousand. The dividends were paid during 2003.

In 2004 the Meeting of shareholders of the Bank declared dividends for 2003 in the total amount of USD 293 thousand. The dividends were paid during 2004.

14. NET INTEREST INCOME

	2004	2003
INTEREST INCOME		
Interest on loans and advances to customers	15,197	6,289
Interest on securities, including promissory notes	4,809	13,140
Interest on loans and advances to banks	3,912	3,507
Finance lease income	3,224	1,175
Total interest income	27,142	24,111
INTEREST EXPENSE		
Interest on deposits from banks	786	570
Interest on customer accounts	54	210
Interest expense on debt securities issued	24	—
Total interest expense	864	780
NET INTEREST INCOME BEFORE ALLOWANCE FOR LOAN LOSSES	26,278	23,331

15. ALLOWANCES AND PROVISIONS FOR CREDIT LOSSES

The movements in allowances for loan losses were as follows:

	Loans and advances to banks	Loans and advances to customers	Total
At December 31, 2002	1,964	899	2,863
(Recovery)/allowance	(1,001)	3,515	2,514
At December 31, 2003	963	4,414	5,377
(Recovery)/allowance	(111)	1,127	1,016
At December 31, 2004	852	5,541	6,393

The movements in provisions for other credit losses were as follows:

	Guarantees	Total
At December 31, 2002	—	—
Provision	430	430
At December 31, 2003	430	430
Provision	127	127
At December 31, 2004	557	557

Allowances for losses on assets are deducted from the related assets. Provisions for other credit losses are recorded in liabilities.



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16. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2004	2003
Taxes (other than income tax).....	3,578	667
Rent expense.....	532	1,079
Communication costs.....	391	316
Security and transportation expenses.....	361	261
Repairs and maintenance expense.....	349	276
Business trip expenses.....	275	213
Insurance costs.....	167	54
Professional services.....	106	77
Other.....	733	303
	6,492	3,246

17. INCOME TAX

The Bank provides for taxes based on the statutory tax accounts maintained and prepared in accordance with the Russian statutory tax regulations which may differ from US GAAP.

During the years ended December 31, 2004 and 2003, the Russian tax rate for corporations for profits other than on state securities was 7.5% for Federal taxes and 16.5% for City taxes (combined 24% rate). The tax rate for interest income on state securities was 15% for Federal taxes.

Income tax assets and liabilities comprise:

	2004	2003
Current tax assets.....	845	—
INCOME TAX ASSETS.....	845	—
Deferred tax liabilities.....	104	670
INCOME TAX LIABILITIES.....	104	670

The Bank is subject to certain permanent tax differences due to non-tax deductibility of exchange losses and other expenses and tax-free regime under local tax regulations.

Temporary differences comprise:

	2004	2003
Items giving rise to deferred tax assets:		
Loans to banks.....	852	—
Loans to customers.....	3,405	860
Fixed assets.....	7,572	2,001
Other assets.....	186	—
TOTAL.....	12,015	2,861
Items giving rise to deferred liabilities:		
Net investment in leases.....	229	220
Securities.....	202	2,572
TOTAL.....	431	2,792
Deferred tax asset and liability at the statutory rate:		
Deferred tax asset.....	2,884	687
Less valuation allowance.....	(2,884)	(687)
Net deferred tax asset.....	—	—
NET DEFERRED TAX LIABILITY.....	(104)	(670)

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The income tax expense is determined as follows:

	2004	2003
Profit before income taxes	10,361	14,477
Tax at the statutory tax rate (24%)	2,487	3,474
Tax effect of permanent differences	(1,686)	(472)
Change in valuation allowance	2,196	207
Income tax expense	2,997	3,209
CURRENT INCOME TAX EXPENSE	3,031	3,544
Recovery of deferred income tax expense	(34)	(335)
INCOME TAX EXPENSE	2,997	3,209

The movement in deferred income tax liability was as follows:

	2004	2003
At beginning of the period	670	424
Decrease in deferred income tax for the period, charged to income statement	(34)	(335)
(Decrease)/increase in deferred income tax for the period, charged to equity	(532)	581
AT END OF THE PERIOD	104	670

18. FINANCIAL COMMITMENTS AND CONTINGENCIES

Credit-related commitments - In the normal course of business the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments involve varying degrees of credit risk which are not reflected in the balance sheet.

The Bank's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all

counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance sheet lending.

The risk-weighted amount is obtained by applying credit conversion factors and counterparty risk

weightings according to the principles employed by the Basle Committee on Banking Supervision.



As at December 31, 2004 and 2003 the nominal or contract amounts and the risk weighted credit equivalents of instruments with off-balance sheet risks were as follows.

	2004		2003	
	Nominal amount	Risk weighted amount	Nominal amount	Risk weighted amount
CONTINGENT LIABILITIES AND CREDIT COMMITMENTS				
Guarantees issued and other transactions related to contingent liabilities	14,130	14,130	1,272	1,272
Letters of credit issued	249	—	—	—
Commitments on loans and unused lines of credits	11,541	5,770	31,019	14,276
TOTAL CONTINGENT LIABILITIES AND CREDIT COMMITMENTS	25,920	19,900	32,291	15,548

NOTES TO THE CONSOLIDATED STATEMENTS

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The Bank issues letters of credit for its clients to ensure settlements under contracts executed in the normal course of their business operations. Commitments on loans and unused lines of credit are agreements to grant loans to clients if they meet the conditions specified in the agreement. The agreements envisage time limitations in respect of the commitments or other conditions of commitments termination. The Bank charges a commission for the issuance of letters of credit which corresponds to that prevailing in the market. It is expected that some of the commitments will expire without becoming effective and the total amount of commitments is not necessarily the amount of cash that will be advanced by the Bank in the future. The Bank performs assessment of the creditworthiness of each client.

Capital commitments — No material commitments for capital expenditure were outstanding as at December 31, 2004 and 2003.

Rental commitments — No material rental commitments were outstanding as at December 31, 2004 and 2003.

Operating environment — The Bank's principal business activities are within the Russian Federation. Laws and regulations affecting business environment in the Russian Federation are subject to rapid changes and the Bank's assets and operations could be at risk due to negative changes in the political and business environment. Although in recent years there has been a general improvement in the economic conditions in the RF, the RF continues to display certain characteristics of a transitional economy. These include, but are not limited to, currency controls and convertibility restrictions, relatively high level of inflation and continuing efforts by the government to implement structural reforms. As a result laws and regulations affecting businesses continue to change rapidly.

Taxes — Russian commercial legislation, and tax legislation in particular may give rise to varying interpretations and amendments, which may be retrospective. In addition, as Management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as result the Bank may be assessed additional taxes, penalties and interest. The Bank believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax laws in the RF are subject to frequent changes and varying interpretations. Management's interpretation of such legislation in applying it to business transactions of the Bank may be challenged by the relevant regional and federal authorities enabled by law to impose fines and assertive positions in its interpretation of the legislation and assessments and as a result, it is possible that transactions that have not been challenged in the past may be challenged in the future. Fiscal periods remain open for review by the tax authorities in respect of taxes for the three calendar years preceding the year of tax review. Under certain circumstances reviews may cover longer periods. While the Bank believes it has provided adequately for all tax liabilities based on its understanding of the current tax legislation, the above facts may create additional financial risks for the Bank.

Legal proceedings — From time to time and in the normal course of business, claims against the Bank may be received from customers. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

19. PENSIONS AND RETIREMENT OBLIGATIONS

Employees receive pension benefits from the Russian Federation in accordance with the laws and reg-

ulations of the country. As at 31 December 2004 and 2003, the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

Market quotes are not available for financial instruments, except purchased debt securities. Estimates of the fair value of such instruments are based on the management's judgment and are approximate. The estimates of the fair value of financial assets and liabilities presented herein are not necessarily indicative of the amounts the Bank could realize in a market from their sale and may not be used as a basis for assessing the value of the Bank and its business. Changes in assumptions, judgments, and methodology for the calculation of fair value of assets and liabilities presented below may have a significant impact on these estimates.

Financial assets — Estimated fair value of cash on hand and balances with the Central Bank of the Russian Federation is represented by the carrying value. Estimated fair value of securities is based on market quotations. Estimated fair value of advances and loans to banks and customers is represented by their nominal carrying value less allowance for loan losses.

Financial liabilities — Estimated fair value of advances from banks and customers and promissory notes issued by the Bank is represented by their carrying value.

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21. CAPITAL ADEQUACY

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (as set forth in the table below) of total and tier 1 capital to risk weighted assets.

The capital is calculated as the amount of restricted and free components of the shareholders' capital plus the Bank's provisions for the principal risks on condition that the total provision for loan losses does not exceed 1.25% of the risk weighted assets.

The ratio was calculated according to the principles employed by the Basle Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for losses:

Описание позиции	Оценка
Cash and balances with the Central Bank of the Russian Federation	0%
State debt securities in Rubles	0%
Loans and advances to banks for up to 1 year	20%
Loans and advances to customers	100%
Other assets	100%
Standby letters of credit secured by customer funds	0%
Other standby letters of credit and other transaction related contingent obligations and commitments on unused loans with the initial maturity of over 1 year	50%
Guarantees issued and similar commitments	100%

The Bank's actual capital amounts and ratios are presented in the following table:

Capital amounts and ratios	Actual amount in US dollars долл. США	For capital adequacy purposes in US dollars	Ratio for capital adequacy purposes	Minimum required ratio
AS AT DECEMBER 31, 2004				
Total capital	212,169	212,169	67.71%	8%
Tier 1 capital	212,169	212,169	67.71%	4%
AS AT DECEMBER 31, 2003				
Total capital	194,586	197,236	89.32%	8%
Tier 1 capital	194,586	194,586	88.07%	4%

22. RISK MANAGEMENT POLICY

The Bank manages the following main types of risks:

Credit risk — The credit risk is managed by the Bank by means of regular analysis of the borrowers' ability to repay interest and the principal amount of debt, by means of changing the credit limit where necessary, and by obtaining guarantees and collateral.

Liquidity and cash flow risks — Liquidity and cash flow risks are managed on the basis of the Board limits on the minimum proportion

of funds available to cover cash outflows, in order to ensure that the Bank's liabilities are met and to maintain the Bank's principal activity, which is to provide funding for projects in the real sector of the economy. Also, the Board determines the minimum level of inter-bank and highly liquid instruments that should be in place to cover such outflows.

Currency risk — The risk is managed through open currency position analysis and the monitoring of exchange rate fluctuations to meet

the open currency position limits established by the CBR.

Interest rate and market risks — The risks are managed through diversification of income and expense sources and securities market monitoring.



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23. MATURITY ANALYSIS

The following table presents an analysis of interest rate risk and liquidity risk on balance sheet. Interest bearing assets and liabilities generally have relatively short maturities and interest rates are repriced only at maturity. Assets and liabilities are included according to the remaining period to contractual maturity date.

December 31, 2004	(USD thousand)						
	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined (incl. allowance for losses)	Total
ASSETS:							
Loans and advances to banks, less allowance for loan losses	63,343	10,265	10,697	20,287	—	(852)	103,740
Loans and advances to customers, less allowance for loan losses	746	22,122	36,162	79,293	5,801	(5,541)	138,583
Securities	18,679	—	10,462	16,896	—	—	46,037
Total interest bearing assets	82,768	32,387	57,321	116,476	5,801	(6,393)	288,360
Cash and balances with the Central Bank of the Russian Federation	4,706	—	—	—	—	130	4,836
Loans and advances to banks, less allowance for loan losses	302	—	—	—	—	—	302
Accrued interest income	1,621	24	—	—	—	—	1,645
Fixed and intangible assets, less accumulated depreciation	—	—	—	4,414	10,860	—	15,274
Income tax asset	—	845	—	—	—	—	845
Other assets	655	3,751	—	—	—	—	4,406
TOTAL ASSETS	90,052	37,007	57,321	120,890	16,661	(6,263)	315,668
LIABILITIES:							
Deposits from banks	62,971	—	—	4,219	—	—	67,190
Customer accounts	—	3,604	2,001	—	—	—	5,605
Debt securities issued	—	22,054	243	—	—	—	22,297
Total interest bearing liabilities	62,971	25,658	2,244	4,219	—	—	95,092
Deposits from banks	8	—	—	—	—	—	8
Customer accounts	5,962	—	—	—	—	—	5,962
Debt securities issued	654	—	—	—	—	—	654
Accrued interest expense	45	14	10	—	—	—	69
Provisions	—	—	—	—	—	557	557
Income tax liabilities	—	—	104	—	—	—	104
Other liabilities	536	517	—	—	—	—	1,053
TOTAL LIABILITIES	70,176	26,189	2,358	4,219	—	557	103,499
Interest sensitivity gap	19,797	6,729	55,077	112,257	5,801	—	193,661
Cumulative interest sensitivity gap	19,797	26,526	81,603	193,860	199,661	—	480,841
Cumulative interest sensitivity gap, as a percentage of total assets	6.27%	8.40%	25.85%	61.41%	63.25%	—	152.3%

NOTES TO THE CONSOLIDATED STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

December 31, 2003	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined (incl. allowance for losses)	Total
ASSETS:							
Loans and advances to banks, less allowance for loan losses	31,680	6,907	1,020	3,456	—	(963)	42,100
Loans and advances to customers, less allowance for loan losses	5,050	4,014	45,796	51,292	6,103	(4,414)	107,841
Securities	20,037	1,421	1,861	49,203	12,208	—	84,730
Total interest bearing assets	56,767	12,342	48,677	103,951	18,311	(5,377)	234,671
Cash and balances with the Central Bank of the Russian Federation	16,887	—	—	—	—	1,302	18,189
Loans and advances to banks, less allowance for loan losses	270	—	—	—	—	—	270
Loans and advances to customers, less allowance for loan losses	3,168	—	—	—	—	—	3,168
Accrued interest income	1,526	—	—	—	—	—	1,526
Fixed and intangible assets, less accumulated depreciation	—	—	—	1,638	8,169	—	9,807
Other assets	3,930	—	—	—	—	—	3,930
TOTAL ASSETS	82,548	12,342	48,677	105,589	26,480	(4,075)	271,561
LIABILITIES:							
Deposits from banks	63,607	—	—	1,514	—	—	65,121
Customer accounts	6,731	—	—	—	—	—	6,731
Debt securities issued	—	170	—	245	—	—	415
Total interest bearing liabilities	70,338	170	—	1,759	—	—	72,267
Deposits from banks	46	—	—	—	—	—	46
Customer accounts	3,210	—	—	—	—	—	3,210
Accrued interest expense	122	—	—	—	—	—	122
Provisions	—	—	—	—	—	430	430
Income tax liabilities	670	—	—	—	—	—	670
Other liabilities	230	—	—	—	—	—	230
TOTAL LIABILITIES	74,616	170	—	1,759	—	430	76,975
Interest sensitivity gap	(13,571)	12,172	48,677	102,192	18,311		
Cumulative interest sensitivity gap	(13,571)	(1,399)	47,278	149,470	167,781		
Cumulative interest sensitivity gap, as a percentage of total assets	(5.00%)	(0.52%)	17.41%	55.04%	61.78%		

NOTES TO THE CONSOLIDATED STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

24. CURRENCY ANALYSIS

December 31, 2004	Rubles RUR 1 = 0.03604 USD	US Dollars	Euro 1 euro = 1.36260 USD	Currency undefined (incl. allowance for losses)	Total
(US dollars thousand)					
ASSETS					
Cash and balances with the Central Bank of the Russian Federation	4,836	—	—	—	4,836
Loans and advances to banks, less allowance for loan losses	85,450	19,589	128	(852)	104,315
Loans and advances to customers, less allowance for loan losses	139,129	3,332	1,950	(5,541)	138,870
Securities	47,122	—	—	—	47,122
Fixed and intangible assets, less accumulated depreciation	15,274	—	—	—	15,274
Income tax asset	845	—	—	—	845
Other assets	4,406	—	—	—	4,406
TOTAL ASSETS	297,062	22,921	2,078	(6,393)	315,668
LIABILITIES					
Deposits from banks	44,501	21,823	916	—	67,240
Customer accounts	9,294	2,191	83	—	11,568
Debt securities issued	22,737	240	—	—	22,977
Provisions	—	—	—	557	557
Income tax liabilities	104	—	—	—	104
Other liabilities	1,053	—	—	—	1,053
TOTAL LIABILITIES	77,689	24,254	999	557	103,499
OPEN BALANCE SHEET POSITION	219,373	(1,333)	1,079		

NOTES TO THE CONSOLIDATED STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

December 31, 2003	Rubles RUR 1 = 0.03604 USD	US Dollars	Euro 1 euro = 1.25019 USD	Currency undefined (incl. allowance for losses)	Total
(US dollars thousand)					
ASSETS					
Cash and balances with the Central Bank of the Russian Federation	18,189	—	—	—	18,189
Loans and advances to banks, less allowance for loan losses	42,995	306	98	(963)	42,436
Loans and advances to customers, less allowance for loan losses	106,066	6,512	2,857	(4,414)	111,021
Securities	72,564	13,614	—	—	86,178
Fixed and intangible assets, less accumulated depreciation	9,807	—	—	—	9,807
Other assets	3,916	14	—	—	3,930
TOTAL ASSETS	253,537	20,446	2,955	(5,377)	271,561
LIABILITIES					
Deposits from banks	48,680	16,531	—	—	65,211
Customer accounts	8,713	127	1,179	—	10,019
Debt securities issued	183	232	—	—	415
Provisions	—	—	—	430	430
Income tax liabilities	670	—	—	—	670
Other liabilities	230	—	—	—	230
TOTAL LIABILITIES	58,476	16,890	1,179	430	76,975
OPEN BALANCE SHEET POSITION	195,061	3,556	1,776		

NOTES TO THE CONSOLIDATED STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

25. GEOGRAPHICAL ANALYSIS

December 31, 2004	(US Dollars thousand)			
	OECD countries	NON-OECD countries	Undefined (incl. allowance for losses)	Total
ASSETS				
Cash and balances with the Central Bank of the Russian Federation	—	4,836	—	4,836
Loans and advances to banks, less allowance for loan losses	1,694	103,473	(852)	104,315
Loans and advances to customers, less allowance for loan losses	—	144,411	(5,541)	138,870
Securities	—	47,122	—	47,122
Fixed and intangible assets, less accumulated depreciation	—	15,274	—	15,274
Income tax asset	—	845	—	845
Other assets	—	4,406	—	4,406
TOTAL ASSETS	1,694	320,367	(6,393)	315,668
LIABILITIES				
Deposits from banks	4,238	63,002	—	67,240
Customer accounts	—	11,568	—	11,568
Debt securities issued	—	22,977	—	22,977
Provisions	—	—	557	557
Income tax liabilities	—	104	—	104
Other liabilities	—	1,053	—	1,053
TOTAL LIABILITIES	4,238	98,704	557	103,499
OPEN BALANCE SHEET POSITION	(2,544)	221,663		

December 31, 2003	(US Dollars thousand)			
	OECD countries	NON-OECD countries	Undefined (incl. allowance for losses)	Total
ASSETS				
Cash and balances with the Central Bank of the Russian Federation	—	18,189	—	18,189
Loans and advances to banks, less allowance for loan losses	399	43,000	(963)	42,436
Loans and advances to customers, less allowance for loan losses	—	115,435	(4,414)	111,021
Securities	—	86,178	—	86,178
Fixed and intangible assets, less accumulated depreciation	—	9,807	—	9,807
Other assets	—	3,930	—	3,930
TOTAL ASSETS	399	276,539	(5,377)	271,561
LIABILITIES				
Deposits from banks	—	65,211	—	65,211
Customer accounts	—	10,019	—	10,019
Debt securities issued	—	415	—	415
Provisions	—	—	430	430
Income tax liabilities	—	670	—	670
Other liabilities	—	230	—	230
TOTAL LIABILITIES	—	76,545	430	76,975
OPEN BALANCE SHEET POSITION	399	199,994		

DETAILS OF THE BANK

R U S S I A N B A N K F O R D E V E L O P M E N T

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