

REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors of Bank SEVERNAYA KAZNA –

We have audited the accompanying balance sheet of Bank SEVERNAYA KAZNA (further – “the Bank”) as of December 31, 2004, and the related statements of income, changes in shareholders’ equity, and cash flows for the year then ended. These financial statements are the responsibility of the Bank’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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



September 30, 2005

BALANCE SHEETS*(Thousands of Russian Rubles)*

	<i>Notes</i>	<i>Years ended December 31,</i>	
		<i>2004</i>	<i>2003</i>
Assets			
Cash and cash equivalents	4	883,716	1,021,183
Obligatory reserve with the Central Bank		185,236	539,684
Trading securities	5	1,816,795	656,334
Amounts due from credit institutions	6	285,447	241,332
Derivative financial assets	7	5,396	6,279
Available-for-sale investment securities	8	952,809	29,119
Loans to customers	9	6,324,412	5,048,156
Investment loans	10	84,232	145,178
Tax assets	11	20,327	26,372
Property and equipment	13	732,465	611,713
Intangible assets	14	33,395	30,361
Other assets	15	23,486	11,821
Total assets		11,347,716	8,367,532
Liabilities			
Amounts due to credit institutions	16	618,901	737,669
Amounts due to customers	17	8,207,620	6,154,794
Derivative financial liabilities	7	3,911	26,816
Debt securities issued	18	1,626,907	696,396
Tax liabilities	11	4,048	24,849
Other liabilities	15	29,776	20,683
Total liabilities		10,491,163	7,661,207
Shareholders' equity			
Share capital	19	653,133	553,133
Retained earnings		203,420	153,192
Total shareholders' equity		856,553	706,325
Total liabilities and shareholders' equity		11,347,716	8,367,532
Financial commitments and contingencies	20		

Signed and authorized for release on behalf of the Management Board of the Bank

Volchik A.V.

Chairman of the Management Board

Glebova L.I.

Chief Accountant

September 30, 2005

The accompanying notes on pages 5 to 29 are an integral part of these financial statements.

STATEMENTS OF INCOME

(Thousands of Russian Rubles)

	Notes	Years ended December 31,	
		2004	2003
Interest income			
Loans		858,023	710,766
Securities		132,368	120,936
Interbank		22,558	29,882
		1,012,949	861,584
Interest expense			
Deposits		518,365	352,213
Interbank		17,224	44,933
Debt securities issued		55,718	35,155
		591,307	432,301
Net interest income		421,642	429,283
Impairment of interest earning assets	12	38,170	26,231
Net interest income after impairment of interest earning assets		383,472	403,052
Fee and commission income	23	164,348	110,745
Fee and commission expense	23	16,236	2,568
Net fee and commission income		148,112	108,177
Net dealing profits	21	136,912	258,718
Gains less losses from foreign currencies:			
- dealing		73,182	42,245
- translation differences		(33,867)	8,075
Other operating income		10,316	5,156
Non interest income		186,543	314,194
Salaries and benefits	22	321,142	308,107
Administrative and operating expenses	22	203,039	154,217
Depreciation and amortisation	13, 14	88,525	62,909
Reversal of other impairment and provisions	12	(111)	(196)
Net loss from initial recognition of loans to customers by fair value		15,640	20,540
Non interest expense		628,235	545,577
Income before income tax expense		89,892	279,846
Income tax expense	11	664	77,247
Net income		89,228	202,599

The accompanying notes on pages 5 to 29 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2004 and 2003

(Thousands of Russian Rubles)

	<i>Share capital (nominal)</i>	<i>Inflation impact on share capital</i>	<i>General reserve</i>	<i>Retained earnings</i>	<i>Total shareholders' equity</i>
December 31, 2002	275,000	253,133	32,974	(50,756)	510,351
Shares issued	25,000	–	–	–	25,000
Dividends paid	–	–	–	(31,625)	(31,625)
Net income	–	–	–	202,599	202,599
December 31, 2003	300,000	253,133	32,974	120,218	706,325
Shares issued	100,000	–	–	–	100,000
Dividends paid	–	–	–	(39,000)	(39,000)
Net income	–	–	–	89,228	89,228
December 31, 2004	400,000	253,133	32,974	170,446	856,553

The accompanying notes on pages 5 to 29 are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

(Thousands of Russian Rubles)

	<i>Years ended December 31,</i>	
<i>Notes</i>	<i>2004</i>	<i>2003</i>
Cash flows from operating activities		
Interest, fees and commission received	1,205,261	956,208
Interest, fees and commission paid	(577,120)	(377,742)
Net dealing profits	125,933	241,727
Realised gains less losses in foreign currencies	73,182	42,245
Other operating income	10,316	5,156
Salaries and benefits	(321,804)	(293,167)
Other administrative and operating expenses	(226,487)	(172,724)
Cash flow from operating activities before changes in operating assets and liabilities	289,281	401,703
<i>Net (increase)/decrease in operating assets</i>		
Obligatory reserve with the Central Bank	354,448	(297,950)
Trading securities	(1,166,140)	330,015
Amounts due from credit institutions	(49,551)	(241,332)
Loans to customers and investment loans	(1,239,690)	(2,817,308)
Other assets	(22,411)	38,293
<i>Net increase / (decrease) in operating liabilities</i>		
Amounts due to credit institutions	(123,563)	(139,567)
Amounts due to customers	1,972,757	2,679,014
Other liabilities	(11,523)	(13,450)
Net cash flow from operating activities before income taxes	3,608	(60,582)
Corporate income tax paid	(15,420)	(112,302)
Net cash flow from operating activities	(11,812)	(172,884)
Cash flows from investing activities		
Purchases of available-for-sale investment securities	(923,423)	(27,901)
Purchases of property and equipment and intangible assets	(279,747)	(279,333)
Proceeds from sale of property and equipment and intangible assets	88,327	30,872
Net cash flow from investing activities	(1,114,843)	(276,362)
Cash flows from financing activities		
Share capital issue	100,000	25,000
Proceeds from debt securities issued and redemption	941,421	324,720
Dividends paid	(39,000)	(31,625)
Net cash outflow from financing activities	1,002,421	318,095
Effect of exchange rates changes on cash and cash equivalents	(13,233)	(55,855)
Net change in cash and cash equivalents	(137,467)	(187,006)
Cash and cash equivalents, beginning	1,021,183	1,208,189
Cash and cash equivalents, ending	883,716	1,021,183

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The accompanying notes on pages 5 to 29 are an integral part of these financial statements.