

MDM Bank

Consolidated Interim Financial Statements For the Six-Month Period Ended 30 June 2005

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Independent Auditors' Report on Interim Financial Statements

To the Shareholders of MDM Bank

We have audited the accompanying consolidated interim balance sheet of MDM Bank and its subsidiaries (the "Group") as of 30 June 2005 and the related consolidated interim statements of income, changes in equity and cash flows for the six-month period then ended. These consolidated interim financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these interim 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.

The consolidated interim financial statements do not include corresponding figures as of 31 December 2004 and for the six-month period ended 30 June 2004, which is required by IAS 34 *Interim Financial Reporting*.

In our opinion, except for the omission of corresponding figures as explained in the preceding paragraph, the consolidated interim financial statements present fairly, in all material respects, the financial position of the Group as of 30 June 2005, and the results of its operations and its cash flows for the six-month period then ended in accordance with IAS 34 *Interim Financial Reporting*.

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28 October 2005

MDM Bank**Consolidated Interim Balance Sheet as at 30 June 2005**

(expressed in thousands of US Dollars – refer to Note 3)

	Note	30 June 2005
Assets		
Cash and cash equivalents	5	670 856
Mandatory cash balances with central banks		64 529
Due from other banks	6	382 603
Trading securities	7	373 869
Loans and advances to customers	8	2 579 122
Assets pledged under sale and repurchase agreements	9	19 145
Current income tax prepayments		797
Other assets	10	46 190
Premises and equipment	11	96 976
Total assets		4 234 087
Liabilities		
Due to other banks	12	1 015 371
Customer accounts	13	1 728 125
Debt securities in issue	14	628 775
Current income tax payable		11 588
Other liabilities	15	47 872
Deferred tax liability	22	59 163
Total liabilities		3 490 894
Equity		
Share capital	16	54 635
Share premium		301 645
Revaluation reserve for premises and equipment	11	22 503
Cumulative translation reserve		55 524
Retained earnings		298 603
Total equity attributable to equity holders of the parent		732 910
Minority interest		10 283
Total equity		743 193
Total liabilities and equity		4 234 087

Approved for issue by the Management Board of MDM Bank and signed on its behalf on 28 October 2005.



Andrey N. Saveliev
Chairman of the Management Board



Andrey A. Ilyin
Chief Financial Officer

MDM Bank**Consolidated Interim Statement of Income for the Six-Month Period Ended 30 June 2005**

(expressed in thousands of US Dollars – refer to Note 3)

	Note	Six-Month Period Ended 30 June 2005
Interest income	17	173 469
Interest expense	17	(66 918)
Net interest income		106 551
Loan impairment losses	18	(88)
Net interest income after provision for loan impairment		106 463
Gains less losses arising from trading activities	19	5 450
Foreign exchange translation gains less losses		9 610
Fee and commission income	20	29 917
Fee and commission expense	20	(14 687)
Charge to provision for losses on credit related commitments	25	(2 799)
Other operating income		8 530
Operating income		142 484
Operating expenses	21	(76 337)
Losses arising from early retirement of debt		(98)
Profit before taxation		66 049
Income tax expense	22	(19 955)
Profit for the period		46 094
Attributable to		
Equity holders of the parent		44 988
Minority interest		1 106
Earnings per share		
Ordinary shares		2 149 950
Earnings per ordinary share (USD)		21.4

MDM Bank**Consolidated Interim Statement of Cash Flows for the Six-Month Period Ended 30 June 2005**

(expressed in thousands of US Dollars – refer to Note 3)

	Note	Six-Month Period Ended 30 June 2005
Cash flows from operating activities		
Interest received		173 522
Interest paid		(50 093)
Loss on securities transactions		(4 039)
Loss on dealing in foreign currencies		(1 139)
Gain from dealing in precious metals		1 461
Commissions received		27 913
Commissions paid		(14 687)
Other operating income received		8 634
Operating expenses paid		(73 983)
Income tax paid		(75 712)
Operating result before changes in operating assets and liabilities		(8 123)
Net cash decrease from changes in operating assets and liabilities		
Net decrease in mandatory cash balances with central banks		7 716
Net decrease in short-term deposits with central banks		1 607 143
Net decrease in due from other banks		185 143
Net increase in trading securities		(107 848)
Net increase in loans and advances to customers		(57 537)
Net increase in assets pledged under sale and repurchase agreements		(15 957)
Net increase in due to other banks		45 850
Net decrease in current accounts of the Russian government judiciary agency		(2 080 579)
Net increase in customer accounts		82 974
Net decrease in promissory notes issued and deposit certificates		(19 180)
Net increase in other assets less other liabilities		18 706
Net cash used in operating activities		(341 692)
Cash flows from investing activities		
Purchase of premises and equipment		(6 555)
Proceeds from sale of premises and equipment		6 943
Net cash from investing activities		388
Cash flows from financing activities		
Loan participation notes repaid		(52 138)
Net cash used in financing activities		(52 138)
Effect of exchange rate changes on cash and cash equivalents		(17 773)
Net decrease in cash and cash equivalents		(411 215)
Cash and cash equivalents at the beginning of the period		1 082 071
Cash and cash equivalents at the end of the period	5	670 856

MDM Bank**Consolidated Interim Statement of Changes in Equity for the Six-Month Period Ended 30 June 2005**

(expressed in thousands of US Dollars – refer to Note 3)

	Attributable to equity holders of the parent					Total	Minority interest	Total equity
	Share capital	Share premium	Revaluation reserve for premises and equipment	Cumulative translation reserve	Retained earnings			
Balance as at 1 January 2005	54 635	301 645	22 503	81 246	253 615	713 644	10 488	724 132
Profit for the period	-	-	-	-	44 988	44 988	1 106	46 094
Currency translation differences	-	-	-	(25 722)	-	(25 722)	(1 311)	(27 033)
Total income and expense for the period	-	-	-	(25 722)	44 988	19 266	(205)	19 061
Balance as at 30 June 2005	54 635	301 645	22 503	55 524	298 603	732 910	10 283	743 193

MDM Bank

Notes to the Consolidated Interim Financial Statements for the Six-Month Period Ended 30 June 2005

(expressed in thousands of US Dollars – refer to Note 3)

1 Organisation of the Group and its Principal Activities

These consolidated interim financial statements include the financial statements of MDM Bank (the "Parent company" or the "Bank") and its subsidiaries. The Parent company and its subsidiaries are hereinafter collectively referred to as the "Group". The activities of the Group are conducted principally in Russia, although the Group also conducts operations on international markets.

For the purposes of these consolidated interim financial statements, the management of the Group, collectively, is referred to as "Management".

(a) Subsidiaries

As at 30 June 2005, the Group operates a total of two banks, one bank in the Russian Federation and one in Latvia. MDM Bank, the lead operating entity of the Group, is an open joint stock company and is registered in the Russian Federation to carry out banking and foreign exchange activities since 1993. The Bank has operated under a general banking license issued by the Central Bank of the Russian Federation since 1997. MDM Bank was accepted into the state deposit insurance scheme in December 2004.

The table below summarises information about the banking branch network of the Group and the number of employees, as at 30 June 2005.

Name of the Bank	Registered office	30 June 2005	
		Number of branches	Number of employees
MDM Bank	Kotelnicheskaya nab., 33, Moscow, Russia	34	3 967
Latvian Trade Bank	Grecinieku iela, 4, Riga, LV-1048, Latvia	-	64
Total		34	4 031

All branches are located within the Russian Federation. The Group also operates a number of sub-branches in the Russian Federation and cash exchange offices and a network of retail micro offices in Moscow.

The Group also includes an asset management company, leasing companies and a real estate company which owns and maintains the majority of the Group's premises.

During the six-month period ended 30 June 2005 there were no material changes in the composition of the Group, in particular, the Group did not acquire or dispose any principal subsidiaries.

The Group operates in two main business areas: Commercial banking and Investment banking and financial markets. Commercial banking activities (comprising corporate and retail banking activities) include deposit taking and commercial lending in freely convertible currencies and Russian Roubles, settlements and cash operations. Commercial banking services also include trade finance, syndications, *a forfeit* financing and export credit agency financing, and a range of banking card products provided for retail customers. Investment banking and financial markets includes corporate finance, debt and equity capital markets, brokerage and securities, foreign exchange, precious metals and banknote trading.

The Group operates in industries where significant seasonal or cyclical variations in operating income are not experienced during the financial year.

1 Organisation of the Group and its Principal Activities (Continued)

(b) Shareholders of the Group

As at 30 June 2005, the Bank's parent company is Banking Holding MDM. Banking Holding MDM is a 100% subsidiary of MDM Financial Holding (Cyprus), which is a 100% subsidiary of MDM Holding GmbH, the parent company of MDM Financial Group. Mr. Andrey Melnichenko and Mr. Sergey Popov (together, the "Shareholders"), each of whom holds a 50% stake in MDM Financial Group, exert ultimate control over the Group. The Shareholders are also the joint shareholders of a number of industrial assets. As at 30 June 2005, these include Eurochem (mineral fertilizers) and SUEK (coal and energy), in which the Shareholders hold a 100% stake, and TMK Group (pipes), in which the Shareholders hold a 33.3% stake. Refer to Note 27 for information on related party transactions.

2 Operating Environment of the Group

Whilst there have been improvements in recent years in the economic situation in the Russian Federation, the economy of the Russian Federation continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, and relatively high inflation.

In addition, the banking sector in the Russian Federation is particularly sensitive to adverse currency fluctuations and economic conditions. Furthermore, the need for further developments in bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the issues experienced by banks currently operating in the Russian Federation. The ongoing political stabilisation has been a positive contributing factor for the further development of the political and legal environment.

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

In addition, economic conditions continue to limit the volume of activity in the financial markets. Market quotations may not be reflective of the values for financial instruments which would be determined in an efficient, active market involving willing buyers and willing sellers. Management has therefore used the best available information to adjust market quotations to reflect their best estimate of fair values, where considered necessary.

3 Basis of Preparation

(a) Statement of compliance

The Group prepares its financial statements in accordance with the requirements of International Financial Reporting Standards ("IFRSs"). The Group adopted the revised versions of IFRSs that were effective for accounting periods beginning on 1 January 2005. These consolidated interim financial statements have been prepared in accordance with the requirements of IAS 34 "Interim Financial Reporting" and contain a complete set of financial statements as described in IAS 1 "Presentation of Financial Statements"

The consolidated interim financial statements meet the requirements of IFRSs, except that they do not include corresponding figures as of 31 December 2004 and for the six-month period ended 30 June 2004, which is required by IAS 34 "Interim Financial Reporting".

3 Basis of Preparation (Continued)**(b) Basis of measurement**

These consolidated interim financial statements are prepared on the historical cost basis except that financial instruments held for trading, derivative financial instruments, other financial instruments held at fair value through profit or loss and available-for-sale financial instruments are stated at fair value, and certain classes of premises and equipment are stated at revalued amounts.

(c) Functional and presentation currency

Functional currency for each group company has been determined as the currency of the primary economic environment in which the company operates. The Russian Rouble ("RUR") has been selected as the functional currency for group companies domiciled in the Russian Federation and group companies domiciled outside of the Russian Federation, where it reflects the economic substance of the underlying events and circumstances. For other group companies the currencies of the respective countries in which these companies are domiciled have been selected as their functional currencies.

The US dollar ("USD") has been selected as the presentation currency for the consolidated interim financial statements of the Group for the sake of comparability with other financial institutions operating within and outside of the Russian Federation.

Amounts in US dollars have been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors, that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Information about significant areas of estimation uncertainty and critical judgments made by management in the application of IFRSs that have significant effect on these interim consolidated financial statements are described in the following notes:

- Note 4 (m) "Significant accounting policies" and Note 8 "Loans and advances to customers" in respect of loan impairment allowance.
- Note 25 (b) "Contingent liabilities, commitments and derivative financial instruments" in respect of tax contingencies.

4 Significant Accounting Policies**(a) Basis of consolidation***(i) Subsidiaries*

Subsidiaries are entities controlled by the Parent company. Control exists when the Parent company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Parent company controls another entity. Subsidiaries are fully consolidated from the date on which effective control is transferred to the Parent company and are removed from consolidation from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised immediately in the consolidated statement of income.

Intercompany transactions, balances and unrealised gains on transactions between the Group companies are eliminated. Unrealised losses are also eliminated, but only to the extent that there is no evidence of impairment. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

(ii) Minority interest

Minority interest is that part of the profit or loss and net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the Parent company.

Minority interest is presented in the consolidated balance sheet within equity, separately from the equity attributable to equity holders of the parent. Minority interest in the profit or loss of the Group is separately disclosed in the consolidated statement of income as an allocation of profit or loss for the period attributable to minority interest.

If losses applicable to the minority in a consolidated subsidiary exceed the minority interest in the subsidiary's equity, the excess, and any further losses applicable to the minority, are allocated against the majority interest except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.

4 Significant Accounting Policies (Continued)*(iii) Associates*

Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates, from the date that significant influence effectively commences until the date that significant influence effectively ceases. The Group's share of the post-acquisition profits or losses of associates is recognised in the consolidated statement of income, and its share of post-acquisition movements in reserves is recognised directly in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group's carrying amount is reduced to nil and the Group does not recognise further losses unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment.

(b) Foreign currency translation

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

The financial statements of group entities whose functional currency is not US Dollar, have been translated into US Dollars as follows:

- Assets and liabilities that are included in the balance sheet as at 30 June 2005 have been translated at the official rates of the Central Bank of the Russian Federation at the balance sheet date. For RUR this rate was RUR 28.6721 to USD 1 as at 30 June 2005.
- Income and expenses for the six-month periods ended 30 June 2005 have been translated at a rate approximating rates at the date of the transactions. The resulting exchange differences are recorded in the cumulative translation reserve.

(c) Accounting for the effects of hyperinflation

In periods prior to 1 January 2003 the Russian Federation experienced relatively high levels of inflation and was considered to be a hyperinflationary economy as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies".

As from 1 January 2003, the Russian Federation is no longer considered to be a hyperinflationary economy, and therefore from this date the consolidated financial statements have not been adjusted for inflation. The carrying amounts of the Group's assets, liabilities and equity items at 1 January 2003 form the basis for subsequent accounting.

4 Significant Accounting Policies (Continued)**(d) Cash and cash equivalents**

Cash and cash equivalents are items, which can be converted into cash within a day. All short-term interbank placements, excluding overnight deposits, are included in due from banks. Amounts which relate to funds that are of restricted nature, are excluded from cash and cash equivalents.

(e) Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, and available-for-sale financial assets. Management determines the appropriate classification of financial assets at the time of the purchase.

Purchases and sales of financial assets are recognised on trade date, which is the date on which the Group commits to purchase or sell the asset. Loans originated by the Group are recognised when cash is advanced to the borrowers.

The fair values of financial assets quoted in active markets are based on last bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Where discounted cash flow techniques are used, estimated future cash flows are based on Management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial instruments designated at fair value through profit or loss at initial recognition. A financial instrument is classified as held for trading if it is acquired principally for the purpose of selling it in the near term or it is a part of a portfolio for which there is evidence of a recent actual pattern of short-term profit-taking, or it is a derivative. Financial assets at fair value through profit or loss include trading securities, other financial instruments at fair value through profit or loss, and derivative financial assets.

Financial assets at fair value through profit or loss are recognised initially, and are subsequently carried at, fair value. Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the consolidated statement of income in the period in which they arise.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, which shall be classified as held for trading, or those which the Group designates at initial recognition as at fair value through profit or loss or available-for-sale. Loans and receivables include due from other banks, including central banks, loans and advances to customers, and other receivables.

Loans and receivables are initially recorded at fair value, which is the fair value of the consideration given to originate or purchase those loans and receivables plus any related transaction costs, and subsequently are carried at amortised cost using the effective interest method.

4 Significant Accounting Policies (Continued)

Loans originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar loans. The difference between the fair value and the nominal value at origination is credited or charged to the consolidated statement of income as gains on origination of assets at rates above market or losses on origination of assets at rates below market. Subsequently, the carrying amount of such loans is adjusted for amortization of the gains/losses on origination and the related income/expense is recorded in interest income within the consolidated statement of income using the effective interest method.

(iii) Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

Held to maturity investments are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of these investments and are subsequently carried at amortised cost using the effective interest method.

Interest earned whilst holding investment securities held to maturity is recorded in the consolidated statement of income as interest income on securities.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are not classified as loans and receivables, held to maturity investments or financial instruments at fair value through profit or loss. Available-for-sale financial assets may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale financial assets are recognised initially, and are subsequently carried, at fair value. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, except for impairment and the effect of changes in foreign exchange rates. When the financial asset is derecognised, the cumulative gain or loss previously recognised in equity is recognised in the consolidated statement of income.

(v) Mandatory balances with central banks

Mandatory balances with central banks represent mandatory reserve deposits that are not available to finance the Group's day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated balance sheet and consolidated statement of cash flows.

(vi) Sale and repurchase agreements

Sale and repurchase ("repo") agreements are treated as secured financing transactions. Securities sold subject to repurchase agreements are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks or to customers, as appropriate.

Securities purchased under agreements to resell ("reverse repo") are recorded as due from banks or customers as appropriate. The differences between the sale and repurchase prices are treated as interest and accrued over the life of the repo agreement using the effective interest method.

4 Significant Accounting Policies (Continued)

(vii) Securities lending and borrowings

Securities lent to counterparties are retained in the financial statements.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

(viii) Promissory notes purchased

Promissory notes purchased are included in trading securities or in loans and advances to customers or in due from other banks, depending on their substance and are subsequently remeasured and accounted for in accordance with the accounting policies described above for these categories of assets.

(f) Precious metals

Precious metals are stated at lower of net realizable value and costs. The net realisable value of precious metals is estimated based on quoted market prices. The cost of precious metals is assigned using the first-in, first-out cost formula. Precious metals are recorded within other assets.

(g) Derivative financial instruments

Derivative financial instruments include forward, futures and spot transactions in foreign exchange, precious metals and stock markets.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in the consolidated statement of income and are included in gains less losses arising from trading in foreign currency, gains less losses arising from trading in securities or gains less losses from trading in precious metals depending on the related contracts.

Although the Group trades in derivative instruments for hedging purposes, these instruments do not qualify for hedge accounting.

(h) Premises and equipment

Premises and equipment are stated at historical cost or revalued amounts, as described below, less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Where an item of premises and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment. Subsequent expenditure incurred to replace a component of an item of premises and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised if future economic benefits arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in the consolidated statement of income as an expense as incurred.

4 Significant Accounting Policies (Continued)

Premises of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. A revaluation increase on an item of premises is recognised directly in equity except to the extent that it reverses a previous revaluation decrease recognised in the consolidated statement of income, in which case it is recognised in the consolidated statement of income. A revaluation decrease on an item of premises is recognised in the consolidated statement of income except to the extent that it reverses a previous revaluation increase recognised directly in equity, in which case it is recognised directly in equity.

Construction in progress is carried at cost less impairment losses. Upon completion, assets are transferred to premises and equipment at their carrying value. Construction in progress is not depreciated until the asset is available for use.

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and are recorded in the consolidated statement of income.

(i) Intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Intangible assets, which have finite useful lives, are stated at cost less accumulated amortisation and impairment losses.

Expenditure on internally generated goodwill and brands is recognised in the consolidated statement of income as an expense as incurred.

(j) Depreciation and amortisation

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

	years
Premises	40
Office, computer and other equipment	4 - 6
Intangible assets	3 - 5

Land is not depreciated.

The assets residual values and useful lives are reviewed annually, and adjusted if appropriate.

(k) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

4 Significant Accounting Policies (Continued)

Goodwill is stated at cost less impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Negative goodwill arising on an acquisition is recognised immediately in the consolidated statement of income.

(l) Acquisition and disposal of minority interests

Any difference between the consideration paid to acquire a minority interest, and the carrying amount of that minority interest, is recognised as goodwill or negative goodwill.

Any difference between the consideration received upon disposal of a minority interest, and the carrying amount of that portion of the Group's interest in the subsidiary including attributable goodwill, is recognised in the consolidated statement of income.

(m) Impairment

The carrying amounts of the Group's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amounts are estimated. For goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated at each annual balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the consolidated statement of income unless the asset is recorded at a revalued amount in which case it is treated as a revaluation decrease.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in the consolidated statement of income even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in the consolidated statement of income is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the consolidated statement of income.

(i) Recoverable amount

The recoverable amount of financial instruments at fair value through profit or loss and financial assets available-for-sale is their fair value. The recoverable amount of the Group's investments in held-to-maturity securities and loans and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate that is the effective interest rate computed at initial recognition of these financial assets (refer to "Loan impairment allowance" note below).

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

4 Significant Accounting Policies (Continued)

(ii) Reversals of impairment

An impairment loss in respect of a held-to-maturity security, a loan or a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the consolidated statement of income. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in the consolidated statement of income, then the impairment loss is reversed, with the amount of the reversal recognised in the consolidated statement of income.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(iii) Loan impairment allowance

The Group reviews its loan portfolio to assess impairment at least on a quarterly basis. A loan (or a group of loans) is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan and that event (or events) has an impact on the estimated future cash flows of the loan (or the group of loans) that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for loans and advances to customers that are individually significant, and individually or collectively for loans and advances to customers that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan has been incurred, the amount of the loss is measured as the difference between the loan carrying amount and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral (excluding future losses that have not been incurred) discounted at the loan original effective interest rate.

Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is limited available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss. The assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the consolidated statement of income.

4 Significant Accounting Policies (Continued)**(n) Borrowings**

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently to initial recognition, borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the consolidated statement of income over the period of the borrowings using the effective interest method.

Borrowings include debt securities in issue, due to other banks, customer accounts and other borrowed funds. Debt securities in issue include promissory notes, certificates of deposit and loan participation notes issued by the Group. Promissory notes are instruments issued by the Group to its customers, which carry a fixed date of repayment. These may be issued against cash deposits or as a payment instrument, which the customer can discount in the over-the-counter secondary market.

If the Group purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount of a liability and the consideration paid is included in gains or losses arising from early retirement of debt.

Borrowings originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar borrowings. The difference between the fair value and the nominal value at origination is credited or charged to the consolidated statement of income as gains on origination of liabilities at rates below market or losses on origination of liabilities at rates above market. Subsequently, the carrying amount of such borrowings is adjusted for amortization of the gains/losses on origination and the related income/expense is recorded in interest expense within the consolidated statement of income using the effective interest method.

(o) Offsetting

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

(p) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(q) Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance. Specific provisions are recorded against credit related commitments when losses are considered probable.

(r) Distributions to shareholders

Distributions to shareholders are recorded in equity in the period in which they are declared. Distributions to shareholders declared after the balance sheet date are disclosed as a subsequent event.

4 Significant Accounting Policies (Continued)**(s) Income taxes**

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

Taxation has been provided for in the consolidated financial statements in accordance with applicable legislation currently in force in the respective countries in which the Group operates. Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Taxes, other than on income, are recorded within operating expenses.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill, the initial recognition of assets or liabilities that affects neither accounting nor taxable profit; and investments in subsidiaries where the Parent company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax assets and liabilities are netted only within the individual entities of the Group.

(t) Income and expense recognition

With the exception of financial assets held for trading, interest income and expense are recognised in the consolidated statement of income using the effective interest method. Interest income on financial assets held for trading comprises coupon interest only. Accrued discount and premium on financial assets held for trading is recognised in gains less losses arising from trading activities.

Fees, commissions and other income and expense items are generally recognised on an accrual basis when the service has been provided. Loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recorded as an adjustment to the effective yield on the loan. Fees for provision of credit related commitments and other forms of financial insurance are recognized over the term of the related contract.

Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction.

Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Non-interest expenses are recognised at the time the products are received or the services are provided.

Dividend income is recognised in the consolidated statement of income on the date that the dividend is declared.

4 Significant Accounting Policies (Continued)**(u) Pension costs**

Companies within the Group which operate in the Russian Federation contribute to the Russian Federation state pension schemes, social insurance and employment funds in respect of their employees. The contributions to these funds are expensed as incurred and included within staff costs in the consolidated statement of income. The Group has no further payment obligation once the contribution has been paid.

(v) Leases*(i) Finance leases*

On commencement of the lease term, when the Group enters into a finance lease as a lessor, the present value of the lease payments ("net investment in leases") is recorded as part of loans and advances to customers. The difference between the gross receivable and the present value of the receivable is unearned finance income. Finance income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. The commencement of a lease is considered to be the date of the lease agreement, or commitment if earlier. For purposes of this definition, a commitment should be in writing, signed by the parties with interest in the transaction, and should specifically set forth the principal terms of the transaction. However, if the property covered by the lease has yet to be constructed, installed or has not been acquired by the Group at the date of the lease agreement or commitment, the commencement of the lease is deemed to be the date when construction and installation of the property is completed or the property is acquired by the Group.

Any advance payments made by the lessee prior to commencement of the lease are recorded as a reduction in the net investment in the lease.

Finance income from leases is recognised as part of interest income on loans and advances to customers.

(ii) Operating leases

Where the Group is the lessee, the total payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(w) Fiduciary assets

The Group provides custody, trustee, investment management and other fiduciary services that result in holding or placing of assets on behalf of third parties. These assets and income arising thereon are excluded from these consolidated interim financial statements as they are not assets of the Group. Commissions received from such business are shown as fees and commissions received in the consolidated statement of income.

4 Significant Accounting Policies (Continued)**(x) Segment reporting**

The Group's primary format for reporting segment information is by business segments. As the majority of operations, credit related commitments, capital expenditure, and revenues of the Group relate to residents of the Russian Federation, the Group does not have a secondary format for reporting segment information by geographical segments.

A segment is a distinguishable component of the Group that is engaged in providing products or services, which is subject to risks and rewards that are different from those of other segments. Segments whose revenue, results or assets are ten per cent or more of all the combined segments are reported separately.

(y) New Standards and Interpretations not yet adopted

The following new Standards and Interpretations, that are relevant to operations of the Group, are not yet effective and have not been applied in preparing these consolidated interim financial statements.

The amendment to IAS 1 "Presentation of Financial Statements", which is effective for annual periods beginning on or after 1 January 2007, provides disclosure requirements for the entity's objectives, policies and processes for managing capital, including, when an entity is subject to externally imposed capital requirements, the nature of these requirements and how these requirements are incorporated into the management of capital. The Group is currently subject to externally imposed capital requirements in relation to its debt securities issued, and the banks in the Group are subject to capital requirements imposed by the regulatory authorities.

The amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 4 "Insurance Contracts", which are effective for annual periods beginning on or after 1 January 2006, provide guidance for the accounting treatment of financial guarantee contracts by the issuer. Management of the Group believes that these amendments will not have a significant impact on the consolidated financial statements of the Group.

The amendments to IAS 39 "Financial Instruments: Recognition and Measurement", which are effective for annual periods beginning on or after 1 January 2006, allows the entity to designate a financial instrument as at fair value through profit or loss only if certain conditions are met. As at 30 June 2005, the Group does not have any assets designated as at fair value through profit or loss.

IFRS 7 "Financial Instruments: Disclosures", which is effective for annual periods beginning on or after 1 January 2007, provides disclosure requirements regarding the significance of financial instruments to the entity's financial position and performance, and qualitative and quantitative information about the nature and extent of risks arising from financial instruments. The Standard supersedes IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and the disclosure requirements in IAS 32 "Financial Instruments: Presentation and Disclosure". A large portion of existing disclosure requirements in IAS 32 "Financial Instruments: Presentation and Disclosure" is transferred to the new Standard. The title of IAS 32 is amended to IAS 32 "Financial Instruments: Presentation". Management of risks arising from financial instruments is fundamental to the business of the Group and is an essential element of the Group's operations.

MDM Bank**Notes to the Consolidated Interim Financial Statements for the Six-Month Period Ended 30 June 2005**

(expressed in thousands of US Dollars – refer to Note 3)

5 Cash and Cash Equivalents**30 June 2005**

Cash on hand	73 558
Correspondent accounts with central banks	98 392
Correspondent accounts and overnight deposits with other banks	498 906

Total cash and cash equivalents **670 856**

Geographical and currency analysis of cash and cash equivalents are disclosed in Note 24.

6 Due from Other Banks**30 June 2005**

Current interbank loans	205 984
Reverse sale and repurchase agreements	98 996
First to default credit-linked notes (Note 25)	77 623

Total due from other banks **382 603**

As at 30 June 2005, securities purchased under reverse sale and repurchase agreements are corporate bonds and equity securities with a fair value of USD 115 539 thousand.

As at 30 June 2005, securities purchased under reverse sale and repurchase agreements with a fair value of USD 11 792 thousand are pledged by the Group under sale and repurchase agreements. Refer to Note 12.

First to default credit-linked notes are fixed income notes with a nominal amount of USD 75 000 thousand, issued by a major international bank, repayment of which is dependent on certain government, municipal and corporate bonds being repaid by their issuers in full. Included in first to default credit-linked notes as at 30 June 2005 are first to default credit-linked notes with a nominal amount of USD 25 000 thousand with a coupon rate of 15.6% per annum and a maturity date of 5 March 2008 and first to default credit-linked notes with a nominal amount of USD 50 000 thousand with a coupon rate of 15.5% per annum and a maturity date of 6 May 2006. Refer to Note 25.

As at 30 June 2005, no impairment loss has been recognised in respect of due from other banks balances.

Geographical and currency analysis, effective interest rates and maturity structure of due from other banks are disclosed in Note 24.

7 Trading Securities**30 June 2005****Government bonds**

Russian Federal loan bonds (OFZ)	27 755
Municipal bonds issued by Russian municipalities	12 947

Corporate debt and equity securities

Corporate bonds	199 349
Promissory notes	124 562
Corporate shares	9 256

Total trading securities**373 869**

Russian Federal loan bonds (OFZ) are Russian Rouble denominated securities. The Group's portfolio of OFZ consists of bonds issued by the Government of the Russian Federation with maturity dates from 2 August 2006 to 24 November 2021, with annual coupon rates varying from 9.50% to 10.00% per annum and yields to maturity ranging from 5.51% to 8.71% per annum.

Municipal bonds are securities issued by Russian municipalities denominated in Russian Roubles. The Group's portfolio of municipal bonds consists of bonds issued by Moscow municipalities. The bonds have maturity dates from 2 September 2005 to 21 July 2014 and annual coupon rates ranging from 8.02% to 15.00% per annum. As at 30 June 2005, their yields to maturity range from 4.11% to 8.36% per annum. As at 30 June 2005, municipal bonds of USD 4 242 thousand are pledged with the Central Bank of the Russian Federation as collateral for overnight deposits.

Corporate bonds are interest-bearing securities, issued by Russian companies, and are freely tradable on the Russian securities markets. The annual coupon rates on bonds denominated in Russian Roubles range from 5.43% to 20.00% per annum; these bonds have maturity dates from 6 August 2005 to 26 March 2012 and their yields to maturity range from 5.33% to 10.49% per annum, as at 30 June 2005. The annual coupon rates on bonds denominated in US dollars range from 4.92% to 12.75% per annum; these bonds have maturity dates from 23 December 2005 to 28 April 2034 and their yields to maturity range from 4.40% to 8.67% per annum, as at 30 June 2005.

The majority of promissory notes represent Russian Rouble denominated debt securities of a major Russian bank. These securities are traded in the over-the-counter market. Management has reflected these securities at their estimated fair value.

The majority of corporate shares are shares of Russian companies traded in the Moscow Interbank Currency Exchange (MICEX) or the Russian Trading System (RTS).

Geographical and currency analysis, effective interest rates and maturity structure of trading securities are disclosed in Note 24. Information on related party transactions is disclosed in Note 27.

MDM Bank**Notes to the Consolidated Interim Financial Statements for the Six-Month Period Ended 30 June 2005**

(expressed in thousands of US Dollars – refer to Note 3)

8 Loans and Advances to Customers**30 June 2005**

Loans to corporate entities	
- Commercial loans	2 084 885
- Reverse sale and repurchase agreements	189 205
- Net investment in finance leases	33 339
Loans to individuals	358 901
Gross loans and advances to customers	2 666 330
Less: loan impairment	(87 208)
Net loans and advances to customers	2 579 122

As at 30 June 2005, securities held as collateral under reverse sale and repurchase agreements are trading securities with a fair value of USD 253 514 thousand.

As at 30 June 2005, securities purchased under reverse sale and repurchase agreements with a fair value of USD 112 670 thousand are pledged by the Group under sale and repurchase agreements. Refer to Notes 12 and 13.

Included in the loan portfolio as at 30 June 2005 are loans to corporate entities of USD 15 268 thousand pledged to a non-Russian bank under a loan granted to the Group.

As at 30 June 2005, credit exposure to the ten largest borrowers (or groups of borrowers) totalled USD 993 485 thousand or 37% of the gross loan portfolio of the Group.

As at 30 June 2005, the Group had six borrowers (or groups of borrowers) with aggregated loan amounts greater than 10% of equity. The total aggregate amount of these loans was USD 774 443 thousand or 29% of the gross loan portfolio.

The loan portfolio as at 30 June 2005 includes overdue loans totalling USD 35 082 thousand, against which a provision of USD 31 691 thousand has been created.

MDM Bank**Notes to the Consolidated Interim Financial Statements for the Six-Month Period Ended 30 June 2005**

(expressed in thousands of US Dollars – refer to Note 3)

8 Loans and Advances to Customers (Continued)

Movements in loan impairment are as follows:

	Six-Month Period Ended 30 June 2005
Loan impairment as at 1 January	92 343
Loans written off during the year as uncollectible	(2 303)
Loan impairment losses during the period (Note 18)	88
Effect of foreign currency translation	(2 920)
Loan impairment as at 30 June	87 208

As described in Note 4, the Group uses its experience and judgement to estimate the amount of impairment loss for loans and advances to customers. To the extent that the net present value of estimated cash flows differs by plus/minus one percent, the loan impairment as at 30 June 2005 would be estimated USD 25 791 thousand lower/higher.

The loans and advances to customers include finance lease receivables, which are analysed as follows:

	30 June 2005
Gross investment in finance leases, receivable:	
- Not later than 1 year	12 659
- Later than 1 year and not later than 5 years	31 607
Less: Unearned finance income	(10 927)
Net investment in finance leases	33 339

MDM Bank**Notes to the Consolidated Interim Financial Statements for the Six-Month Period Ended 30 June 2005**

(expressed in thousands of US Dollars – refer to Note 3)

8 Loans and Advances to Customers (Continued)

Net investment in finance leases are analysed as follows:

	30 June 2005
Net investment in finance leases, receivable:	
- Not later than 1 year	9 528
- Later than 1 year and not later than 5 years	23 811
Net investment in finance leases	33 339

As at 30 June 2005, the allowance for uncollectible finance lease receivables included in the loan impairment allowance amounted to USD 835 thousand.

Economic sector risk concentrations within the customer loan portfolio are as follows:

	30 June 2005	
	Amount	%
Trade	514 085	19
Finance	428 665	16
Individuals	358 901	13
Manufacturing	248 107	9
Energy and atomic power	205 206	8
Construction	192 894	7
Real estate	155 931	6
Oil and gas	125 151	5
Coal	114 854	4
Metallurgy	48 099	2
Communication	44 683	2
Transport	43 314	2
Food and agriculture	39 383	2
Chemicals	37 215	1
Other	109 842	4
Gross loans and advances to customers	2 666 330	100

Geographical and currency analysis, effective interest rates and maturity structure of loans and advances to customers are disclosed in Note 24. Information on related party transactions is disclosed in Note 27.

MDM Bank**Notes to the Consolidated Interim Financial Statements for the Six-Month Period Ended 30 June 2005**

(expressed in thousands of US Dollars – refer to Note 3)

9 Assets Pledged under Sale and Repurchase Agreements**30 June 2005**

Precious metals	
Gold bullion	13 264
Corporate debt securities	
Corporate bonds	5 881

Total assets pledged under sale and repurchase agreements	19 145
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Assets pledged under sale and repurchase agreements are trading securities and precious metals pledged as collateral under sale and repurchase agreements with a total fair value of USD 19 145. Refer to Note 12.

Geographical and currency analysis, effective interest rates and maturity structure of assets pledged under sale and repurchase agreements are disclosed in Note 24. Information on related party transactions is disclosed in Note 27.

10 Other Assets**30 June 2005**

Derivative financial instruments (Note 25)	19 225
Settlements on securities transactions	8 311
Trade debtors and prepayments	5 729
Net amounts in course of settlement	3 336
Precious metals	2 722
Prepaid taxes	1 897
Other	4 970

Total other assets	46 190
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Geographical and currency analysis and maturity structure of other assets are disclosed in Note 24. Information on related party transactions is disclosed in Note 27.

MDM Bank**Notes to the Consolidated Interim Financial Statements for the Six-Month Period Ended 30 June 2005**

(expressed in thousands of US Dollars – refer to Note 3)

11 Premises and Equipment

The reconciliation of the carrying amount of premises and equipment as at 30 June 2005 and as at 31 December 2004 is presented below:

	Premises	Office, computer and other equipment	Intangible assets	Construction in progress	Total
Net book amount as at 1 January 2005	89 461	11 812	1 132	2 079	104 484
Cost or valuation					
Opening balance	93 462	28 344	3 004	2 079	126 889
Additions	493	4 027	35	2 000	6 555
Disposals	(3 172)	(1 926)	(81)	(2 579)	(7 758)
Transfers	93	-	-	(93)	-
Effect of foreign currency translation	(2 912)	(1 095)	(119)	(67)	(4 193)
Closing balance	87 964	29 350	2 839	1 340	121 493
Accumulated depreciation and impairment					
Opening balance	4 001	16 532	1 872	-	22 405
Depreciation charge	1 135	3 395	404	-	4 934
Disposals	(271)	(1 616)	(64)	-	(1 951)
Effect of foreign currency translation	(150)	(639)	(82)	-	(871)
Closing balance	4 715	17 672	2 130	-	24 517
Net book amount as at 30 June 2005	83 249	11 678	709	1 340	96 976

The majority of the Group's premises were valued by an internationally recognised independent firm of appraisers on 31 December 2003. In respect of certain properties not valued at 31 December 2003, where Management believed that there had been a material change in market value in the course of 2004, a valuation was undertaken by an internationally recognised independent firm of appraisers on 31 December 2004. The basis used for the appraisals was market values determined by reference to observable prices and recent transactions in the market for such premises. Management believes that this valuation continues to be reflective of the fair value of these properties, as at 30 June 2005.

Included in the above net book value of premises is USD 31 196 thousand representing the revaluation surplus relating to premises of the Group. As at 30 June 2005, a cumulative deferred tax liability of USD 7 487 thousand was calculated with respect to this valuation adjustment and recorded in equity. Refer to Note 22.

The net book value of premises that would have been recognised under the historic cost method is USD 53 870 thousand, as at 30 June 2005.

MDM Bank**Notes to the Consolidated Interim Financial Statements for the Six-Month Period Ended 30 June 2005**

(expressed in thousands of US Dollars – refer to Note 3)

11 Premises and Equipment (Continued)

Movements in revaluation reserve for premises and equipment are as follows:

	Revaluation surplus	Deferred tax on revaluation	Cumulative translation reserve	Revaluation reserve for premises and equipment
Balance at 1 January 2005	32 233	(7 736)	(1 994)	22 503
Currency translation differences	(1 037)	249	788	-
Balance as at 30 June 2005	31 196	(7 487)	(1 206)	22 503

12 Due to Other Banks**30 June 2005**

Correspondent accounts and overnight deposits of other banks	346 414
Term deposits from other banks	536 190
Sale and repurchase agreements	132 767
Total due to other banks	1 015 371

Included in due to other banks as at 30 June 2005 are balances of an international bank totalling USD 98 949 thousand or 10% of due to other banks balances, and balances of MDM Bank St. Petersburg totalling USD 218 529 thousand or 22% of due to other bank balances. Refer to note 27.

Securities sold under sale and repurchase agreements as at 30 June 2005 are trading securities with a total fair value of USD 5 881 thousand. Precious metals sold under sale and repurchase agreements as at 30 June 2005 are precious metals with a total carrying value of USD 13 264 thousand. Refer to Note 9.

Securities purchased under reverse sale and repurchase agreements and sold under sale and repurchase agreements as at 30 June 2005 are securities with a total fair value of USD 118 691 thousand. Refer to Notes 6 and 8.

Geographical and currency analysis, effective interest rates and maturity structure of due to other banks are disclosed in Note 24.

MDM Bank**Notes to the Consolidated Interim Financial Statements for the Six-Month Period Ended 30 June 2005**

(expressed in thousands of US Dollars – refer to Note 3)

13 Customer Accounts**30 June 2005****State and public organisations**

- Current/settlement accounts 130 903

Other legal entities

- Current/settlement accounts 895 155

- Term deposits 383 530

Retail customers

- Current/demand accounts 89 020

- Term deposits 229 517

Total customer accounts**1 728 125**

Included in term deposits of other legal entities are sale and repurchase agreements of USD 5 670 thousand, as at 30 June 2005. Securities sold under sale and repurchase agreements as at 30 June 2005 are securities purchased under reverse sale and repurchase agreements with a total fair value of USD 5 771 thousand. Refer to Note 8.

Economic sector concentrations within customer accounts as at 30 June 2005, are as follows:

	30 June 2005	
	Amount	%
Trade	574 249	33
Retail customers	318 537	18
Mining and oil enterprises	304 296	18
Finance companies	267 267	15
State and public organisations	130 903	8
Manufacturing	69 347	4
Intergovernmental organisations	54 628	3
Other	8 898	1
Total customer accounts	1 728 125	100

As at 30 June 2005, aggregate balances of the ten largest customers (or groups of customers) totalled USD 737 802 thousand or 43% of total customer accounts.

Included in customer accounts as at 30 June 2005 is USD 251 057 thousand held as collateral for irrevocable commitments under import letters of credit.

Geographical and currency analysis, effective interest rates and maturity structure of customer accounts are disclosed in Note 24. Information on related party transactions is disclosed in Note 27.

MDM Bank**Notes to the Consolidated Interim Financial Statements for the Six-Month Period Ended 30 June 2005**

(expressed in thousands of US Dollars – refer to Note 3)

14 Debt Securities in Issue**30 June 2005**

Long-term loan participation notes	373 090
Promissory notes	234 454
Deposit certificates	21 231

Total debt securities in issue	628 775
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As at 30 June 2005, long-term loan participation notes comprise 10.75% loan participation notes maturing in December 2005 and 9.375% loan participation notes maturing in September 2006 with effective rates of 9.85% and 8.97%, respectively.

Promissory notes are instruments issued by the Group to its customers, which carry a fixed date of repayment. These may be issued against cash deposits or as a payment instrument, which the customer can discount in the over-the-counter secondary market.

Geographical and currency analysis, effective interest rates and maturity structure of debt securities in issue are disclosed in Note 24. Information on related party transactions is disclosed in Note 27.

15 Other Liabilities**30 June 2005**

Derivative financial instruments (Note 25)	21 558
Accrued compensation expenses	12 808
Trade creditors	4 389
Provision for credit related commitments (Note 25)	3 910
Taxation payable	3 577
Other	1 630

Total other liabilities	47 872
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Geographical and currency analysis, maturity structure of other liabilities are disclosed in Note 24. Information on related party transactions is disclosed in Note 27.

16 Share Capital

The share capital of the Bank has been contributed by the shareholders in Russian Roubles, and they are entitled to dividends and any capital distribution in Russian Roubles.

As at 30 June 2005 and 31 December 2004, share capital of the Bank consisted of 2 149 950 authorized, issued and fully paid ordinary shares with fixed nominal value of 500 Russian Roubles and 50 050 authorized, issued and fully paid preference shares with fixed nominal value of 500 Russian Roubles.

Ordinary shares carry the right to vote at annual and general meetings, to receive dividends and a residual interest in the assets of the Bank after deducting all its liabilities on liquidation. All ordinary shares provide equal rights to their owners.

MDM Bank**Notes to the Consolidated Interim Financial Statements for the Six-Month Period Ended 30 June 2005**

(expressed in thousands of US Dollars – refer to Note 3)

16 Share Capital (Continued)

Preference shares have no right of conversion or redemption. Preference shares carry the right to vote at annual and general meetings in respect of issues that influence the interests of preference shareholders, including reorganisation and liquidation. Preference shares are entitled to receive the same dividends as dividends attributable to ordinary shareholders. If the dividend is not paid, preference shares carry the right to vote at annual and general meetings until dividends are paid. Dividends are not cumulative. In the event of liquidation preference shareholders are entitled to receive declared unpaid dividends and the par value of the preference shares ("liquidation value"). No dividends on preference shares have been declared during the six-month period ending 30 June 2005 and during 2004.

	Nominal value	Inflation adjustment	Total share capital
Ordinary shares	33 821	16 955	50 776
Preference shares	787	3 072	3 859
Total share capital	34 608	20 027	54 635

17 Interest Income and Expense

	Six-Month Period Ended 30 June 2005
Interest income	
Loans and advances to customers	142 904
Overnight deposits and due from other banks	19 934
Securities	10 631
Total interest income	173 469
Interest expense	
Debt securities in issue	(26 709)
Due to other banks	(22 149)
Customer accounts	(18 060)
Total interest expense	(66 918)
Net interest income	106 551

Information on related party transactions is disclosed in Note 27.

MDM Bank**Notes to the Consolidated Interim Financial Statements for the Six-Month Period Ended 30 June 2005**

(expressed in thousands of US Dollars – refer to Note 3)

18 Loan Impairment Losses

	Six-Month Period Ended 30 June 2005
Loans and advances to customers (Note 8)	88
Total loan impairment losses	88

19 Gains less Losses Arising from Trading Activities

	Six-Month Period Ended 30 June 2005
Trading in securities	4 276
Dealing in precious metals	888
Dealing in foreign currencies	286
Total gains less losses arising from trading activities	5 450

Information on related party transactions is disclosed in Note 27.

20 Fee and Commission Income and Expense

	Six-Month Period-Ended 30 June 2005
Commission on settlement and trade finance transactions	15 602
Commission on cash transactions	4 623
Commission on foreign currency transactions	3 370
Commission for brokerage and other services of an investment banking nature	2 515
Commission for assuming credit risk under first to default credit-linked notes (Note 25)	1 955
Other	1 852
Total fee and commission income	29 917
Commission on settlement transactions	(6 879)
Fees on transactions with shareholders (Note 27)	(5 590)
Commission on foreign currency transactions	(1 283)
Commission on cash transactions	(813)
Other	(122)
Total fee and commission expense	(14 687)
Net fee and commission income	15 230

Information on related party transactions is disclosed in Note 27.

MDM Bank**Notes to the Consolidated Interim Financial Statements for the Six-Month Period Ended 30 June 2005**

(expressed in thousands of US Dollars – refer to Note 3)

21 Operating Expenses

	Six-Month Period Ended 30 June 2005
Staff costs	51 521
Depreciation and other expenses related to premises and equipment	9 202
Administrative expenses	4 513
Taxes other than on income	2 911
Professional services	2 317
Advertising and marketing	1 374
Other	4 499
Total operating expenses	76 337

22 Income Taxes

Income tax expense comprises the following:

	Six-Month Period Ended 30 June 2005
Current tax charge	75 132
Deferred taxation movement due to origination and reversal of temporary differences and movement in valuation allowance	(55 177)
Income tax expense	19 955

The income tax rate applicable to the majority of the Russian entities of the Group's income is 24%. The income tax rate applicable to income of Latvian Trade Bank is 16%.

The reconciliation between the expected and the actual income tax expense is provided below:

	Six-Month Period Ended 30 June 2005
Profit before taxation	66 049
Theoretical income tax expense at the applicable statutory rate	15 852
Tax effect of items taxed in different tax jurisdictions	(230)
Tax effect of items which are not deductible or assessable for taxation purposes, and other items of a non-temporary nature	4 689
Unrecognised net deferred tax asset movement	(356)
Income tax expense	19 955

MDM Bank**Notes to the Consolidated Interim Financial Statements for the Six-Month Period Ended 30 June 2005**

(expressed in thousands of US Dollars – refer to Note 3)

22 Income Taxes (Continued)

Movements in temporary differences for the six-month period ended 30 June 2005:

	31 December 2004	Foreign currency translation	Movement	30 June 2005
Tax effect of deductible temporary differences				
Impairment allowances and provisions	790	(11)	(578)	201
Premises and equipment	1 925	(16)	(1 850)	59
Accruals	4 046	(67)	(2 572)	1 407
Securities	1 046	(8)	(1 038)	-
Other	693	(5)	(688)	-
Gross deferred tax asset	8 500	(107)	(6 726)	1 667
Less unrecognised deferred tax asset	(2 698)	1 640	356	(702)
Net deferred tax asset	5 802	1 533	(6 370)	965
Tax effect of taxable temporary differences				
Impairment allowances and provisions	(109 263)	493	63 661	(45 109)
Premises and equipment	(5 540)	154	990	(4 396)
Revaluation of premises	(7 736)	249	-	(7 487)
Securities	(112)	70	(2 689)	(2 731)
Other	-	10	(415)	(405)
Gross deferred tax liability	(122 651)	976	61 547	(60 128)
Total net deferred tax liability	(116 849)	2 509	55 177	(59 163)

22 Income Taxes (Continued)

Deferred income taxes are calculated on all temporary differences under the liability method using the income tax rates applicable to entities of the Group.

As at 30 June 2005, USD 7 487 thousand of the deferred tax liability relates to revaluation of the Group's premises. Refer to Note 11.

In the context of the Group's current structure, tax losses and current tax assets of different companies may not be offset against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, a deferred tax asset of one company of the Group may not be offset against a deferred tax liability of another company.

As at 30 June 2005, a net deferred tax asset in respect of net deductible temporary differences of USD 702 thousand has not been recorded as it is not probable that the relevant entities of the Group will have sufficient taxable profit that will allow the Group to benefit from the deferred tax asset.

23 Analysis by Segment

The Group's primary format for reporting segment information is by business segments. As the majority of operations, credit related commitments, capital expenditure, and revenues of the Group relate to residents of the Russian Federation, the Group does not have a secondary format for reporting segment information by geographical segments.

The Group is organised into two main business segments:

- Commercial banking – includes corporate and retail banking operations which include deposit taking and commercial lending in freely convertible currencies and Russian Roubles, settlements and cash operations. Commercial banking services also include trade finance, syndications, *a forfeit* financing and export credit agency financing, and a range of banking card products.
- Investment banking and financial markets – includes corporate finance, debt and equity capital markets, brokerage and securities, foreign exchange, precious metals and banknote trading.

Segment breakdown of assets and liabilities of the Group is set out below:

	30 June 2005
<hr/>	
Assets	
Commercial banking	2 389 916
Investment banking and financial markets	993 303
Unallocated assets	850 868
<hr/>	
Total assets	4 234 087
<hr/>	
Liabilities	
Commercial banking	2 489 338
Investment banking and financial markets	916 323
Unallocated liabilities	85 233
<hr/>	
Total liabilities	3 490 894
<hr/>	

MDM Bank**Notes to the Consolidated Interim Financial Statements for the Six-Month Period Ended 30 June 2005**

(expressed in thousands of US Dollars – refer to Note 3)

23 Analysis by Segment (Continued)

Segment information for the main reportable business segments of the Group for the six-month period ended 30 June 2005 is set out below:

	Commercial banking	Investment banking and financial markets	Unallocated	Consolidated Group
External revenue	164 832	45 885	6 649	217 366
Net revenue from other segments	(22 899)	(3 222)	26 121	-
Revenue	141 933	42 663	32 770	217 366
Impairment losses and provisions	(2 887)	-	-	(2 887)
Interest expense	(46 676)	(20 242)	-	(66 918)
Fee and commission expense	(7 897)	(1 078)	(5 712)	(14 687)
Operating expenses	(43 865)	(11 285)	(21 187)	(76 337)
Losses arising from early retirement of debt	(98)	-	-	(98)
Segment result	40 510	10 058	5 871	56 439
Taxation	-	-	(19 955)	(19 955)
Foreign exchange translation gains less losses			9 610	9 610
Net profit				46 094
Other segment items				
Capital expenditure				6 555
Depreciation charge				4 934

Net revenue from other segments represents income and expense from lending and borrowing between segments and a charge for the use of equity allocated to the segments.

The Group is currently in the process of upgrading its management information system, which, in the opinion of Management, will present the allocation of assets and liabilities to segments and inter-segment transfers on a fairer and more precise basis. Management may introduce further refinements to its segment reporting pending further upgrades of the management information system of the Group.

24 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks (credit risk, market risk, including price risks, currency and fair value interest rate, and cash flow interest rate and liquidity risks), operational risk and legal risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimize operational and legal risks.

(a) Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will fail to discharge the obligation in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of Group risk accepted in relation to individual borrowers or groups of borrowers, and economic sectors. Limits on the level of credit risk by borrower (or groups of borrowers), and economic sector are approved by the Group's Credit Committee. The Credit Committee, which usually meets at least twice a week, is chaired by the Group's Chief Executive Officer.

The Group's credit policy establishes:

- Procedures for review and approval of credit applications;
- Methodology for the credit assessment of borrowers;
- Methodology for the evaluation of proposed collateral;
- Credit documentation requirements; and
- Procedures for the ongoing monitoring of loans.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. The Group operates an internal credit rating system whereby borrowers are assigned one of 25 ratings. These ratings reflect the risk assessment of the transaction and form the basis for transaction pricing. Exposure to credit risk is also managed, in part, by obtaining and monitoring collateral and corporate and personal guarantees.

The Group's maximum exposure to on balance sheet credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Credit risk for off balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same procedures and methodologies, as defined by the Group's credit policy, for approving credit related commitments (undrawn loan commitments, letters of credit and guarantees) as it does for on balance sheet credit obligations (loans). The Group's maximum exposure to off balance sheet financial instruments credit risk is reflected in Note 25 "Contingent liabilities, commitments and derivative financial instruments".

(b) Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest-rate, currency and equity financial instruments, which are exposed to general and specific market movements. The Group's Asset and Liability Committee chaired by the Chief Executive Officer of the Group, sets limits on the level of market risk that may be accepted by the Group. This is monitored on a daily basis.

MDM Bank**Notes to the Consolidated Interim Financial Statements for the Six-Month Period Ended 30 June 2005**

(expressed in thousands of US Dollars – refer to Note 3)

24 Financial Risk Management (Continued)**(c) Currency analysis**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

As at 30 June 2005, the Group had the following positions in different currencies:

	RUR	USD	EUR	Other currencies	Total
Assets					
Cash and cash equivalents	223 667	374 542	61 374	11 273	670 856
Mandatory cash balances with central banks	53 629	-	-	10 900	64 529
Due from other banks	194 756	126 227	43 374	18 246	382 603
Trading securities	318 068	55 801	-	-	373 869
Loans and advances to customers	1 087 713	1 465 469	25 888	52	2 579 122
Assets pledged under sale and repurchase agreements	13 264	5 881	-	-	19 145
Current income tax prepayments	499	-	-	298	797
Other assets	16 129	24 473	10	5 578	46 190
Premises and equipment	96 381	-	-	595	96 976
Total assets	2 004 106	2 052 393	130 646	46 942	4 234 087
Liabilities					
Due to other banks	387 723	537 124	69 648	20 876	1 015 371
Customer accounts	881 253	781 178	48 703	16 991	1 728 125
Debt securities in issue	104 158	519 995	4 622	-	628 775
Current income tax payable	11 584	-	-	4	11 588
Other liabilities	11 120	34 169	400	2 183	47 872
Deferred tax liability	58 685	-	-	478	59 163
Total liabilities	1 454 523	1 872 466	123 373	40 532	3 490 894
Net balance sheet position	549 583	179 927	7 273	6 410	743 193
Off balance sheet net notional position	154 429	(191 666)	31 795	5 442	-
Credit commitments	53 563	360 363	42 913	118 021	574 860

Currency classification of monetary assets and liabilities is based on the currency in which they are denominated. Investments in equities have been attributed to the Russian Rouble as the issuers of these equity instruments are residents of the Russian Federation. Currency classification of tangible assets (premises and equipment) and prepayments has been based on the functional currency used to record them.

24 Financial Risk Management (Continued)

The Group has extended loans and advances denominated in foreign currencies. Depending on the revenue stream of the borrower, the possible appreciation of the currencies in which loans and advances have been extended against the Russian Rouble may adversely affect the borrower’s repayment ability and therefore increase the likelihood of future loan losses.

(d) Interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but also may reduce or create losses in the event that unexpected movements arise.

The Group’s Asset and Liability Committee is responsible for the Group’s asset and liability management and sets limits on the level of interest rate mismatch which may be undertaken.

The table below summarises the effective average interest rate, by major currencies, for major monetary financial instruments. The analysis has been prepared on the basis of weighted average interest rates for the various financial instruments using period end effective interest rates.

	30 June 2005		
	%		
	RUR	USD	EUR and other currencies
Assets			
Due from other banks:			
- Current interbank loans	6.9	5.1	2.3
- Reverse sale and repurchase agreements	5.7	5.3	6.2
- First to default credit-linked notes	-	4.0	-
Trading securities:			
- Russian Federal loan bonds (OFZ)	7.4	-	-
- Municipal bonds issued by Russian municipalities	6.9	-	-
- Corporate bonds	8.3	5.8	-
- Promissory notes	7.8	6.2	-
Loans and advances to customers:			
- Loans and advances	10.5	7.6	5.8
- Reverse sale and repurchase agreements	6.3	8.4	-
Liabilities			
Due to other banks:			
- Term deposits from other banks	6.3	4.2	2.2
- Sale and repurchase agreements	1.0	5.3	2.9
Customer accounts:			
- Term deposits	7.6	5.9	4.9
- Sale and repurchase agreements	4.0	-	-
Debt securities in issue:			
- Long-term Loan Participation Notes	-	9.4	-
- Promissory notes	9.1	6.5	4.9
- Deposit certificates	7.9	-	-

MDM Bank**Notes to the Consolidated Interim Financial Statements for the Six-Month Period Ended 30 June 2005**

(expressed in thousands of US Dollars – refer to Note 3)

24 Financial Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risks, as at 30 June 2005. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Non- interest bearing	Total
Assets							
Cash and cash equivalents	498 906	-	-	-	-	171 950	670 856
Mandatory cash balances with central banks	-	-	-	-	-	64 529	64 529
Due from other banks	241 459	29 824	17 150	53 760	40 410	-	382 603
Trading securities	3 332	17 301	49 394	81 900	212 686	9 256	373 869
Loans and advances to Customers	394 268	499 045	567 043	525 570	593 196	-	2 579 122
Assets pledged under sale and repurchase agreements	-	-	-	-	5 881	13 264	19 145
Current income tax Prepayments	-	-	-	-	-	797	797
Other assets	-	-	-	-	-	46 190	46 190
Premises and equipment	-	-	-	-	-	96 976	96 976
Total assets	1 137 965	546 170	633 587	661 230	852 173	402 962	4 234 087
Liabilities							
Due to other banks	620 205	170 941	88 010	123 326	12 889	-	1 015 371
Customer accounts	1 282 529	61 182	108 424	268 302	7 688	-	1 728 125
Debt securities in issue	73 336	45 136	272 776	21 502	216 025	-	628 775
Current income tax payable	-	-	-	-	-	11 588	11 588
Other liabilities	-	-	-	-	-	47 872	47 872
Deferred tax liability	-	-	-	-	-	59 163	59 163
Total liabilities	1 976 070	277 259	469 210	413 130	236 602	118 623	3 490 894
Interest rate sensitivity gap	(838 105)	268 911	164 377	248 100	615 571	284 339	743 193

(e) Liquidity risk

Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates. Decisions on the Group's liquidity management are made by the Group's Asset and Liability Committee and implemented by the Treasury of the Group.

MDM Bank**Notes to the Consolidated Interim Financial Statements for the Six-Month Period Ended 30 June 2005**

(expressed in thousands of US Dollars – refer to Note 3)

24 Financial Risk Management (Continued)

The following table shows assets and liabilities of the Group, as at 30 June 2005, by their remaining contractual maturity, with the exception of trading securities, which are shown in the category “Demand and less than 1 month” based on the fact that Management believe that all of these trading securities could be liquidated within one month in the normal course of business:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets							
Cash and cash equivalents	670 856	-	-	-	-	-	670 856
Mandatory cash balances with central banks	44 521	5 132	4 228	9 361	1 287	-	64 529
Due from other banks	241 459	29 824	17 150	53 760	40 410	-	382 603
Trading securities	373 869	-	-	-	-	-	373 869
Loans and advances to customers	394 268	494 141	547 948	530 133	612 632	-	2 579 122
Assets pledged under sale and repurchase agreements	5 881	-	13 264	-	-	-	19 145
Current income tax prepayments	-	375	422	-	-	-	797
Other assets	45 827	226	38	-	99	-	46 190
Premises and equipment	-	-	-	-	-	96 976	96 976
Total assets	1 776 681	529 698	583 050	593 254	654 428	96 976	4 234 087
Liabilities							
Due to other banks	610 296	157 020	71 351	129 667	47 037	-	1 015 371
Customer accounts	1 282 529	61 182	108 424	268 302	7 688	-	1 728 125
Debt securities in issue	73 336	45 136	272 360	21 502	216 441	-	628 775
Current income tax payable	-	8 807	2 781	-	-	-	11 588
Other liabilities	44 134	865	2 329	204	340	-	47 872
Deferred tax liability	-	-	-	-	-	59 163	59 163
Total liabilities	2 010 295	273 010	457 245	419 675	271 506	59 163	3 490 894
Net liquidity gap	(233 614)	256 688	125 805	173 579	382 922	37 813	743 193
Cumulative liquidity gap	(233 614)	23 074	148 879	322 458	705 380	743 193	-

MDM Bank**Notes to the Consolidated Interim Financial Statements for the Six-Month Period Ended 30 June 2005**

(expressed in thousands of US Dollars – refer to Note 3)

24 Financial Risk Management (Continued)

As at 30 June 2005, the contractual maturities of trading securities are: USD 3 332 thousand in “Demand and less than 1 month”, USD 17 301 thousand in “From 1 to 3 months”, USD 49 394 thousand in “From 3 to 6 months”, USD 81 900 thousand in “From 6 to 12 months”, USD 212 686 thousand in “More than 1 year” and USD 9 256 thousand in “No stated maturity”.

Management believes that in spite of a substantial portion of deposits from customers being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group, would indicate that these deposits provide a long-term and stable source of funding for the Group.

(f) Geographical analysis

The majority of the operations of the Group are located in Russia. The geographical analysis of the Group’s assets and liabilities as at 30 June 2005 is set out below:

	Russia	OECD countries	Non-OECD countries	Total
Assets				
Cash and cash equivalents	326 434	318 705	25 717	670 856
Mandatory cash balances with central banks	53 629	-	10 900	64 529
Due from other banks	229 538	127 644	25 421	382 603
Trading securities	373 869	-	-	373 869
Loans and advances to customers	2 549 661	28 223	1 238	2 579 122
Assets pledged under sale and repurchase Agreements	19 145	-	-	19 145
Current income tax prepayments	499	-	298	797
Other assets	43 056	-	3 134	46 190
Premises and equipment	96 381	-	595	96 976
Total assets	3 692 212	474 572	67 303	4 234 087
Liabilities				
Due to other banks	533 395	409 468	72 508	1 015 371
Customer accounts	1 139 195	167 315	421 615	1 728 125
Debt securities in issue	565 058	62 407	1 310	628 775
Current income tax payable	11 584	-	4	11 588
Other liabilities	44 493	3 379	-	47 872
Deferred tax liability	59 163	-	-	59 163
Total liabilities	2 352 888	642 569	495 437	3 490 894

24 Financial Risk Management (Continued)

The majority of credit related commitments as at 30 June 2005 relate to residents of the Russian Federation.

The geographical classification of financial assets, liabilities and credit related commitments has been based on the country in which the counterparty is located. The classification of tangible assets (precious metals, premises and equipment) has been based on the country in which they are physically held.

Loans and advances to customers in the amount of USD 309 391 thousand, included in the above table as being with Russian counterparties, have actually been granted to subsidiaries and affiliates of these Russian counterparties located outside of the Russian Federation.

25 Contingent Liabilities, Commitments and Derivative Financial Instruments**(a) Legal proceedings**

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial conditions or the results of future operations of the Group.

(b) Tax legislation

The Group operates in a number of tax jurisdictions. In the normal course of business, management must interpret and apply existing legislation to transactions with third parties and its own activities. Current Russian tax legislation is principally based on the form in which transactions are documented and the underlying accounting treatment as prescribed by Russian Accounting Rules. The interpretation of Russian tax legislation by the tax authorities and court practice, which are constantly changing, in the future may focus less on the form rather than on the substance of a transaction. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation. Tax years remain open to normal audit by the Russian tax authorities for three years; during such time any change in interpretation or practice, even if there is no change in Russian tax legislation, could be applied retroactively. The interpretation and practice in other jurisdictions in which the Group operates are also changing, sometimes with retroactive effect.

The Group has taken steps to reduce its overall tax liability by structuring its operations and by taking advantage of lower tax jurisdictions. In Management's opinion, the Group is in substantial compliance with the tax and other laws governing its operations in Russia and in such lower tax jurisdictions. However, a risk remains that the relevant authorities could take different positions with regard to interpretative issues or that court practice could develop adversely to positions taken by the Group and the effect on these consolidated interim financial statements, should the authorities succeed in asserting their positions, could be significant.

(c) Capital commitments

As at 30 June 2005, the Group had capital commitments mainly in respect of the development of its branch network and system enhancements, totalling approximately USD 7 181 thousand.

MDM Bank**Notes to the Consolidated Interim Financial Statements for the Six-Month Period Ended 30 June 2005**

(expressed in thousands of US Dollars – refer to Note 3)

25 Contingent Liabilities, Commitments and Derivative Financial Instruments (Continued)**(d) Operating lease commitments**

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	30 June 2005
Not later than 1 year	4 083
Later than 1 year and not later than 5 years	3 665
Later than 5 year	4 423
Total operating lease commitments	12 171

During the six-month period ended 30 June 2005 USD 2 568 thousand was recognised as an expense in the consolidated statement of income in respect of operating leases.

(e) Credit related commitments

Credit related commitments comprise letters of credit, undrawn loans and guarantees. The contractual amount of these commitments represents the value at risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless.

Outstanding credit related commitments are as follows:

	30 June 2005
Letters of credit	416 165
Undrawn loan commitments	107 299
Guarantees issued	55 306
Less: provision for losses on credit related commitments	(3 910)
Total credit related commitments	574 860

Information on related party transactions is disclosed in Note 27.

25 Contingent Liabilities, Commitments and Derivative Financial Instruments (Continued)

Movements in provision for losses on credit related commitments are as follows:

	Six-Month Period Ended 30 June 2005
Provision for losses on credit related commitments as at 1 January	1 219
Charge to provision during the period	2 799
Effect of foreign currency translation	(108)
Provision for losses on credit related commitments as at 30 June	3 910

This provision is recorded within other liabilities. Refer to Note 15.

The total outstanding contractual amount of letters of credit, undrawn loan commitments and guarantees does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

(f) First to default credit-linked notes

During the six-month period ended 30 June 2005 the Group purchased first to default credit-linked notes, issued by a major international bank, with a total nominal value of USD 75 000 thousand. Repayment of these notes is dependent on certain government, municipal and corporate bonds being repaid by their issuers in full. In case of default of any of these bonds, the major international bank will transfer to the Group defaulted bonds with the nominal amount equal to the nominal amount of first to default credit-linked notes held by the Group without any further payments to the Group under the notes.

The issuers of bonds, upon repayment of which repayment of first to default credit-linked notes is dependent, are as follows:

Types of issuers	Number of issuers	Range of international credit ratings of the issuers as at the time of purchase of credit-linked notes	Range of international credit ratings of the issuers as at 30 June 2005
Governments	5	B1-A2	B1-A2
Municipal authorities	1	Baa3	Baa3
Corporate companies	8	B2-Baa3	B1-Baa3
Financial institutions	10	Ba1-Aa1	Ba1-Aa1

Management believes that no significant change has occurred in credit risks associated with the issuers of the bonds, upon repayment of which repayment of first to default credit-linked notes is dependent, since the acquisition of these notes by the Group. As a consequence, no provision for losses under first to default credit-linked notes has been recognised in these consolidated interim financial statements.

Income earned by the Group on first to default credit-linked notes includes interest income on the principal amount of the notes and commission for assuming credit risk. Refer to Notes 6 and 20.

25 Contingent Liabilities, Commitments and Derivative Financial Instruments (Continued)

(g) Derivatives

Foreign exchange and other derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus, the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly over time.

The fair values of derivative instruments held are set out in the following table:

	30 June 2005	
	Contract/ notional amount	Fair values
		Assets Liabilities
<i>Foreign exchange derivative contracts</i>		
- currency spot transactions	1 313 448	1 422 (1 299)
- currency forwards	1 202 447	17 575 (19 810)
- currency futures	140 981	- -
<i>Precious metals derivative contracts</i>		
- precious metals forwards	3 738	23 (33)
<i>Securities derivative contracts</i>		
- securities forwards	64 781	205 (416)
Total recognised derivative assets/(liabilities)		19 225 (21 558)

Derivatives with positive fair values are recorded within other assets, while derivatives with negative fair values are included in other liabilities. Refer to Notes 10 and 15, respectively.

25 Contingent Liabilities, Commitments and Derivative Financial Instruments (Continued)

Maturity and average exchange rate breakdowns for forward currency contracts as at 30 June 2005 are set out in the following table:

	Contract/ notional amount	Weighted average contracted exchange rates	Fair values	
			Assets	Liabilities
Forwards				
Buy USD sell RUR				
Less than three months	119 242	28.51	605	(1)
Between three months and one year	1 722	28.07	38	-
Sell USD buy RUR				
Less than three months	180 430	28.35	15	(2 011)
Between three months and one year	68 121	27.90	-	(2 003)
More than one year	10 093	28.94	99	-
Buy EUR sell USD				
Less than three months	309 887	1.32	15 566	-
Buy USD sell EUR				
Less than three months	203 809	1.47	-	(14 019)
Other				
Less than three months	309 143	-	1 252	(1 776)

(h) Fiduciary assets

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognised in the consolidated interim balance sheet.

The Group provides trust services to individuals, trusts, retirement benefit plans and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Group receives fee income for providing these services. Trust assets are not assets of the Group and are not recognised in the consolidated interim balance sheet. The Group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments. As at 30 June 2005, total assets held in trust by the Group on behalf of customers are USD 326 957 thousand.

26 Fair Value of Financial Instruments

The Group has performed an assessment of its financial instruments, as required by IAS 32 "Financial Instruments: Disclosure and Presentation".

The estimated fair value of cash, correspondent accounts with central banks, correspondent accounts, overnight deposits with other banks and other floating rate placements is their carrying value.

The estimated fair value of fixed rate balances due from other banks, including central banks, is calculated based on discounted expected future principal and interest cash flows.

26 Fair Value of Financial Instruments (Continued)

The estimated fair value of trading securities and derivative financial instruments is based on quoted market prices at the balance sheet date without any deduction for transaction costs. For securities and derivative financial instruments not traded in an active market, the fair value is estimated by using valuation techniques, which include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

The estimated fair value of loans and advances to customers represents the discounted amount of estimated future cash flows expected to be received.

The estimated fair value of due to other banks and customer accounts balances, which are payable on demand, is their carrying value. The estimated fair value of due to other banks and customer accounts balances, which are not payable on demand, and other borrowed funds, which are not quoted in the active market, is calculated based on discounted expected future principal and interest cash flows.

The estimated fair value of debt securities in issue is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

The estimated fair value of all other financial instruments represents the discounted amount of estimated future cash flows expected to be received.

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

Management of the Group believes that fair value of financial instruments does not differ significantly from their carrying value.

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

27 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Banking transactions are entered into in the normal course of business with shareholders and companies with which the Group has significant shareholders in common. These include settlements, loans, deposit taking, trade finance and foreign currency transactions. These transactions are priced at market rates.

As at 30 June 2005, total balance sheet exposure to related parties (net of impairment) was USD 407 351 thousand, or 9.6% of total assets. As at 30 June 2005, total (on and off balance sheet) exposure to related parties (net of impairment) was USD 407 662 thousand, or 9.6% of total assets.

MDM Bank**Notes to the Consolidated Interim Financial Statements for the Six-Month Period Ended 30 June 2005**

(expressed in thousands of US Dollars – refer to Note 3)

27 Related Party Transactions (Continued)**(a) Transactions with key management personnel**

During the six-month period ended 30 June 2005 the total remuneration of the directors and key management personnel, including discretionary compensation, amounted to USD 7 316 thousand. Included in remuneration of the directors and key management personnel are salaries and bonuses of USD 6 059 thousand, contributions to the Russian Federation State pension fund of USD 110 thousand and termination benefits of USD 1 147 thousand. MDM Financial Group does not provide post-employment, share-based or other long-term benefits to the directors and key management personnel.

(b) Transactions with entities of MDM Financial Group other than the subsidiaries of MDM Bank

The outstanding balances as at 30 June 2005 with entities of MDM Financial Group other than the subsidiaries of MDM Bank ("other entities of MDM Financial Group") are as follows:

	MDM Financial Holding (Cyprus)	Other	Total
Cash and cash equivalents	-	21 308	21 308
Due from other banks	-	18 705	18 705
Loans and advances to customers			
Loans and advances to customers (gross)	224 149	-	224 149
Loan impairment	(2 253)	-	(2 253)
Other assets			
Derivative financial instruments	-	378	378
Due to other banks	-	277 905	277 905
Customer accounts	26 237	32 579	58 816
Other liabilities			
Derivative financial instruments	-	169	169
Amounts in course of settlement	313	-	313

The results of transactions with other entities of MDM Financial Group for the six-month period ended 30 June 2005 are as follows:

	MDM Financial Holding (Cyprus)	Other	Total
Interest income on loans and advances to customers	7 540	7 491	15 031
Interest income on due from other banks	-	663	663
Interest expense on due to other banks	-	(6 833)	(6 833)
Interest expense on customer accounts	-	(559)	(559)
Net fee and commission (expense)/income	(5 590)	973	(4 617)
Gains less losses arising from trading securities	-	(337)	(337)
Gains less losses arising from dealing in foreign currencies	(473)	214	(259)
Other income	-	106	106
Operating expenses	-	(38)	(38)

MDM Bank**Notes to the Consolidated Interim Financial Statements for the Six-Month Period Ended 30 June 2005**

(expressed in thousands of US Dollars – refer to Note 3)

27 Related Party Transactions (Continued)

Due from other banks of MDM Financial Group of USD 4 432 thousand and USD 14 273 thousand have remaining maturities up to one year and from one to five years, respectively, as at 30 June 2005. As at 30 June 2005, the average effective interest rates on due from other banks of MDM Financial Group were 10.2%, 8.7% and 10.0% for balances denominated in Russian Roubles, US Dollars and Euros, respectively.

Loans and advances to other entities of MDM Financial Group of USD 224 149 thousand have remaining maturities up to one year, as at 30 June 2005. As at 30 June 2005, the average effective interest rates on loans and advances to entities of MDM Financial Group were 5.0% for loans denominated in US Dollars.

Other assets arising from transactions with other entities of MDM Financial Group include receivables from operations with derivative financial instruments.

Due to other banks of MDM Financial Group comprise balances of MDM Bank St. Petersburg and MDM Bank Urals and include correspondent accounts of USD 242 246 thousand and term deposits of USD 35 659 thousand. Term deposits of USD 34 494 thousand and USD 1 165 thousand have remaining maturities up to one year and from one to five years, respectively, as at 30 June 2005. As at 30 June 2005, the average effective interest rates on term deposits due to other banks of MDM Financial Group were 18.3%, 3.7% and 13.0% for deposits denominated in Russian Roubles, US Dollars and Euros, respectively.

Balances on customer accounts of other entities of MDM Financial Group comprise current accounts of USD 53 572 thousand and term deposits of USD 5 244 thousand, as at 30 June 2005. Balances on current accounts of related parties are repayable on demand and carry a standard rate applied by the Group for current accounts.

Other liabilities to other entities of MDM Financial Group comprise amounts in the course of settlements of USD 313 thousand and payables on operations with derivative financial instruments of USD 169 thousand.

(c) Transactions with other related parties

The outstanding balances as at 30 June 2005 with other related parties are as follows:

	Eurochem	SUEK	TMK	Other	Total
Trading securities	-	3 731	8 414	-	12 145
Loans and advances to customers					
Loans and advances to customers (gross)	2 243	130 264	2 289	-	134 796
Loan impairment	(51)	(1 758)	(68)	-	(1 877)
Customer accounts	21 245	19 507	116	1 074	41 942
Debt securities in issue					
Promissory notes issued	-	1 759	-	-	1 759
Credit related commitments	76	235	-	-	311

MDM Bank**Notes to the Consolidated Interim Financial Statements for the Six-Month Period Ended 30 June 2005**

(expressed in thousands of US Dollars – refer to Note 3)

27 Related Party Transactions (Continued)

The results of transactions with related parties for the six-month period ended 30 June 2005 are as follows:

	Eurochem	SUEK	TMK	Other	Total
Interest income on loans and advances to customers	265	7 627	400	-	8 292
Interest income received from securities issued by related parties	-	254	33	-	287
Net trading gains from trading in securities issued by related parties	-	202	-	-	202
Net fee and commission income	26	99	350	-	475
Other income	3	480	-	-	483
Operating expenses	-	(218)	-	-	(218)

Trading securities issued by related parties include corporate bonds denominated in Russian Roubles with remaining maturity from one to five years and an average yield to maturity of 9.4%.

Loans to other related parties of USD 127 812 thousand and USD 6 984 thousand have remaining maturities up to one year and from one to five years, respectively, as at 30 June 2005. As at 30 June 2005, the average effective interest rates on loans and advances to other related parties were 12.6% and 11.4% for loans denominated in Russian Roubles and US Dollars, respectively.

Movements in loans to other related parties are as follows:

	Six-Month Period Ended 30 June 2005
Loans as at 1 January	148 170
Loans issued during the period	36 074
Interest income for the period	8 292
Loans repayments during the period	(56 106)
Effect of foreign currency translation	(1 634)
Loans as at 30 June	134 796

Other assets arising from transactions with other related parties include trade debtors and prepayments and net amounts in the course of settlement.

Balances on customer accounts of other related parties comprise current accounts of USD 41 942 thousand, as at 30 June 2005. Balances on current accounts of related parties are repayable on demand and carry a standard rate applied by the Group for current accounts.

MDM Bank**Notes to the Consolidated Interim Financial Statements for the Six-Month Period Ended 30 June 2005**

(expressed in thousands of US Dollars – refer to Note 3)

28 Principal Subsidiaries

Included in the table below is the list of the principal subsidiaries of the Group, as at 30 June 2005. Certain subsidiaries were excluded or added to the list of principal subsidiaries based on the changes in the scope of their operations during the six-month period ended 30 June 2005.

Name	Jurisdiction	Voting rights/ Equity owned, % 30 June 2005
Banking		
Latvian Trade Bank	Latvia	63.3
Asset management		
Petrovsky Fondovy Dom	Russia	100.0
Leasing		
LeasingPromHold	Russia	100.0
Real estate		
MVK Nedvizhimost	Russia	100.0
