



DIVISION OF INVESTMENT MANAGEMENT

UNITED STATES SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

PUBLIC

April 8, 1998

VIA FACSIMILE AND AIRMAIL

Andrei M. Datsenko, First Deputy Chairman of the Board
Alexei N. Porhun, Capital Markets General Manager
Moscow Municipal Bank - The Bank of Moscow
36, Novy Arbat Str.,
Moscow 121205
RUSSIA

ACT ICA
SECTION
RULE 17f-5
PUBLIC AVAILABILITY 4/8/98

Dear Mr. Datsenko and Mr. Porhun:

This is in response to your letter to the Division of Investment Management ("Division"). The Division is responsible for the regulation of investment companies and investment advisers. Your letter requests confirmation that Moscow Municipal Bank - The Bank of Moscow ("Bank") would qualify as an "eligible foreign custodian" under amended Rule 17f-5 under the Investment Company Act of 1940 ("1940 Act"). You also request a standard form of a contract between a U.S. registered investment company and a foreign custodian that has been approved by the U.S. Securities and Exchange Commission ("Commission").

Section 17(f) of the 1940 Act sets forth the custodial requirements for U.S.-registered investment companies ("funds"). Rule 17f-5 under the 1940 Act permits funds to maintain their assets with certain categories of "eligible foreign custodians," including "qualified foreign banks." The Commission recently amended Rule 17f-5 to provide funds with greater flexibility in managing their foreign custody arrangements, consistent with the safekeeping of fund assets. Paragraph (a)(4) of the amended rule generally defines a "qualified foreign bank" to include any bank "incorporated or organized under the laws of a country other than the United States, that is regulated as such by the country's government or an agency of the country's government."

Rule 17f-5 is self-operative and does not require any foreign institution that satisfies the definition of "eligible foreign custodian" to obtain the prior approval of the Commission before serving as an eligible foreign custodian for funds. You are correct in your interpretation that if the Bank is incorporated or organized under the laws of Russia and is regulated as such by the Russian government or an agency of the Russian government, it satisfies the definition of eligible

1 See Custody of Investment Company Assets Outside the United States, Investment Company Act Release No. 22658 (May 12, 1997). The amendments became effective on June 16, 1997.

Mr. Andrei M. Datsenko and Mr. Alexei N. Porhun

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foreign custodian and does not require Commission approval to provide custodial services to funds.²

Although the Commission does not approve contracts between funds and their foreign custodians, funds are required to file these contracts as exhibits to their registration statements, which are generally filed on Form N-1A (for open-end funds) or Form N-2 (for closed-end funds). These forms are filed electronically and may be retrieved through the Commission's EDGAR database, which is accessible through the Commission's web site, [http:// www. sec. gov](http://www.sec.gov).

I am enclosing with the airmail copy of this letter a copy of the Commission release adopting the amendments to Rule 17f-5. You will find the text of the amended rule at the end of the release. If you have additional questions, please contact me by telephone at (202) 942-0660, or by facsimile at (202) 942-9659. Thank you for your inquiry.

Sincerely,

Veena K. Jain
Veena K. Jain
Staff Attorney

Enclosure

² We note that the recent amendments to Rule 17f-5 removed most of the minimum capital requirements from the rule, including those that applied to foreign banks.



Moscow Municipal Bank

Bank of Moscow

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№847
12.03.98

**Ms. Karrie H. McMillan, Special Counsel
Division of Investment Management
Securities and Exchange Commission**

***Request for formal Interpretive advice
in connection with the amended
rule 17f-5 under the Investment
Company Act of 1940***

Dear Ms. McMillan,

The Joint Stock Commercial «Moscow Municipal Bank - The Bank of Moscow» (hereinafter, the Bank of Moscow) would like to qualify as an «Eligible Foreign Custodian», in accordance with the amended rule 17f-5 under the Investment Company Act of 1940. The Bank of Moscow was incorporated in Russia in 1994 and operates under General License No. 2748 and Securities Market Professional Participant License No. 138-00024-211400 issued by the Central Bank of the Russian Federation. The Bank of Moscow is authorized to engage in the business of commercial banking and provide securities services, including the custodial services. The Bank of Moscow is supervised by the Central Bank of the Russian Federation under the Law on Banks and Banking Activity of 1990 with the most recent amendments of 1996 and the Law on Capital Markets of 1996. Thus, from our standpoint, the Bank of Moscow meets the requirements of the amended rule 17f-5 and may serve as a custodian for U.S. registered investment companies (a brief description of the Bank of Moscow's activities and financial strength is attached).

We would like to request for formal advice of whether we correctly interpret the amended rule 17f-5 and no exemptions are needed for the Bank of Moscow to qualify as an «Eligible Foreign Custodian». If not, we would be grateful to You for providing us with all the necessary information on the procedures of applying for such an exemption. Besides, if possible, we would like to receive a standard form of a Contract between a U.S. registered investment company and a foreign custodian that is approved by the SEC (if any) to get acquainted with principles of such a Contract.

Thanking You in advance,
Sincerely,

First Deputy Chairman of the Board


Andrei M. Datsenko

Capital Markets General Manager


Alexei N. Porhun

Bank of Moscow

Informational memorandum

1. BACKGROUND INFORMATION

The Joint Stock Commercial "Moscow Municipal Bank - The Bank of Moscow" (the "Bank of Moscow" or the "Bank") was founded in March 1995 when the City of Moscow authorities (the "City") bought 51% of the Moscow Joint Stock Clearing Bank, which was itself registered in March 1994 with capital of R300m. Substantial new capital was injected by the City and other shareholders, a new management team put in place, the name of the Bank was changed and operations as a municipal bank commenced in 1995. Following the most recent share issue, the City increased its shareholding to about 53%. It operates through one head office and 18 branches in Moscow.

The Bank began its activities by servicing the City's requirements and by participating in the Moscow money markets, although it is now seeking to diversify into other areas such as retail and corporate business. It aims to be a universal bank offering the entire range of banking services allowed by Russian legislation to entities and individuals within the Moscow area whilst specializing as a municipal bank.

For the year to 31 December 1995, the Bank achieved a return of 16.2% and in the year to 31 December 1996 it was 14.5%.

A report in Izvestia newspaper listing the top Russian banks under Russian accounting rules as at 1 July 1997 showed that the Bank of Moscow had risen to 12th position in the country with total assets of R12,185,244m and shareholders funds of R402,242m.

2. AUTHORITY STATUSES

The Bank of Moscow operates under the General License for banking operations No 2748 dated 7 August 1997 (issued by the Central Bank of the Russian Federation); the Securities Market Professional Participant License (for brokerage operations, including retail transactions; dealing operations; trust management operations with securities; depository operations) No 138-00024-211400 dated 15 December 1997 (issued by the Central Bank of the Russian Federation); the License for management of nongovernmental pension funds assets No 114 dated 31 October 1996 (issued by the Nongovernmental Pension Fund Inspection); and the Depository Registration Certificate No D0044583134B dated 30 July 1997 (issued by the Central Bank of the Russian Federation).

The Bank of Moscow has been being a primary dealer for Russian Treasury Bills (GKOs/OFZs) since 30 May 1996.

The Bank of Moscow has been being a member of the Fixed Income Securities Market Section and the Derivatives Section of the Moscow Interbank Currency Exchange (MICEX) since 4 December 1996 and its Stock Section since 3 October 1997.

The Bank of Moscow has been being a member of the Russian Trading System* since 26 May 1997. (*the greatest over-the-counter stocks trading system in Russia).

The Bank of Moscow has been being a member of the National Association of Capital Market Participants (Russia) since 26 May 1997.

The Bank of Moscow has been being a member of the Association of Promissory Notes Market Participants (Russia) since 15 October 1996.

The Bank of Moscow is an authorized bank for Moscow municipal savings bonds (OGSZ) issuing and servicing. It is also the general payment agent of the City of Moscow within the internal and external borrowing programs.

3. CAPITAL AND OWNERSHIP

3.1 Ownership

As at 31 December 1996 the Bank had 37 shareholders, and at 1 June 1997 this had increased to 90 following a new issue, with the City of Moscow, the largest shareholder increasing its stake from 50.88% to 54.69%. The major shareholders are as follows:

	31 December 1996	1 June 1997
Shareholder	% Held	% Held
Property Fund of The Government of Moscow	33.08	36.15
Management Committee of Property of Moscow	17.80	18.45
Mosbusinesstrust	5.00	2.50
SBS Agro	5.00	2.50
UNEXIMBank	5.00	2.50
Unicombank	4.00	2.00
Moscow Bank of the Savings Bank of Russian Fed	3.40	1.55
MAPO-Bank	3.30	-
Moscow Bank for Reconstruction and Development	3.30	1.50
Rossiyskiy Kredit Bank	3.30	1.50
Moscow Metro	3.30	1.50
Montazhspetsbank	3.30	1.50
Menatep Bank	3.30	1.50
Moscow Industrial Bank	1.00	0.50
Lukoil	0.25	0.88
Mosglavsnab	0.50	0.25
Bank Zenit	-	7.50
Finros Commercial Bank	-	5.00
Sherbinka refinery	-	2.50
Agroproduct plc	-	2.25
Moscow Municipal Employment Committee	-	1.50
United Investment Company	-	1.50
Others	5.17	4.88

3.2 City of Moscow

The City holds about 53% of the Bank through two vehicles, the Property Fund of the Government of Moscow, which is the City's specialist financial institution, and the Management Committee of the Property Fund of Moscow, which is the specialist organization for development, management, and control of property deals. Most decisions relating to corporate governance such as changes to the charter or to the authorized capital, mergers, take-overs, or liquidation require 75% shareholder approval, so the City does not totally control the Bank although it is by far the largest shareholder and exercises a powerful influence on the Bank.

Naturally the Bank has a very strong and close relationship with the City and it is strongly believed that the City will maintain its current shareholding level for the foreseeable future. There is the likelihood that the City will increase its shareholding further to around 60% in a future new issue. The Bank was formed by the City authorities whose intention was to set up a municipal clearing house and major financier for its projects, and any change in this intention and sale of the shares would require. The City keeps accounts with other banks, in particular for hard currency business, but the vast majority of its Rouble business is passed through the Bank of Moscow.

Periodically the City carries out checks that the Bank is handling the budgetary accounts appropriately and that all necessary payments are being made as specified. However no financial checks on the Bank itself are made by the City.

3.3 Other Shareholders

As at 1 June 1997 none of the other shareholders owned more than 7.5% and the various large Moscow based banks and corporates owned a total of 45% of the Bank. These include the major top 10 Russian banks SBS Agro, UNEXIMBank, Rossiisky Kredit Bank, a subsidiary of Mosbusinessbank, and the Moscow arm of the Savings Bank of Russia ("Sberbank"). New shareholders include Bank Zenit with 7.5% of the Bank.

3.4 Share Capital

As at 31 December 1996 the Bank had 1,000,080 ordinary shares in issue with nominal value of R100,000 each and no preference shares. In May 1997 1,000,000 new ordinary shares were issued, increasing issued share capital to R200bn, and further R200bn have been raised recently. These increases will allow the Bank to expand its business base and make larger loans to a more diversified customer base, as well as facilitating a wider banking license. The City of Moscow has retained its 55% shareholding level, although certain other shareholders have not been taking steps to maintain their shareholding levels and some new shareholders have been actively sought. Moscow electricity utility Mosenergo has become a shareholder in the most recent issue. The Bank does not own and has never owned any of its own shares.

The Bank is a privately held open joint stock company and is not listed on any exchange although the shares are freely sellable.

The Bank's capital structure is as follows:

R mn	31 December 1995	31 December 1996	29 May 1997 Unaudited	23 February 1998 Unaudited
Issued capital	100,008	100,008	200,000	400,000
Reserves	19,429	40,400	83,886	154,484
Shareholders Funds	119,437	140,408	283,886	554,484

4. SUBSIDIARIES AND INVESTMENTS

4.1 Subsidiaries

The following table shows the Bank's subsidiaries and their businesses as at 31 December 1996:

Subsidiary	% held	Cost in R mn	Business
CB Ognvy Moscvy *	51%	10,989	Bank
ZAO BM-Securities	100%	250	Broker
ZAO Altruist *	100%	<u>10</u>	Financial
ZAO Financial Assistant	100%	<u>10</u>	Financial
ZAO Press-Magnat *	100%	<u>10</u>	Publishing
ZAO Imagine *	100%	<u>50</u>	Financial
Moscow GUVD support fund	71%	50	Non-commercial fund

* Included in the consolidated financial statements, the remaining companies are not consolidated as they are not considered material.

4.1.1 Ognvy Moscvy Bank

The Bank owns 34.99% directly and 16.01% indirectly of Ognvy Moscvy Bank, which was acquired in June 1996 for approximately R11bn and the Bank of Moscow has a presence on the Supervisory Board where Mr Borodin is Chairman. The balance of Ognvy Moscvy Bank is owned by various private companies, the Construction Department of the City of Moscow, and various Moscow newspapers with no other shareholder having more than 4%. It consists of 10 branches of which 7 are in Moscow and 3 in St Petersburg and its customer base consists of approximately 1,500 individuals. Ognvy Moscvy has a subsidiary ZAO Financial Company Ognvy Moscvy involved in funds flow management.

As at 1 April 1997, Ognvy Moscvy Bank's summary financial situation according to Russian accounting standards was as follows:

Loan Book	R160.0bn
Total Assets	R278.0bn
Deposits	R107.0bn
Interbank Borrowing	R55.0bn
Shareholders Funds	R41.0bn
Gross Profit	R1.8bn

The Bank of Moscow treats Ognymoskovy Bank as an unrelated bank counterparty and gives market terms on its \$2m line with no special privileges although when initially acquired the Bank did make available lines at preferred rates. Ognymoskovy Bank reports direct to the CBR, which does not require consolidation of the two banks, and is in compliance with all CBR requirements. To date the Bank has never guaranteed Ognymoskovy Bank's obligations or performance but this is under consideration.

4.1.2 ZAO Altruist

This is a financial company involved in investment and cash flow projects.

4.1.3 ZAO Press-Magnat

This company was set up to manage the Bank's mass media projects.

4.1.4 ZAO Imagine

This is a financial company involved in investment and cash flow projects.

4.2 New investments

It has recently been announced that the Bank is to acquire a 20% stake in Russian brokers Troika Dialog, and that Mr Borodin, President of the Bank, will join the Board. To date there are no further details available, and terms have not yet been finalised.

In April 1997, the Bank bought 18.3% of Bank Zenit for R15bn. Bank Zenit was created in December 1994 and has a general licence and is a primary dealer for GKO/OFZs. Its total balance sheet as at 31 December 1996 under IAS accounting was R1,165,684m with net worth of R98,564m.

4.3 Associates

The following table shows the Bank's associates, which are accounted for on an equity basis in the financial statements.

Associate	% held	Business
ZAO Accept	40	TV Broadcasting
ZAORusskiye Strakhoviye Traditsiyi	40	Insurance
Stolitsa Social and Cultural development fund	24	Other
OAO Mosleasprom	20	Leasing

5. SUMMARY FINANCIAL INFORMATION

The audited accounts for 1995 and 1996 which were prepared under IAS regulations and produced by Coopers & Lybrand are summarized below in Sections 5.1 and 5.2. The accounts are qualified in respect of Accounting Standard No 29 as adjustments in respect of hyperinflation have not been made and this qualification is not unusual to see in Russian Bank financial statements.

Consolidated accounts have been produced for the first time for the 1996 financial year, as the Bank's subsidiaries are now more material. It has grown rapidly over the last year from approximately \$140m total balance sheet size in 1995 to approximately \$240m in 1996, on a directly comparable unconsolidated basis, and \$275m if consolidation is taken into account. This is due to both organic growth and acquisitions with increases in shareholders funds following two new issues.

5.1 Profit and Loss account

	31 December 95	31 December 96	
	R mn Unconsol	R mn Unconsol	R mn Consol
Net Interest Income	38,729	171,204	173,967
Other Income	1,458	(5,206)	10,255
Profit before Provisions	22,319	74,700	89,140
Provisions	(2,890)	(40,216)	(55,040)
Profit before Tax	19,429	34,484	34,100

No dividends were paid in respect of 1995 or 1996.

5.2 Balance Sheet

	31 December 95	31 December 96	
	R mn Unconsol	R mn Unconsol	R mn Consol
Assets:			
Loans to Customers	14,134	433,281	417,937
Interbank loans	175,733	169,418	208,238
Loans to City of Moscow	20,000	170,000	170,000
Cash with Central Bank	243,024	283,693	290,286
Dealing securities	187,184	213,141	245,278
Liabilities:			
Interbank Deposits	10,062	175,000	205,760
City of Moscow Deposits	522,051 *	450,126	452,873
Other Deposits	*	528,646	618,970
Promissory Notes	573	37,690	35,863
Shareholders Funds	119,437	141,064	140,408
Total Balance Sheet	654,013	1,335,242	1,529,935

* No comparable breakdown for deposits for 1995.

Cash with CBR consists of R176bn in the obligatory reserve and R113bn in the correspondent account in 1996 and R58bn obligatory reserve and R185bn in the correspondent account in 1995.

5.3 Off Balance Sheet Items

Finance commitments, guarantees and contingencies as of 31 December 1996 consisted of R22,123m guarantees and R27,000m commitments to lend and as at 31 December 1995 were zero.

5.4 Capital Adequacy

As at 31 December 1996 the Bank's capital adequacy position was 19% compared to the 8% requirement of the World Bank. According to Russian standards, the capital adequacy ratio stood at 21%.

5.5 Post Balance Sheet Events

Since the 1996 year end, Bank of Moscow's balance sheet has increased considerably in size. This is partly due to the City of Moscow moving a large number of its budgetary accounts to the Bank rather than leaving them spread over a large number of Moscow based banks. In addition the share issue referred to in Section 3 and a general build-up in business has also bolstered the position.

The balance sheet below is taken from the Bank's management accounts compiled on an IAS accounting basis and serves to show the changes that have taken place.

Balance Sheet

	1 July 97	1 September 97
	R mn Unconsol	R mn Unconsol
Assets:		
Loans to Customers	967,438	723,821
Interbank loans	2,725,867	1,036,254
Loans to City of Moscow		273,332
Cash with Central Bank	736,880	1,014,096
Dealing securities	3,405,790	3,626,995
Liabilities:		
Interbank Deposits	184,342	166,112
City of Moscow Deposits		2,328,474
Other Deposits	7,358,795	3,738,874
Promissory Notes	77,943	150,636
Shareholders Funds	351,079	482,831
Total IAS Balance Sheet	8,024,383	6,881,264
Total Russian Balance Sheet	12,185,344	15,349,522
Guarantees	78,945	98,912

5.5.1 Of the deposit base, 61% is on demand.

5.5.2 The Bank has increased its issuance of domestic promissory notes with tenors of 6 months. 90% of the promissory notes are effectively loans to the City, as the City uses the notes to pay its creditors. These creditors then present the promissory notes to the Bank for payment.

5.5.3 The Bank's loan book has increased to R997,153m with 27.4% lent to the City, and a further 7.5% to other government entities. 30.5% is lent to the financial services sector, and after the RenTV loan constituting 5.8% of the loan book all other borrowing groups are less than 5%.

On the back of the Russian accounted gross assets position, the Bank has risen to 12th place in the list of Russian banks by asset size as at 1 July 1997 according to Izvestia newspaper.

6. BUSINESS ACTIVITIES AND STRATEGY

6.1 Overview

The Bank has a General License from the Central Bank of Russia, which gives full authorization to perform all types of banking operations. The license does not have an expiry date, and maintenance is subject to non-violation of Russian laws and prescribed regulations of the Central Bank and other regulatory bodies.

The Bank plans to maintain the majority of its activities within the Moscow City region, with up to 22 branches by the end of the year, whilst expanding its customer and product base to diversify away from its municipal origin. The possibility of expanding into other regions will be considered through setting up a pool of sister municipal or subsidiary banks in due course.

6.2 Main Activities

The main activities of the Bank are as follows:

6.2.1 Municipal Activities

As previously mentioned, the Bank was founded with the intention of being a municipal bank and currently controls over 50% of the City Budget which for 1997 totals some R42 trillion and the City remains the Bank's major customer. As at 31 December 1996 the City accounted for 26.6% of the loan book and 46% of deposits, and whilst this is a large exposure to one client, the high quality and undoubted standing of the municipality allow this exposure to be considered in a positive light, supported by the Bank's external auditors Coopers & Lybrand, who have independently classified all lending to the City as Category A. The Bank is however keen to diversify its loan, deposit and business base from the City.-The Bank is technical agent for all City debt instruments providing consultancy and settlement services and is paying agent for the City's domestic debt.

The Bank focuses its attention on business in the Moscow area and priority is given to projects that will improve or assist the City or the Region as they continue to develop.

6.2.2 Branches

The Bank currently has 18 branches which are generally staffed by seven individuals offering a range of services. The Branches' main function is to serve individual and corporate clients, to provide clearing facilities and to market the Bank's services. Branch managers do not have any delegated power and all decisions on loans and/or investments are made by head office. Current and deposit accounts are maintained at the branches but loan accounts are all run out of head office as are equities and securities trades. However the

branches have on-line facilities to the head office and so can access information on their customers as required. Reporting to head office is undertaken on a weekly, monthly and quarterly basis and periodic checks on the branches are undertaken by staff from head office.

6.2.3 Treasury

The Bank actively deals in the interbank market offering both deposit and forex facilities with the major trading in R/\$. During 1997 the Bank expanded the spectrum of operations conducted both in Roubles and foreign currency, increased the number of counterparties, and improved its technical base for deposit and forex operations. Very few derivatives are used, with forwards being the most common. The Bank is a member of SWIFT and REUTERS as well as the Sprint and Telex International telecommunications networks.

6.2.4 Capital Markets

The Bank has always been very active in the government debt market, trading federal loan bonds, government savings bonds and treasury bills. In July 1996 the Bank was granted the status of Primary Dealer of the Bank of Russia in operations with GKO and OFZs, and it is a paying agent for the Moscow municipal bonds. It trades on its account and for clients and has recently been granted a license to offer "S" accounts. The Bank performs the overall spectrum of operations in the GKO-OFZ market (sales/purchase, auction purchase, floor transactions via personal trader, trust management, lending against GKO-OFZ portfolio). In 1996, the Bank's turnover for GKO purchases and sales was in excess of R50trn (US\$10bn) and it was one of the twenty largest banks in Russia when measured by volume of state securities.

The Bank performs operations in the corporate securities market in cooperation with Troika Dialog, a leading Russian investment company. The Bank of Moscow is a sales agent of the mutual funds under the management of Troika Dialog.

The Bank performs operations with promissory notes both commercial and financial (including its own promissory notes of which USD17.4m were outstanding as at 27 May 1997).

Risk Management

Control procedures are maintained in accordance with internal manuals produced on risk management. All operations are conducted with counterparties and instruments strictly within the limits approved by the Credit Committee, including open position limits intra-day and overnight and stop-loss limits.

In addition to internal regulations, there are certain regulations of the Central Bank in the form of indices to be observed in respect to

liquidity management, risk management, gap management, and asset-liability management.

The principles of separate data input is closely followed by dividing the activities and responsibilities between the Treasury and Back Office operations.

Custodial Services

The Bank provides custodial services, including, but not limited to, the maintenance of depository accounts.

The Bank is one of a select group of sub-depositories for GKO/OFZs. The Bank is an authorized sub-depository for certain Moscow municipal bonds.

The Bank has recently opened a unique electronically protected depository for certified securities. The method of keeping custodial records and data protection of the Bank meets the requirement of the Central Bank of Russia; in particular, specific protected software worked out by the ProgramBank Company is employed.

The Bank plans a considerable expansion of this business, especially in the corporate securities market, and seeks to make its services, both with respect to Russian government debt securities and corporate securities, available to U.S. registered investment companies.

6.2.5 Retail

The Bank started its retail business in February 1996 and now has approximately 12,500 clients with an average of \$2,000 on each account which constitutes approximately 3% of the Bank's total deposits. They aim to increase this to 100,000 clients over the next two years, through targeting City personnel, growth in branches, and good quality service. Personal customers are not offered any type of loan facility at this time, but they can borrow on their debit cards up to one month's salary which is credited direct to the card. The Bank operates longer opening hours than other commercial banks which provide a competitive edge to their service.

The Bank is focusing on a new strategy to attract retail business, and is currently working on a plan to pay pensions through its network and win ancillary business through this new client base. This might be implemented in cooperation with Ognny Moscovy Bank and the Post Office, through utilization of Post Office outlets throughout the Moscow region for providing banking services.

The Bank started its credit/debit card business in March 1996 and has issued approximately 10,000 Russian Union Debit Cards to date. It is also a principal member of the Europay/Mastercard and Visa International payment systems and issued its first Mastercards in

April 1997, with Visa cards launched in September 1997. The Bank plans to issue 25,000 Mastercards and 15,000 Visa cards over the next 2 years. Standard checks are applied on applicants for cards and the Bank can access a databank containing the names of known defrauders which is run by a group of Russian banks. Initially the Bank is targeting employees of the City as card holders.

6.2.6 Corporate Banking

The Bank is looking to expand further into corporate lending activities and diversifying its loan book away from the municipal borrowers. Corporate clients range from small firms to large well-known companies and include firms involved in the food, fuel and energy industries, mass media and export-oriented businesses. Lending is generally for projects involving construction, modernization, trade, acquisition of equipment and associated with improvements to the Moscow City region.

6.2.7 Correspondent Banking

The Bank has correspondent banking relationships with 60 Russian and 15 foreign banks. Some forex and L/C confirmation facilities have been extended to the Bank by International financial institutions.

7. AUDIT

7.1 Internal Audit

The CBR is bringing in regulations on internal audit, and the Bank is seeking to comply and is currently hiring experienced individuals to staff this division.

7.2 External Audit

The Bank's IAS external auditors are Coopers & Lybrand in Moscow who were appointed two years ago as the Bank in its current form commenced operations.

The Russian auditors are the Ekuran.

As at 31 December 1996 the Bank was in compliance with all IAS and Russian accounting practices.

7.3 Central Bank

The Bank meets regularly with representatives of the Central Bank and provides various financial and statistical statements. These include an open currency report provided daily; a cash flow report provided every fifth day; an aggregated currency position report with daily breakdown provided on a weekly basis; balance sheet, CBR ratios, creditor/debtor breakdowns provided monthly; financial statements, profit allocation report on a quarterly basis as well as various other breakdowns and information on banking activities. At present the Bank is in compliance with all the Central Bank requirements.

7.4 Tax Issues

There are no regular tax inspections, but the Bank is permanently controlled by the tax authorities in view of the budget payments handled by it.

8. LITIGATION

There has been no litigation against the Bank to date.