

**Commercial Bank
“Moscommertsbank”
(OOO), Moscow**

Independent Auditors' Report

Financial statements
Year Ended 31 December 2003

OOO “MOSCOMMERTSBANK”

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Commercial Bank "Moscommertsbank"
(Limited liability company, OOO), Moscow:

We have audited the accompanying balance sheet of the Commercial Bank "Moscommertsbank" (OOO) (hereinafter the "Bank") as of 31 December 2003, and the related profit and loss account and statements of cash flows and changes in stockholders' equity for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Bank as of 31 December 2002 and for the year then ended were audited by another auditor, whose report dated 15 May 2003, expressed an unqualified opinion on those financial statements prior to their restatement (correction of error).

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2003, and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

As stated in Note 3, the financial statements as of 31 December 2002 and for the year then ended were restated due to correction of fundamental errors.

12 February 2004

OOO "MOSCOMMERTSBANK"

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2003 (in thousands of Russian Roubles)

	Notes	2003	2002 (restated)
Interest income	4, 26	216,371	22,598
Interest expense	4, 26	<u>(75,419)</u>	<u>(868)</u>
NET INTEREST INCOME BEFORE PROVISIONS FOR LOAN LOSSES		<u>140,952</u>	<u>21,730</u>
Provisions for loan losses	5	<u>(57,531)</u>	<u>(1,979)</u>
NET INTEREST INCOME		<u>83,421</u>	<u>19,751</u>
Net gain on trading securities	6	15,424	-
Net (loss)/gain on foreign exchange operations	7	(5,943)	4,965
Fee and commission income	8, 26	49,638	3,464
Fee and commission expense	8, 26	(19,804)	(65)
Net gain/(loss) on investments in securities available-for-sale	9	74	(10,457)
Other income		<u>1,052</u>	<u>94</u>
NET NON-INTEREST INCOME/(LOSS)		40,441	(1,999)
OPERATING INCOME		123,862	17,752
OPERATING EXPENSES	10,26	<u>(62,854)</u>	<u>(17,004)</u>
PROFIT BEFORE PROVISIONS FOR LOSSES ON OTHER TRANSACTIONS, INCOME TAX AND LOSS ON NET MONETARY POSITION		61,008	748
Provisions for losses on other transactions	5	<u>(9,435)</u>	<u>(19)</u>
PROFIT BEFORE INCOME TAX AND LOSS ON NET MONETARY POSITION		51,573	729
Income tax expense	11	<u>(8,329)</u>	<u>(115)</u>
PROFIT BEFORE LOSS ON NET MONETARY POSITION		<u>43,244</u>	<u>614</u>
Loss on net monetary position due to inflation effect		<u>-</u>	<u>(12,439)</u>
NET PROFIT/(LOSS)		<u><u>43,244</u></u>	<u><u>(11,825)</u></u>

On behalf of the Board:

Adekenov T.M.
Chairman of the Board

Stepin A.P.
Chief Accountant

The notes on pages 7 to 36 form an integral part of these financial statements. The Independent Auditors' Report is presented on page 1.

OOO "MOSCOMMERTSBANK"
BALANCE SHEET
AS OF 31 DECEMBER 2003
(in thousands of Russian Roubles)

	Notes	2003	2002 (Restated)
ASSETS			
Cash and balances with the Central Bank of the Russian Federation	12	152,892	31,836
Loans and advances to banks, less allowance for loan losses	13, 26	710,063	56,206
Trading securities	14	313,064	-
Securities purchased under agreement to resell	15	397,109	8,569
Loans and advances to customers, less allowance for loan losses	16, 26	1,838,334	25,958
Securities available-for-sale	17	-	598,384
Fixed and intangible assets, less accumulated depreciation	18	21,367	18,307
Other assets, less allowance for losses	19, 26	2,493	3,027
TOTAL ASSETS		<u>3,435,322</u>	<u>742,287</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES:			
Deposits from banks	20, 26	1,942,623	111,807
Customer accounts	21, 26	255,739	109,684
Debt securities issued	22	348,280	8,724
Other liabilities	23	19,317	503
Total liabilities		<u>2,565,959</u>	<u>230,718</u>
SHAREHOLDERS' EQUITY:			
Share capital	24	705,548	425,948
Share premium	24	132,390	97,440
Retained earnings/(accumulated deficit)		31,425	(11,819)
Total shareholders' equity		<u>869,363</u>	<u>511,569</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>3,435,322</u>	<u>742,287</u>
FINANCIAL COMMITMENTS AND CONTINGENCIES	25	1,193,532	2,940

On behalf of the Board:

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Chairman of the Board

Stepin A.P.
Chief Accountant

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OOO "MOSCOMMERTSBANK"

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2003
(in thousands of Russian Roubles)**

	Share capital	Share premium	(Accumulated deficit)/ retained earnings	Total shareholders' equity
At 31 December 2001	30,000	-	6	30,006
Issue of share capital	384,000	96,000	-	480,000
Net income	-	-	1,032	1,032
At 31 December 2002 (prior to correction of error)	414,000	96,000	1,038	511,038
Prior period adjustment (fundamental error)	11,948	1,440	(12,857)	531
At 31 December 2002 (restated)	425,948	97,440	(11,819)	511,569
Issue of share capital	279,600	34,950	-	314,550
Net income	-	-	43,244	43,244
At 31 December 2003	<u>705,548</u>	<u>132,390</u>	<u>31,425</u>	<u>869,363</u>

On behalf of the Board:

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Chairman of the Board

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OOO "MOSCOMMERTSBANK"

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2003 (in thousands of Russian Roubles)

	Notes	2003	2002 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax and loss on net monetary position		51,573	729
Adjustments for:			
Provision for loan losses		57,531	1,979
Provision for losses on other transactions		9,435	19
Depreciation and amortization of fixed and intangible assets		5,472	2,962
Income from sale of fixed and intangible assets		(50)	-
Changes in net interest accruals		(2,637)	6,089
		<u>121,324</u>	<u>11,778</u>
Cash flows from operating activities before changes in operating assets and liabilities			
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the Central Bank of the Russian Federation		(12,919)	(11,790)
Loans and advances to banks		(532,071)	(51,145)
Trading securities		(309,989)	(27,077)
Loans and advances to customers		(1,854,381)	-
Securities purchased under agreement to resell		(388,540)	(8,569)
Securities available-for-sale		604,112	(604,112)
Other assets		772	(3,027)
Increase/(decrease) in operating liabilities:			
Deposits from banks		1,813,470	111,807
Customer accounts		146,026	109,684
Debt securities issued		334,376	8,529
Other liabilities		1,236	594
		<u>(76,584)</u>	<u>(463,328)</u>
Cash outflows from operating activities before income taxes			
		(76,584)	(463,328)
Income tax paid		(424)	-
		<u>(77,008)</u>	<u>(463,328)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of fixed and intangible assets		(9,883)	(21,911)
Proceeds on sale of fixed and intangible assets		1,401	642
		<u>(8,482)</u>	<u>(21,269)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of share capital		279,600	384,000
Share premium received on share capital increase		34,950	96,000
		<u>314,550</u>	<u>480,000</u>
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS			
		229,060	(4,597)

OOO "MOSCOMMERTSBANK"

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2003 (CONTINUED) (in thousands of Russian Roubles)

	Notes	2003	2002 (restated)
INFLATION EFFECT ON CASH		-	719
CASH AND CASH EQUIVALENTS, beginning of period	12	<u>26,123</u>	<u>30,001</u>
CASH AND CASH EQUIVALENTS, end of period	12	<u><u>255,183</u></u>	<u><u>26,123</u></u>

Interest paid and received by the Bank in cash during the year ended 31 December 2003 amounted to RUR 52,872 thousand and RUR 202,638 thousand, respectively.

Interest paid and received by the Bank in cash during the year ended 31 December 2002 amounted to RUR 1,063 thousand and RUR 16,704 thousand, respectively.

On behalf of the Board:

Adekenov T.M.
Chairman of the Board

Stepin A.P.
Chief Accountant

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OOO “MOSCOMMERTSBANK”

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

(in thousands of Russian Roubles, unless otherwise stated)

1. ORGANISATION

Commercial Bank OOO “Moscommertsbank” is a limited liability company, which was incorporated in the Russian Federation on 11 April 2001. The address of its registered office is as follows: 1, Bolshoy Gnezdnikovskiy Per., Bldg. 2, Moscow, 125009. The Bank is regulated by the Central Bank of the Russian Federation (the “CBR”) and conducts its business under license number 3365. The Bank’s primary business consists of commercial banking activities, trading with securities, foreign currencies and derivative instruments, originating loans and guarantees.

The number of the Bank’s employees as of 31 December 2003 and 2002 was 117 and 73, respectively.

As of 31 December 2003, the following participants owned more than 5% of the stockholdings:

Participant	%
OOO “Interro-resurce”	19.98
OOO “Finteco”	11.76
OOO “Sovter”	11.76
OOO “Eastern star”	19.04
OOO “Kazinter”	13.15
OOO “DG-Sistem”	19.98
Other	4.33
Total	<u>100.00</u>

The Bank’s primary beneficiary is OAO “Kazkommertsbank” (Republic of Kazakhstan). The Bank has a significant concentration of operations and assets with OAO “Kazkommertsbank” (see Notes 13, 20, 26).

These financial statements were authorized for issue by the Board of the Bank on 12 February 2004, and are subject to final approval by the Bank’s shareholders.

2. BASIS OF PRESENTATION

Accounting basis - These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These financial statements are presented in thousands of Russian Roubles (“RUR”), unless otherwise stated. These financial statements are prepared on accrual basis under the historical cost convention modified for the measurement at fair value of investments in available-for-sale securities, financial assets and financial liabilities held for trading, derivative contracts and according to IAS 29, “Financial Reporting in Hyperinflationary Economies”.

The Bank maintains its accounting records in accordance with the Russian law. These financial statements have been prepared from the Russian statutory accounting records and have been adjusted to conform to IFRS.

Shareholders' equity as at 31 December 2003 and 2002 and net profit for the years then ended are reconciled between Russian Accounting Standards and IFRS as follows:

	Equity	2003 Net profit	Equity (Restated)	2002 Net profit (Restated)
Russian Accounting Standards	846,735	22,170	510,619	600
Accrued interest, net	(12,795)	(15,577)	2,782	2,782
Trading securities	9,268	9,268	-	-
Provision for losses	33,841	35,303	(1,462)	(1,462)
Deferred profit taxes	(8,444)	(8,329)	(115)	(115)
Depreciation of fixed and intangible assets	(2,393)	(1,736)	(657)	(657)
Net monetary position	949	-	949	(12,439)
Other	2,202	2,145	(547)	(534)
International Financial Reporting Standards	869,363	43,244	511,569	(11,825)

In accordance with IAS 29 the economy of the Russian Federation was considered to be hyperinflationary during 2002 and prior years. As of 1 January 2003, the Russian economy is no longer considered to be hyperinflationary and the values of the Bank's non-monetary assets, liabilities and equity as stated in measuring units as of 31 December 2002 have formed the basis for the opening balances at 1 January 2003.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for losses and impairment and the fair value of financial instruments.

Measurement currency - The measurement currency of in these financial statements is the Russian Rouble (RUR).

3. SIGNIFICANT ACCOUNTING POLICIES

Recognition and measurement of financial instruments - The Bank recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. The Bank recognises "regular way" purchases and sales of financial assets using settlement date accounting.

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. The accounting policies for subsequent measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents - Cash and cash equivalents include cash, unrestricted balances on correspondent and time deposit accounts with the Central Bank of the Russian Federation (the "CBR") with original maturity within 90 days, advances to banks in countries included in the Organization for Economic Co-operation and Development ("OECD"), except for margin deposits for operations with plastic cards, which may be converted to cash within a short period of time. For purposes of determining cash flows, the minimum reserve deposit required by the Central Bank of the Russian Federation is not included as a cash equivalent due to restrictions on its availability (Note 12).

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

Trading securities - Trading securities represent debt and equity securities held for trading that are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Trading securities are initially recorded at cost which approximates fair value of the consideration given and subsequently measured at fair value. The Bank uses quoted market prices to determine fair value for the Bank's trading securities. When reliable information about market prices is not available or if liquidating the Bank's position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or management's estimates of the amounts that can be realized from an orderly disposition over a period of time, assuming current market conditions. Fair value adjustment on trading securities is recognized in profit and loss account for the period.

Repurchase and reverse repurchase agreements - The Bank enters into sale and purchase back agreements (the "repos") and purchase and sale back agreements (the "reverse repos") in the normal course of its business. Repurchase and reverse repurchase agreements are utilized by the Bank as an element of its treasury management and trading business.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in financial statements and consideration received under these agreements is recorded as collateralized deposit received.

Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit which is collateralized by securities and other assets.

In case when assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gains/(losses) on investments in securities. The obligation to return them is recorded at fair value as a trading liability. Any related income or expense arising from pricing spreads of the underlying securities is recognized as interest income or expense accrued using effective interest rate method during the period when the related transactions are open.

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

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

Non-accrual loans - Loans are placed on non-accrual status when interest or principal is delinquent for a period in excess of 90 days, except when all amounts due are fully secured by cash or marketable securities and collection proceedings are in process. Interest income is not recognized where recovery is doubtful. Subsequent payments by borrowers are applied to either principal or delinquent interest based on individual arrangements with the borrower. A non-accrual loans are restored to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period.

Purchased loans and receivables - Loans and receivables acquired from another lender subsequently to the original date are either classified as trading, held-to-maturity or as available-for-sale investments. For purchased loans classified as available-for-sale investments, fair value is based on an active market or using an interest rates model. If market price is not available and the interest model is not practicable, the price for similar assets is used.

Allowance for losses - The Bank establishes an allowance for losses on financial assets when it is probable that the Bank will not be able to collect the principal and interest according to the contractual terms of financial assets, which are carried at cost or amortized cost. The allowance for losses is defined as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the financial asset. For financial assets that do not have fixed maturities, expected future cash flows are discounted using periods during which the Bank expects to realize the loan.

The determination of the allowance for loan losses is based on an analysis of the loan portfolio and reflects the amount which, in the judgment of management, is adequate to provide for losses inherent in the loan portfolio. Specific provisions are made as a result of a detailed appraisal of risk assets. In addition, provisions are carried to cover potential risks, which although not specifically identified, are present in the loan portfolio judging by the previous experience.

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

It should be understood that estimates of loan losses involve an exercise of judgment. While it is possible that in particular periods the Bank may sustain losses, which are substantial relative to the allowance for loan losses, it is the judgment of management that the allowance for loan losses is adequate to absorb losses inherent in the loan portfolio.

Securities available-for-sale - Securities available-for-sale represent investment securities that are intended to be held for an indefinite period of time. Such securities are initially recorded at cost, which approximates the fair value of the consideration given. Subsequently the securities are measured at fair value, with such remeasurement included in the profit and loss account, plus accrued coupon income. The Bank uses quoted market prices to determine fair value for its securities available-for-sale. If such quotes do not exist, management estimation is used.

Fixed and intangible assets - Fixed and intangible assets are carried at historical cost less accumulated depreciation and any accumulated impairment loss. Fixed and intangible assets, acquired before 1 January 2003 are carried at historical cost restated for inflation less accumulated depreciation. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use. Depreciation of fixed and intangible assets is charged on the carrying value of fixed assets and is designed to write off assets over their useful economic lives. It is calculated on a straight line basis at the following annual prescribed rates:

Furniture and equipment

20-50%

Operating leases - Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases.

The Bank as a lessee - Lease payments under operating lease are recognized as expenses on a straight-line basis over the lease term and included into operating expenses.

Taxation - Taxes on income are computed in accordance with the laws of the Russian Federation. Deferred taxes are provided on items recognized in different periods for financial reporting purposes and income tax purposes, using the balance sheet liability method at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax liabilities which result from temporary differences are provided for in full. Deferred tax assets are recorded to the extent that there is a reasonable expectation that these assets will be realised.

Deferred income tax assets and liabilities are offset when:

- The Bank has a legally enforceable right to set off the recognised amounts of current tax assets and current tax liabilities;
- The Bank has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;
- The deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority in each future tax period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

The Russian Federation also has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the income statement.

Deposits from banks and customers - Customers and bank deposits are initially recognized at cost, which amounts to the issue proceeds less transaction costs incurred. Subsequently, amounts due are stated at cost or amortized cost and any difference between net proceeds and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

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

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

Share capital and share premium - Share capital is carried at cost restated for inflation (prior to 1 January 2003). Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution. Treasury stock is recorded at restated cost. Gains and losses on sales of treasury stock are charged or credited to share premium.

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes. Preferred shares that are non-redeemable or redeemable only upon the occurrence of an event that is not likely to occur are classified as equity.

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

Contingencies - Contingent liabilities are not recognized in the financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Recognition of income and expense - Interest income and expense are recognized on an accrual basis calculated using the effective interest rate method. The recognition of interest income is suspended when loans become overdue by more than 90 days. Interest income includes also interest income earned on investment and trading securities. Commissions and other income are credited to income when the related transactions are completed. Loan origination fees for loans issued to customers, when significant, are deferred (together with related direct costs) and recognized as an adjustment to the loans effective yield. Non-interest expenses are recognized on an accrual basis.

Rates of exchange - The exchange rates at year-end used by the Bank in the preparation of the financial statements are as follows:

	31 December 2003	31 December 2002
RUR/USD	29.4545	31.7844
RUR/EUR	36.8240	33.1098

Correction of prior period fundamental errors - In 2003 the Bank discovered fundamental errors relating to 2002, and connected to the Bank's non-compliance with the provisions set out by IAS 29 during the preparation of the financial statements for 2002. In accordance with IAS 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies, correction of such errors was considered when preparing financial statements for 2003 through adjustment of the opening balance of retained earnings using the benchmark treatment. The total reduction of the opening balance of retained earnings as a result of the adjustment amounted to RUR 12,857 thousand. In accordance with the benchmark comparative information as at 31 December 2002 and for the year then ended was restated. The nature of fundamental errors and the amount of corrections relating to 2002 and included in comparable information are as follows:

Balance sheet item	Amount as per previous report	Amount as per current report	Effect on profit/(loss) accounts
Loans	25,247	25,958	711
Fixed assets	16,810	18,307	1,497
Other assets	4,778	3,027	(1,751)
Other liabilities	577	503	74
Share capital	414,000	425,948	(11,948)
Share premium	96,000	97,440	(1,440)
Total			(12,857)

Reclassifications - Certain reclassifications have been made to the financial statements as of 31 December 2002 to conform to the presentation as of 31 December 2003.

4. NET INTEREST INCOME

Net interest income comprises:

	2003	2002
Interest income		
Interest on loans and advances to customers	96,992	2,654
Interest on loans and advances to banks	15,643	2,227
Interest on reverse repos	44,795	-
Interest on debt securities	58,941	17,717
Total interest income	<u>216,371</u>	<u>22,598</u>
Interest expense		
Interest on customer accounts	18,069	371
Interest on deposits from banks	13,549	219
Interest on repurchase transactions	36,837	-
Interest on debt securities issued	6,964	278
Total interest expense	<u>75,419</u>	<u>868</u>
Net interest income before provision for loan losses	<u>140,952</u>	<u>21,730</u>

5. PROVISIONS FOR LOAN LOSSES, IMPAIRMENT AND PROVISIONS FOR LOSSES ON OTHER TRANSACTIONS

The movements in allowance for losses on interest earning assets were as follows:

	Loans and advances to banks	Loans and advances to customers	Total
At 31 December 2001	-	-	-
Provisions (restated)	<u>1,023</u>	<u>956</u>	<u>1,979</u>
At 31 December 2002 (restated)	1,023	956	1,979
(Recovery)/provision	<u>(863)</u>	<u>58,394</u>	<u>57,531</u>
At 31 December 2003	<u>160</u>	<u>59,350</u>	<u>59,510</u>

The movements in allowances for losses on other transactions were as follows:

Guarantees

At 31 December 2002	-
Provision	<u>9,435</u>
At 31 December 2003	<u>9,435</u>

Provisions for guarantees are recorded in other liabilities.

6. NET GAIN ON TRADING SECURITIES

Net gain on trading securities comprises:

	2003	2002
Debt securities	8,166	-
Equity securities	7,258	-
Total net gain on trading securities	15,424	-

7. NET (LOSS)/GAIN ON FOREIGN EXCHANGE OPERATIONS

Net (loss)/gain on foreign exchange operations comprise:

	2003	2002
Net gain on operations	2,571	4,397
Unrealized translation differences, net	(8,514)	568
Total net (loss)/gain on foreign exchange operations	(5,943)	4,965

8. FEES AND COMMISSIONS INCOME AND EXPENSE

Fees and commissions income and expense comprise:

	2003	2002
Fees and commission income:		
- documentary operations	19,970	-
- foreign exchange operations	16,251	-
- broker service	6,450	-
- cash operations	1,518	185
- settlements	1,062	3,119
- guarantees provided	2,570	93
- other operations	1,817	67
Total fees and commissions income	49,638	3,464
	2003	2002
Fees and commissions expense:		
- guarantees received	(18,914)	-
- settlements	-	(48)
- other operations	(890)	(17)
Total fees and commissions expense	(19,804)	(65)

9. NET GAIN/(LOSS) ON INVESTMENTS IN SECURITIES AVAILABLE-FOR-SALE

Net gain/(loss) on investments in securities available-for-sale is as follows:

	2003	2002
Net gain on disposal of securities available-for-sale	74	(10,571)
Fair value adjustment for securities available-for-sale	-	114
Total net gain/(loss) on investments in securities available-for-sale	74	(10,457)

10. OPERATING EXPENSES

	2003	2002 (restated)
Lease expenses	16,038	4,707
Taxes and penalties due (other than income tax)	8,058	331
Advertising expenses	7,571	218
Professional services fees	7,521	6
Salary and bonuses	5,421	2,737
Depreciation of fixed and intangible assets	5,472	2,962
Repairs and maintenance of equipment	2,680	2,174
Social security costs	1,918	974
Administrative services	1,710	1,373
Presentation expense	1,611	450
Other employees' benefits	377	127
Penalties and interest	-	518
Other	4,477	427
Total operating expenses	<u>62,854</u>	<u>17,004</u>

11. INCOME TAX

The Bank provides for taxes based on the statutory tax accounts maintained and prepared in accordance with the Russian statutory tax regulations which differ from International Financial Reporting Standards. During the years ended 31 December 2003 and 2002, the corporate income tax rate for profits other than those received from state securities was 7.5% for federal taxes and 16.5% for city taxes (combined 24% rate). The tax rate for interest income on state securities was 15% for federal taxes.

Tax assets and liabilities consist of the following:

	2003	2002 (restated)
Current tax assets	<u>238</u>	<u>-</u>
Tax assets	<u>238</u>	<u>-</u>
Deferred tax liabilities	<u>8,258</u>	<u>115</u>
Tax liabilities	<u>8,258</u>	<u>115</u>

The Bank is subject to certain permanent tax differences due to non-tax deductibility of certain income and expenses under Russian tax regulations.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 December 2003 and 2002 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as of 31 December 2003 and 2002 comprise:

	2003	2002 (restated)
Deferred liabilities:		
Fixed assets	1,520	266
Loans to customers	32,890	-
Other assets	-	215
Deferred liabilities	<u>34,410</u>	<u>481</u>
Net deferred liabilities	<u>34,410</u>	<u>481</u>
Deferred tax liability at the statutory tax rate (24%)	<u>8,258</u>	<u>115</u>
Net deferred tax liabilities	<u>8,258</u>	<u>115</u>

Relationships between tax expenses and accounting profit/(loss) for the years ended 31 December 2003 and 2002 are explained as follows:

	2003	2002 (restated)
Profit/(loss) before income tax and after loss on net monetary position due to inflation effect	<u>51,573</u>	<u>(11,710)</u>
Statutory tax rate	24%	24%
Tax at the statutory tax rate	12,378	(2,810)
Tax effect of permanent differences	<u>(4,049)</u>	<u>2,925</u>
Income tax expense	<u>8,329</u>	<u>115</u>
Current income taxes expense	186	-
Deferred tax expense	<u>8,143</u>	<u>115</u>
Income tax expense	<u>8,329</u>	<u>115</u>
Deferred income tax liabilities	2003	2002 (restated)
Opening balance	115	-
Increase in deferred income tax for the period	<u>8,143</u>	<u>115</u>
Closing balance	<u>8,258</u>	<u>115</u>

12. CASH AND BALANCES WITH THE CENTRAL BANK OF THE RUSSIAN FEDERATION

	2003	2002
Cash with the Central Bank of the Russian Federation	139,536	30,512
Cash on hand	<u>13,356</u>	<u>1,324</u>
Total cash and balances with the Central Bank of the Russian Federation	<u>152,892</u>	<u>31,836</u>

The balances with the Central Bank of the Russian Federation as of 31 December 2003 and 2002 include RUR 24,719 thousand and RUR 11,800 thousand, respectively, which represents the minimum reserve deposits required by the CBR. The Bank is required to maintain the reserve balance at the CBR at all times.

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

	2003	2002
Balance with the Central Bank of the Russian Federation	152,892	31,836
Loans and advances to banks in OECD countries	127,010	6,087
	<u>279,902</u>	<u>37,923</u>
Less minimum reserve deposit with the Central Bank of the Russian Federation	(24,719)	(11,800)
Total cash and cash equivalents	<u>255,183</u>	<u>26,123</u>

13. LOANS AND ADVANCES TO BANKS

Loans and advances to banks comprise:

	2003	2002
Advances to banks	710,223	32,425
Loans to banks	-	24,801
Accrued interest income on loans and advances to banks	-	3
	<u>710,223</u>	<u>57,229</u>
Less allowance for loan losses	(160)	(1,023)
Total loans and advances to banks, net	<u>710,063</u>	<u>56,206</u>

Movements in allowances for losses on loans and advances to banks for the years ended 31 December 2003 and 2002 are disclosed in Note 5.

As at 31 December 2003 and 2002 the Bank advanced the total amount of RUR 702,115 thousand to 2 banks and RUR 26,268 thousand to 1 bank, respectively, which individually exceeded 10 % of the Bank's equity.

As of 31 December 2003 and 2002 the Bank had loans and advances to banks totaling RUR 575,207 thousand and RUR 24,957 thousand, respectively, which represents significant concentration in the Republic of Kazakhstan presenting 81% and 44% of the loans and advances to banks, respectively.

During the year ended 31 December 2003, the Bank increased its borrowings from banks, entering into mutual placements agreements with Russian and Kazakhstan banks (see Note 20).

14. TRADING SECURITIES

	Nominal interest rate	2003	Nominal interest rate	2002
Debt securities:				
Bonds of OAO "Dalnevostolchnaya kompaniya elektrosvyazi"	14.5%	64,409		-
Bonds of OOO "NIDAN-FOODS"	17%	50,489		-
Municipal bonds, Yaroslavl region	15%	34,147		-
Bonds of OAO "Nevinnomysskiy Azot"	18%	14,067		-
Bonds of OAO "AvtoVAZ"	15.25%	30,710		-
Total debt securities		193,822		-
Shares				
OAO "Gazprom"		110,245		-
OAO "Mosenergo"		8,997		-
Total shares		119,242		-
Total trading securities		313,064		-

As of 31 December 2003 included in the value of trading securities was accrued interest income on debt securities amounting to RUR 3,075 thousand.

As of 31 December 2003 bonds of OAO "AvtoVAZ" with the carrying value of RUR 30,710 thousand and of OAO "Nevinnomysskiy Azot" with the carrying value of RUR 14,067 thousand were pledged as collateral for short-term loans received from other banks.

15. SECURITIES PURCHASED UNDER AGREEMENT TO RESELL

	2003	2002
Shares:		
RAO "Gazprom"	125,434	-
RAO EES of Russia	27,775	-
OAO "Sibneft"	9,337	-
OAO "GMK Norilsk Nickel"	6,976	-
OAO "Rostelecom"	6,285	-
OAO "Surgutneftegaz"	6,613	-
OAO "LUKoil"	4,009	-
OAO "Orenburgneft"	3,301	-
OAO "Bashneft"	1,980	-
OAO "Tatneft"	-	4,869
Total shares purchased under agreements to resell	191,710	4,869

15. SECURITIES PURCHASED UNDER AGREEMENT TO RESELL (CONTINUED)

	2003	2002
Bonds:		
OAO "Dalsvyaz"	17,973	-
OAO "Uralsvyazinform"	54,628	-
OAO "Tsentrtelcom"	65,627	-
OAO "Russkiy Aluminiy Finance"	-	3,700
Total bonds purchased under agreement to resell	<u>138,228</u>	<u>3,700</u>
Promissory notes of OAO "Gazprombank"	<u>67,171</u>	-
Total securities purchased under agreement to resell	<u><u>397,109</u></u>	<u><u>8,569</u></u>

As of 31 December 2003 bonds of OAO "Uralsvyazinform" with the carrying value of RUR 54,628 thousand, bonds of OAO "Tsentrtelcom" with the carrying value of RUR 65,627 thousand and promissory notes of OAO "Gazprombank" with the carrying value of RUR 67,171 thousand were pledged as collateral for short-term loans received from other banks.

16. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers comprise:

	2003	2002 (restated)
Loans to customers	1,881,132	26,751
Accrued interest income on loans and advances to customers	<u>16,552</u>	<u>163</u>
	1,897,684	26,914
Less allowance for loan losses	<u>(59,350)</u>	<u>(956)</u>
Total loans and advances to customers, net	<u><u>1,838,334</u></u>	<u><u>25,958</u></u>

	2003	2002 (restated)
Loans collateralized by trading and commercial real estate	339,385	8,625
Loans collateralised by residential real estate	312,435	-
Loans collateralized by equipment	272,676	-
Loans collateralized by goods in turnover	89,618	10,571
Loans collateralized by corporate guarantees	18,231	-
Loans collateralised by other assets	720,660	6,993
Unsecured loans	128,127	562
Accrued interest income on loans and advances to customers	<u>16,552</u>	<u>163</u>
	1,897,684	26,914
Less allowance for loan losses	<u>(59,350)</u>	<u>(956)</u>
Total loans and advances to customers, net	<u><u>1,838,334</u></u>	<u><u>25,958</u></u>

Movements in allowances for loan losses for the years ended 31 December 2003 and 2002 are disclosed in Note 5.

As of 31 December 2003 the Bank had 6 originated loans totaling RUR 876,359 thousand, each individually exceeded 10% of the Bank's equity.

At 31 December 2003 included in the loans and advances to customers are non-accrual loans amounting to RUR 945 thousand.

As of 31 December 2003 and 2002 the Bank had loans totaling RUR 1,795,738 thousand and RUR 26,751 thousand, respectively, which represent significant geographical concentration in the Moscow region forming 95% and 100% of the loan portfolio, respectively.

Analysis by sector	2003	2002 (restated)
Finance	469,999	-
Consumer goods manufacturing	468,548	-
Construction	437,078	-
Individuals	309,710	-
Mass media and publishing	111,378	-
Real estate	84,419	-
Trade	-	24,765
Other	-	1,986
Accrued interest income on loans and advances to customers	16,552	163
	<u>1,897,684</u>	<u>26,914</u>
Less allowance for loan losses	(59,350)	(956)
Total loans and advances to customers, net	<u>1,838,334</u>	<u>25,958</u>

17. SECURITIES AVAILABLE-FOR-SALE

Securities available-for-sale comprise:

	Nominal interest rate	2003	Nominal interest rate	2002
Eurobonds of the Ministry of Finance of the RF (2028-9)	-	-	12.75%	482,572
Eurobonds of the Ministry of Finance of the RF (2018-7)	-	-	11%	108,791
Bonds of OAO "MGTS"	-	-	19.8%	3,982
Bonds of OOO "ALFAFINANCE"	-	-	10.5%	3,039
Total securities available-for-sale		<u>-</u>		<u>598,384</u>

As of 31 December 2002 included in the value of securities available-for-sale was accrued interest income on debt securities amounting to RUR 5,728 thousand.

RF Government Eurobonds are securities issued by the Ministry of Finance of the Russian Federation, and are freely tradable at international markets. The Bank's portfolio consists of 2 tranches with maturities over 5 years. The interest on these bonds is payable semi-annually.

18. FIXED AND INTANGIBLE ASSETS

	Furniture and equipment	Intangible assets	Total
At inflated cost			
At 31 December 2002 (restated)	17,033	2,859	19,892
Additions	9,883	-	9,883
Disposals	(1,460)	(27)	(1,487)
At 31 December 2003	<u>25,456</u>	<u>2,832</u>	<u>28,288</u>
Accumulated depreciation			
At 31 December 2002 (restated)	1,574	11	1,585
Charge for the period	4,764	708	5,472
Disposals	(131)	(5)	(136)
At 31 December 2003	<u>6,207</u>	<u>714</u>	<u>6,921</u>
Net book value			
At 31 December 2003	<u>19,249</u>	<u>2,118</u>	<u>21,367</u>
Net book value			
At 31 December 2002 (restated)	<u>15,459</u>	<u>2,848</u>	<u>18,307</u>

19. OTHER ASSETS

Other assets comprise:

	2003	2002 (restated)
Prepayments and other receivables	2,215	3,046
Income tax assets	238	-
Other taxes	40	-
	<u>2,493</u>	<u>3,046</u>
Less allowance for losses on other assets	-	(19)
Total other assets, net	<u>2,493</u>	<u>3,027</u>

20. DEPOSITS FROM BANKS

Deposits from banks comprise:

	2003	2002
Demand deposits	249,754	111,807
Time deposits	1,675,523	-
Accrued interest expense on deposits from banks	17,346	-
Total deposits from banks	<u>1,942,623</u>	<u>111,807</u>

As of 31 December 2003 included in time deposits from banks are deposits amounting to RUR 1,421,196 thousand from OAO "Kazkommertsbank" (Republic of Kazakhstan).

During the year ended 31 December 2003, the Bank increased its borrowings from banks, entering into mutual placements agreements with Russian and Kazakhstan banks (see Note 13).

21. CUSTOMER ACCOUNTS

Customer accounts comprise:

	2003	2002
Demand deposits	255,433	109,414
Time deposits	277	262
Accrued interest expense on customer accounts	29	8
Total customer accounts	255,739	109,684

As of 31 December 2003 and 2002 amounts owed to 10 customers totaling RUR 100,383 thousand (39% of the total amount of demand deposits) and RUR 63,803 thousand (58% of the total amount of demand deposits), respectively, represent a significant concentration.

Analysis of customer accounts by industry:

	2003	2002
Manufacturing	31,792	2,054
Real estate	25,361	25,652
Transport and communications	21,491	3,413
Trade	18,968	17,707
Fuel	1,378	138
Insurance	32	10,010
Agriculture	44	327
Other	156,644	50,375
Accrued interest expense on customer accounts	29	8
Total customer accounts	255,739	109,684

22. DEBT SECURITIES ISSUED

Debt securities issued consisted of the following:

	2003	2002
Interest bearing promissory notes	320,417	-
Discount promissory notes	22,486	8,427
Interest-free promissory notes	2	102
Accrued interest expense on debt securities issued	5,375	195
Total debt securities issued	348,280	8,724

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

As of 31 December 2003 and 2002 interest rates on the promissory notes denominated in US Dollars range from 8 to 12% and on those denominated in Roubles from 9 to 15%, respectively.

23. OTHER LIABILITIES

	2003	2002 (restated)
Provisions for guarantees and letters of credits	9,435	-
Income tax liability	8,258	115
Taxes payable other than income tax	1,317	125
Other	307	263
Total other liabilities	<u>19,317</u>	<u>503</u>

Movements in provision for the year ended 31 December 2003 are disclosed in Note 5.

24. SHAREHOLDERS' EQUITY

As of 31 December 2003 and 2002 share capital authorized, issued and fully paid was owned by 9 and 8 shareholders, respectively.

Shareholders of the Bank have a right to sell their shares of stock to the Bank upon notification. The Bank must reimburse participants the cost of their shares of stock in the Bank within six months starting from the end of the year of the modification.

The Bank's reserves distributable to participants are limited to the amount of its reserves as disclosed in its statutory accounts. As of 31 December 2003 and 2002, the statutory accounts of the Bank disclosed distributable reserves of RUR 847 thousand and RUR 511 thousand, respectively, and the amount of non-distributable reserves was RUR 445 thousand and RUR 6 thousand, respectively. Non-distributable reserves are represented by a general reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statutes that provide for the creation of a reserve for these purposes of not less than 15% of the Bank's share capital reported in statutory books.

25. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

The Bank's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

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

The risk-weighted amount is obtained by applying credit conversion factors and counterparty risk weightings according to the principles employed by the Basle Committee on Banking Supervision.

As of 31 December 2003 and 2002, the nominal or contract amounts and the risk weighted credit equivalents of instruments with off-balance sheet risks were:

	2003		2002	
	Nominal amount	Risk Weighted Amount	Nominal amount	Risk Weighted Amount
Contingent liabilities and credit commitments				
Guarantees and other similar commitments	23,711	23,711	102	102
Letters of credit and other transaction related contingent obligations	120,796	120,796	-	-
Commitments on loans and unused credit lines	431,504	215,752	-	-
Total contingent liabilities and credit commitments	576,011	360,259	102	102
Derivatives				
Forwards	559,636	559,636	-	-
Total derivatives	559,636	559,636	-	-

The Bank has made a provision of RUR 9,435 against commitments under guarantees issued as of 31 December 2003.

Capital commitments - The Bank had no material commitments for capital expenditures outstanding as of 31 December 2003.

Operating leases - The Bank's future minimum rental payments under non-cancelable operating leases of buildings in effect at 31 December 2003 and 2002 are presented below.

	2003	2002
Not later than 1 year	184	2,838
Later than 1 year but not later than 5 years	57,701	-
Later than 5 years	-	-
Total operating lease	57,885	2,838

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

Taxation - Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed by the tax authorities of making arbitrary judgment of taxpayer activities, if a particular treatment based on Management's judgment of the Bank's business activities was to be challenged by the tax authorities, the Bank may be assessed for additional taxes, penalties and interest. The Bank believes now that it has already complied with them, and therefore has not provided for in the financial statements. Tax years remain open to review by the tax authorities for three years.

Operating environment - The Bank's principal business activities are within the Russian Federation. Laws and regulations affecting business environment in the Russian Federation are subject to rapid changes and the Bank's assets and operations could be at risk due to negative changes in the political and business environment.

Pensions and retirement plans - Employees receive pension benefits from the Russian Federation in accordance with the laws and regulations of the country. As of 31 December 2003 and 2002, the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

26. RELATED PARTY TRANSACTIONS

Related parties, as defined by IAS 24, are those counterparties that represent:

(a) Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with the Bank. (This includes holding companies, subsidiaries and fellow subsidiaries);

(b) Associates – enterprises in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;

(c) Individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank;

(d) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals; and

(e) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Bank had the following transactions outstanding with related parties:

	2003		2002	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Loans and advances to banks, gross	575,207	710,223	26,268	57,229
Loans to customers, gross	126,578	1,897,684	-	26,914
Allowance for loans to customers	(6,329)	(59,350)	-	(956)
Other assets	153	2,493	-	3,046
Deposits from banks	1,684,468	1,942,623	111,807	111,807
Customer deposits	24,736	255,739	24,878	109,684

During the years ended 31 December 2003 and 2002 the Bank originated loans and advances to banks and customers - related parties amounting to RUR 330,983 thousand and RUR 69,346 thousand, respectively, and received loans and advances repaid of RUR 204,405 thousand and RUR 69,346 thousand, respectively. The Bank has interest income accrued in respect of loans and advances granted to related parties totaling RUR 5,287 thousand and RUR 33 thousand, as of 31 December 2003 and 2002, respectively.

During the years ended 31 December 2003 and 2002 the Bank received deposits and advances from customers and banks - related parties of RUR 14,287,671 thousand and RUR 3,210,607 thousand, respectively, and repaid deposits and advances totaling RUR 12,866,617 thousand and RUR 3,185,729 thousand, respectively. The Bank has interest expense accrued in respect of deposits and advances received from related parties, totaling RUR 4,990 thousand and RUR 2 thousand as of 31 December 2003 and 2002, respectively.

Included in the profit and loss account for the years ended 31 December 2003 and 2002 are the following amounts which arose due to transactions with related parties:

	2003		2002	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	5,287	216,371	303	22,598
Interest expense	(4,990)	(75,419)	(215)	(868)
Commission income	422	49,638	53	3,464
Commission expense	(350)	(19,804)	(45)	(65)
Operating expenses	(1,662)	(62,854)	(3,685)	(17,004)

Transactions with related parties entered by the Bank during the years ended 31 December 2003 and 2002 and outstanding as of 31 December 2003 and 2002 were made in the normal course of business and mostly under arm-length conditions.

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: recognition and measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm-length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Bank's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

As of 31 December 2003 and 2002 the following methods and assumptions were used by the Bank to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Cash and balances with the Central Bank of the Russian Federation - For these short-term instruments the carrying amount is a reasonable estimate of fair value.

Loans and advances to banks - As of 31 December 2003 and 2002, the carrying amount of short-term deposits and advances given is a reasonable estimate of their fair value.

Trading securities - As of 31 December 2003 trading securities are stated at fair value amounting to RUR 309,989 thousand, plus accrued interest income totaling RUR 3,075 thousand. Fair value of trading securities was determined with reference to an active market.

Securities purchased under agreements to resell - As of 31 December 2003 and 2002, the carrying value of securities purchased under agreements to resell is determined based on market value of backed securities and other assets with reference to an active market.

Loans and advances to customers - The fair value of the loan portfolio is based on the credit and interest rate characteristics of the individual loans within each sector of the portfolio. The estimation of the provision for loan losses includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation of the economic sector in which each borrower operates, the economic situation of each borrower and guarantees obtained. Accordingly, the provision for loan losses is considered a reasonable estimate of the discount required to reflect the impact of credit risk.

Securities available-for-sale - As of 31 December 2002 securities available-for-sale are stated at fair value amounting to RUR 592,656 thousand, plus accrued coupon income totaling RUR 5,728 thousand. Fair value of securities available-for-sale was determined with reference to an active market for those securities quoted publicly or at over-the-counter market. For unquoted securities fair value was determined by reference to market prices of securities with similar credit risk and/or maturity. If such quotes do not exist, management estimation is used.

Deposits from banks - As of 31 December 2003 and 2002 the carrying amount of short-term deposits and deposits repayable on demand of RUR 1,942,623 thousand and RUR 111,807 thousand, respectively, is a reasonable estimate of their fair value.

Customer accounts - As of 31 December 2003 and 2002 the carrying amount of short-term deposits and current accounts of the Bank's customers of RUR 255,739 thousand and RUR 109,684 thousand, respectively, is a reasonable estimate of their fair value.

Debt securities issued - Debt securities issued are stated at cost, adjusted for amortization of premium and discounts, which approximates fair value.

28. REGULATORY MATTERS

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

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

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

Estimate	Description of position
0%	Cash and balances with the Central Bank of the Russian Federation
0%	State debt securities in Roubles
20%	Loans and advances to banks for up to 1 year
100%	Loans and advances to customers
100%	Other assets
0%	Letters of credit collateralized by customer funds
	Letters of credit and other contingencies relating to settlement operations and commitments on unused loans with original maturity over 1 year
50%	
100%	Guarantees and other similar commitments

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

Capital amounts and ratios	Actual amount in RUR thousand	For Capital Adequacy purposes in RUR thousand	Capital Adequacy Ratio	Minimum Required Ratio
At 31 December 2003				
Total capital	869,363	876,098	29.28%	8%
Tier 1 capital	869,363	869,363	29.05%	4%
At 31 December 2002				
Total capital	511,569	512,525	77.02%	8%
Tier 1 capital	511,569	511,569	76.87%	4%

29. RISK MANAGEMENT POLICY

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Bank's risk management policies in relation to those risks is as follows.

The Bank manages the following types of risks:

Credit risk – The Bank's Credit Committee conducts monitoring and management of credit risk. All lending offers (approval of limits per borrower, any changes and amendments to loan agreements, etc.) are considered and reported on by the Bank's risk manager prior to bringing them to consideration of the Credit Committee. Credit risk is monitored by the Department of risk analysis and control and the Department of transactions administration and recording.

Country risk - Credit Committee and Assets and Liabilities Committee ("ALCO") monitor country risks, including in the context of risks those related to changes in legislation and regulatory documents and their impact on the Bank's activities. This approach allows the Bank to minimize possible losses from the impairment of the investment climate in the Russian Federation. Currently the Bank's Credit Committee is approving country limits for Kazakhstan and Kyrgyzstan.

Liquidity and cash flow risks – ALCO exercises control over such risks through conducting maturity gap analysis and determines the Bank's strategy for the next financial period. Current liquidity is managed by the Treasury department, which conducts money market transactions designed to maintain current liquidity level and optimize cash flow.

Foreign exchange risk - ALCO monitors foreign exchange risk by managing open currency position based on estimates of Rouble devaluation and other macroeconomic indicators which allows the Bank to minimize losses from significant fluctuations in exchange rate of the national and foreign currencies. The Treasury department monitors open currency position on a daily basis to conform to the ratios established by ALCO and the CBR.

Interest rate risk – ALCO performs management of such risk by aligning the Bank's interest rate position, which allows the Bank to retain positive interest margin. The Financial monitoring department performs monitoring of the Bank's current financial position and estimates the Bank's susceptibility to fluctuation of interest rates and the impact of such fluctuations on profits.

Market risks – ALCO manages these risks by analyzing and forecasting market trends for trading instruments included in the Bank's portfolio, evaluating possible losses from adverse market price fluctuations and setting limits on issuers, instruments and operations based on these data.

The following table presents an analysis of interest rate risk and liquidity risk.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefine d (incl. allowance for losses)	2003 thousand RUR Total
ASSETS								
Interest bearing assets:								
Trading securities	-	30,179	47,159	113,409	-	-	-	190,747
Securities purchased under agreement to resell	397,109	-	-	-	-	-	-	397,109
Loans and advances to customers, less allowance for loan losses	109,439	128,221	699,599	682,843	260,085	945	(59,350)	1,821,782
Total interest bearing assets	506,548	158,400	746,758	796,252	260,085	945	(59,350)	2,409,638
Cash and balances with the Central Bank of the Russian Federation	128,173	-	-	-	-	-	24,719	152,892
Loans and advances to banks, less allowance for loan losses	710,223	-	-	-	-	-	(160)	710,063
Trading securities	119,242	-	-	-	-	-	-	119,242
Interest accrued on interest bearing assets	19,627	-	-	-	-	-	-	19,627
Fixed and intangible assets, less accumulated depreciation	-	-	-	21,367	-	-	-	21,367
Other assets, less allowance for losses	2,493	-	-	-	-	-	-	2,493
TOTAL ASSETS	1,486,306	158,400	746,758	817,619	260,085	945	(34,791)	3,435,322

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefine d (incl. allowance for losses)	2003 thousand RUR Total
LIABILITIES								
Interest bearing liabilities:								
Deposits from banks								1,675,523
	1,644,579	30,944	-	-	-	-	-	3
Customer accounts	-	-	277	-	-	-	-	277
Debt securities issued	16,927	230,816	95,160	-	-	-	-	342,903
Total interest bearing liabilities	1,661,506	261,760	95,437	-	-	-	-	2,018,703
Deposits from banks	249,754	-	-	-	-	-	-	249,754
Customer accounts	255,433	-	-	-	-	-	-	255,433
Debt securities issued	2	-	-	-	-	-	-	2
Interest accrued on interest bearing liabilities	17,375	5,375	-	-	-	-	-	22,750
Other liabilities	9,882	-	-	-	-	-	9,435	19,317
TOTAL LIABILITIES	2,193,952	267,135	95,437	-	-	-	9,435	2,565,959
Liquidity gap	(707,646)	(108,735)	651,321	817,619	260,085	945		
Interest sensitivity gap	(1,154,958)	(103,360)	651,321	796,252	260,085	945		
Cumulative interest sensitivity gap	(1,154,958)	(1,258,31)	(606,997)	189,255	449,340	450,285		
Cumulative interest sensitivity gap as a percentage of total assets	(33.62%)	(36.63%)	(17.67%)	5.51%	13.08%	13.11%		

Liquidity risk of derivatives

Net fair values of derivatives are included in liquidity analysis above and further analysis by types of derivatives' contracts as of 31 December 2003 is presented in the table below:

	Fair value	Up to 1 month	Total
Derivative financial assets – index instruments		559,600	559,600
Derivative financial liabilities – index instruments		(559,636)	(559,636)
Net position on derivative financial instruments		(36)	(36)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Undefined (incl. allowance for losses and impairment)	2002 thousand RUR Total
ASSETS						
Interest bearing assets:						
Loans and advances to banks, less allowance for loan losses	24,801	-	-	-	(1,023)	23,778
Securities purchased under agreement to resell	8,569	-	-	-	-	8,569
Loans and advances to customers, less allowance for loan losses	-	8,588	10,149	8,177	(956)	25,958
Securities available-for-sale	597,343	-	-	1,041	-	598,384
Total interest bearing assets	630,713	8,588	10,149	9,218	(1,979)	656,689
Cash and balances with the Central Bank of the Russian Federation	20,036	-	-	-	11,800	31,836
Loans and advances to banks	32,428	-	-	-	-	32,428
Fixed and intangible assets, less accumulated depreciation	-	-	-	18,307	-	18,307
Other assets, less allowance for losses	3,046	-	-	-	(19)	3,027
TOTAL ASSETS	686,223	8,588	10,149	27,525	9,802	742,287

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Undefined (incl. allowance for losses and impairment)	2002 thousand RUR Total
LIABILITIES						
Interest bearing liabilities:						
Customer accounts	-	-	262	-	-	262
Debt securities issued	-	-	8,427	-	-	8,427
Total interest bearing liabilities	-	-	8,689	-	-	8,689
Deposits from banks	111,807	-	-	-	-	111,807
Customer accounts	109,422	-	-	-	-	109,422
Debt securities issued	-	-	297	-	-	297
Other liabilities	503	-	-	-	-	503
TOTAL LIABILITIES	221,732	-	8,986	-	-	230,718

Liquidity gap	464,491	8,588	1,163	27,525
Interest sensitivity gap	630,713	8,588	1,460	9,218
Cumulative interest sensitivity gap	630,713	639,301	640,761	649,979
Cumulative interest sensitivity gap as a percentage of total assets	84.97%	86.13%	86.32%	87.56%

Substantially all of the Bank's interest bearing assets and interest bearing liabilities are at fixed rates of interest.

Asset and liability maturity periods and the ability to replace interest liabilities at an acceptable cost when they mature are crucial in determining the Bank's liquidity and its susceptibility to fluctuation of interest rates and exchange rate.

Currently, a considerable part of customer deposits are repayable on demand. However, the fact that these deposits are diversified by the number and type of customers and the Bank's previous experience indicate that these deposits are a stable and long-term source of finance for the Bank.

While trading and available-for-sale securities are shown as less than one month, realizing such assets upon demand is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The following table presents an analysis of interest rate risk and thus the potential of the Bank for gain or loss. Effective interest rates are analyzed by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Bank.

	RUR	USD	2003 Other currencies	RUR	2002 USD
ASSETS					
Trading securities	14-18%	-	-	-	-
Securities purchased under agreement to resell	8-24%	5-7%	-	15-25%	-
Loans and advances to customers	15-21.5%	14-16%	12%	25-27%	15%
Securities available-for-sale	-	-	-	10.5-19.8%	11-12.75%
LIABILITIES					
Deposits from banks	7%	2-11%	5%	-	-
Customer accounts	-	-	-	-	2%
Debt securities issued	15.7%	8-12%	-	9-15%	7%

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	RUR	USD 1 USD = 29.4545 RUR	Euro 1 Euro = 36.8240 RUR	Other currency	Currency undefined (incl. allowance for losses)	2003 thousand RUR Total
ASSETS						
Cash and balances with the Central Bank of the Russian Federation	147,243	4,700	205	744	-	152,892
Loans and advances to banks, less allowance for loan losses	7,375	702,520	110	218	(160)	710,063
Trading securities	313,064	-	-	-	-	313,064
Securities purchased under agreement to resell	397,109	-	-	-	-	397,109
Loans and advances to customers, less allowance for loan losses	384,824	1,499,589	13,271	-	(59,350)	1,838,334
Fixed and intangible assets less accumulated depreciation	21,367	-	-	-	-	21,367
Other assets	2,493	-	-	-	-	2,493
TOTAL ASSETS	1,273,475	2,206,809	13,586	962	(59,510)	3,435,322
LIABILITIES						
Deposits from banks	294,422	1,634,763	13,438	-	-	1,942,623
Customer accounts	181,727	72,887	-	1,125	-	255,739
Debt securities issued	146,331	201,949	-	-	-	348,280
Other liabilities	9,882	-	-	-	9,435	19,317
TOTAL LIABILITIES	632,362	1,909,599	13,438	1,125	9,435	2,565,959
OPEN BALANCE SHEET POSITION	641,113	297,210	148	(163)		

Derivatives

Fair values of derivative financial instruments are included in currency analysis presented above and the following table presents further analysis of currency risk to types of derivative contracts as of 31 December 2003:

Fair value	RUR	USD 1 USD = 29.4545 RUR	Euro 1 Euro = 36.8240 RUR	Other currency	2003 RUR thousand Total
Derivative financial assets – index instruments	559,600	-	-	-	559,600
Derivative financial liabilities –index instruments	-	(559,636)	-	-	(559,636)
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	559,600	(559,636)	-	-	(36)
TOTAL OPEN POSITION	1,200,713	(262,426)	148	(163)	

	RUR	USD 1 USD = 31.7844 RUR	Euro 1 Euro = 33.1098 RUR	Other currency	Currency undefined (incl. allowance for losses)	2002 RUR thousand Total
ASSETS						
Cash and balances with the Central Bank of the Russian Federation	31,366	457	13	-	-	31,836
Loans and advances to banks, less allowance for loan losses	12,101	45,005	90	33	(1,023)	56,206
Loans and advances to customers, less allowance for loan losses	19,285	7,629	-	-	(956)	25,958
Securities purchased under agreement to resell	8,569	-	-	-	-	8,569
Securities available-for-sale	7,021	591,363	-	-	-	598,384
Fixed and intangible assets less accumulated depreciation	18,307	-	-	-	-	18,307
Other assets, less allowance for losses	3,046	-	-	-	(19)	3,027
TOTAL ASSETS	99,695	644,454	103	33	(1,998)	742,287
LIABILITIES						
Deposits from banks	1,163	110,644	-	-	-	111,807
Customer accounts	69,807	39,877	-	-	-	109,684
Debt securities issued	8,724	-	-	-	-	8,724
Other liabilities	503	-	-	-	-	503
TOTAL LIABILITIES	80,197	150,521	-	-	-	230,718
OPEN BALANCE SHEET POSITION	19,498	493,933	103	33		

Geographical concentration

The geographical concentration of assets and liabilities is set out below:

	Russia	Other CIS countries	OECD countries	Non-OECD countries	Undefined (incl. allowance for losses)	2003 Total RUR thousand
Cash and balances with the Central Bank of the Russian Federation	152,892	-	-	-	-	152,892
Loans and advances to banks, less allowance for loan losses	8,331	574,882	127,010	-	(160)	710,063
Trading securities	313,064	-	-	-	-	313,064
Securities purchased under agreement to resell	397,109	-	-	-	-	397,109
Loans and advances to customers, less allowance for loan losses	1,897,684	-	-	-	(59,350)	1,838,334
Fixed and intangible assets, less accumulated depreciation	21,367	-	-	-	-	21,367
Other assets, less allowance for losses	2,493	-	-	-	-	2,493
TOTAL ASSETS	<u>2,792,940</u>	<u>574,882</u>	<u>127,010</u>	<u>-</u>	<u>(59,510)</u>	<u>3,435,322</u>
	Russia	Other CIS countries	OECD countries	Non-OECD countries	Undefined (incl. allowance for losses)	2003 Total RUR thousand
LIABILITIES						
Deposits from banks	256,960	1,685,663	-	-	-	1,942,623
Customer accounts	190,561	16,781	38,283	10,114	-	255,739
Debt securities issued	348,280	-	-	-	-	348,280
Other liabilities	9,882	-	-	-	9,435	19,317
TOTAL LIABILITIES	<u>805,683</u>	<u>1,702,444</u>	<u>38,283</u>	<u>10,114</u>	<u>9,435</u>	<u>2,565,959</u>
NET POSITION	<u>1,987,257</u>	<u>(1,127,562)</u>	<u>88,727</u>	<u>(10,114)</u>		

	Russia	Other CIS countries	OECD countries	Undefined (incl. allowance for losses)	2002 Total RUR thousand
Cash and balances with the Central Bank of the Russian Federation	31,836	-	-	-	31,836
Loans and advances to banks, less allowance for loan losses	24,957	26,185	6,087	(1,023)	56,206
Securities purchased under agreement to resell	8,569	-	-	-	8,569
Securities available-for-sale	598,384	-	-	-	598,384
Loans and advances to customers, less allowance for loan losses	26,914	-	-	(956)	25,958
Fixed and intangible assets, less accumulated depreciation	18,307	-	-	-	18,307
Other assets, less allowance for losses	3,046	-	-	(19)	3,027
TOTAL ASSETS	<u>712,013</u>	<u>26,185</u>	<u>6,087</u>	<u>(1,998)</u>	<u>742,287</u>
LIABILITIES					
Deposits from banks	-	111,807	-	-	111,807
Customer accounts	109,684	-	-	-	109,684
Debt securities issued	8,724	-	-	-	8,724
Other liabilities	503	-	-	-	503
TOTAL LIABILITIES	<u>118,911</u>	<u>111,807</u>	<u>-</u>	<u>-</u>	<u>230,718</u>
NET POSITION	<u>593,103</u>	<u>(85,622)</u>	<u>6,087</u>		