ASSURANCE AND ADVISORY BUSINESS SERVICES

ASSURANCE SERVICES

Bank MENATEP St. Petersburg
Consolidated Financial Statements
Years ended December 31, 2003 and 2002
Together with Report of Independent Auditors

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Report of Independent Auditors

To the Shareholders and Board of Directors of
Bank MENATEP St. Petersburg –

We have audited the accompanying consolidated balance sheet of Bank MENATEP St. Petersburg and subsidiaries (together the "Group") as of December 31, 2003, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2003, and the results of their operations and their cash flows for the year then ended, in accordance with International Financial Reporting Standards as published by the International Accounting Standards Board.

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements that discusses developments regarding the Bank's former ultimate shareholders, Group MENATEP, the possible negative consequences thereof, and management's actions with respect to these matters. We also draw attention to Note 1 to the consolidated financial statements that discusses a change in ownership of the Bank. Further we draw attention to Note 32 to the consolidated financial statements which discusses tax litigation involving a tax claim for Rbth 513,421.

We also draw attention to Note 31 to the consolidated financial statements which details significant amounts of investing, lending and financing transactions with the Group's former major shareholders and other related parties.

Ernst & Young Vneshaudit

May 26, 2004

Bank MENATEP St. Petersburg

Consolidated Financial Statements

Years ended December 31, 2003 and 2002

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CONSOLIDATED BALANCE SHEETS

(Thousands of Russian Roubles)

	Notes	December 31, 2003	2002
Assets			
Cash and cash equivalents	5	4,963,291	8,315,538
Obligatory reserve with the Central Bank of the Russian Federation		2,133,564	2,583,530
Trading securities	6	5,645,606	6,089,415
Amounts due from credit institutions	7	45,101	383,865
Derivative financial assets	8	16,814	1,799
Investment securities:			
- held-to-maturity	9	473,934	586,085
- available-for-sale	10	100,565	30,264
Loans to customers	11	16,279,316	18,104,461
Tax assets	28	111,744	105,890
Tangible fixed assets	12	566,203	543,458
Goodwill and other intangible assets	13	146,371	122,710
Investment in leases	15	481,306	191,580
Other assets	16	206,740	152,250
Total assets		**31,180,555**	**37,210,845**
Liabilities			
Amounts due to credit institutions	17	3,402,866	2,949,346
Derivative financial liabilities	8	13,833	3,025
Amounts due to customers	18	18,004,890	25,838,527
Certificated debts	19	6,432,960	5,790,804
Tax liabilities	28	17,939	–
Provisions	22, 32	79,375	–
Other liabilities	20	12,730	157,666
Total liabilities		**27,964,593**	**34,739,368**
Shareholders' equity			
Share capital	21	2,896,441	2,896,441
Additional paid-in capital		706,013	706,013
Reserves and accumulated deficit		(386,492)	(1,130,977)
Total shareholders' equity		**3,215,962**	**2,471,477**
Total liabilities and shareholders' equity		**31,180,555**	**37,210,845**
Commitments and contingencies	32		

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

Kolyada O. R. — Chairman of the Board

Kopanyova E. I. — Financial Director

May 26, 2004

The accompanying notes on pages 6 to 47 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

(Thousands of Russian Roubles)

	Notes	Years ended December 31, 2003	2002
Interest income		4,848,733	4,439,261
Interest expense		2,371,136	2,112,183
Net interest income	23	**2,477,597**	**2,327,078**
(Recovery of) provision for impairment	22	(42,832)	78,834
Net interest income after provision for impairment		**2,520,429**	**2,248,244**
Fees and commission income	24	898,360	541,541
Net dealing profits	25	248,909	418,347
Net foreign currencies dealing profits		198,950	149,816
Net foreign currencies translation gains (losses)		1,121	(76,621)
Other income		42,233	79,865
Non interest income		**1,389,573**	**1,112,948**
Salaries and benefits	26	1,497,693	1,151,342
Administrative expenses	26	945,658	958,675
Fees and commission expenses	27	147,451	92,414
Depreciation and amortization	12, 13	120,545	140,062
Other provisions (recoveries of other provisions)	22	80,304	(10,255)
Other expenses		77,953	71,200
Non interest expense		**2,869,604**	**2,403,438**
Net loss on initial recognition of financial instruments		5,279	74,683
Loss on net monetary position		–	434,004
Profit before income tax expense		**1,035,119**	**449,067**
Income tax expense	28	252,344	113,845
Net profit		**782,775**	**335,222**

The accompanying notes on pages 6 to 47 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2003 and 2002

(Thousands of Russian Roubles)

	Share capital (Nominal)	Inflation impact on share capital	Additional paid-in capital	Accumulated deficit	General reserve	Total shareholders' equity
December 31, 2001	**1,385,000**	**1,423,751**	**241,500**	**(1,493,094)**	**61,742**	**1,618,899**
Issuance of shares for bank acquisitions (Notes 14, 21)	87,690	–	140,304	–	–	227,994
Collection of receivable for sale of shares	–	–	242,326	–	–	242,326
Dividends paid	–	–	–	(34,847)	–	(34,847)
Transfers (Note 29)	–	–	–	(18,365)	18,365	–
Contribution of leasing companies (Note 14)	–	–	81,883	–	–	81,883
Net profit	–	–	–	335,222	–	335,222
December 31, 2002	**1,472,690**	**1,423,751**	**706,013**	**(1,211,084)**	**80,107**	**2,471,477**
Dividends paid	–	–	–	(38,290)	–	(38,290)
Transfers (Note 29)	–	–	–	(26,712)	26,712	–
Net profit	–	–	–	782,775	–	782,775
December 31, 2003	**1,472,690**	**1,423,751**	**706,013**	**(493,311)**	**106,819**	**3,215,962**

The accompanying notes on pages 6 to 47 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands of Russian Roubles)

	Notes	Years ended December 31, 2003	2002
Cash flows from operating activities			
Interest income and fees and commissions received		5,645,057	4,889,872
Interest expense and fees and commissions paid		(2,604,575)	(2,123,565)
Net dealing profits		318,562	295,985
Net foreign currencies dealing profits		198,950	149,816
Other operating income		42,233	79,865
Salaries and benefits		(1,586,244)	(1,070,841)
Administrative expenses		(945,658)	(958,675)
Other operating expenses		(77,955)	(65,080)
Cash flow from operating activities before changes in operating assets and liabilities		**990,370**	**1,197,377**
Net (increase) decrease in operating assets			
Obligatory reserve with the Central Bank of the Russian Federation		444,966	(166,316)
Amounts due from credit institutions		341,568	968,534
Trading securities		379,361	(2,983,168)
Loans to customers		1,739,986	3,388,059
Investment in leases		(313,944)	(211,408)
Other assets		(60,251)	33,308
Net increase (decrease) in operating liabilities			
Amounts due to credit institutions		539,767	(120,344)
Amounts due to customers		(7,555,858)	3,535,965
Other liabilities		(50,265)	14,486
Net cash flow from operating activities before income taxes		**(3,544,300)**	**5,656,493**
Income taxes paid		(240,259)	(179,554)
Net cash flow from operating activities		**(3,784,559)**	**5,476,939**
Cash flows from investing activities			
Purchase of investment securities	10	(86,942)	–
Proceeds from sale and redemption of investment securities		175,047	29,893
Purchase of tangible fixed assets	12	(266,695)	(278,227)
Proceeds from sale of tangible fixed assets		142,627	54,087
Purchase of intangible assets	13	(42,883)	(14,434)
Cash paid for acquisition, net of cash received	14	–	(5,897)
Net cash flow from investing activities		**(78,846)**	**(214,578)**
Cash flows from financing activities			
Collection of receivable for sale of shares		–	225,000
Net cash proceeds from issuance of certificated debts		601,087	431,870
Dividends paid		(38,290)	(34,847)
Net cash flow from financing activities		**562,797**	**622,023**
Exchange rate changes effect on cash and cash equivalents		(46,639)	54,545
Monetary losses from cash and cash equivalents		–	(419,403)
Net change in cash and cash equivalents		**(3,347,247)**	**5,519,526**
Cash and cash equivalents, beginning of the period		8,315,538	2,796,012
Cash and cash equivalents, end of the period	5	**4,968,291**	**8,315,538**

The accompanying notes on pages 6 to 47 are an integral part of these consolidated financial statements.

1. Principal Activities

The consolidated financial statements contain the accounts of Bank MENATEP St. Petersburg and its five subsidiaries (together "the Group") (Note 34).

Bank MENATEP St. Petersburg ("the Bank") is the leading company in the Group. It was formed on November 27, 1995 as a closed joint stock company under the laws of the Russian Federation and was re-organized into an open joint stock company on December 18, 2000. The Bank operates under a general banking license № 3279 from the Central Bank of the Russian Federation (the "CBRF"), issued on May 26, 2003, and a license for operations with precious metals from the CBRF, issued on December 18, 2000. The Bank also possesses a license for securities operations from the Federal Stock Market Commission (the "FSMC"), granted on November 27, 2000, and a license for custody services from the FSMC, granted on December 7, 2000. The Bank accepts deposits from the public and makes loans, transfers payments in Russia and abroad, exchanges currencies and provides banking services for its corporate and retail customers. The Group also has leasing operations through a wholly-owned subsidiary *LLC "Dana Plus Group"*.

The Bank has 56 branches in 47 regions of Russia, one foreign branch in Ulan-Bator, Mongolia, and one representative office in Kursk, Russia. The Bank's registered legal address is: Nevsky pr.1, Saint Petersburg, Russia, 191186.

The Group has 3,279 employees as of December 31, 2003 (2002: 3,142).

Following a plan to establish a bank holding company by consolidating 100% of the shares of the Bank, *TRUST Investment Bank* and *Private Pension Fund "Progress-Doveriye"*, *CJSC "IFA MENATEP"* consolidated the majority of their shares. As of December 31, 2003, *CJSC "IFA MENATEP"* owned 99.56% of the outstanding shares of the Bank (2002: 63.64%). In October 2003, a single Board of Directors was adopted for both banks, chaired by the former President of *TRUST Investment Bank*. The new Board of Directors was given wider authority in managing day-to-day activities of the Bank, together with strategic management responsibility.

In 2003, the Bank's ultimate shareholder was *Group MENATEP*, an international diversified industrial and financial holding. As discussed in Note 31, operations related to *JSC "Oil Company "YUKOS"* and other parties related to *Group MENATEP* represented a significant portion of the Group's business.

Subsequent to year-end, in May 2004, there was a change in ultimate shareholders of the Bank as result of a management buyout of *CJSC "IFA MENATEP"* by certain members of the Board of Directors of the Bank.

2. Group MENATEP Developments and Management's Actions

In 2003, the Prosecutor General of the Russian Federation launched a series of criminal investigations against *Group MENATEP* shareholders. Considerable uncertainty exists as to the extent and timing of future developments of the investigations.

Historically, the Group has had substantial transactions with *JSC "Oil Company "YUKOS"*, an affiliate of *Group MENATEP* and a subject of various tax investigations. The uncertainty surrounding the Bank's former shareholders and potential reduction in the volume of business with *Group MENATEP* may have a negative impact on the Group's profitability, liquidity and equity.

2. Group MENATEP Developments and Management's Actions (continued)

The Group has considered the risks of being adversely affected by these developments and has taken actions to minimize the negative impact on the Group. Management believes that the actions taken will ensure the Group continues as a going concern. The key aspects of management's actions include:

- Asset and liability management with an emphasis on current and mid-term liquidity;
- Maintaining a sufficient liquidity position on a daily basis to honor its obligations after the possibility of significant outflow of resources including a significant decrease of the funding from its major customer and up to 30 percent withdrawal of other funding;
- Restructuring outstanding transactions with related parties on market terms and conditions;
- Reduction of administrative expenses; and
- Other actions were taken to reduce possible margin reductions.

The Group's ability to avoid adverse changes in its financial position will be dependent on management's effectiveness in the continuing execution of the above actions and other significant factors, including successful resolution of tax litigation (Note 32).

3. Basis of Preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements are presented in thousands of Russian Roubles ("Rbth"), unless otherwise indicated.

The Bank maintains its books of account and prepares statements for regulatory purposes in accordance with Russian accounting and banking legislation and related instructions ("RAL"). The statutory data is adjusted and reclassified in order to comply with IFRS. The reconciliation between RAL and IFRS is presented later in this note.

Fiennes Investments Ltd. and *MSPB Financial Services Ltd.* prepare their financial statements under IFRS. *MENATEP Finance S.A.* prepares its financial statements in accordance with accounting standards and principles generally accepted in Switzerland (Swiss GAAP). *CJSC "Regionservice"* and *LLC "Dana Plus Group"* prepare their financial statements in accordance with RAL. Swiss GAAP and RAL data were then further adjusted and reclassified to achieve fair presentation in accordance with IFRS.

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts. These estimates are based on information available as of the date of issuance of the financial statements. Actual results, therefore, could differ from these estimates. The most significant estimates relate to allowance for impairment, useful lives of fixed assets and contingencies.

Notes to 2003 Consolidated Financial Statements (Thousands of Russian Roubles)

3. Basis of Preparation (continued)

The foreign subsidiaries are classified as foreign operations that are integral to the operations of the Bank. As a result, the measurement currency of the Bank – Russian Rouble – is used as their measurement currency despite it being different from the currencies of the countries in which the subsidiaries are domiciled. The financial statements of subsidiaries are translated using the procedures as if the transactions of the foreign subsidiaries has been those of the Bank itself (see below).

Inflation Accounting

Effective from January 1, 2003, international accounting and financial reporting bodies have determined that the Russian Federation no longer meets the criteria of IAS 29 "Financial Reporting in Hyperinflationary Economies" (IAS 29) for hyperinflation. Beginning in 2003, the Group ceased applying IAS 29 to current periods and only recognizes the cumulative impact of inflation indexing on non-monetary elements of the consolidated financial statements through December 31, 2002. Monetary items and results of operations as of and for the year ended December 31, 2003 are reported at actual, nominal amounts.

Non-monetary assets and liabilities acquired prior to December 31, 2002, and share capital transactions occurring before December 31, 2002, have been restated by applying the relevant inflation conversion factors to the historical cost ("restated cost") through December 31, 2002. Gains or losses on subsequent disposal are recognized based on the restated cost of non-monetary assets and liabilities.

Reconciliation of RAL and IFRS Shareholders' Equity and Net Profit

Shareholders' equity and net profit are reconciled between RAL and IFRS as follows:

	2003		2002	
	Share-holders' equity	**Net profit**	**Share-holders' equity**	**Net profit**
Russian Accounting Legislation	**3,208,245**	**336,866**	**3,039,822**	**557,143**
Additional allowance for impairment	(438,815)	66,531	(505,346)	213,430
Financial instruments and accruals	617,738	184,046	433,692	171,607
Adjustments to fair value	(385,776)	(75,224)	(310,552)	(95,352)
Effect of inflation on non-monetary items	43,023	–	43,023	(459,460)
Tangible fixed assets	(235,365)	(45,976)	(189,389)	(70,581)
Deferred taxation	(140,687)	(116,373)	(24,314)	(15,527)
Earnings of consolidated subsidiaries	700,410	454,827	245,583	221,235
Expenses recorded directly to equity	–	(130,153)	–	(279,959)
Other	(152,811)	108,231	(261,042)	92,686
International Financial Reporting Standards	3,215,962	782,775	2,471,477	335,222

4. Summary of Accounting Policies

Principles of Consolidation

The consolidated financial statements of the Group include the Bank and the companies that it controls. The control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

Intercompany balances and transactions, including intercompany profits and losses, are eliminated. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Recognition of Financial Instruments

The Group recognizes financial assets and liabilities on its consolidated balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognized using trade 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. Any gain or loss at initial recognition is recoded in the current period's consolidated statement of income. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out in the note.

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

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, precious metals, amounts due from the CBRF – excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Gold and other precious metals are recorded at current CBRF bid prices, which are quoted at a discount to London Metal Exchange rates. Differences between the contractual exchange rate of a certain transaction and the CBRF bid price on the date of the transaction is included in net dealing profit or loss. Any gains or losses on assets and liabilities denominated in gold and other precious metals arising from a change in the CBRF bid rate are recognized as net foreign currencies translation profit or loss.

Obligatory Reserve with the Central Bank of the Russian Federation

CBRF requires credit institutions to maintain non-interest earning cash deposit (obligatory reserve) with the CBRF, the amount of which depends on the level of funds attracted by the credit institution. The Group's ability to withdraw such deposit is significantly restricted by the statutory legislation.

4. Summary of Accounting Policies (continued)

Amounts Due from Credit Institutions

In the normal course of business, the Group maintains current accounts or deposits for various periods of time with other banks. Amounts due from credit institutions with a fixed maturity term are initially recognized at cost which is the fair value of the consideration given; they are subsequently accounted for at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. As these placements of funds are typically unsecured extensions of credit, some of the assets may be impaired. Amounts due from credit institutions are carried net of any allowances for impairment. The principles used to create allowances for impairment on amounts due from credit institutions are described below.

Trading Securities

Securities purchased principally for the purpose of generating a profit from short-term fluctuations in price or dealers' margin are classified as trading securities. Trading securities are initially recognized under the policy for financial instruments and are subsequently measured at fair value, based on market values as of the balance sheet date. Realized and unrealized gains and losses resulting from operations with trading securities are recognized in the consolidated statement of income as net dealing profit or loss. Interest earned on trading securities is reported as interest income in the consolidated statement of income.

In determining estimated fair value, securities are valued at the last trade price if quoted on an exchange, or the last bid price if traded over-the-counter. When market prices are not available or if liquidating the Group'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.

Investment Securities

The Group classifies its investment securities into two categories:

- Securities with fixed maturities and fixed or determinable payments that management has both the positive intent and the ability to hold to maturity are classified as held-to-maturity; and

- Securities that are not classified by the Group as held-to-maturity or trading (see above) are included in the available-for-sale portfolio.

The Group classifies investment securities depending upon the intent of management at the time of the purchase. Shares of associates and subsidiaries held by the Group exclusively with a view to their future disposal are also classified as available-for-sale. Investment securities are initially recognized in accordance with the recognition of financial instruments policy and subsequently re-measured using the following policies:

1. Held-to-maturity investment securities – at amortized cost using the effective yield method. Provision for impairment is estimated on a case-by-case basis.

4. **Summary of Accounting Policies (continued)**

2. Available-for-sale investment securities are subsequently measured at fair value, which is equal to the market value as at the balance sheet date. When debt securities with fixed maturities are non-marketable or no information is available about the market value of similar instruments, fair value has been estimated as the discounted future cash flows using current interest rates. Non-marketable securities that do not have fixed maturities are stated at cost, less provision for impairment in value unless there are other appropriate and workable methods of reasonably estimating their fair value.

   Gains and losses arising from changes in the fair value of available-for-sale investment securities are recognized as net dealing profit or loss in the period that the change occurs.

Loans to Customers

Loans granted by the Group by providing funds directly to the borrower are categorized as loans originated by the Group and are initially recognized in accordance with the recognition of financial instruments policy. The difference between nominal amount of consideration given and the fair value of loans issued at other than market terms is recognized in the period the loan is issued as initial recognition of loans to customers at fair value in the consolidated statement of income. 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 impairment. The principles used to create allowances for impairment on loans to customers are described below.

Loans are placed on non-accrual status when full payment of principal or interest is in doubt (a loan with principal and interest unpaid for at least ninety days). When a loan is placed on non-accrual status, contractual interest income is not recognized in the consolidated statement of income. A non-accrual loan may be restored to accrual status when principal and interest amounts contractually due are reasonably assured of timely repayment.

Promissory Notes

The majority of promissory notes held by the Group are, in substance, equivalent to loans and any allowance for their impairment are assessed on the same basis. For promissory notes held as trading or investment securities, the Group applies the same accounting policies as for these categories of securities.

Allowances for Impairment of Financial Assets

The Group establishes allowances for impairment of financial assets when it is probable that the Group will not be able to collect the principal and interest according to the contractual terms of loans issued, held-to-maturity securities, and other financial assets, which are carried at cost and amortized cost. The allowance for impairment of financial assets 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 instrument. For instruments that do not have fixed maturities, expected future cash flows are discounted using periods during which the Group expects to realize the financial instrument.

4. Summary of Accounting Policies (continued)

The allowances are based on the Group's own loss experience and management's judgment as to the level of losses that will most likely be recognized from assets in each credit risk category by reference to the debt service capability and repayment history of the borrower. The allowances for impairment of financial assets in the accompanying consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in the Russian Federation and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

Changes in allowances are reported in the consolidated statement of income of the related period. When a financial asset is not collectable, it is written off against the related allowance for impairment; if the amount of the impairment subsequently decreases due to an event occurring after the write-down, the reversal of the related allowance is credited to the related impairment of financial assets in the consolidated statement of income.

Tangible Fixed Assets

Tangible fixed assets are carried at restated cost less accumulated depreciation. Depreciation on assets under construction and those not placed in service commences from the date the assets are placed in service. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	50
Furniture and fixtures	7
Computers and office equipment	5
Motor vehicles	5
Other	5

The carrying amounts of tangible fixed assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment is recognized in the respective period and is included in administrative and other expenses.

Costs related to repairs and renewals are charged when incurred and included in administrative expenses unless they qualify for capitalization.

Goodwill and Other Intangible Assets

The excess of the cost of an acquisition over the Group's interest in the fair value of the net identifiable assets acquired as of the date of the transaction is recorded as goodwill and recognized as an asset in the consolidated balance sheet. Goodwill is carried at cost less accumulated amortization and impairment losses. Goodwill is amortized on a straight-line basis over its useful life, which has been estimated as being 5 years.

Intangible assets are primarily represented by computer software and licenses and are recognized at restated cost. Amortization is calculated on a straight-line basis over the estimated useful economic life of the asset. The economic lives are 1 to 10 years.

4. Summary of Accounting Policies (continued)

Intangible assets under development are not amortized. Amortization of these assets will begin when the related assets are placed in service.

Finance and Operating Leases

i. Finance - Group as lessor

Where the Group is the lessor, upon inception of a finance lease, the present value of the minimum lease payments and any unguaranteed residual value accruing to the Group less unearned finance income ("net investment in leases") is recorded as a separate line in the consolidated balance sheet. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are recognized as expenses when incurred.

The inception of a lease is considered to be the date of the lease agreement, or commitment if earlier. For purposes of this definition, a commitment should be in writing, signed by the parties with an interest in the transaction, and should specifically set forth the principal terms of the transaction. Any advance payments made by the lessee prior to commencement of the lease reduce net investment in leases. Finance income from leases is recorded within interest income in the consolidated statement of income. Investments in leases are carried net of any allowance for impairment.

ii. Operating - Group as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under operating leases are recognized as expenses on a straight-line basis over the lease term and included in administrative expenses.

Non-Consolidated Subsidiaries

Investments in non-consolidated subsidiaries are carried at restated cost less any provision for diminution in value. The Bank has not consolidated these subsidiaries, as the financial effect is immaterial to the Group as a whole.

Derivative Financial Instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are primarily held for trading and are initially recognized in accordance with the recognition of financial instruments policy and subsequently are measured at their fair value. Their fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivative financial instruments with positive market values (resulted in unrealized gains) are recorded as assets and derivative financial instruments with negative market values (resulted in unrealized losses) are reported as liabilities in the consolidated balance sheet. Gains and losses resulting from these instruments are included in the consolidated statement of income as net dealing profit or loss.

4. Summary of Accounting Policies (continued)

Derivative financial instruments embedded in other financial instruments are treated as a separate derivative as their risks and characteristics are not closely related to the host contracts and the host contracts are not carried at fair value with unrealized gains and losses reported in income. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative. Gains or losses arising from changes in the value of derivatives are included in the consolidated statement of income as net dealing profit or loss.

Amounts Due to Credit Institutions and to Customers

Amounts due to credit institutions and to customers are initially recognized in accordance with recognition of financial instruments policy. Subsequently these amounts are stated at amortized cost and any difference between net proceeds and the redemption value is recognized over the period of the borrowings using the effective interest method. If the Group purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount of a liability and the consideration paid is included in net interest income.

Certificated Debts

Certificated debts represent promissory notes and certificates of deposit issued by the Group to customers. They are accounted according to the same principles used for amounts due to credit institutions and to customers.

Provisions

Provisions are recognized when the Group 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.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Russian Federation, of the cities in which the Bank has offices and branches and its subsidiaries are located and the countries in which the Bank has foreign subsidiaries. Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized.

The carrying amount of the deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is probable that sufficient taxable profit will not be available to allow the deferred tax asset to be utilized. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

The Russian Federation also has various operating taxes, which are assessed on the Group's activities. These taxes are included as a component of administrative expenses.

4. Summary of Accounting Policies (continued)

Retirement and Other Benefit Obligations

The Bank has pension arrangements separate from the State pension system of the Russian Federation. The Bank has a defined contribution plan, which covers all of its employees, with *Private Pension Fund "Progress Doverie"* (the "Fund"), a related party. The Bank's legal or constructive obligation is limited to the amount that it agrees to contribute to the Fund. The amount of post-employment benefits received by the employee is determined by the amount of contributions paid by the Bank according to the agreement together with investment returns arising from the contributions.

Share Capital and Dividends

Share capital and additional paid-in capital are recognised at restated cost. 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.

Dividends on ordinary shares are recognized as a reduction of shareholders' equity in the period in which they are declared. Dividends that are declared after the consolidated balance sheet date are treated as a subsequent event under IAS 10 "Events After the Balance Sheet Date" and disclosed accordingly.

Income and Expense Recognition

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. The recognition of interest income is suspended when loans become overdue by more then ninety days. Interest income includes coupon income earned on investment and trading securities.

Commissions and other income are recognised 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 at the time the transaction occurs.

Foreign Currency Translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Russian Roubles at official CBRF exchange rates at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated statement of income as net foreign currencies translation profit or loss.

Differences between the contractual exchange rate of a certain transaction and the CBRF exchange rate on the date of the transaction are included in the consolidated statement of income as net foreign currencies dealing profit or loss. The official CBRF exchange rate as of December 31, 2003 was 29.45 Roubles to 1 US Dollar (2002: 31.78 Roubles to 1 US Dollar).

4. Summary of Accounting Policies (continued)

Repurchase and Reverse Repurchase Agreements

Repurchase and reverse repurchase agreements are utilized by the Group as an element of its treasury management and trading business.

Repurchase agreements are accounted for as financing transactions. As such, the related securities are recorded in the Group's accounts and the related payable is included as an amount due to credit institutions or customers. Any related expense arising from the pricing spreads for the underlying securities is recognized as interest expense and accrued over the period that the related transactions are open using the effective yield method.

Reverse repurchase agreements ("reverse repos") are accounted for as amounts due from credit institutions and loans to customers, respectively. Securities borrowed are not recognized in the consolidated financial statements.

Any related income or expense arising from the pricing spreads of the underlying securities is recognized as interest income or expense, accrued using the effective interest method, during the period that the related transactions are open.

Contingencies

Contingent liabilities are not recognized in the consolidated 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. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Notes to 2003 Consolidated Financial Statements (Thousands of Russian Roubles)

4. Summary of Accounting Policies (continued)

Reclassifications

Certain reclassifications have been made to 2002 balances to conform to the 2003 presentation. Such reclassifications have no impact on net profit or shareholders' equity.

Amount	Previously reported	As reclassified	Comment
4,462,348	Cash and due from the Central Bank	Cash and cash equivalents	Reclassification to achieve comparability with 2003 presentation
3,759,386	Amounts due from credit institutions	Cash and cash equivalents	
2,583,530	Cash and due from the Central Bank	Obligatory reserve with the Central Bank of the Russian Federation	
93,804	Precious metals	Cash and cash equivalents	
18,636	Derivative financial assets	Other assets	Reclassification to achieve comparability with 2003 presentation
6,120	Derivative financial liabilities	Other liabilities	
18,636	Net dealing profits	Interest income	Reclassification to achieve comparability with 2003 presentation – unrealized gain on operations with precious metals was reclassified to interest income
6,120	Net dealing profits	Other expenses	Reclassification to achieve comparability with 2003 presentation - unrealized loss on undrawn loan commitments was reclassified to other expenses
2,888	Net dealing profits	Net foreign currencies translation gains (losses)	Reclassification to achieve comparability with 2003 presentation – unrealized loss on derivative financial instruments was reclassified to net foreign currencies translation gains (losses)

5. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	December 31, 2003	December 31, 2002
Cash on hand	1,804,490	1,213,508
Due from the Central Bank of the Russian Federation	2,054,494	3,248,840
Amounts in credit institutions:		
– correspondent accounts	488,525	2,466,301
– term deposits with initial maturity under three months	585,449	1,293,085
Precious metals	35,333	93,804
Cash and cash equivalents	**4,968,291**	**8,315,538**

Notes to 2003 Consolidated Financial Statements (Thousands of Russian Roubles)

5. Cash and Cash Equivalents (continued)

During the year ended December 31, 2003, the Group simultaneously placed with and received short-term funds from Russian banks in different currencies. As of December 31, 2003, the Group placed equivalent of Rbth 178,043 as deposits with initial maturity under three months with Russian banks, which were secured by deposits received from the same banks (2002: Rbth 341,514) (Note 17).

As of December 31, 2003 the Group has entered into reverse repurchase agreements with certain banks. The subjects of these agreements are corporate bonds in the amount of Rbth 120,774 (2002: corporate and municipal bonds with market value of Rbth 81,803).

As of December 31, 2003, the Group had two borrowers with aggregated time deposit amounts above Rbth 100,000. The aggregate amount of these loans is Rbth 229,239 or 39% of the total term deposits placed with credit institutions with initial maturity under three months.

6. Trading Securities

Trading securities comprise:

	December 31, 2003		December 31, 2002	
	Carrying value	Nominal value	Carrying value	Nominal value
Municipal government bonds (1)	2,756,948	2,598,480	445,341	437,050
Corporate bonds (2)	1,976,340	1,887,357	2,132,195	2,036,967
Trading promissory notes (3)	353,186	369,050	1,871,193	2,131,263
State and Federal bonds (4)	289,586	277,000	883,118	897,081
Russian Eurobonds (5)	200,696	176,727	572,285	683,365
Corporate shares (6)	65,790	2,149	102,140	8,763
Vnesheconombank bonds (7)	3,060	3,269	83,143	113,693
Trading securities	**5,645,606**	**5,314,032**	**6,089,415**	**6,308,182**

(1) Municipal government bonds

Municipal government bonds comprise registered government bonds of Moscow, St.Petersburg, regions of Volgograd, Irkutsk, Khanty-Mansiysk, Yamalo-Nenetsk, Murmansk, Leningrad, Republics of Bashkortostan and Karelia. The bonds mature during the period starting from 2004 to 2008. The average annual coupon rate fluctuates from 12% to 17%.

The Group has a substantial portion of bonds issued by the Administration of Yamalo-Nenetsky region. As of December 31, 2003, the share of bonds issued by the Administration of Yamalo-Nenetsky region amounted to 70% (Rbth 1,923,119) of the aggregate municipal government bonds portfolio of the Group (2002: nil).

As of December 31, 2003, bonds issued by the Administration of Yamalo-Nenetsky region and Moscow government with market value of Rbth 169,917 and Rbth 176,634, correspondingly, are pledged under repurchase agreements (2002: nil). Corresponding liabilities to repurchase these securities are included in amounts due to credit institutions (Note 17) and amounts due to customers (Note 18).

6. Trading Securities (continued)

(2) Corporate bonds

Corporate bonds are marketable debt securities issued by Russian companies. The bonds are purchased at a discount to face value and carry fixed quarterly coupons. The average annual coupon interest for Rouble-denominated bonds is 12%, and for US dollar-denominated bonds 11%. Coupons are paid two or four times a year depending on bond issuance terms. The bonds mature during the period starting from 2004 to 2013.

The Group has a substantial portion of bonds issued by *JSC "GT-TPP Energo"*. As of December 31, 2003, the share of *JSC "GT-TPP Energo"* bonds was 22% (Rbth 444,214) in the aggregate corporate bonds portfolio (2002: 4% or Rbth 82,757).

As of December 31, 2003, corporate bonds with market value of Rbth 1,289,305 are pledged under repurchase agreements (2002: nil). Corresponding liabilities to repurchase these securities are included in amounts due to credit institutions (Note 17).

(3) Trading promissory notes

Trading promissory notes comprise debt securities issued by Russian private companies which are purchased at a discount to face value. The average annual rate of return on such promissory notes is 21%.

As of December 31, 2003, the Group has a substantial portion of promissory notes issued by *JSC "Sberbank"* and *JSC "Gazprom"*, which amounted to 75%, or Rbth 263,653 (2002: 1%, or Rbth 16,319) and 14%, or Rbth 49,105 (2002: 87%, or Rbth 1,620,988), respectively, of the aggregate trading promissory notes portfolio.

(4) State and Federal bonds

Short-term government bonds (GKO) and Federal bonds (OFZ) are Rouble-denominated government securities issued and guaranteed by the Ministry of Finance of the Russian Federation. The bonds are sold at a discount to face value and have a floating or fixed coupon rate depending on the terms of issuance. The average annual coupon rate is 12%. The coupons are paid one or four times a year. Federal bonds mature during the period starting from 2004 to 2005.

As of December 31, 2003 the bonds with market value of Rbth 281,783 are pledged as security under frame loan agreement with CBRF (2002: Rbth 273,718). As of December 31, 2003 and December 31, 2002 the Group had no liability under this agreement.

(5) Russian Eurobonds

Russian Eurobonds are coupon securities with a fixed coupon issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. The Group's portfolio of Russian Eurobonds mature in 2010. The average annual coupon rate on these bonds is 8%, and interest is payable semi-annually.

As of December 31, 2003, Russian eurobonds with market value of Rbth 200,696 are pledged under repurchase agreements (2002: nil). Corresponding liabilities to repurchase these securities are included in amounts due to credit institutions (Note 17).

Notes to 2003 Consolidated Financial Statements (Thousands of Russian Roubles)

6. Trading Securities (continued)

(6) Corporate shares

Corporate shares are marketable shares of Russian companies.

(7) Vnesheconombank bonds

Vnesheconombank (VEB) bonds are US Dollar denominated interest bearing securities, which carry the guarantee of the Ministry of Finance of the Russian Federation. The bonds are purchased at a discount to face value and carry a fixed annual coupon. The interest is paid twice a year, the average coupon rate for such securities is 3%. Vnesheconombank bonds mature in 2007.

7. Amounts Due from Credit Institutions

Amounts due from credit institutions comprise:

	December 31, 2003	December 31, 2002
Term deposits with initial maturity more than three months	45,101	390,254
Less – Allowance for impairment (Note 22)	–	(6,389)
Amounts due from credit institutions	**45,101**	**383,865**

As of December 31, 2003, the Group placed equivalent of Rbth 10,309 as deposit with initial maturity more than three months with Russian bank, which was secured by deposit received from the same bank (2002: Rbth 73,852) (Note 17).

8. Derivative Financial Instruments

The Group enters into deals with foreign exchange derivative financial instruments for trading purposes. These derivative financial instruments are generally traded in an over-the-counter market with professional counterparties.

The fair value of the Group's position on foreign exchange derivative financial instruments was calculated based on the RUR/USD and RUR/EUR exchange rates effective as of December 31, 2003 and 2002.

Notes to 2003 Consolidated Financial Statements (Thousands of Russian Roubles)

8. Derivative Financial Instruments (continued)

The outstanding deals with derivative financial instruments comprise the following foreign exchange forward and swap contracts:

	December 31, 2003				December 31, 2002			
			Fair values				Fair value	
	Notional principal		Asset,	Liability,	Notional principal		Asset,	Liability,
	Asset	Liability	Rbth	Rbth	Asset	Liability	Rbth	Rbth
Forwards and Swaps – domestic:								
- USD	140,000,000	92,375,000			21,000,000	8,735,000		
- EUR	–	4,000,000			–	–		
- Rbth	2,707,057	3,959,550			289,447	670,497		
			16,814	13,833			1,799	3,025
Derivative financial instruments			**16,814**	**13,833**			**1,799**	**3,025**

The unrealized gain or loss on the above derivative financial instruments reflects the fair value adjustment on outstanding derivative financial instruments. The fair value of these transactions reflects the credit and other economic risks for the Group.

9. Held-to-Maturity Investment Securities

Held-to-maturity investment securities are presented by the following debt securities:

	December 31, 2003	December 31, 2002
Promissory notes	488,873	606,990
Less – Allowance for impairment (Note 22)	(14,939)	(20,905)
Held-to-maturity investment securities	**473,934**	**586,085**

Above debt securities are issued by *JSC "Oil Company "YUKOS", LLC "Ratmir"* and *CJSC "IFA MENATEP"* which are related parties to the Group (Note 31). Their amortized cost as of December 31, 2003, is Rbth 316,827, Rbth 164,286 and Rbth 7,760, respectively. As of December 31, 2002 amortized cost of securities issued by *JSC "Oil Company "YUKOS", LLC "Ratmir"* and *CJSC "IFA MENATEP"* comprised Rbth 314,811, Rbth 284,953 and Rbth 7,226, respectively.

Significant contractual terms and conditions of the promissory notes follow.

Maturity	Nominal value	Original issue discount
March-December 2004	215,046	864
March-December 2005	216,580	642
June-December 2006	109,031	402
	540,657	**1,908**

Notes to 2003 Consolidated Financial Statements (Thousands of Russian Roubles)

10. Available-for-Sale Investment Securities

Available-for-sale investment securities are presented by the following investments:

	December 31, 2003	December 31, 2002
Equity instruments	103,350	33,283
Less – Allowance for impairment (Note 22)	(2,785)	(3,019)
Available-for-sale investment securities	**100,565**	**30,264**

The equity instruments disclosed above are carried at cost, because they do not have a quoted market price in an active market and other methods of reasonably estimating fair value are unworkable due to the absence of comparable quoted companies and the lack of reliable information for discounted cash flow analysis. It is also currently impossible to calculate the range of estimates within which fair value of the equity investments is highly likely to lie.

Included in available–for-sale investment securities are shares of *JSC "Volgoprombank"* in amount of Rbth 86,942 which represents approximately 54% of its share capital. The Group did not consolidate *JSC "Volgoprombank"* as the control over the entity was intended to be temporary because shares of *JSC "Volgoprombank"* have been acquired and held exclusively with a view to subsequent disposal in the near future. In May 2004 the Group sold all above shares with no gain or loss to a related party that acted as an intermediary between the Group and a third party.

11. Loans to Customers

Loans to customers are made principally within the Russian Federation in the following industry sectors:

	December 31, 2003	December 31, 2002
Agencies of state administrations	4,008,103	1,130,935
Trading enterprises	2,789,197	3,410,537
Fuel industry	2,449,802	1,710,697
Engineering and metal processing	2,012,801	2,373,218
Manufacturing	1,685,576	3,296,143
Chemical and petrochemical industry	1,043,841	931,720
Financial intermediaries	624,550	532,016
Construction	572,615	1,311,896
Individuals	566,908	73,688
Transportation	437,324	519,959
Energy trade	351,794	2,908,447
Pharmaceutics	18,095	266,342
Other	834,119	821,467
	17,394,725	**19,287,065**
Less – Allowance for impairment (Note 22)	(1,115,409)	(1,182,604)
Loans to customers	**16,279,316**	**18,104,461**

Notes to 2003 Consolidated Financial Statements (Thousands of Russian Roubles)

11. Loans to Customers (continued)

As of December 31, 2003 the Group had five borrowers with aggregated loan amounts above Rbth 400,000. The aggregate amount of these loans is Rbth 4,232,205 or 24% of the gross loan portfolio.

As of December 31, 2003 the Group has entered into reverse repurchase agreements with certain companies. The subject of these agreements are promissory notes issued by Russian companies with market value of Rbth 49,225 (2002: Rbth 41,813).

The Group's loan portfolio has been extended to the following types of enterprises:

	December 31, 2003	December 31, 2002
Private companies	11,886,372	15,026,839
Regional state enterprises and local authorities	4,087,968	1,180,150
Federal state enterprises and federal authorities	575,794	2,651,648
Individuals	566,908	73,688
Private entrepreneurs	277,683	354,740
Loans to customers, gross	**17,394,725**	**19,287,065**

The aggregate amount of overdue loans as of December 31, 2003 is Rbth 557,344, the allowance for impairement created against overdue loans is Rbth 507,761 (2002: Rbth 269,419 and Rbth 269,419, respectively). Included in the aggregate amount of overdue loans as of December 31, 2003 are non-accrual loans with aggregate amount Rbth 497,248 (2002: Rbth 172,894).

Loans to customers included promissory notes issued by third parties in the total (gross) amount of Rbth 121,649 as of December 31, 2003 (2002: Rbth 386,577).

The Group accepts listed and unlisted securities and other property as collateral for commercial loans, which the Group is not permitted to sell or re-pledge in the absence of default unless agreed by the borrower.

Notes to 2003 Consolidated Financial Statements (Thousands of Russian Roubles)

12. Tangible Fixed Assets

The movements of tangible fixed assets during 2003 and 2002 were as follows:

	Land and buildings	Fixtures and equipment	Other fixed assets	Total
Cost				
December 31, 2001	**20,080**	**470,344**	**14,386**	**504,810**
Additions	142,178	135,866	183	278,227
Acquisition of banks (Note 14)	37,827	32,256	–	70,083
Disposals	–	(54,087)	–	(54,087)
December 31, 2002	**200,085**	**584,379**	**14,569**	**799,033**
Additions	5,200	261,495	–	266,695
Disposals	(9,732)	(186,290)	–	(196,022)
Transfers	–	14,569	(14,569)	–
December 31, 2003	**195,553**	**674,153**	–	**869,706**
Accumulated depreciation				
December 31, 2001	709	**120,022**	5,208	125,939
Charge	3,353	124,168	2,502	130,023
Disposals	–	(387)	–	(387)
December 31, 2002	**4,062**	**243,803**	7,710	255,575
Charge	4,390	96,911	396	101,697
Disposals	(234)	(53,535)	–	(53,769)
Transfers	–	8,106	(8,106)	–
December 31, 2003	8,218	295,285	–	303,503
Net book value				
December 31, 2002	196,023	340,576	6,859	543,458
December 31, 2003	187,335	378,868	–	566,203

The gross carrying amount of certain vehicles, computers and other items which are fully depreciated as of December 31, 2003, is Rbth 126,198 but these items are still in active use (2002: Rbth 91,397).

13. Goodwill and Other Intangible Assets

The movements of goodwill and other intangible assets during 2003 and 2002 were as follows:

	Goodwill	Software and licenses	Total
Cost			
December 31, 2001	–	**119,215**	**119,215**
Additions	11,630	37,624	49,254
Disposals	–	(23,190)	(23,190)
December 31, 2002	**11,630**	**133,649**	**145,279**
Additions	–	42,883	42,883
Disposals	–	(4,135)	(4,135)
December 31, 2003	**11,630**	**172,397**	**184,027**

Notes to 2003 Consolidated Financial Statements (Thousands of Russian Roubles)

13. Goodwill and Other Intangible Assets (continued)

	Goodwill	Software and licenses	Total
Accumulated amortization			
December 31, 2001	–	**18,324**	**18,324**
Charge	–	10,039	10,039
Disposals	–	(5,794)	(5,794)
December 31, 2002	–	**22,569**	**22,569**
Charge	2,326	16,522	18,848
Disposals	–	(3,761)	(3,761)
December 31, 2003	**2,326**	**35,330**	**37,656**
Net book value			
December 31, 2002	**11,630**	**111,080**	**122,710**
December 31, 2003	**9,304**	**137,067**	**146,371**

14. Acquisitions and Disposals

Acquisition of *CJSC AKB "Yuganskneftebank"* and *JSC AKB "Nefteenergobank"*

On December 31, 2002 the Bank acquired 100% of the share capital of *CJSC AKB "Yuganskneftebank"* and *JSC AKB "Nefteenergobank"*, that were commercial banks operating in the cities of Nefteyugansk and Tomsk, respectively. In connection with the acquisition, the Bank issued 17,538,047 ordinary shares of nominal value of 5 Roubles at 13 Roubles each. The purchase method of accounting was used to record these acquisitions. As the result of the acquisition of *CJSC AKB "Yuganskneftebank"* and *JSC AKB "Nefteenergobank"*, the share capital of the Group increased in 2002 by Rbth 87,690 and the additional paid-in capital by Rbth 140,304.

Purchase consideration of the above two banks follows:

Costs associated with the acquisition	5,897
Fair value of the shares issued	227,994
Total purchase consideration	**233,891**

The fair values of net identifiable assets acquired comprised Rbth 222,261, including tangible fixed assets of Rbth 70,083 (Note 12). The amount of goodwill comprised Rbth 11,630 (Note 13).

In 2003 these banks became branches of the Bank.

On January 7, 2002, *Fiennes Investments Limited* acquired 100% interest in *Garrowhill Limited, Beltana Limited* and *Wensley Limited,* all closed joint stock companies under the laws of the Isle of Man. Collectively these three companies own 100% of the outstanding stock of *CJSC "Regionservice"* and *LLC "Dana Plus Group"*. The net assets of the companies in amount of Rbth 81,883 were recorded by the Bank at their historical cost and as a contribution to equity.

Notes to 2003 Consolidated Financial Statements (Thousands of Russian Roubles)

15. Investment in Leases

Investments in finance leases comprise the following:

	December 31, 2003	December 31, 2002
Investment in leases, gross		
- under 1 year	317,639	4,665
- 1 – 5 years	352,788	157,342
- over 5 years	–	100,458
	670,427	**262,465**
Unearned lease income	(145,075)	(51,057)
Allowance for impairment (Note 22)	(44,046)	(19,828)
Investment in leases	**481,306**	**191,580**

The Group finance leasing operations are conducted by its subsidiary *LLC "Dana Plus Group"*.

16. Other Assets

Other assets comprise:

	December 31, 2003	December 31, 2002
Advances made and prepayments	158,375	36,757
Receivables on operations with securities	20,775	32,294
Unrealized gain on operations with precious metals	14,038	18,636
Prepaid operating taxes	–	35,964
Non-consolidated subsidiaries and associates	754	894
Other	18,604	32,348
	212,546	**156,893**
Less – Allowance for impairment (Note 22)	(5,806)	(4,643)
Other assets	**206,740**	**152,250**

17. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	December 31, 2003	December 31, 2002
Correspondent accounts	726,262	597,461
Time deposits	1,218,284	2,351,885
Securities borrowed	1,458,320	–
Amounts due to credit institutions	**3,402,866**	**2,949,346**

A substantial portion of amounts due to credit institutions is due to *TRUST Investment Bank*, a related party to the Group (Note 31). As of December 31, 2003, *TRUST Investment Bank* accounted for Rbth 1,506,273 or 44% of the total amounts due to credit institutions (2002: Rbth 20,395 or 1%).

Notes to 2003 Consolidated Financial Statements (Thousands of Russian Roubles)

17. Amounts Due to Credit Institutions (continued)

During the year ended December 31, 2003, the Group simultaneously placed with and received short-term funds from Russian credit institutions in different currencies. As of December 31, 2003, the Group received equivalent of Rbth 191,384 as deposits from Russian banks, which represent security for respective time deposits placed with the same banks (2002: Rbth 416,674) (Note 5 and Note 7).

18. Amounts Due to Customers

Amounts due to customers comprise:

	December 31, 2003	December 31, 2002
Current accounts	14,743,447	17,241,169
Time deposits	3,192,773	8,597,358
Securities borrowed	68,670	–
Amounts due to customers	**18,004,890**	**25,838,527**

The Group had a substantial portion of deposits from *JSC "Oil Company "YUKOS"* and its related companies (Note 31). As of December 31, 2003 *JSC "Oil Company "YUKOS"* and its related companies accounted for 17% or Rbth 3,099,057 of the total customers' funds (2002: 17% or Rbth 4,277,582).

As of December 31, 2003 the Group had Rbth 42,358 of customer funds blocked on their current accounts under letters of credit opened with the Bank (2002: Rbth 82,901) (Note 32).

Amounts due to customers by industries comprise:

	December 31, 2003	December 31, 2002
Individuals	5,304,676	6,717,713
Energy trade	4,204,987	9,551,858
Trading enterprises	2,090,788	1,366,780
Manufacturing	1,859,213	168,962
Fuel industry	1,426,475	3,638,574
Chemical and petrochemical industry	1,101,941	90,662
Construction	614,421	153,096
Financial mediation	339,201	2,482,061
Transport	217,915	21,417
State and government bodies	113,052	1,499,043
Other	732,221	148,361
Amounts due to customers	**18,004,890**	**25,838,527**

Notes to 2003 Consolidated Financial Statements (Thousands of Russian Roubles)

18. Amounts Due to Customers (continued)

Amounts due to customers include accounts of the following types of customers:

	December 31, 2003	December 31, 2002
Private companies	12,139,107	17,621,771
Individuals	5,304,676	6,717,713
State and public organizations and companies	492,437	1,499,043
Securities borrowed	68,670	–
Amounts due to customers	**18,004,890**	**25,838,527**

19. Certificated Debts

Certificated debts represent promissory notes and deposit certificates issued by the Group to customers and denominated in Roubles, US Dollars, and Euros.

	December 31, 2003	December 31, 2002
Promissory notes	1,743,137	4,563,721
Deposit certificates	4,689,823	1,227,083
Certificated debts	**6,432,960**	**5,790,804**

The Group issued a substantial portion of certificated debts to *JSC "Oil Company "YUKOS"* and its related party (*TRUST Investment Bank*) and *LLC "Venchur"*, which is related company to the Group. As of December 31, 2003, the carrying value of certificated debts, issued to *JSC "Oil Company "YUKOS"* and its related parties accounted for Rbth 3,838,757 or 60% of the total certificated debts (2002: Rbth 1,258,704 or 22%) and *LLC "Venchur"* accounted for Rbth 465,977 or 7% (2002: Rbth 616,431 or 11%) (Note 31).

20. Other Liabilities

Other liabilities comprise:

	December 31, 2003	December 31, 2002
Accrued compensation	–	88,551
Payables on operations with securities	–	35,513
Other	12,730	33,602
Other liabilities	**12,730**	**157,666**

Notes to 2003 Consolidated Financial Statements (Thousands of Russian Roubles)

21. Share Capital

The share capital of the Group has been contributed by shareholders in Roubles. Shareholders are entitled to dividends and capital distributions in Roubles. As of December 31, 2003, the authorized number of shares is 677,000,000 of ordinary stock (with par value of 5 Roubles each) and 100,000 of preferred stock. As of December 31, 2003, the Group has 294,538,047 ordinary shares issued, outstanding and fully paid by shareholders and no preferred stock issued.

The movements of shares issued and outstanding during 2002 were as follows:

	Number of shares	Par value (5 Roubles), Rbth	Inflation adjusted amount, Rbth
December 31, 2001	**277,000,000**	**1,385,000**	**2,808,751**
Issuance of share capital – Acquisitions (Note 14)	17,538,047	87,690	87,690
December 31, 2002	**294,538,047**	**1,472,690**	**2,896,441**

There were no movements of shares issued and outstanding during 2003.

22. Allowances for Impairment and Other Provisions

The movements in allowances for impairment for interest earning assets during 2003 and 2002 were as follows:

	Amounts due from credit institutions	Loans to customers	Investment in leases	Held-to-maturity investment securities	Total
December 31, 2001	**41,100**	**992,409**	–	**24,081**	**1,057,590**
Provisions (recoveries)	(34,711)	96,893	19,828	(3,176)	78,834
Acquisition of banks	–	93,302	–	–	93,302
December 31, 2002	**6,389**	**1,182,604**	**19,828**	**20,905**	**1,229,726**
Provisions (recoveries)	(6,389)	(54,695)	24,218	(5,966)	(42,832)
Write-offs	–	(12,500)	–	–	(12,500)
December 31, 2003	**–**	**1,115,409**	**44,046**	**14,939**	**1,174,394**

The movements in allowances for impairment for available-for-sale investment securities, other assets and provisions for other risks during 2003 and 2002 were as follows:

	Available-for-sale investment securities	Other assets	Other risks	Total
December 31, 2001	**3,038**	**1,209**	**12,058**	**16,305**
Provisions (recoveries)	(1,631)	3,434	(12,058)	(10,255)
Acquisition of banks	1,612	–	–	1,612
December 31, 2002	**3,019**	**4,643**	–	**7,662**
Provisions (recoveries)	(234)	1,163	79,375	80,304
December 31, 2003	**2,785**	**5,806**	**79,375**	**87,966**

Notes to 2003 Consolidated Financial Statements (Thousands of Russian Roubles)

22. Allowances for Impairment and other Provisions (continued)

Allowances for impairment are deducted from the related assets. Provisions for other risks are recorded as liabilities.

The estimated allowance for impairment includes consideration of specific loss exposures identified with respect to individual credits as well as judgmental consideration of risk factors unique to the Bank's loan portfolio and the industry sector in which borrowers operate. Included in risk factors considered by the Bank in estimating the impairment allowance are the concentration of loans to a limited number of borrowers, and the limited sources of liquidity in the market which reduces borrowers opportunity to obtain alternative financing.

In accordance with the Russian legislation, loans may only be written off with the approval of the Shareholders' Council and, in certain cases, with the respective decision of the Court.

23. Net Interest Income

Net interest income comprises:

	2003	2002
Interest income		
Loans to customers	3,625,689	3,654,105
Debt securities	1,021,061	530,637
Amounts due from credit institutions	143,871	199,717
Finance lease income	58,112	45,186
Other interest income	–	9,616
	4,848,733	**4,439,261**
Interest expense		
Certificated debts	1,178,169	868,330
Amounts due to customers	986,794	840,351
Amounts due to credit institutions	206,173	403,502
	2,371,136	**2,112,183**
Net interest income	**2,477,597**	**2,327,078**

Included in interest income from debt securities is income in amount of Rbth 41,305 received during year 2003 from held-to-maturity investment securities (2002: Rbth 43,482).

24. Fees and Commission Income

Fees and commission income comprises:

	2003	2002
Settlements operations	479,452	253,561
Cash operations	255,950	179,266
Safekeeping and securities operations	37,806	27,044
Guarantees issued	28,192	35,249
Currency control agent functions	25,726	13,298
Other	71,234	33,123
Fees and commission income	**898,360**	**541,541**

Notes to 2003 Consolidated Financial Statements (Thousands of Russian Roubles)

25. Net Dealing Profits

Net dealing profits comprise:

	2003			2002		
	Fair value adjust-ment	Sale and redemp-tion	Total	Fair value adjust-ment	Sale and redemp-tion	Total
Trading securities	(30,505)	265,935	235,430	95,580	276,349	371,929
Precious metals	(8,935)	22,414	13,479	27,080	19,338	46,418
Net dealing profits	**(39,440)**	**288,349**	**248,909**	**122,660**	**295,687**	**418,347**

26. Salaries and Benefits and Administrative Expenses

Salaries and benefits and administrative expenses comprise:

	2003	2002
Salaries and other compensations	1,251,116	970,737
Social security costs	218,710	174,690
Expense for defined contribution plan	7,994	640
Other	19,873	5,275
Salaries and benefits	**1,497,693**	**1,151,342**
Business development	242,628	230,466
Operating taxes	179,086	266,570
Rental fees	172,002	132,176
Occupancy	136,108	153,135
Security	96,942	71,470
Communication	76,899	68,327
Other	41,993	36,531
Administrative expenses	**945,658**	**958,675**

The aggregate remuneration to members of the Shareholders' Council and Management Board for the year ended December 31, 2003 was Rbth 211,692 (2002: Rbth 164,009).

As of December 31, 2003 and 2002, members of the Shareholders' Council and Management Board did not own any shares of the Group and did not have loans from the Group.

The Russian Federation system requires current contributions by the employer calculated as a percentage of current gross salary payments to employees. Such expense is charged to the profit and loss account in the period the related compensation is earned by the employee.

Payments to the defined contributions plan for members of the Shareholders' Council and Management Board in 2003 were Rbth 15 (2002: Rbth 1).

Notes to 2003 Consolidated Financial Statements (Thousands of Russian Roubles)

27. Fees and Commission Expenses

Fees and commission expenses comprise:

	2003	2002
Settlements operations	112,796	54,870
Cash operations	34,115	32,381
Other	540	5,163
Fees and commission expenses	**147,451**	**92,414**

28. Taxation

Income tax expense comprises:

	2003	2002
Current tax charge	140,845	108,954
Deferred tax charge	111,499	4,891
Income tax expense	**252,344**	**113,845**

Russian legal entities must file individual tax declarations. The tax rate for banks for profits other than on state securities was 24% for 2003 and 2002. The tax rate for interest income on state securities is 15% for Federal taxes. The tax rates for the Group's consolidated subsidiaries range from 4.25% to 24% due to jurisdiction of the above subsidiaries.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the theoretical income tax expense at statutory rate with the actual income tax expense is as follows:

	2003	2002
Profit before income tax expense	**1,035,119**	**449,067**
Statutory tax rate	24%	24%
Theoretical income tax expense at statutory rate	**248,429**	**107,776**
Foreign subsidiaries income taxed at 4.25%	(52,583)	(37,854)
Foreign subsidiaries income taxed at 10%	(10,779)	–
Non-taxable income of foreign subsidiaries	(20,042)	–
State securities income taxed at 15%	(27,408)	(9,040)
Change in unrecognized deferred tax assets	(26,281)	(35,130)
Income recognized for tax purposes only	22,560	–
Non-deductible expenditures	48,522	–
Other permanent differences	69,926	88,093
Income tax expense	**252,344**	**113,845**

Notes to 2003 Consolidated Financial Statements (Thousands of Russian Roubles)

28. Taxation (continued)

As of December 31, 2003, the Rouble equivalent of undistributed earnings (accumulated deficit) of *Fiennes Investments Limited* and *MSPB Financial Services* were approximately Rbth 490,000 and Rbth 141,000 respectively (2002: approximately Rbth 192,000 and Rbth (1,000), respectively). Deferred income taxes have not been provided for undistributed earnings of *Fiennes Investments Limited* and *MSPB Financial Services* as management does not intend to dividend the earnings to the Bank for the foreseeable future. The current tax rate for dividend income in Russian Federation is 15%. It is not practicable to estimate the amount of tax that might be payable on the eventual remittance of such earnings, if any.

Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of deductible temporary differences. Deferred tax liabilities are the amounts of profit taxes payable in future periods in respect of taxable temporary differences. Deferred tax assets and liabilities comprise:

	December 31, 2003	December 31, 2002
Tax effect of deductible temporary differences		
Allowance for impairment	162,387	156,249
Interest expense accrued	18,925	202,751
Tangible and intangible assets	18,644	23,710
Adjustments to fair value	3,340	19,531
Other	346	31,960
Gross deferred tax asset	**203,642**	**434,201**
Unrecognized deferred tax asset	(129,968)	(156,249)
Deferred tax asset	**73,674**	**277,952**
Tax effect of taxable temporary differences		
Interest income accrued	77,683	147,148
Inflation restatement of non-monetary assets	13,930	12,299
Adjustments to fair value	–	19,060
Other	–	5,885
Deferred tax liability	**91,613**	**184,392**
Deferred tax (liability) / asset	**(17,939)**	**93,560**

Tax assets and liabilities consist of the following:

	December 31, 2003	December 31, 2002
Current tax assets	111,744	12,330
Deferred tax assets	–	93,560
Tax assets	**111,744**	**105,890**
Deferred tax liabilities	17,939	–
Tax liabilities	**17,939**	–

28. Taxation (continued)

The Russian Federation currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, profit tax, a number of turnover based taxes, and social tax, together with others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations (like the Ministry of Taxes and Levies and its various inspectorates); thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Group is in full compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues. As of December 31, 2003, the Bank was engaged in the litigation related to income tax period of 2000 and 2001 (Note 32).

Due to insufficient certainty of the tax legislation and inconsistency in treatment of similar transactions by different tax offices there is a risk that the tax authorities could disagree with the filing position taken by certain entities of the Group. Such disagreement of the tax authorities can result the Group incurring additional amounts on account of tax, penalties and late payment interest. The accurate quantification of the respective exposure does not appear to be possible.

29. Reserves

The Group's distributable reserves are determined by the amount of its reserves as disclosed in the accounts of the Bank prepared in accordance with RAL. As of December 31, 2003, the statutory accounts of the Group disclosed distributable reserves of Rbth 1,228,866 and non-distributable reserves of Rbth 84,155 (2002: Rbth 1,075,140 and Rbth 56,992, respectively).

The general reserve represents amounts set aside, as required by the regulations of the Russian Federation, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The fund has been created in accordance with the Bank's statutes, which provide for the creation of a fund for these purposes of not less than 15% of the Bank's share capital and a transfer of not less than 5% of statutory retained earnings annually. For the year ended December 31, 2003, the Bank transferred Rbth 26,712 of its net profit to the general reserve (2002: Rbth 18,365).

30. Risk Management Policies

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

Credit Risk

The Group is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by borrower and product are approved monthly by the Group's Assets and Liabilities Management Committee.

Notes to 2003 Consolidated Financial Statements (Thousands of Russian Roubles)

30. Risk Management Policies (continued)

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee which is called once a week. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The credit risk exposure on derivatives is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments.

Credit-related commitments ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are frequently fully or partially covered by the funds deposited by customers and therefore bear no credit risk.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

The geographical concentration of the Group's assets and liabilities is set out below:

	December 31, 2003			
	Russian Federation	OECD	Other non-OECD	Total
Assets				
Cash and cash equivalents	4,314,386	624,227	29,678	4,968,291
Obligatory reserve with the Central Bank of the Russian Federation	2,138,564	–	–	2,138,564
Trading securities	5,645,606	–	–	5,645,606
Amounts due from credit institutions	15,621	29,480	–	45,101
Derivative financial assets	16,814	–	–	16,814
Investment securities	573,794	705	–	574,499
Loans to customers	15,731,281	290	547,745	16,279,316
Investment in leases	481,306	–	–	481,306
All other assets	1,023,318	5,959	1,781	1,031,058
	29,940,690	**660,661**	**579,204**	**31,180,555**
Liabilities				
Amounts due to credit institutions	2,518,991	880,257	3,618	3,402,866
Derivative financial liabilities	13,833	–	–	13,833
Amounts due to customers	17,832,531	24,292	148,067	18,004,890
Certificated debts	6,246,383	–	186,577	6,432,960
All other liabilities	102,990	6,650	404	110,044
	26,714,728	**911,199**	**338,666**	**27,964,593**
Net balance sheet position	**3,225,962**	**(250,538)**	**240,538**	**3,215,962**

Notes to 2003 Consolidated Financial Statements (Thousands of Russian Roubles)

30. Risk Management Policies (continued)

	December 31, 2002			
	Russian Federation	OECD	Other non-OECD	Total
Assets				
Cash and cash equivalents	5,411,477	2,165,924	738,137	8,315,538
Obligatory reserve with the Central Bank of the Russian Federation	2,583,530	–	–	2,583,530
Trading securities	6,005,981	83,434	–	6,089,415
Amounts due from credit institutions	253,927	119,928	10,010	383,865
Derivative financial assets	1,799	–	–	1,799
Investment securities	616,301	48	–	616,349
Loans to customers	15,093,039	2,650,518	360,904	18,104,461
Investment in leases	191,580	–	–	191,580
All other assets	919,609	3,363	1,336	924,308
	31,077,243	**5,023,215**	**1,110,387**	**37,210,845**
Liabilities				
Amounts due to credit institutions	2,686,567	165,167	97,612	2,949,346
Derivative financial liabilities	3,025	–	–	3,025
Amounts due to customers	25,681,788	21,959	134,780	25,838,527
Certificated debts	5,439,700	–	351,104	5,790,804
All other liabilities	147,726	9,940	–	157,666
	33,958,806	**197,066**	**583,496**	**34,739,368**
Net balance sheet position	**(2,881,563)**	**4,826,149**	**526,891**	**2,471,477**

Market Risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Group manages market risks through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

Currency Risk

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group's Assets and Liabilities Management Committee sets limits on the level of exposure by currencies (primarily US Dollar), by branches and in total. These limits also comply with the minimum requirements of the Central Bank of the Russian Federation. The Group's exposure to foreign currency exchange rate risk follows.

Notes to 2003 Consolidated Financial Statements (Thousands of Russian Roubles)

30. Risk Management Policies (continued)

	December 31, 2003		
	Russian Roubles	Foreign currencies	Total
Assets			
Cash and cash equivalents	3,682,178	1,286,113	4,968,291
Obligatory reserve with the Central Bank of the Russian Federation	2,138,564	–	2,138,564
Trading securities	4,607,489	1,038,117	5,645,606
Amounts due from credit institutions	5,312	39,789	45,101
Derivative financial assets	6	16,808	16,814
Investment securities	573,794	705	574,499
Loans to customers	13,040,071	3,239,245	16,279,316
Investment in leases	221,254	260,052	481,306
All other assets	1,023,391	7,667	1,031,058
	25,292,059	**5,888,496**	**31,180,555**
Liabilities			
Amounts due to credit institutions	918,688	2,484,178	3,402,866
Derivative financial liabilities	–	13,833	13,833
Amounts due to customers	13,958,204	4,046,686	18,004,890
Certificated debts	6,211,503	221,457	6,432,960
All other liabilities	101,637	8,407	110,044
	21,190,032	**6,774,561**	**27,964,593**
Net balance sheet position	**4,102,027**	**(886,065)**	**3,215,962**
Net off-balance sheet position	**(1,252,499)**	**1,252,499**	**–**

Notes to 2003 Consolidated Financial Statements (Thousands of Russian Roubles)

30. Risk Management Policies (continued)

	December 31, 2002		
	Russian Roubles	Foreign currencies	Total
Assets			
Cash and cash equivalents	4,693,694	3,621,844	8,315,538
Obligatory reserve with the Central Bank of the Russian Federation	2,583,530	–	2,583,530
Trading securities	4,321,929	1,767,486	6,089,415
Amounts due from credit institutions	204,921	178,944	383,865
Derivative financial assets	1,799	–	1,799
Investment securities	616,301	48	616,349
Loans to customers	10,728,330	7,376,131	18,104,461
Investment in leases	19,475	172,105	191,580
All other assets	825,096	99,212	924,308
	23,995,075	**13,215,770**	**37,210,845**
Liabilities			
Amounts due to credit institutions	1,186,413	1,762,933	2,949,346
Derivative financial liabilities	3,025	–	3,025
Amounts due to customers	15,120,781	10,717,746	25,838,527
Certificated debts	4,962,704	828,100	5,790,804
All other liabilities	98,430	59,236	157,666
	21,371,353	**13,368,015**	**34,739,368**
Net balance sheet position	**2,623,722**	**(152,245)**	**2,471,477**
Net off balance sheet position	**(341,682)**	**341,682**	**–**

Foreign currencies represent mainly US Dollar amounts but also include currencies from other OECD and non-OECD countries.

The off-balance sheet currency position represents the difference between the notional amounts of foreign currency derivative instruments, which are principally used to reduce the Group's exposure to currency movements, and their fair values reported on the balance sheet.

The Group has extended loans denominated in foreign currencies. Although these loans are generally funded by the same currencies, their appreciation against the Rouble can adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

Liquidity Risk

The Group is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs, guarantees and from margin and other calls on derivatives settled by cash. The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Group's Assets and Liabilities Management Committee sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Notes to 2003 Consolidated Financial Statements (Thousands of Russian Roubles)

30. Risk Management Policies (continued)

Maturity grouping of monetary assets and liabilities based on the remaining period at the balance date to the contractual maturity date was as follows.

	December 31, 2003							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No stated maturity / Overdue	Total
Assets								
Cash and cash equivalents	4,382,842	528,084	57,365	–	–	–	–	4,968,291
Obligatory reserve with the Central Bank of the Russian Federation	–	1,446,783	226,392	373,753	90,020	1,616	–	2,138,564
Trading securities	5,645,606	–	–	–	–	–	–	5,645,606
Amounts due from credit institutions	–	–	39,789	–	5,312	–	–	45,101
Derivative financial assets	–	16,814	–	–	–	–	–	16,814
Investment securities	100,565	–	7,056	189,074	277,804	–	–	574,499
Loans to customers	89,405	2,010,338	4,551,233	7,619,841	1,612,952	345,964	49,583	16,279,316
Investment in leases	–	20,839	46,143	190,059	224,265	–	–	481,306
Other assets	10,056	–	56,148	140,536	–	–	–	206,740
	10,228,474	4,022,858	4,984,126	8,513,263	2,210,353	347,580	49,583	30,356,237
Liabilities								
Amounts due to credit institutions	726,262	2,395,866	87,454	177,057	16,227	–	–	3,402,866
Derivative financial liabilities	–	13,833	–	–	–	–	–	13,833
Amounts due to customers	14,743,447	1,012,150	1,027,668	1,202,059	18,093	1,473	–	18,004,890
Certificated debts	357,840	419,285	1,559,361	3,068,898	1,010,587	16,989	–	6,432,960
Provisions	–	57,600	21,775	–	–	–	–	79,375
Other liabilities	–	2,604	–	10,126	–	–	–	12,730
	15,827,549	3,901,338	2,696,258	4,458,140	1,044,907	18,462	–	27,946,654
Net position	(5,599,075)	121,520	2,287,868	4,055,123	1,165,446	329,118	49,583	2,409,583
Accumulated gap	*(5,599,075)*	*(5,477,555)*	*(3,189,687)*	*865,436*	*2,030,882*	*2,360,000*	*2,409,583*	

Notes to 2003 Consolidated Financial Statements (Thousands of Russian Roubles)

30. Risk Management Policies (continued)

	December 31, 2002						
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets							
Cash and cash equivalents	7,022,453	1,243,176	49,909	–	–	–	8,315,538
Obligatory reserve with the Central Bank of the Russian Federation	–	1,683,278	471,469	306,520	85,818	36,445	2,583,530
Trading securities	6,089,415	–	–	–	–	–	6,089,415
Amounts due from credit institutions	–	164,566	98,486	21,346	221	99,246	383,865
Derivative financial assets	–	1,385	414	–	–	–	1,799
Investment securities	30,264	–	–	144,792	441,293	–	616,349
Loans to customers	353,487	1,489,960	5,526,983	8,865,405	1,863,196	5,430	18,104,461
Investment in leases	–	–	–	3,405	114,848	73,327	191,580
Other assets	19,281	–	25,169	75,507	32,293	–	152,250
	13,514,900	**4,582,365**	**6,172,430**	**9,416,975**	**2,537,669**	**214,448**	**36,438,787**
Liabilities							
Amounts due to credit institutions	597,461	1,730,439	78,831	491,798	–	50,817	2,949,346
Derivative financial liabilities	–	2,933	92	–	–	–	3,025
Amounts due to customers	17,241,169	1,443,839	4,515,709	2,164,534	168,782	304,494	25,838,527
Certificated debts	340,946	1,581,862	1,256,340	1,588,092	881,863	141,701	5,790,804
All other liabilities	–	10,107	86,888	21,056	39,615	–	157,666
	18,179,576	**4,769,180**	**5,937,860**	**4,265,480**	**1,090,260**	**497,012**	**34,739,368**
Net position	**(4,664,676)**	**(186,815)**	**234,570**	**5,151,495**	**1,447,409**	**(282,564)**	**1,699,419**
Accumulated gap	*(4,664,676)*	*(4,851,491)*	*(4,616,921)*	*534,574*	*1,981,983*	*1,699,419*	

The maturity of the loan portfolio shows the remaining period from the balance sheet date to the contractual maturity, except for loans held for sale as to which the maturity is shown as less than one month. Long-term credits are generally not available in Russia. However, in the Russian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. Accordingly, the effective maturity of a loan portfolio may be longer than indicated by the classification based on contractual terms.

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

The maturity gap analysis does not reflect the historical stability of current accounts, whose liquidation has historically taken place over a longer period than that indicated in the table above. The table is based upon these accounts' entitlement to withdraw on demand. While trading securities are

Notes to 2003 Consolidated Financial Statements (Thousands of Russian Roubles)

30. Risk Management Policies (continued)

shown as on demand, realizing such assets 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

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. The Group's expected repricing and maturity dates do not differ significantly from the contractual dates, which are disclosed in the liquidity risk table above.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Group's management. These limits restrict the potential effect of movements in interest rates on interest margin and on the value of interest-sensitive assets and liabilities.

The Group's interest rate policy is reviewed and approved by the Group's Assets and Liabilities Management Committee. As of December 31, the effective average interest rates by currencies for interest earning / bearing monetary financial instruments were as follows:

	December 31, 2003			December 31, 2002		
	Roubles	US Dollars	Other foreign currencies	Roubles	US Dollars	Other foreign currencies
Interest earning assets						
Amounts due from credit institutions	10.0%	1.0%	5.0%	7.5%	2.1%	1.9%
Trading securities	10.9%	6.2%	–	16.5%	10.5%	–
Investment securities	7.2%	–	–	7.2%	–	–
Loans to customers	16.1%	12.4%	11.4%	21.2%	15.7%	13.0%
Interest bearing liabilities						
Amounts due to credit institutions	6.4%	5.8%	4.0%	8.4%	6.8%	3.4%
Amounts due to customers	9.9%	7.4%	6.7%	11.5%	6.2%	6.5%
Certificated debts	13.0%	7.6%	0.3%	10.9%	6.0%	6.2%

31. Related Parties

Related parties, as defined by IAS 24 "Related Party Disclosures", are those counter parties 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 reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);

(b) associates – enterprises in which the Group 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 Group that gives them significant influence over the Group, and anyone expected to influence, or be influenced by, that person in their dealings with the Group;

d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group 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 Group and enterprises that have a member of key management in common with the Group.

Notes to 2003 Consolidated Financial Statements (Thousands of Russian Roubles)

31. Related Parties (continued)

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

	December 31, 2003			December 31, 2002		
	Related party transactions	Percentage on normal conditions	Total category	Related party transactions	Percentage on normal conditions	Total category
Cash and cash equivalents	121,008	100%	4,968,291	114	100%	8,315,538
Amounts due from credit institutions, gross	5,312	100%	45,101	–	–	390,254
Trading securities	6,076	100%	5,645,606	7,982	100%	6,089,415
Held-to-maturity investment securities, gross	488,873	0%	488,873	606,990	0%	606,990
Available-for-sale investment securities, gross	1,418	100%	103,350	–	–	33,283
Loans to customers, gross	1,634,952	91%	17,394,725	799,648	85%	19,287,065
Amounts due to credit institutions	1,506,273	100%	3,402,866	20,395	100%	2,949,346
Amounts due to customers	3,194,006	100%	18,004,890	11,071,291	100%	25,838,527
Certificated debts	4,506,898	99%	6,432,960	1,999,773	100%	5,790,804
Credit related commitments given, gross	67,119	100%	7,316,541	1,371,538	100%	7,437,027
Commitments and guarantees received	5,475,589	100%	18,689,131	2,859,573	100%	16,517,004
Interest income	213,581		4,848,733	104,439		4,439,261
Interest expense, amounts owed to customers	151,346		986,794	337,677		840,351
Interest expense, certificated debts	205,876		1,178,169	209,379		868,330

The percentages indicated above represent the percentages of related parties transactions that have been entered into under normal commercial and banking terms and conditions.

It is the policy of the Bank to conduct all transactions with related parties under terms consistent with those applied to other counter parties. In the opinion of management, the majority of the transactions above were entered into under normal commercial and banking terms and conditions.

31. Related Parties (continued)

The existing accounting system of the Bank does not accumulate the amounts of income and expenses from related party transactions. The management of the Bank believes that the majority of these amounts are proportionate to the average balances of the corresponding balance sheet captions.

See Notes 9, 17, 18, 19 for more details about the Group's operations with related parties.

32. Commitments and Contingencies

Operating Environment

The Russian economy, while deemed to be of market status beginning in 2002, continues to display certain characteristics consistent with that of a market in transition. These attributes have in the past included higher than normal historic inflation, lack of liquidity in capital markets, and the existence of currency controls that cause the national currency to be illiquid outside of the Russian Federation. The continued success and stability of the Russian economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

The Group could be affected, for the foreseeable future, by these risks and their consequences. As a result, there are significant uncertainties that may affect future operations, the recoverability of the Group's assets, and the ability of the Group to maintain or pay its debts as they mature.

Legal

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

As of December 31, 2003 the Group was engaged in litigation proceedings in result of legal claims to the Bank's branch in Perm, raised by three customers requiring repayment of their deposits pledged as a collateral on the certain loan agreements. Provision of Rbth 79,375 was created against these claims in full. The claims were paid subsequent to 2003 year-end (Note 22).

As of December 31, 2003 the Group was engaged in litigation proceedings with the tax authorities related to a claim against the Bank in December 2003. The claim was based on the results of tax audit of years 2000-2001. According to the claim the Bank is obliged to pay taxes and appropriate fines in the total amount of Rbth 513,421. The Bank has appealed this decision in court. No provision has been made against the above claim, as management believes based on the previous history of similar legal cases the court sustains the Bank's appeal.

On or about March 11, 2003, liquidator of *OJSC Commercial bank "Infobank"* filed a lawsuit in arbitration court of St. Petersburg alleging claims of voidance of bank clearing in amount of 1,008,740 US Dollars. On May 12, 2004, the court of cassation overturn the decision of appeals instance made earlier to the advantage of the Bank. No provision has been made against the above claim as management believes it is possible the court will make a decision to the advantage of the Bank.

Notes to 2003 Consolidated Financial Statements (Thousands of Russian Roubles)

32. Commitments and Contingencies (continued)

Insurance

The Group has not currently obtained insurance coverage related to property owned, except for certain premises and vehicles, nor liabilities arising from errors or omissions.

Credit related commitments

The credit related financial commitments comprise:

	December 31, 2003	December 31, 2002
Undrawn loan commitments	5,515,030	5,094,107
Guarantees	1,687,152	2,120,634
Letters of credit	114,359	222,286
	7,316,541	**7,437,027**
Less – Cash held as security against letters of credit (Note 18)	(42,358)	(82,901)
	7,274,183	**7,354,126**

In the normal course of business, the Group makes commitments to grant loans at a specified rate of interest during a fixed period of time. Substantially all loan contracts contain clauses that set out certain conditions including changes in market rates, under which the interest rate could be reconsidered or possibility to draw the loan could be cancelled. Therefore such undrawn loan commitments were not treated as options issued by the Bank to borrowers to obtain loans at a specified interest rates.

Operating lease commitments

In the normal course of business, the Group enters into operating lease agreements for office equipment and premises. After December 31, 2003 and 2002 future minimum payments under non-cancellable operating leases are as follows:

	2003	2002
Not later than 1 year	143,203	91,622
Later than 1 year and not later than 5 years	120,902	124,076
Later than 5 years	93,325	83,980
	357,430	**299,678**

Operations with precious metals

During 2003 and 2002 the Group concluded contracts with Russian gold-mining companies whereby the Group agreed to buy gold that would be delivered by the gold-mining companies at a certain future date. Under these contracts the Group is obliged to acquire gold at a price equalling RUR/gram of gold CBR exchange rate at the date of delivery of gold less discount. As of December 31, 2003 the discount rate fluctuates from 0.20% to 3.80% (2002: from 0.35% to 7%).

32. Commitments and Contingencies (continued)

As of 31 December 2003, the Group had outstanding contracts with Russian gold-mining companies for acquisition of 2,175 kg of gold (2002: 5,115 kg), and the total Group's commitments under these contracts comprised Rbth 837,724 (2002: Rbth 1,793,771). The contracts mature within one year. The unrealized gains on the outstanding contracts as of December 31, 2003 and 2002 are included in other assets (Note 16).

Capital commitments

As of December 31, 2003 the Group had outstanding capital expenditure commitments with respect of purchase of software information system "GLOBUS" of Rbth 174,960 (2002: nil).

33. Fair Value of Financial Instruments

The Group discloses the estimated fair value of its financial instruments and non-monetary assets and liabilities in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation".

The fair value of the financial assets and liabilities represents the present value of the estimated future cash flows discounted at the average year-end market rates for the financial instruments of the respective type and maturity.

The estimate was made using the following methods and assumptions:

- For assets and liabilities maturing within three months, the carrying amount is a reasonable estimate of fair value.

- For assets and liabilities maturing in over three months the fair value represents the present value of estimated future cash flows discounted at the average period-end market rates for each type of instrument.

Notes to 2003 Consolidated Financial Statements (Thousands of Russian Roubles)

33. Fair Value of Financial Instruments (continued)

The following table summarizes the carrying amounts and fair values of the Group's financial assets and liabilities:

	Carrying Amount		Fair Value	
	December 31, 2003	December 31, 2002	December 31, 2003	December 31, 2002
Financial assets				
Cash and cash equivalents	4,968,291	8,315,538	4,968,291	8,315,538
Obligatory reserve with the Central Bank of the Russian Federation	2,138,564	2,583,530	2,138,564	583,530
Trading securities	5,645,606	6,089,415	5,645,606	6,089,415
Amounts due from credit institutions	45,101	383,865	45,101	384,408
Derivative financial assets	16,814	1,799	16,814	1,799
Investment securities:				
– held-to-maturity	473,934	586,085	445,016	531,517
– available-for-sales	100,565	30,264	100,565	30,264
Loans to customers	16,279,316	18,104,461	16,281,676	18,070,257
Investment in leases	481,306	191,580	481,306	191,580
Financial liabilities				
Amounts due to credit institutions	3,402,866	2,949,346	3,402,866	2,949,346
Derivative financial liabilities	13,833	3,025	13,833	3,025
Amounts due to customers	18,004,890	25,838,527	18,006,219	25,844,443
Certificated debts	6,432,960	5,790,804	6,438,422	5,779,173

34. Consolidated Subsidiaries

The consolidated financial statements include the financial statements of the Bank and the following subsidiaries:

Name	Country	% Equity interest as of December 31, 2003 and 2002
MENATEP Finance S.A.	Switzerland	100%
Fiennes Investments Limited	Cyprus	100%
MSPB Financial Services Limited	Cyprus	100%
CJSC "Regionservice"	Russian Federation	100%
LLC "Dana Plus Group"	Russian Federation	100%

MENATEP Finance S.A. is a closed joint stock company under the laws of Switzerland. The company's principal activity is providing financial and administrative services, consulting and trust activities.

Fiennes Investments Limited is a closed joint stock company under the laws of Cyprus. The company's principal activity is international trading and investments. The company has permission of the Central Bank of Cyprus for financial operations except for the following:

34. Consolidated Subsidiaries (continued)

(a) assuming any obligations to the public; (b) professional trustee activity; and (c) providing any financial services other than to its shareholders and the Group's companies.

MSPB Financial Services Limited is a closed joint stock company under the laws of Cyprus. The company's principal activity is financial services and investments.

CJSC "Regionservice" and *LLC "Dana Plus Group"* are closed joint stock companies under the laws of the Russian Federation. The companies' principal activity is providing leasing and other services.

35. Capital Adequacy

The Group's international risk based capital adequacy ratios as of December 31, 2003 and 2002 were 13.45% and 11.68%, respectively. These ratios exceeded the minimum ratio of 8% recommended by the Basle Accord.