RUSSIAN AGRICULTURAL BANK GROUP

Consolidated Financial Statements and Auditors' Report

31 December 2003

Contents

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AUDITORS' REPORT

To the Management, Supervisory Council and Shareholders of Russian Agricultural Bank Group:

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

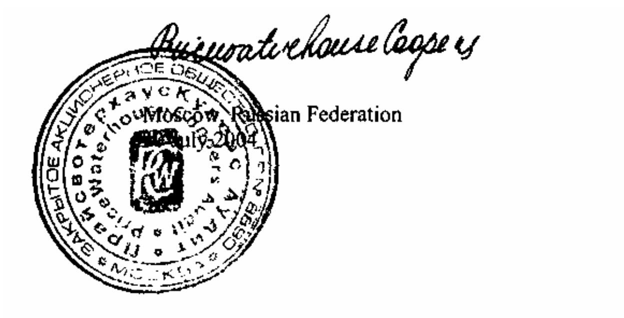
2 We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis,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

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

4 Without qualifying our opinion, we draw attention to the following:

- As discussed in Note 13 to the accompanying consolidated financial statements, as at 31 December 2003 the Group had a significant concentration of customer accounts, where one customer represented 49% of total customer accounts' balances;

- As discussed in Note 2 to the accompanying consolidated financial statements, recently, following a general fall in confidence in the Russian banking system, the Russian banking sector experienced a reduction in liquidity. Management is unable to predict what effect, if any, any further significant deterioration in the liquidity or confidence in the Russian banking system could have on the consolidated financial position of the Group.



Moscow, Russian Federation
30 July 2004

(in thousands of Russian Roubles)

	Note	2003	2002
Assets			
Cash and cash equivalents	5	3 820 351	1 631 511
Mandatory cash balances with the Central Bank of the Russian Federation		275 093	223 407
Trading securities	6	1 371 595	1 833 611
Due from other banks	7	62	1 130 599
Loans and advances to customers	8	7 353 086	3 846 403
Investment securities available for sale	9	1 965	5 403
Other assets	10	164 955	144 907
Premises and equipment	11	307 828	243 272
Total assets		**13 294 935**	**9 059 113**
Liabilities			
Due to other banks	12	584 105	974 800
Customer accounts	13	6 563 024	3 543 380
Promissory notes issued	14	1 143 665	320 798
Other borrowed funds	15	228 162	251 500
Other liabilities	16	12 909	30 169
Total liabilities		**8 531 865**	**5 120 647**
Minority interest	17	**243**	**10 623**
Shareholders' equity			
Share capital	18	5 398 833	4 548 833
Accumulated deficit	19	(636 006)	(620 990)
Total shareholders' equity		**4 762 827**	**3 927 843**
Total liabilities, minority interest and shareholders' equity		**13 294 935**	**9 059 113**

Signed on behalf of the Board of Directors on 30 July 2004.

Y.V. Trushin
Chairman of the Executive Board

O.V. Nikonov
Chief Accountant

(in thousands of Russian Roubles)

	Note	2003	2002
Interest income	20	1 567 587	1 302 955
Interest expense	20	(298 483)	(236 807)
Net interest income		**1 269 104**	**1 066 148**
Provision for loan impairment	8	(197 520)	(143 505)
Net interest income after provision for loan impairment		**1 071 584**	**922 643**
Gains less losses arising from trading securities		35 987	28 601
Gains less losses arising from investment securities available for sale		-	56 448
(Losses less gains)/Gains less losses arising from trading in foreign currencies		(55 923)	8 825
Foreign exchange translation gains less losses		20 412	25 856
Fee and commission income	21	183 549	119 539
Fee and commission expense	21	(7 922)	(3 939)
Other operating income		13 064	20 237
Operating income		**1 260 751**	**1 178 210**
Operating expenses	22	(1 254 323)	(931 865)
Monetary loss		-	(404 329)
Profit/(Loss) before tax		**6 428**	**(157 984)**
Income tax credit/(expense)	23	1 137	(57 644)
Profit/(Loss) after tax		**7 565**	**(215 628)**
Minority interest	17	(201)	1 990
Net profit/(loss)		**7 364**	**(213 638)**

(in thousands of Russian Roubles)

	Note	2003	2002
Cash flows from operating activities			
Interest received on loans		1 400 524	1 232 312
Interest received on securities		121 167	80 803
Interest paid on customer accounts and due to other banks		(165 207)	(209 344)
Interest paid on securities		(81 431)	(25 026)
Income received from trading securities		(55 923)	16 715
Income received from trading in foreign currencies		27 812	8 825
Fees and commissions received		183 549	119 539
Fees and commissions paid		(7 922)	(3 939)
Other operating income received		12 963	7 999
Operating expenses paid		(1 221 783)	(881 187)
Income tax paid		(41 038)	(116 022)
Cash flows provided from operating activities before changes in operating assets and liabilities		**172 711**	**230 675**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(51 686)	(175 574)
Net decrease/(increase) in trading securities		495 239	(1 331 791)
Net decrease in due from other banks		1 127 320	5 084 211
Net increase in loans and advances to customers		(3 678 105)	(2 092 075)
Net decrease/(increase) in other assets		28 527	(45 571)
Net (decrease)/increase in due to other banks		(390 408)	440 311
Net increase/(decrease) in customer accounts		3 019 135	(2 409 558)
Net increase in promissory notes issued		771 245	175 050
Net decrease in other liabilities		(15 445)	(5 917)
Net cash from/(used in) operating activities		**1 478 533**	**(130 239)**
Cash flows from investing activities			
Acquisition of investment securities available for sale		-	(988 200)
Proceeds from disposal of investment securities available for sale	9	3 438	1 211 397
Acquisition of premises and equipment	11	(114 998)	(124 873)
Disposals of premises and equipment		18 038	-
Acquisition of share in subsidiary, net of cash acquired	30	(645)	-
Net cash (used in)/from investing activities		**(94 167)**	**98 324**
Cash flows from financing activities			
Issue of ordinary shares	18	850 000	994 000
Repayment of other borrowed funds	14	(23 338)	(12 500)
Dividends paid	24	(42 600)	(1 855)
Net cash from financing activities		**784 062**	**979 645**
Effect of exchange rate changes on cash and cash equivalents		**20 412**	**28 929**
Effect of inflation on cash and cash equivalents		**-**	**(87 832)**
Net increase in cash and cash equivalents		**2 188 840**	**888 827**
Cash and cash equivalents at the beginning of the year		1 631 511	742 684
Cash and cash equivalents at the end of the year	5	**3 820 351**	**1 631 511**

(in thousands of Russian Roubles)

	Note		Accu	share
Balance as at 1 January 2002		**3 554 833**	**(385 277)**	**3 169 556**
Net loss		-	(213 638)	(213 638)
Share issue	18	994 000	-	994 000
Dividends declared	24	-	(22 075)	(22 075)
Balance as at 31 December 2002		**4 548 833**	**(620 990)**	**3 927 843**
Net loss		-	7 364	7 364
Share issue	18	850 000	-	850 000
Dividends declared	24	-	(22 380)	(22 380)
Balance as at 31 December 2003		**5 398 833**	**(636 006)**	**4 762 827**

1 Principal Activities

These consolidated financial statements include the financial statements of the Commercial Bank "Russian Agricultural Bank" (the "Bank") and its subsidiary, Chelyabinsky Commercial Land Bank (hereinafter collectively referred to as "the Group"). Refer to Notes 29 and 30 for information about the subsidiary.

The Bank is an open joint stock company and has operated under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 13 June 2000. The Bank's only shareholder is the Russian Federal Property Fund (Russian government institution). The Bank's principal business activity is commercial and retail banking operations in the Russian Federation with an emphasis on lending to agricultural enterprises. The main objectives of the Bank are:

- Participation in realisation of the monetary policy of the Russian Federation in the area of agricultural production;

- Establishment of a domestic system of lending to agricultural producers;

- Maintenance of an effective settlement system in the area of agricultural production.

As at 31 December 2003 the Group has 61 branches (2002: 59 branches) within the Russian Federation. The Bank's registered office is located at Gagarinsky lane 3, Moscow, Russia, 119034. The number of the Group's employees as at 31 December 2003 was 3 245 (31 December 2002: 2 424).

Activities of the Group include deposit taking and commercial lending in Russian Roubles, foreign exchange dealing, cash operations and securities trading. These activities are conducted principally in Russia.

2 Operating Environment of the Group

Whilst there have been improvements in economic trends in the country, the Russian Federation continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Recently, following a general fall in confidence in the Russian banking system, the Russian banking sector experienced a reduction in liquidity. Management is unable to predict what effect, if any, any further significant deterioration in the liquidity or confidence in the Russian banking system could have on the consolidated financial position of the Group.

The banking sector in the Russian Federation is particularly sensitive to adverse fluctuations in confidence and economic conditions. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in the Russian Federation.

3 Basis of Preparation

Basis of Preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. The Group maintains its accounting records in accordance with Russian banking regulations. These consolidated financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with IFRS.

3 Basis of Presentation (Continued)

These consolidated financial statements have been measured in the national currency of the Russian Federation, Russian Roubles (“RR”). As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accounting for the effects of hyperinflation prior to 1 January 2003 is detailed in Note 4.

The preparation of these consolidated financial statements requires the use of estimates and assumptions that effect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of revenues and expenses received and incurred during the reported period. Although these estimates are based on Management’s best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current year. Accrued interest income and accrued interest expense previously disclosed along with other assets and other liabilities, respectively, are presented within the related balance sheet items in these consolidated financial statements.

4 Significant Accounting Policies

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities), in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over financial and operating policies. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date, on which effective control is transferred to the Group, and are removed from consolidation from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Minority interest is that part of the net results of operations and of the net assets of a subsidiary attributable to interests, which are not owned, directly or indirectly, by the Group. Minority interest in the consolidated balance sheet is recorded separate from liabilities and shareholders’ equity and is affected by the foreign currency translation adjustment applicable to the minority shareholders’ interest in the subsidiary. Minority interest related to operational results of the current year is recorded in the consolidated statement of income.

Cash and cash equivalents. Cash and cash equivalents are items, which can be converted into cash within a day. All short term interbank placements, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents for the purposes of preparing the consolidated statement of cash flows.

Mandatory cash balances with the CBRF. Mandatory cash balances with the CBRF represent mandatory reserve deposits, which are not available to finance the Group’s day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated cash flow statement.

Trading securities. Trading securities are securities, which are either acquired for generating profit from short-term fluctuations in price or trader’s margin, or are securities included in a portfolio, in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within 6 months.

Trading securities are initially recorded at cost (which includes transaction costs) and subsequently remeasured at fair value based on their market value or after the application of various valuation methodologies, including assumptions as to the future realisability of these securities. In determining market value, all trading securities are valued at the last bid price.

4 Significant Accounting Policies (Continued)

All related realised and unrealised gains and losses are recorded within gains less losses arising from trading securities in the consolidated statement of income in the period, in which the change occurs. Interest earned on trading securities is reflected in the consolidated statement of income as interest income on trading securities. Dividends received are included in dividend income within other operating income in the consolidated statement of income.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to purchase or sell the asset. Otherwise such transactions are treated as derivative instruments until settlement occurs.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included into trading securities or investment securities available for sale as appropriate. The corresponding liability is presented within due to other banks or customer accounts. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

All related realised and unrealised gains and losses are recorded within gains less losses arising from securities in the consolidated statement of income in the period in which the change occurs. Interest earned on such securities is reflected in the consolidated statement of income within interest income. The Group realises a gain or loss when the short position is closed out. By entering into such transactions, the Group bears the market risk of an unfavourable increase in the price of the security sold short in excess of the proceeds received.

Originated loans and advances and provisions for loan impairment. Loans originated by the Group by providing money directly to the borrower or to a sub-participation agent at draw down, other than those that are originated with the intent of being sold immediately or in the short-term, which are recorded as trading assets, are categorised as originated loans.

Originated loans and advances are recorded when cash is advanced to borrowers. Initially, originated loans and advances are recorded at cost, which is the fair value of the consideration given, and subsequently are carried at amortised cost less provision for loan impairment. Amortised cost is based on the fair value of cash consideration given to originate those loans determinable by reference to market prices at origination date.

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

A credit risk provision for loan impairment is established if there is objective evidence that the Group will not be able to collect the amounts due according to original contractual terms. The amount of the provision is the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the instrument's original effective interest rate.

The provision for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings assigned to the borrowers and reflect the current economic environment, in which the borrowers operate.

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

If the amount of the provision for loan impairment subsequently decreases due to an event occurring after the write-down, the release of the provision decreases the amount of provision for loan impairment in the consolidated statement of income.

The Group does not enter into transactions for purchases of loans with third parties.

4 Significant Accounting Policies (Continued)

Other credit related commitments. In the normal course of business, the Group enters into other credit related commitments including letters of credit and guarantees. Specific provisions are recorded against other credit related commitments when losses are considered probable.

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

Investment securities available for sale. This classification includes investment securities, which Management intends to hold for an indefinite period of time, that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Management determines the appropriate classification of its investment securities at the time of purchase.

Investment securities available for sale are initially recorded at cost (which includes transaction costs) and subsequently remeasured to fair value based on quoted bid prices. Certain investment securities available for sale, for which there is no available external independent quotation, have been fair valued by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies. Realised and unrealised gains and losses arising from changes in the fair value of investment securities available for sale are recorded in the consolidated statement of income in the period, in which they arise. Interest earned on investment securities available for sale is recorded in the consolidated statement of income as interest income on investment securities available for sale. Dividends received are recorded in dividend income in the consolidated statement of income.

All regular way purchases and sales of investment securities available for sale are recorded at trade date, which is the date that the Group commits to purchase or sell the asset. All other purchases and sales are recorded as derivative forward transactions until settlement.

Goodwill. Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the identifiable assets and liabilities of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries and associates is recorded in the consolidated balance sheet as an intangible asset and is amortised using the straight-line method over its estimated useful life. Management determines the estimated useful life of goodwill based on its evaluation of the respective companies at the time of the acquisition, considering factors such as existing market share, potential growth and other factors inherent in the acquired companies.

At each balance sheet date the Group assesses whether there is any indication of impairment of goodwill. If such indications exist, an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

Premises and equipment. Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble as at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the consolidated statement of income. The estimated recoverable amount is the higher of an asset's net selling price and its value in use.

Premises and equipment of acquired subsidiaries are initially recorded in the consolidated balance sheet at their estimated fair value at the date of acquisition.

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and are taken into account in determining profit/(loss). Repairs and maintenance are charged to the consolidated statement of income when the expenditure is incurred.

Depreciation. Depreciation is applied on a straight line basis over the estimated useful lives of the assets, using the following rates:

Premises - 4% per annum;

Equipment - 15% per annum; and

Intangible assets – 20% per annum.

4 Significant Accounting Policies (Continued)

Operating leases. Where the Group is the lessee, the total lease payments , including those on expected termination, are charged by the lessee to the consolidated statement of income on a straight-line basis over the period of the lease.

Borrowings (including Due to Other Banks, Customer Accounts and Other Borrowed Funds). Borrowings are recorded initially at ‘‘cost’’, being their issue proceeds (fair value of consideration received), net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the consolidated statement of income over the period of the borrowings, using the effective yield method.

Promissory notes issued. Promissory notes are recorded initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, promissory notes issued are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the consolidated statement of income over the period of the security issue, using the effective yield method.

If the Group purchases its own promissory notes issued, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt in the consolidated statement of income.

Accrued interest income and accrued interest expense. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount, are included in the carrying values of related balance sheet items.

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends declared after the balance sheet date are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit allocation and other appropriations. Russian legislation identifies the basis of allocation as the current year net profit.

Income taxes. Taxation has been provided for in the consolidated financial statements in accordance with the Russian legislation currently in force. Income tax charge in the consolidated statement of income for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the year, using the tax rates enacted at the balance sheet date. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided, using the balance sheet asset and liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recorded to the extent that it is probable that future taxable profit will be available, against which the temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Income and expense recognition. Interest income and expense are recorded in the consolidated statement of income for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income securities and accrued discount and premium on promissory notes and other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recorded based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Foreign currency translation. Transactions denominated in foreign currency are recorded at the exchange rate ruling on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the consolidated statement of income, using the exchange rate ruling on that date.

Monetary assets and liabilities denominated in foreign currency are translated into Russian Roubles at the official exchange rate of the CBRF at the balance sheet date. Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange translation gains and losses in the consolidated statement of income. Translation differences on non-monetary items such as equities held for trading or available for sale, are recorded as part of the fair value gain or loss arising from these assets in the consolidated statement of income.

(in thousands of Russian Roubles)

4 Significant Accounting Policies (Continued)

As at 31 December 2003 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 29.4545 (2002: USD 1 = RR 31.7844). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a freely convertible currency in most countries outside of the Russian Federation.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, are initially recorded in the consolidated balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained, using the spot rate at the year end. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivative instruments are included in gains less losses arising from trading in foreign currency depending on the related contracts in the consolidated statement of income.

The Group does not enter into derivative instruments for hedging purposes.

Fiduciary assets. Assets and liabilities held by the Group in its own name, but on behalf of third parties, are not reported on the consolidated balance sheet. Commissions received from such business are shown in fee and commission income within the consolidated statement of income.

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

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 “Financial Reporting in Hyperinflationary Economies” (“IAS 29”). Accordingly, prior to 1 January 2003 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the Russian Rouble in accordance with IAS 29.

IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. IFRS indicates that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at as 31 December 2002 are treated as the basis for the carrying amounts in these consolidated financial statements.

The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index (“CPI”), published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992. The CPI used to restate the consolidated financial statements is based on 1988 prices using 100 as the base index. The CPI for the five years ended 31 December 2002 and the respective conversion factors are the following:

	CPI	**Conversion Factor**
1998	1 216 400	2.24
1999	1 661 481	1.64
2000	1 995 937	1.37
2001	2 371 572	1.15
2002	2 730 154	1.00

(in thousands of Russian Roubles)

4 Significant Accounting Policies (Continued)

The main guidelines followed in restating the corresponding figures were:

- All amounts were stated in terms of the measuring unit current as at 31 December 2002;
- Monetary assets and liabilities held as at 31December 2002 were not restated because they were already expressed in terms of the monetary unit current at 31 December 2002;
- Non-monetary assets and liabilities (those balance sheet items that were not expressed in terms of the monetary unit current as at 31 December 2002) and components of shareholders' equity were restated from their historical cost by applying the change in the general price index from the date the non-monetary item was originated to 31 December 2002;
- All items in the consolidated statement of income and cash flows were restated by applying the change in the CPI from the dates when the items were initially transacted to 31 December 2002;
- Gains and losses that arose as result of holding monetary assets and liabilities during the year ended 31 December 2002 were included in the consolidated statement of income.

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

Staff costs and related contributions. The Group contributions to the Russian Federation state pension, social insurance funds in respect of the salary of its employees are expensed as incurred and included into staff costs in the consolidated statement of income.

5 Cash and Cash Equivalents

	2003	**2002**
Cash on hand	215 478	156 633
Cash balances with the CBRF (other than mandatory reserve deposits)	1 792 070	477 451
Correspondent accounts and overnight placements with other banks		
- Russian Federation	1 786 314	664 406
- Other countries	26 489	333 021
Total cash and cash equivalents	**3 820 351**	**1 631 511**

Geographical, currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 25.

6 Trading Securities

	2003	**2002**
Russian Federation Eurobonds	584 822	51 425
Corporate Eurobonds	355 726	-
Corporate bonds	241 454	269 057
Federal loan bonds (OFZ bonds)	116 225	130 654
Municipal bonds	72 372	-
Promissory notes	996	1 382 475
Total trading securities	**1 371 595**	**1 833 611**

(in thousands of Russian Roubles)

6 Trading Securities (Continued)

Russian Federation Eurobonds are securities issued by the Ministry of Finance of the Russian Federation and are freely tradable internationally. The Group's portfolio of Russian Federation Eurobonds consists of a tranche with maturity in 2030, yield to maturity 7.11% and annual coupon rate 5% and a tranche with maturity in 2007, yield to maturity 6.625%, annual coupon rate 3%, annual coupon rate on both is payable semi-annually.

Corporate Eurobonds are securities issued by large Russian companies and are freely tradable internationally. The annual coupon rates on these bonds range from 8.125% to 9.625%. The bonds have maturity dates from May 2008 to March 2013.

Corporate bonds represent bonds issued by large Russian companies, and are freely tradable within Russia. The annual coupon rates on these bonds range from 9.6% to 15%. The bonds have maturity dates from March 2004 to May 2007.

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds are issued at a discount to face value, have maturity dates from February 2004 to August 2008 and a coupon rate of approximately 12%-14% in 2003 and yield to maturity from 3.24% to 8.22% at 31 December 2003, depending on the type of bond issue.

Municipal bonds are securities issued by the Local and Municipal authorities and are freely tradable within Russia. The annual coupon rates on these bonds range from 5.44% to 8.89%. The bonds have maturity dates from March 2004 to June 2008.

Promissory notes represent debt securities of Russian commercial banks and companies.

Included in trading securities are securities pledged under sale and repurchase agreements with customers with the fair value at 31 December 2003 of RR 676 723 thousand (31 December 2002: none). Refer to Notes 13 and 26.

The Bank is licensed by the Federal Commission on Securities Markets of the Russian Federation for trading in securities.

Geographical, currency, maturity and interest rate analyses of trading securities are disclosed in Note 25.

7 Due from Other Banks

	2003	**2002**
Current term placements with other banks	62	1 127 382
Accrued interest income	-	3 217
Total due from other banks	**62**	**1 130 599**

As at 31 December 2003 the estimated fair value of due from other banks was RR 62 thousand (31 December 2002: RR 1 130 599 thousand). Refer to Note 27.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 25.

(in thousands of Russian Roubles)

8 Loans and Advances to Customers

	2003	2002
Current loans	7 674 394	4 072 263
Overdue loans	138 140	62 165
Accrued interest income	38 075	12 978
Aggregate amount of loans and advances to customers	**7 850 609**	**4 147 406**
Less: Provision for loan impairment	(497 523)	(301 003)
Total loans and advances to customers	**7 353 086**	**3 846 403**

Movements in the provision for loan impairment are as follows:

	2003	2002
Provision for loan impairment as at 1 January	**301 003**	**182 113**
Charge of provision for loan impairment during the year	197 520	143 505
Loans and advances to customers written off during the year as uncollectable	(1 000)	(696)
Effect of inflation	-	(23 919)
Provision for loan impairment as at 31 December	**497 523**	**301 003**

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

	2003		2002	
	Amount	**%**	**Amount**	**%**
Agriculture and food processing industry	4 066 298	52	1 950 084	47
Trade and catering	1 573 341	20	601 039	15
Manufacturing	1 168 853	15	729 856	18
Individuals	557 172	7	246 030	6
Construction	214 157	3	97 170	2
Investment	-	-	55 433	1
Transport	51 103	-	27 892	1
Mechanical engineering and metal-working industry	20 420	-	11 580	0
Other	199 265	3	428 322	10
Total loans and advances to customers (aggregate amount)	**7 850 609**	**100**	**4 147 406**	**100**

The Group's credit exposure is concentrated in the agriculture and food-processing industry in accordance with the Group's major objective set by the Russian Government. The Group's credit exposure to agricultural sector is widely spread across its 61 branches located in 61 regions of the Russian Federation. When determining the level of the provision for loan impairment for lending to the agricultural sector, Management of the Group used the data about the social and economic development of the regions of the Russian Federation prepared and published by the Ministry of Economic Development and Trade of the Russian Federation, as well as statistical and other information on the borrowers' credit history and financial performance collected by the Group during the period of its activity.

At 31 December 2003 the estimated fair value of loans and advances to customers was RR 7 353 086 thousand (31 December 2002: RR 3 846 403 thousand). Refer to Note 27.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 25. The information on related party balances is disclosed in Note 28.

(in thousands of Russian Roubles)

9 Investment Securities Available for Sale

	2003	2002
Debt securities – at fair value		
Municipal bonds	-	523
Equity securities – at fair value		
Corporate shares	1 965	4 880
Total investment securities available for sale	**1 965**	**5 403**

Equity securities include investments in non-consolidated associates of the Group, as the effect of including them into consolidated financial statements would not materially alter the consolidated financial position of the Group as at 31 December 2003 or consolidated results of its operations or consolidated cash flows for the year then ended.

Geographical, currency, maturity and interest rate analyses of investment securities available for sale are disclosed in Note 25.

10 Other Assets

	Note	2003	2002
Deferred tax asset	23	80 578	43 231
Settlements on funds transfer operations		29 160	55 112
Expenses of future periods		17 726	15 273
Trade debtors and prepayments		7 676	6 277
Prepaid taxes		7 075	19 598
Other		22 740	5 416
Total other assets		**164 955**	**144 907**

Geographical, currency and maturity analyses of other assets are disclosed in Note 25.

11 Premises and Equipment

	Note	Premises	Furniture, equipment, motor vehicles	Intangible assets	Total
Net book amount as at 31 December 2002		**24 491**	**148 856**	**69 925**	**243 272**
Book amount at cost					
Opening balance		25 427	171 297	90 215	286 939
Additions		31 942	83 182	12 900	128 024
Disposals		(1 424)	(14 830)	(1 139)	(17 393)
Closing balance		**55 945**	**239 649**	**101 976**	**397 570**
Accumulated depreciation					
Opening balance		936	22 441	20 290	43 667
Depreciation charge	22	1 767	28 833	18 611	49 211
Disposals		(31)	(2 973)	(132)	(3 136)
Closing balance		**2 672**	**48 301**	**38 769**	**89 742**
Net book amount as at 31 December 2003		**53 273**	**191 348**	**63 207**	**307 828**

(in thousands of Russian Roubles)

12 Due to Other Banks

	2003	2002
Current term placements of other banks	570 320	955 903
Correspondent accounts and overnight placements of other banks	11 543	16 369
Accrued interest expense	2 242	2 528
Total due to other banks	**584 105**	**974 800**

As at 31 December 2003 the estimated fair value of due to other banks was RR 584 105 thousand (31 December 2002: RR 974 800 thousand). Refer to Note 27.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 25.

13 Customer Accounts

	2003	2002
State and public organisations		
- Current/settlement accounts	413 360	522 760
- Term deposits	84 800	50 135
Other legal entities		
- Current/settlement accounts	4 417 527	845 463
- Term deposits	332 802	2 000 365
- Liabilities under sale and repurchase agreements with customers	589 230	-
Individuals		
- Current/demand accounts	381 720	67 015
- Term deposits	337 108	51 674
Accrued interest expense	6 477	5 968
Total customer accounts	**6 563 024**	**3 543 380**

Economic sector concentrations within customer accounts are, as follows:

	2003		2002	
	Amount	**%**	**Amount**	**%**
Leasing	3 191 197	49	2 084 765	59
Individuals	721 628	11	118 868	3
Finance	697 226	10	-	-
Government bodies	498 160	7	391 873	11
Agriculture	446 283	7	218 499	6
Construction	314 105	5	151 531	4
Trade and food manufacturing	242 356	4	163 102	5
Manufacturing	184 764	3	30 699	1
Insurance	-	-	28 984	1
Other	267 305	4	355 059	10
Total customer accounts	**6 563 024**	**100**	**3 543 380**	**100**

(in thousands of Russian Roubles)

13 Customer Accounts (Continued)

As at 31 December 2003 the Group has one customer with the total balance on its accounts of RR 3 191 197 thousand or 49% of total customer accounts (31 December 2002: RR 2 081 244 thousand or 59% of total customer accounts).

As at 31 December 2003 liabilities under sale and repurchase agreements with customers represent borrowings, secured by securities sold under sale and repurchase agreements with customers with a fair value of RR 676 723 thousand (2002: none). As at 31 December 2003 these securities were recorded on the consolidated balance sheet within trading securities. Refer to Note 6 and 26.

As at 31 December 2003 the estimated fair value of customer accounts was RR 6 563 024 thousand (31 December 2002: 3 543 380 RR thousand). Refer to Note 27.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 25. The information on related party balances is disclosed in Note 28.

14 Promissory Notes Issued

Promissory notes were issued by the Bank during the period from June 2001 to December 2003. These promissory notes were issued either at a discount to par value or were interest bearing and have effective interest rates from 3% to 17% p.a. and maturity from demand to December 2004.

At 31 December 2003 the estimated fair value of promissory notes was RR 1 143 665 thousand (31 December 2002: RR 320 798 thousand). Refer to Note 27.

Geographical, currency, maturity and interest rate analyses of promissory notes are disclosed in Note 25.

15 Other Borrowed Funds

Other borrowed funds represent funds provided to the Group by Agency for Restructuring of Credit Organisations (“ARCO”, Russian state financial institution) in 2001 for the purpose of financing the main activity of the Group.

Interest rates on these funds range from 4% to 5,3% per annum and maturity ranges from April to July 2006.

As at 31 December 2003 the estimated fair value of other borrowed funds was RR 228 162 thousand (31 December 2002: 251 500 thousand). Refer to Note 27.

Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 25.

16 Other Liabilities

	Note	**2003**	**2002**
Dividends payable	24	-	20 220
Taxation payable		9 477	8 003
Accrued bonuses to staff		886	1 220
Other		2 546	726
Total other liabilities		**12 909**	**30 169**

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 25.

(in thousands of Russian Roubles)

17 Minority Interest

The table below represents the movements in the minority interest of the Group:

	2003	2002
Minority interest as at 1 January	**10 623**	**12 613**
Share of net profit/(loss)	201	(1 990)
Effect of acquisition of additional interest from minority shareholders (Note 30)	(10 581)	-
Minority interest as at 31 December	**243**	**10 623**

18 Share Capital

Authorised, issued and fully paid share capital of the Bank comprises:

	2003			2002		
	Number of shares	Nominal amount	Inflation adjusted amount	Number of shares	Nominal amount	Inflation adjusted amount
Ordinary shares	4 649	4 649 000	5 398 833	3 799	3 799 000	4 548 833
Total share capital	**4 649**	**4 649 000**	**5 398 833**	**3 799**	**3 799 000**	**4 548 833**

All ordinary shares have nominal value of RR 1 000 thousand per share, rank equally and carry one vote.

During 2003 the Bank has increased its share capital by issuing 850 shares in the total nominal amount of RR 850 000 thousand. The entire issue was purchased and fully paid by the Russian Federal Property Fund, the Bank’s sole shareholder.

19 Retained Earnings

In accordance with Russian legislation, the Bank allocates profits as dividends or transfers them to reserves (fund accounts) on the basis of statutory accounting reports prepared in accordance with the Russian Accounting Rules. The Group’s retained earnings and other reserves under the Russian Accounting Rules as at 31 December 2003 are RR 227 105 thousand (31 December 2002: RR 238 660 thousand) (non-inflated).

(in thousands of Russian Roubles)

19 Retained Earnings (Continued)

Set out below is a reconciliation of net profit and retained earnings and other reserves under the Russian Accounting Rules to net loss and accumulated deficit under International Financial Reporting Standards.

	2003		2002	
	Net Profit/ (Loss)	**Retained earnings and other reserves/ (Accumulated deficit)**	**Net Profit/(Loss)**	**Retained earnings and other reserves/ (Accumulated deficit)**
Russian Accounting Rules	**58 134**	**227 105**	**248 611**	**238 660**
Release of statutory provisions	154 105	292 243	77 459	149 837
Carry forward of last year IFRS provision for loan impairment	-	(301 003)	-	(182 113)
Charge for IFRS provision for loan impairment during the year	(197 520)	(197 520)	(143 505)	(143 505)
Accrued income	19 674	43 769	24 095	72 808
Accrued expenses	(47 649)	(58 496)	(10 847)	(19 966)
Restatement of share capital in accordance with IAS 29	-	(749 833)	(466 896)	(749 833)
Restatement of fixed assets cost in accordance with IAS 29		60 561	33 205	60 561
Restatement of fixed assets depreciation in accordance with IAS 29	-	(45 557)	(31 158)	(45 557)
Restatement of opening accumulated deficit in accordance with IAS 29	-	-	46 590	-
Restoration of intangible assets from expenses	17 982	-	-	-
Deferred taxation	37 347	80 578	23 653	43 231
Impairment of goodwill	(6 824)	(37 998)	-	(31 174)
Other adjustments	(27 885)	50 145	(14 845)	(13 939)
International Financial Reporting Standards	**7 364**	**(636 006)**	**(213 638)**	**(620 990)**

20 Interest Income and Expense

	2003	**2002**
Interest income		
Loans and advances to customers	1 365 511	1 011 061
Trading securities	146 215	70 968
Due from other banks	47 416	170 474
Correspondent accounts with other banks	8 445	50 452
Total interest income	**1 567 587**	**1 302 955**
Interest expense		
Term placements of other banks	(62 568)	(92 022)
Current/settlement accounts	(42 644)	(74 916)
Term deposits of legal entities	(36 707)	(26 657)
Promissory notes issued	(133 053)	(24 952)
Other borrowed funds	(12 357)	(12 679)
Term deposits of individuals	(11 154)	(5 581)
Total interest expense	**(298 483)**	**(236 807)**
Net interest income	**1 269 104**	**1 066 148**

(in thousands of Russian Roubles)

21 Fee and Commission Income and Expense

	2003	2002
Fee and commission income		
Commission on cash transactions	99 257	68 330
Commission on settlement transactions	49 859	29 663
Commission on agency services	29 306	19 789
Commission on cash collection	646	602
Commission on guarantees	-	425
Other	4 481	730
Total fee and commission income	**183 549**	**119 539**
Fee and commission expense		
Commission on cash collection	(6 032)	(3 096)
Commission on settlement transactions	(1 757)	(765)
Commission on cash transactions	(23)	(28)
Other	(110)	(50)
Total fee and commission expense	**(7 922)**	**(3 939)**
Net fee and commission income	**175 627**	**115 600**

22 Operating Expenses

	Note	2003	2002
Staff costs		753 507	518 739
Rent expenses		134 037	93 644
Other expenses related to premises and equipment		33 524	75 100
Administrative expenses		90 348	58 706
Taxes other than on income		76 994	77 178
Depreciation of premises and equipment	11	49 211	30 608
Impairment of goodwill		6 824	-
Security		29 318	38 529
Advertising and marketing		6 943	5 521
Stationery		5 938	4 490
Other		67 679	29 350
Total operating expenses		**1 254 323**	**931 865**

23 Income Taxes

Income tax expense comprises the following:

	2003	2002
Current tax charge	36 210	81 297
Deferred taxation movement due to origination and reversal of temporary differences		
- Origination and reversal of temporary differences	(37 347)	(23 653)
Income tax (credit)/expense for the year	**(1 137)**	**57 644**

(in thousands of Russian Roubles)

23 Income Taxes (Continued)

The income tax rate applicable to the majority of the Group's income is 24% (2002: 24%). A reconciliation between the expected and the actual taxation charge is provided below.

	2003	2002
IFRS loss before tax	**6 428**	**(157 984)**
Theoretical tax credit at the applicable statutory rate (2003: 24%; 2002: 24%)	1 543	(37 916)
Tax effect of items, which are not deductible or assessable for taxation purposes:		
- Income, which is exempt from taxation	(5 081)	(11 848)
- Non deductible expenses	13 362	10 414
- Non temporary elements of monetary gains and losses	-	107 286
- Other non temporary differences	(9 186)	(9 133)
- Income on government securities taxed at different rates	(1 775)	(3 730)
Inflation effect on deferred tax balance at the beginning of the year	-	2 571
Income tax (credit)/expense for the year	**(1 137)**	**57 644**

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for profits tax calculation purposes. The tax effect of the movement of these temporary differences is recorded at the rate of 24% (2002: 24%), except for income on state securities that is taxed at 15% (2002: 15%).

	2002	Movement	2003
Tax effect of deductible temporary differences			
Loan impairment provision against loans to customers	54 258	30 282	84 540
Fair valuation of trading securities	-	9 585	9 585
Premises and equipment: additional depreciation	8 910	4 165	13 075
Accruals	1 651	531	2 182
Other	4 123	(3 994)	129
Gross deferred tax asset	**68 942**	**40 569**	**109 511**
Tax effect of taxable temporary differences			
Release of provision for impairment on loans to banks	(5 968)	(4 616)	(10 584)
Fair valuation of trading securities	(4 807)	1 011	(3 796)
Premises and equipment: inflation of cost of acquisition	(9 661)	1 117	(8 544)
Accruals	(5 275)	(734)	(6 009)
Gross deferred tax liability	**(25 711)**	**(3 222)**	**(28 933)**
Total net deferred tax asset	**43 231**	**37 347**	**80 578**

(in thousands of Russian Roubles)

23 Income Taxes (Continued)

	2001	Movement	2002
Tax effect of deductible temporary differences			
Loan impairment provision against loans to customers	35 617	18 641	54 258
Premises and equipment: additional depreciation	2 045	6 865	8 910
Accruals	7 959	(6 308)	1 651
Other	-	4 123	4 123
Gross deferred tax asset	**45 621**	**23 321**	**68 942**
Tax effect of taxable temporary differences			
Release of provision for impairment on loans to banks	-	(5 968)	(5 968)
Fair valuation of trading securities	(3 619)	(1 188)	(4 807)
Premises and equipment: inflation of cost of acquisition	(9 709)	48	(9 661)
Accruals	(11 692)	6 417	(5 275)
Other	(1 023)	1 023	-
Gross deferred tax liability	**(26 043)**	**332**	**(25 711)**
Total net deferred tax asset	**19 578**	**23 653**	**43 231**

The net deferred tax asset represents income taxes recoverable through future revenues and is recorded as a deferred tax asset on the consolidated balance sheet. Deferred income tax assets are recorded for tax loss carry forwards only to the extent that realisation of the related tax benefit is probable.

24 Dividends

	2003	2002
Dividends payable as at 1 January	**20 220**	**-**
Dividends declared during the year	22 380	22 075
Dividends paid during the year	(42 600)	(1 855)
Dividends payable as at 31 December	**-**	**20 220**
Dividends per share, declared during the year	**5.9**	**5.8**

All dividends are declared in the Russian Roubles. Dividends are declared on the basis of retained earnings in accordance with Russian Accounting Rules (Refer to Note 19).

25 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. Risk assessment also forms the basis for optimal risk-adjusted capital allocation, transaction pricing and performance assessment. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimize operational and legal risks.

Credit risk. The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay all 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 geographical and 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 product, borrower and industry sector are approved regularly by the Executive Board.

(in thousands of Russian Roubles)

25 Financial Risk Management (Continued)

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal 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 Group's maximum exposure to credit risk is primary reflected in the carrying amounts of financial assets on the consolidated balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Executive Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Geographical risk. The geographical concentration of the Group's assets and liabilities as at 31 December 2003 is set out below:

	Russia	**OECD***	**Non OECD**	**Total**
Assets				
Cash and cash equivalents	3 793 862	26 489	-	3 820 351
Mandatory cash balances with the CBRF	275 093	-	-	275 093
Trading securities	1 371 595	-	-	1 371 595
Due from other banks	62	-	-	62
Loans and advances to customers	7 353 086	-	-	7 353 086
Investment securities available for sale	1 965	-	-	1 965
Other assets	164 955	-	-	164 955
Premises and equipment	307 828	-	-	307 828
Total assets	**13 268 446**	**26 489**	**-**	**13 294 935**
Liabilities				
Due to other banks	464 359	109 678	10 068	584 105
Customer accounts	6 563 024	-	-	6 563 024
Promissory notes	1 143 665	-	-	1 143 665
Other borrowed funds	228 162	-	-	228 162
Other liabilities	12 909	-	-	12 909
Total liabilities	**8 412 119**	**109 678**	**10 068**	**8 531 865**
Net balance sheet position	**4 856 327**	**(83 189)**	**(10 068)**	**4 763 070**
Credit related commitments	**44 315**	**-**	**-**	**44 315**

*OECD – Organisation of Economic Cooperation and Development.

(in thousands of Russian Roubles)

25 Financial Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities as at 31 December 2002 is set out below:

	Russia	OECD	Non OECD	Total
Net balance sheet position	**3 668 596**	**271 199**	**(1 329)**	**3 938 466**
Credit related commitments	**54 315**	**-**	**-**	**54 315**

Currency risk. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Executive Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk as at 31 December 2003. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet gap represents the difference between the notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Group's exposure to currency movements, and their fair values. As at 31 December 2003, the Group has the following positions in currencies:

	RR	USD	Euro	Other currencies	Total
Assets					
Cash and cash equivalents	3 749 066	55 292	15 403	590	3 820 351
Mandatory cash balances with the Central Bank of the Russian Federation	275 093	-	-	-	275 093
Trading securities	431 047	940 548	-	-	1 371 595
Due from other banks	-	62	-	-	62
Loans and advances to customers	7 353 086	-	-	-	7 353 086
Investment securities available for sale	1 965	-	-	-	1 965
Other assets	163 639	1 215	101		164 955
Premises and equipment	307 828	-	-	-	307 828
Total assets	**12 281 724**	**997 117**	**15 504**	**590**	**13 294 935**
Liabilities					
Due to other banks	296 192	287 913	-	-	584 105
Customer accounts	5 897 633	660 616	4 775	-	6 563 024
Promissory notes	1 143 665	-	-	-	1 143 665
Other borrowed funds	228 162	-	-	-	228 162
Other liabilities	12 909	-	-	-	12 909
Total liabilities	**7 578 561**	**948 529**	**4 775**	**-**	**8 531 865**
Net balance sheet position	**4 703 163**	**48 588**	**10 729**	**590**	**4 763 070**
Credit related commitments	**44 315**	**-**	**-**	**-**	**44 315**
Off-balance sheet net notional position	**738 063**	**(736 363)**	**-**	**-**	**1 700**

(in thousands of Russian Roubles)

25 Financial Risk Management (Continued)

At 31 December 2002, the Group had the following positions in currency.

	RR	USD	Euro	Other currencies	Total
Net balance sheet position	**3 430 334**	**335 217**	**172 808**	**107**	**3 938 466**
Off-balance sheet net notional position	**287 243**	**(286 060)**	**-**	**-**	**1 183**
Credit related commitments	**54 315**	**-**	**-**	**-**	**54 315**

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The liquidity risk is managed by Treasury Department and the Financial Committee of the Group.

The table below shows assets and liabilities as at 31 December 2003 by their remaining contractual maturity, unless there is evidence that any of these assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement is used. Some of the assets, however, may be of a longer term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer term duration.

The liquidity position of the Group as at 31 December 2003 is set out below.

	Dema and l 1 mo	From 1 t 6 montl	From 6 t 12 months	More than 1	No stated maturit	T
Assets						
Cash and cash equivalents	3 820 351	-	-	-	-	3 820 351
Mandatory cash balances with the Central Bank of the Russian Federation	190 614	23 246	49 322	11 911	-	275 093
Trading securities	1 371 595	-	-	-	-	1 371 595
Due from other banks	-	62	-	-	-	62
Loans and advances to customers	725 529	2 151 442	3 851 741	624 374	-	7 353 086
Investment securities available for sale	-	-	-	-	1 965	1 965
Other assets	72 153	533	1 076	-	91 193	164 955
Premises and equipment	-	-	-	-	307 828	307 828
Total assets	**6 180 242**	**2 175 283**	**3 902 139**	**636 285**	**400 986**	**13 294 935**
Liabilities						
Due to other banks	275 417	200 000	108 688	-	-	584 105
Customer accounts	5 975 709	414 234	164 651	8 430	-	6 563 024
Promissory notes	87 560	599 422	456 683	-	-	1 143 665
Other borrowed funds	-	12 797	44 023	171 342	-	228 162
Other liabilities	10 850	172	145	-	1 742	12 909
Total liabilities	**6 349 536**	**1 226 625**	**774 190**	**179 772**	**1 742**	**8 531 865**
Net liquidity gap	**(169 294)**	**948 658**	**3 127 949**	**456 513**	**399 244**	**4 763 070**
Cumulative liquidity gap at 31 December 2003	**(169 294)**	**779 364**	**3 907 313**	**4 363 826**	**4 763 070**	**-**
Cumulative liquidity gap at 31 December 2002	**1 967 595**	**2 450 340**	**3 505 960**	**3 686 331**	**3 938 466**	**-**

25 Financial Risk Management (Continued)

The entire portfolio of trading securities is classified within demand and less than one month as the portfolio is of a trading nature and Management believes this is a fairer portrayal of its liquidity position. Mandatory cash balances with the CBRF are allocated between different maturity categories in accordance with maturities of liabilities to which this balance relates.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customers 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 customers accounts provide a long-term and stable source of funding for the Group.

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

The Group is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions.

(in thousands of Russian Roubles)

25 Financial Risk Management (Continued)

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

	Dema and le 1 mont	**From 1 t 6 month**	**From 6 t 12 months**	**More than 1 y**	**Non-interest beari**	
Assets						
Cash and cash equivalents	3 820 351	-	-	-	-	3 820 351
Mandatory cash balances with the Central Bank of the Russian Federation	190 614	23 246	49 322	11 911	-	275 093
Trading securities	1 371 595	-	-	-	-	1 371 595
Due from other banks	-	62	-	-	-	62
Loans and advances to customers	725 529	2 151 442	3 851 741	624 374	-	7 353 086
Investment securities available for sale	-	-	-	-	1 965	1 965
Other assets	-	-	-	-	164 955	164 955
Premises and equipment	-	-	-	-	307 828	307 828
Total assets	**6 108 089**	**2 174 750**	**3 901 063**	**636 285**	**474 748**	**13 294 935**
Liabilities						
Due to other banks	275 417	200 000	108 688	-	-	584 105
Customer accounts	5 978 071	412 445	164 078	8 430	-	6 563 024
Promissory notes issued	87 560	599 422	456 683	-	-	1 143 665
Other borrowed funds	1 662	12 500	43 000	171 000	-	228 162
Other liabilities	-	-	-	-	12 909	12 909
Total liabilities	**6 342 710**	**1 224 367**	**772 449**	**179 430**	**12 909**	**8 531 865**
Net sensitivity gap	**(234 621)**	**950 383**	**3 128 614**	**456 855**	**461 839**	**4 763 070**
Cumulative sensitivity gap as at 31 December 2003	**(234 621)**	**715 762**	**3 844 376**	**4 301 231**	**4 763 070**	**-**
Cumulative sensitivity gap as at 31 December 2002	**1 967 595**	**2 407 109**	**3 462 729**	**3 643 100**	**3 938 466**	**-**

(in thousands of Russian Roubles)

25 Financial Risk Management (Continued)

The table below summarises the effective interest rates by major currencies for major monetary financial instruments. The analysis has been prepared based on period-end effective rates used for amortisation of the respective assets/liabilities.

	2003			2002		
	RR	**USD**	**Euro**	**RR**	**USD**	**Euro**
Assets						
Cash and cash equivalents	2%	1%	0%	0%	0%	0%
Mandatory cash balances with the Central Group of the Russian Federation	0%	-	-	0%	-	-
Trading securities	9%	5%	-	16%	5%	-
Due from other banks	-	-	-	14%	8%	-
Loans and advances to customers	21%	-	-	22%	-	-
Investment securities available for sale	0%	-	-	20%	-	-
Liabilities						
Due to other banks	7%	5%	-	5%	4%	4%
Customer accounts						
- current and settlement accounts	2%	0%	0%	0%	0%	0%
- term deposits	9%	-	-	11%	-	-
Promissory notes	13%	-	-	15%	-	-
Other borrowed funds	4%	-	-	6%	-	-

The sign “-“ in the table above means that the Group does not have the respective assets or liabilities in corresponding currency.

26 Contingencies, Commitments and Derivative Financial Instruments

***Legal proceedings*.** From time to time and in the normal course of business, claims against the Group are received. On the basis of own estimates and internal professional advice the Management is of the opinion that no material losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management’s interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2003 Management believes that its interpretation of the relevant legislation is appropriate and the Group’s tax, currency and customs positions will be sustained.

Capital commitments. As at 31 December 2003 the Group had no capital commitments (2002: nil).

Credit related commitments. The credit related commitments comprise guarantees issued. The contractual amount of these commitments represents the value at risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless. Outstanding credit related commitments are as follows:

(in thousands of Russian Roubles)

26 Contingencies, Commitments and Derivative Financial Instruments (Continued)

Commitments to make loans at a specific rate of interest during a fixed period of time are accounted for as derivatives unless these commitments do not extend beyond the period expected to be needed to perform appropriate underwriting, in which case they considered to be “regular way” transactions. Outstanding credit related commitments are as follows:

	2003	2002
Guarantees issued	44 315	54 315
Total credit related commitments	**44 315**	**54 315**

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

Derivative financial instruments. Foreign currency deliverable forwards are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions.

The principal amounts of certain types of financial instruments provide a basis for comparison with instruments recorded on the consolidated balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group’s exposure to credit or price risks. The derivative instruments have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or principal amount of derivative financial instruments on hand, the extent to which instruments have favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The principal or agreed amounts and fair values of derivative instruments held are set out in the following table. This table reflects gross position before the netting of any counterparty position by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2003. These contracts were entered into in December 2003 and are short term in nature.

	Domestic		
	Princip agreed amou	**N fai**	**fai**
Deliverable forwards			
Foreign currency			
- sale of foreign currency	736 363	(1 813)	-
- purchase of foreign currency	736 363	-	113
Total	**1 472 726**	**(1 813)**	**113**

For these deals the Group has recorded a net loss of RR 1 700 thousand, which is recorded within gains less losses arising from trading in foreign currency in the consolidated statement of income.

Fiduciary assets. These assets are not included in the Group’s consolidated balance sheet as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets fall into the following categories:

	2003 Nominal value	2002 Nominal value
Bills of exchange of the Russian companies	14 911	38 727

(in thousands of Russian Roubles)

26 Contingencies, Commitments and Derivative Financial Instruments (Continued)

Assets pledged. As at 31 December 2003 the Bank has the following assets pledged as collateral:

		2003	
	Notes	**Asset pledged**	**Related liability**
Trading securities	6,13	676 723	589 230
Total		**676 723**	**589 230**

In addition, mandatory cash balances with the CBRF in the amount of RR 275 093 thousand represent mandatory reserve deposit which is not available to finance the Group's day to day operations.

27 Fair Value of Financial Instruments

Fair value is the amount, at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may not be reflective of the values for financial instruments, which would be determined in an efficient, active market involving willing buyers and willing sellers. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Financial instruments carried at fair value. Cash and cash equivalents, trading securities and investment securities available for sale are carried on the consolidated balance sheet at their fair value. As set out in Note 4, external independent market quotations were not available for certain investment securities available for sale. The fair value of these assets was determined by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies.

Loans originated carried at amortised cost less provision for impairment. The fair value of floating rate instruments is their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 7 and 8 for the estimated fair values of due from other banks and loans and advances to customers, respectively.

Liabilities carried at amortised cost. The fair value of instruments with a quoted market price is based on quoted market prices. The estimated fair value of instruments with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest rate instruments without a quoted market price is based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 12, 13 and 15 for the estimated fair values of due to other banks, customer accounts, promissory notes issued and other borrowed funds, respectively.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative.

28 Related Party Transactions

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

(in thousands of Russian Roubles)

28 Related Party Transactions (Continued)

Banking transactions are entered into in the normal course of business with significant shareholders, directors and companies with which the Group has significant shareholders in common. These transactions include settlements, loans and deposit taking. These transactions are priced predominantly at market rates. The outstanding balances at the year-end and interest expense and income as well as other transactions for the year with related parties are as follows:

	2003	2002
Operations with management of the Group		
Loans and advances to customers		
Loans outstanding as at the year end	15 539	12 270
Provision for loan impairment as at the year end	(329)	(1 227)
Interest income for the year	3 456	2 233
Operations with the companies under common control		
Customer accounts		
Current/settlement accounts outstanding as at the year end	3 191 197	2 081 244
Interest expense for the year	685	4 301

29 Principal Consolidated Subsidiary

Name	Nature of business	Percentage voting righ	Percentage owner	Count registrat
Closed Joint – Stock Company “Chelyabinsky Commercial Land Bank”	Banking	99.47%	99.47%	Russia

30 Acquisitions and Disposals

Prior to 31 December 2003 the Bank acquired 23.2% of the share capital of Closed Joint – Stock Company “Chelyabinsky Commercial Land Bank” in addition to 76.27% already owned by the Bank as at 31 December 2002. The details of this acquisition are presented below:

	Total
Fair value of net assets of subsidiary as at 31 December 2003	**45 610**
Less: minority interest	(243)
Less: interest acquired previously	(34 786)
Net fair value of investment interest acquired	**10 581**
Goodwill (Note 31)	6 824
Consideration given	**17 405**
Less: cash and cash equivalents of subsidiary attributable to 23.2% acquired	(16 760)
Cash outflow on acquisition	**645**

(in thousands of Russian Roubles)

31 Goodwill

	2003	2002
Opening net book amount	-	-
Acquisition of the subsidiary (Note 30)	6 824	-
Write-down of goodwill at the expense of impairment provision (Note 22)	(6 824)	-
Closing net book amount	-	-

Management of the Group does not believe that goodwill, which arose as a result of acquisition of 23.2% of the Bank's principal subsidiary, was recoverable as at 31 December 2003. Therefore, Management of the Group decided to write down the full amount of goodwill.

32 Subsequent Events

Subsequent to year end the Bank placed deposits in the amount of RR 152 360 thousand with a number of Russian banks, which are currently experiencing significant deterioration in their liquidity (Refer to Note 2). The management of the Group is unable to predict whether this exposure will crystallize in a loss in the future.