

Avtobank-NIKoil
Consolidated Financial Statements

Year ended December 31, 2003
Together with Report of Independent Auditors

CONTENTS

REPORT OF INDEPENDENT AUDITORS

Consolidated Balance Sheets	1
Consolidated Statements of Income	2
Consolidated Statements of Changes in Shareholders' Equity	3
Consolidated Statements of Cash Flows	4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Principal Activities	5
2. Basis of Preparation.....	5
3. Summary of Accounting Policies	6
4. Cash and Cash Equivalents.....	12
5. Trading Securities	12
6. Amounts Due from Credit Institutions.....	13
7. Derivative Financial Instruments.....	13
8. Available-for-sale Securities	13
9. Loans to Customers	14
10. Due from the Group Members	15
11. Taxation	15
12. Allowances for Losses and Provisions	16
13. Property and Equipment.....	17
14. Other Assets and Liabilities	18
15. Amounts Due to Central Bank and Government.....	18
16. Amounts Due to Credit Institutions.....	18
17. Amounts Due to Customers.....	19
18. Debt Securities Issued	19
19. Provisions.....	19
20. Shareholders' Equity.....	20
21. Commitments and Contingencies	20
22. Salaries and Administrative and Operating Expenses	21
23. Risk Management Policies.....	22
24. Fair Values of Financial Instruments.....	27
25. Related Party Transactions.....	27
26. Capital Adequacy.....	28
27. Subsequent Events.....	28

REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors of Avtobank-NIKoil –

We have audited the accompanying consolidated balance sheet of Avtobank-NIKoil and its subsidiary (together the "Bank") 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 Bank'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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Bank as of December 31, 2003, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

As discussed in Note 25, the Bank has significant transactions with related parties.

Ernst & Young Vneshaudit

April 23, 2004

CONSOLIDATED BALANCE SHEETS*(Thousands of Russian Rubles)*

		December 31,	
	Notes	2003	2002
Assets			
Cash and cash equivalents	4	9,301,822	2,777,640
Trading securities	5	1,342,114	4,215,806
Amounts due from credit institutions	6	2,193,720	1,187,139
Derivative financial assets	7	8,305	2,154
Available-for-sale securities	8	6,455,852	603,716
Loans to customers	9	8,790,056	3,800,127
Due from the Group members	10	1,117,880	1,925,255
Tax assets	11	2,737	29,487
Property and equipment	13	434,652	678,540
Other assets	14	1,660,477	198,533
Total assets		<u>31,307,615</u>	<u>15,418,397</u>
Liabilities			
Amounts due to Central Bank and Government	15	–	600,690
Amounts due to credit institutions	16	1,712,729	1,769,333
Amounts due to customers	17	16,821,246	9,885,930
Derivative financial liabilities	7	2,914	640
Debt securities issued	18	5,875,417	892,985
Tax liabilities	11	188,735	121,396
Provisions	19	88,767	98,364
Other liabilities	14	78,523	19,506
Total liabilities		<u>24,768,331</u>	<u>13,388,844</u>
Shareholders' equity			
Share capital	20	7,722,215	3,722,215
Additional paid-in capital		318,577	644,949
Investment revaluation reserve		375,621	240,716
Accumulated deficit		(1,877,129)	(2,578,327)
Total shareholders' equity		<u>6,539,284</u>	<u>2,029,553</u>
Total liabilities and shareholders' equity		<u>31,307,615</u>	<u>15,418,397</u>
Financial commitments and contingencies	21	3,932,793	1,523,218

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

Nickolai A. Tsvetkov

Chairman of the Board

Yuriy V. Petuhov

Chief Accountant

April 23, 2004

The accompanying notes on pages 5 to 28 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME*(Thousands of Russian Rubles)*

	<i>Notes</i>	Years ended December 31,	
		2003	2002
Interest income			
Loans		1,228,601	1,735,389
Securities		85,002	359,898
		1,313,603	2,095,287
Interest expense			
Deposits		717,076	830,416
Borrowings		89,875	70,339
		806,951	900,755
Net interest income		506,652	1,194,532
Reversal of impairment of interest earning assets	12	(146,141)	(105,510)
Net interest income after impairment		652,793	1,300,042
Fee and commission income		707,335	632,216
Fee and commission expense		196,743	202,693
Fees and commissions		510,592	429,523
Gains less losses from trading securities		742,982	227,306
Gains less losses from foreign currencies:			
- dealing		200,377	263,393
- translation differences		94,151	(3,764)
Other income		105,906	38,177
Non interest income		1,143,416	525,112
Salaries and benefits	22	869,777	868,083
Depreciation and amortisation		155,248	155,242
Administrative and operating expenses	22	707,085	731,452
Loss on property and equipment disposal	13	117,784	1,671
Other impairment and provisions (reversal)	12	(12,210)	68,486
Non interest expense		1,837,684	1,824,934
Loss on net monetary position		-	(415,224)
Income before income tax expense		469,117	14,519
Income tax expense (benefit)	11	94,291	(55,980)
Net income		374,826	70,499

The accompanying notes on pages 5 to 28 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**For the years ended December 31, 2003 and 2002***(Thousands of Russian Rubles)*

	Share Capital	Additional paid-in capital	Treasury stock	Investment Revaluation reserve	Accumulated deficit	Total shareholders' equity
December 31, 2001	3,722,215	326,372	(221,666)	485,676	(2,556,115)	1,756,482
Capital contributions	–	318,577	–	–	–	318,577
Treasury stock purchase (sale)	–	–	221,666	–	(92,711)	128,955
Fair value change of available-for-sale financial assets, net of tax	–	–	–	(244,960)	–	(244,960)
Net income	–	–	–	–	70,499	70,499
December 31, 2002	3,722,215	644,949	–	240,716	(2,578,327)	2,029,553
Capital contributions	4,000,000	–	–	–	–	4,000,000
Additional paid-in-capital capitalized	–	(326,372)	–	–	326,372	–
Fair value change of available-for-sale financial assets, net of tax	–	–	–	134,905	–	134,905
Net income	–	–	–	–	374,826	374,826
December 31, 2003	7,722,215	318,577	–	375,621	(1,877,129)	6,539,284

The accompanying notes on pages 5 to 28 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS*(Thousands of Russian Rubles)*

	Years ended December 31,		
	Notes	2003	2002
Cash flows from operating activities			
Interest received		1,387,186	2,417,766
Interest paid		(762,134)	(918,601)
Fees and commissions received		707,335	632,216
Fees and commissions paid		(196,743)	(202,693)
Gains less losses from securities		770,370	83,437
Realised gains less losses in foreign currencies		200,377	263,374
Other operating income		30,541	38,177
Salaries and benefits		(869,777)	(868,083)
Other administrative and operating expenses		(707,085)	(731,452)
Cash flow from operating activities before changes in operating assets and liabilities		560,070	714,141
<i>Net (increase)/decrease in operating assets</i>			
Trading securities		2,806,329	(1,695,649)
Amounts due from credit institutions		(1,029,998)	(392,271)
Loans to customers		(3,518,693)	2,420,978
Due from group members		(807,375)	1,925,255
Other assets		(1,470,733)	(225,960)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to credit institutions		(14,957)	(558,920)
Amounts due to customers		7,320,551	218,352
Debt securities issued		4,978,465	(499,756)
Other liabilities		60,142	(107,786)
Monetary loss from operating activity		-	251,904
Net cash flow from operating activities before income taxes		8,883,801	2,050,288
Corporate income tax paid		(42,804)	(115,872)
Net cash flow from operating activities		8,840,997	1,934,416
Cash flows from investing activities			
Purchases of available-for-sale securities		(5,676,737)	(419,298)
Purchases of property and equipment		(119,877)	(103,534)
Proceeds from sale of property and equipment		126,512	64,885
Dividends received		75,424	-
Monetary gain from investing activity		-	104,097
Net cash flow from investing activities		(5,594,678)	(353,850)
Cash flows from financing activities			
Capital contributions		4,000,000	233,463
Repayment of Central Bank stabilization loan		(600,690)	(1,586,210)
Treasury stock (cross shareholding) sold		-	117,377
Monetary loss from financing activity		-	(155,802)
Net cash outflow from financing activities		3,399,310	(1,391,172)
Exchange rates changes effect on cash and cash equivalents		(121,447)	61,954
Inflation effect on cash and cash equivalents		-	(370,206)
Net change in cash and cash equivalents		6,524,182	(118,858)
Cash and cash equivalents, beginning		2,777,640	2,896,498
Cash and cash equivalents, ending	4	9,301,822	2,777,640

The accompanying notes on pages 5 to 28 are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2003

(Thousands of Russian Rubles)

1. Principal Activities

Avtobank-NIKoil with original name **Avtobank** was formed on December 6, 1988 as an open joint stock company under the laws of the Russian Federation. The Bank operates under a general banking license issued by the Central Bank of Russia ("CBR"), as well as CBR licenses for operations with precious metals and foreign currency operations (both issued on July 3, 2003). The Bank also possesses licenses for securities operations and custody services from the Federal Commission for the Securities Market granted on November 16, 2000.

The Bank accepts deposits from the public and extends credit, transfers payments in Russia and abroad, exchanges currencies and provides banking services to its commercial and retail customers. The Bank is among the 25 largest banks in Russia in terms of total assets calculated under the local accounting rules. Its main office is in Moscow and it has 25 branches, including St. Petersburg, N. Novgorod, Omsk and other regions. The Bank's registered legal address is Moscow, 101514, Lesnaya Str., 41.

As of December 31, 2003, the Bank is a 93.6% owned subsidiary of OOO "NIKoil-Consulting" and OAO "Management Company NIKoil-Savings", which in turn are controlled by Financial Corporation NIKoil, parent entity of a group of companies (the "Group") whose principal activity is financial services (banking, brokerage, insurance, asset management, etc.).

The Bank had an average of 2,702 employees during the year (2002 – 2,810) and 2,713 employees at the end of 2003 (2002 – 2,858).

2. Basis of Preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect. These financial statements are presented in thousands of Russian Rubles ("RUB") unless otherwise indicated. The Ruble is utilized as the majority of the Bank's transactions are denominated, measured, or funded in Russian Rubles. Transactions in other currencies are treated as transactions in foreign currencies.

The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in Russian Rubles in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These consolidated financial statements are based on the Bank's RAL books and records, as adjusted and reclassified in order to comply with IFRS. The reconciliation between RAL and IFRS is presented later in this note.

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of the financial statements. Actual results, therefore, could differ from these estimates. The most significant estimates are allowances for asset impairment, provisions for losses on guarantees and commitments, depreciation and amortization rates.

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 for hyperinflation. Beginning in 2003, the Bank ceased applying IAS 29 to current periods and only recognizes the cumulative impact of inflation indexing on non-monetary elements of the 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 contributions occurring before December 31, 2002, have been restated by applying the relevant conversion factors to the historical cost ("restated cost") through December 31, 2002. Gains or losses on subsequent disposal are recognised based on the restated cost of the non-monetary assets and liabilities.

(Thousands of Russian Rubles)

2. Basis of Preparation (continued)

Consolidated Subsidiaries

The consolidated financial statements include the following subsidiary for 2003 and 2002:

Subsidiary	 Holding, %	Country	Date of incorporation	Industry	Date of acquisition
ZAO Fondovoye Agency	100%	Russia	June 6, 1996	Investment	June 6, 1996

Reconciliation of RAL and IFRS Equity and Net Income

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

	2003		2002	
	Shareholders' equity	Net income	Shareholders' equity	Net income
Russian Accounting Legislation	6,711,020	758,956	1,966,228	256,404
Inflation impact on non-monetary items	164,045	(346,354)	652,653	(252,493)
Initial recognition of financial instruments	–	–	–	145,864
Effect of accrued interest	(130,669)	(118,488)	(12,181)	(467,094)
Impairment of financial assets	(347,669)	258,760	(606,429)	224,155
Provisions for losses	(13,783)	12,831	(26,614)	72,276
Accelerated depreciation	(161,464)	(78,109)	(83,355)	(48,748)
Fair value re-measurement of securities	37,403	(19,460)	56,863	142,683
Deferred taxation	42,603	87,984	(198,552)	65,936
Expenses recorded directly to equity	–	(53,541)	–	(119,398)
Available-for-sale investments revaluation	375,621	–	270,502	–
Current taxation	(130,093)	(130,093)	40,413	40,413
Consolidation	(250)	–	(250)	–
Other	(7,480)	2,340	(29,725)	10,501
International Financial Reporting Standards	6,539,284	374,826	2,029,553	70,499

3. Summary of Accounting Policies

Principles of consolidation

The consolidated financial statements of the Bank include ZAO Fondovoye Agency. This control is normally evidenced when the Bank 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 unrealized 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 Bank recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognized using trade date accounting.

Financial assets and liabilities are offset and the net amount is reported in the 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.

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 recognized in the current period's statement of income. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

(Thousands of Russian Rubles)

3. Summary of Accounting Policies (continued)

Cash and Cash Equivalents

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

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 statement of income as gains less losses from trading securities. Interest earned on trading securities is reported as interest 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 Bank's position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or objective and reliable management's estimates of the amounts that can be realized.

Amounts Due from Credit Institutions

In the normal course of business, the Bank maintains current accounts or deposits for various periods of time with other banks. Amounts due from credit institutions with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for impairment.

Repurchase and Reverse Repurchase Agreements

Repurchase and reverse repurchase agreements are utilized by the Bank as an element of its treasury management and trading business. These agreements are accounted for as financing transactions.

Securities sold under repurchase agreements are accounted for as trading or available-for-sale securities and funds received under these agreements are included in amounts due to credit institutions or amounts due to customers. Securities purchased under agreements to resell ('reverse repos') are recorded as amounts due from credit institutions or as loans to customers.

Securities purchased under reverse repurchase agreements are not recognized in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in gains less losses from trading securities. The obligation to return them is recorded at fair value as a trading liability.

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.

Derivative Financial Instruments

In the normal course of business, the Bank enters into various derivative financial instruments including forwards 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. Derivatives are carried as assets when fair value is positive and as liabilities when it is negative. Gains and losses from foreign exchange derivatives are included in the accompanying consolidated statements of income as gains less losses from foreign currency (dealing). Gains and losses from other derivatives are reflected trading in gains less losses.

(Thousands of Russian Rubles)

3. Summary of Accounting Policies (continued)

Investment Securities

The Bank 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 Bank as held-to-maturity or trading (see above) are included in the available-for-sale portfolio.

The Bank classifies investment securities depending upon the intent of management at the time of the purchase. Investment securities are initially recognized in accordance with the policy stated above and subsequently re-measured using the following policies:

1. Held-to-maturity investment securities – at amortized cost using the effective interest method. Allowance for impairment is estimated on a case-by-case basis.
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 allowance for diminution 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 in shareholders' equity in the period that the change occurs. When the securities are disposed of or impaired, the related accumulated fair value adjustment is included in the statement of income as gains less losses from available-for-sale securities.

The Bank's equity investments include investments in certain associates (generally investments of between 20% to 50% in a company's equity), which are carried at restated cost less any allowance for diminution in value. These investments in certain associates are stated at the cost and are not accounted for under the equity method, as the effect would not materially effect the financial statements of the Bank.

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

Promissory Notes

For promissory notes held as trading or investment securities, the Bank applies the same accounting policies as for these categories of securities. For promissory notes held by the Bank that are in substance equivalent to loans allowance for impairment is created and assessed on the same basis.

Loans to Customers

Loans granted by the Bank by providing funds directly to the borrower are categorized as loans originated by the Bank and are initially recognized in accordance with the recognition of financial instruments policy. The difference between the 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 income statement. 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.

Operating Leases – Banks 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 lease are recognized as expenses on a straight-line basis over the lease term and included into administrative and operating expenses.

(Thousands of Russian Rubles)

3. Summary of Accounting Policies (continued)

Taxation

The current income tax expense is calculated in accordance with the regulations of the Russian Federation and of the cities in which the Bank has offices and branches and its subsidiaries are located.

Deferred income tax is provided, using the 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 income tax liabilities are recognized for all taxable temporary differences:

- ? in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized:

- ? in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognized to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income 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 income tax asset to be utilized. Deferred income 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 tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Russia also has various operating taxes that are assessed on the Bank's activities. These taxes are included as a component of administrative and operating expenses.

Allowances for Impairment of Financial Assets

The Bank establishes allowances for impairment of financial assets when it is probable that the Bank will not be able to collect the principal and interest according to the contractual terms of the related loans issued, held-to-maturity securities and other financial assets, which are carried at cost and amortized cost. The allowances for impairment of financial assets are 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 Bank expects to realize the financial instrument.

The allowances are based on the Bank'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 financial statements have been determined on the basis of existing economic and political conditions. The Bank 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 statement of income of the related period. When a loan 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 statement of income.

(Thousands of Russian Rubles)

3. Summary of Accounting Policies (continued)

Property and Equipment

Property and equipment are carried at restated cost less accumulated depreciation and any accumulated impairment for diminution in value. Depreciation of assets under construction and those not placed in service commences from the date the assets are placed into service. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings	25-30
Furniture and fixtures	2-5
Computers and office equipment	5
Motor vehicles	4

Leasehold improvements are amortized over the life of the related leased asset. The carrying amounts of property and equipment 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.

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

Intangible Assets

Intangible assets include licenses, computers software and internally generated intangible assets.

Licenses

Licenses are stated at restated cost net of accumulated amortization. Amortization is provided so as to write down the cost of an asset on a straight-line basis over its estimated useful economic life. The useful life is ten years.

Computer Software

Computer software development costs are recognized as assets at restated cost and are amortized using the straight-line method over their useful lives, but not exceeding a period of ten years. Acquired computer software is accounted for under the same policies.

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

Amounts Due to the Central Bank, Credit Institutions and to Customers

Amounts due to the Central Bank, credit institutions and to customers are initially recognized in accordance with recognition of financial instruments policy. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of income over the period of the borrowings using the effective interest method.

Debt Securities Issued

Debt securities issued represent promissory notes issued by the Bank to its customers. They are accounted for according to the same principles used for amounts due to credit institutions and to customers.

Provisions

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

(Thousands of Russian Rubles)

3. Summary of Accounting Policies (continued)

Retirement and Other Benefit Obligations

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

Share Capital

Share capital and additional paid-in capital are recognized at restated cost. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution. 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.

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

Contingencies

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

Income and Expense Recognition

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. The recognition of contractual interest income is suspended when loans become overdue by more than ninety days. 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 Rubles at official CBR exchange rates at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of income as gains less losses from foreign currencies (translation differentials).

Differences between the contractual exchange rate of a certain transaction and the Central Bank exchange rate on the date of the transaction are included in gains less losses from foreign currencies (dealing). The official CBR exchange rates at December 31, 2003 and 2002, were 29.45 Rubles and 31.78 Rubles to 1 USD, respectively.

Reclassifications

The following reclassifications have been made to 2002 balances to conform to the 2003 presentation.

<i>Amount</i>	<i>Previously reported</i>	<i>As reclassified</i>
154,258	Interest income, loans	Netted against interest expense, deposits
154,258	Interest expense, deposits	Netted against interest income, loans
29,786	Investment revaluation reserve	Reclassified in Accumulated deficit

(Thousands of Russian Rubles)

4. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	<u>2003</u>	<u>2002</u>
Cash on hand	1,011,440	806,184
Current accounts with the Central Bank	2,657,442	826,587
Time deposits with the Central Bank	3,000,000	–
Current accounts with other credit institutions	1,363,688	79,241
Time deposits with contractual maturity of less than 90 days	<u>1,269,252</u>	<u>1,065,628</u>
Cash and cash equivalents	<u>9,301,822</u>	<u>2,777,640</u>

As of December 31, 2003, RUB 214,205 (2002 – RUB 553,118) was placed on inter-bank deposit with an internationally recognized OECD bank, who is the main counter party of the Bank in performing international settlements.

During 2003, the Bank simultaneously placed with and received short-term funds from Russian banks in different currencies. As of December 31, 2003, the Bank placed RUB 322,591 and equivalents of RUB 147,273 in USD and RUB 36,824 in EUR (2002 – RUB 157,274 in USD) as deposits with Russian banks, which were secured by deposits received from the same banks (see Note 16).

5. Trading Securities

Trading securities owned comprise:

	<u>2003</u>	<u>2002</u>
Promissory notes	1,171,123	507,607
Russian State bonds (OFZ)	95,192	207,843
Corporate and regional government bonds	75,748	180,259
Corporate shares	1	1,954,231
Treasury bills of the Ministry of Finance	–	1,365,801
Other	<u>50</u>	<u>65</u>
Trading securities	<u>1,342,114</u>	<u>4,215,806</u>
Subject to repurchase agreements	–	794,610

Interest rates and maturity of these securities follow:

	<u>2003</u>		<u>2002</u>	
	%	Maturity	%	Maturity
Promissory notes	9%-22%	2004 - 2005	7% - 21%	2003
Russian State bonds (OFZ)	10% - 11%	2004 - 2018	10% - 15%	2003 – 2004
Corporate and regional government bonds	15%	2005	7.2% - 15.2%	2003 – 2008
Treasury bills of the Ministry of Finance	–	–	5% - 12.5%	2028 – 2030

Promissory notes represent notes of top 20 Russian banks and blue-chip Russian companies bought at a discount by the Bank.

Russian State bonds (OFZ) are Ruble denominated government securities issued and guaranteed by the Ministry of Finance of the Russian Federation.

Corporate and regional government bonds represent bonds of Gazprom and St. Petersburg City.

In 2002 corporate shares consisted principally of LUKoil ordinary shares.

In 2002 treasury bills of the Ministry of Finance were represented by eurobonds of the Russian Federation issued by the Ministry of Finance of the Russian Federation, which are freely tradable internationally.

(Thousands of Russian Rubles)

6. Amounts Due from Credit Institutions

Amounts due from credit institutions comprise:

	<u>2003</u>	<u>2002</u>
Obligatory reserve with the Central Bank	1,317,693	825,354
Time deposits of more than 90 days or overdue	876,157	351,612
Reverse repurchase agreements	–	31,799
	<u>2,193,850</u>	<u>1,208,765</u>
Less – Allowance for impairment	(130)	(21,626)
Amounts due from credit institutions	<u>2,193,720</u>	<u>1,187,139</u>

The obligatory reserve with the Central Bank represents amounts deposited with the CBR relating to daily settlements and other activities. Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation.

The Bank had not entered into reverse repurchase agreements with any credit institution in 2003. In 2002 the Bank received Eurobonds of Russian Federation as a pledge for the funding provided in form of reverse repurchase agreements.

7. Derivative Financial Instruments

The Bank enters into derivative financial instruments for trading purposes. The outstanding deals with derivative financial instruments and trading liabilities are as follows:

	<u>2003</u>			<u>2002</u>		
	<i>Notional principal</i>	<i>Fair values</i>		<i>Notional principal</i>	<i>Fair value</i>	
		<i>Asset</i>	<i>Liability</i>		<i>Asset</i>	<i>Liability</i>
Foreign exchange contracts						
Forwards – foreign	338,781	4,830	–	1,256,423	1,517	172
Forwards – domestic	3,926,751	3,475	2,914	2,241,425	637	468
Total derivative asset/liabilities	<u>4,265,532</u>	<u>8,305</u>	<u>2,914</u>	<u>3,497,848</u>	<u>2,154</u>	<u>640</u>

The fair value of the transactions above reflects the credit and other economic risks for the Bank.

8. Available-for-sale Securities

Available-for-sale securities comprise:

	<u>2003</u>	<u>2002</u>
Units in closed investment funds	5,810,685	–
Corporate shares	607,726	449,947
Russian State bonds (OFZ)	25,563	81,499
Associates carried at cost	24,224	24,135
Certificates of deposit	–	46,055
Treasury bills of the Ministry of Finance	–	14,426
	<u>6,468,198</u>	<u>616,062</u>
Less – Allowance for diminution in value	(12,346)	(12,346)
Available-for-sale securities	<u>6,455,852</u>	<u>603,716</u>
Pledged for borrowings from banks	–	282,278

(Thousands of Russian Rubles)

8. Available-for-sale Securities (continued)

Interest rates and maturity of these securities follow:

	2003		2002	
	%	Maturity	%	Maturity
Russian State bonds (OFZ)	10%	2004	10% - 15%	2003 - 2004
Certificates of deposit	-	-	15% - 16%	2003
Treasury bills of the Ministry of Finance	-	-	3%	2007 - 2011

During the 4th quarter of 2003 Bank's trading portfolio of LUKoil ordinary shares has been passed for professional management to closed investment funds managed by Management Company NIKoil Savings. In exchange, the Bank received units in the respective closed investment funds, which are stated at fair value of the underlying marketable equity securities held by closed investments funds.

Included into corporate shares are LUKoil ordinary shares with market value of RUB 114,956 (2002 – 83,420) and GAZ (Gorkovskiy Automobile Plant) shares with market value of RUB 463,962 at December 31, 2003 (2002 – RUB 282,278).

Associates carried at cost include non-marketable shares of associate companies and an associate bank. There are no appropriate or workable methods of reasonably estimating their fair value and these shares are stated at restated cost of RUB 24,224. An allowance for diminution in value of RUB 12,346 was provided against these amounts at December 31, 2003 and 2002.

9. Loans to Customers

Loans to customers comprise:

	2003	2002
Loans to customers	9,288,286	4,320,565
Overdrafts	159,675	183,239
Promissory notes	-	30,238
	9,447,961	4,534,042
Less – Allowance for loan impairment	(657,905)	(733,915)
Loans to customers	8,790,056	3,800,127

Approximately 98% of 2003 growth in Bank's loan portfolio occurred during the last two months of 2003.

Loans are classified as non-performing 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 classified as non-performing, contractual interest income is not recognized in the financial statements. A non-performing loan may be restored to performing status when principal and interest amounts contractually due are reasonably assured of timely repayment. As of December 31, 2003, the total gross amount of non-performing loans was RUB 178,440 (2002 – RUB 71,166). Past due contractual interest related to such loans amounted to RUB 148,878 (2002 – RUB 94,689).

As of December 31, 2003, the Bank had a concentration of loans represented by RUB 2,875,367 due from ten third party borrowers (30% of gross loan portfolio) (2002 – RUB 1,822,850 or 40%). An allowance of RUB 183,443 (2002 – RUB 406,157) was made against these loans.

Loans have been extended to the following types of customers:

	2003	2002
Private companies	9,215,946	4,318,645
Individuals	120,941	126,947
State companies	64,474	62,108
State budget or local authorities	46,600	26,342
	9,447,961	4,534,042

(Thousands of Russian Rubles)

9. Loans to Customers (continued)

Loans are made principally within Russia in the following industry sectors:

	<u>2003</u>	<u>2002</u>
Trading enterprises	2,849,253	2,130,963
Financial services	2,308,726	60,889
Agriculture and food processing	990,889	330,626
Mining	895,490	—
Manufacturing	834,641	895,031
Real estate construction	533,680	68,745
Other services	260,474	
Fuel, gas and chemical	160,367	3,046
Individuals	120,941	126,947
Machine-building	72,707	22,133
Forestry	50,197	—
Metallurgy	50,143	—
Transport	30,818	415,648
Government and municipal bodies	23,680	31,853
Energy	19,911	30,464
Telecommunication	1,324	48,656
Other	244,720	369,041
	<u>9,447,961</u>	<u>4,534,042</u>

10. Due from the Group Members

As a result of the change in controlling shareholders in 2002, the Bank executed a series of transactions with the controlling shareholders and members of the Group. Such transactions included the restructuring of certain assets. Amounts due from the Group members reflect the effect of such asset restructurings. Amounts due from the Group members bear market interest rates, and their contractual maturities range from on demand to one year.

11. Taxation

The corporate income tax expense comprises:

	<u>2003</u>	<u>2002</u>
Current tax charge	182,275	60,790
Deferred tax benefit	(87,984)	(116,770)
Income tax expense (benefit)	<u>94,291</u>	<u>(55,980)</u>

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 was 15% for Federal taxes. The tax rate for companies other than banks was also 24 % for 2003 and 2002.

Tax assets and liabilities consist of the following:

	<u>2003</u>	<u>2002</u>
Current tax assets	2,737	29,487
Tax assets	<u>2,737</u>	<u>29,487</u>
Current tax liabilities	112,721	—
Deferred tax liabilities (assets)	(42,603)	45,381
Deferred tax liability relating to investment revaluation reserve of available-for-sale securities	118,617	76,015
Tax liabilities	<u>188,735</u>	<u>121,396</u>

(Thousands of Russian Rubles)

11. Taxation (continued)

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

	2003	2002
Income before tax	469,117	14,519
Statutory tax rate	<u>24%</u>	<u>24%</u>
Theoretical income tax expense at the statutory rate	112,588	3,485
Transitional base tax carryforward	62,422	(62,422)
Reclassification relating to investment revaluation reserve	(29,786)	-
Change in unrecognized deferred tax assets	(11,924)	(138,681)
Tax exempt income	(18,088)	(43,442)
Non deductible administrative expenditures	14,879	89,657
Cession expenses carried forward	(12,484)	12,484
State securities non-taxable income	(1,939)	(6,414)
Permanent element of monetary gains and losses	-	94,877
Other items	(21,377)	(5,524)
Income tax expense (benefit)	<u>94,291</u>	<u>(55,980)</u>

Deferred tax assets and liabilities as of December 31 comprise:

	2003	2002
Tax effect of deductible temporary differences:		
Allowance for impairment and provisions for other losses	135,803	126,209
Accruals	23,068	31,779
Other	-	2,779
Gross deferred tax assets	<u>158,871</u>	<u>160,767</u>
Unrecognized deferred tax assets	(77,913)	(89,837)
Deferred tax asset	<u>80,958</u>	<u>70,930</u>
Tax effect of taxable temporary differences:		
Fair value measurement of securities	124,932	85,496
Property and equipment	32,040	106,830
Deferred tax liability	<u>156,972</u>	<u>192,326</u>
Deferred tax liability	<u>76,014</u>	<u>121,396</u>

12. Allowances for Losses and Provisions

The movements in allowances for impairment of interest earning assets, were as follows:

	Due from credit institutions	Loans to customers	Available-for-sale securities	Total
December 31, 2001	47,953	1,370,966	12,234	1,431,153
Charge (reversal)	(26,327)	(216,386)	137,203	(105,510)
Write-offs	-	(420,665)	(137,091)	(557,756)
December 31, 2002	21,626	733,915	12,346	767,887
Reversal	(21,496)	(124,645)	-	(146,141)
Write-offs	-	(368)	-	(368)
Recoveries	-	49,003	-	49,003
December 31, 2003	<u>130</u>	<u>657,905</u>	<u>12,346</u>	<u>670,381</u>

(Thousands of Russian Rubles)

12. Allowances for Losses and Provisions (continued)

The movements in allowances for other losses and provisions, were as follows:

	<i>Other assets</i>	<i>Guarantees and commitments</i>	<i>Total</i>
December 31, 2001	–	43,564	43,564
Write-offs	(1,693)	–	(1,693)
Charge	13,686	54,800	68,486
December 31, 2002	11,993	98,364	110,357
Reversal	(2,613)	(9,597)	(12,210)
Write-offs	(9,380)	–	(9,380)
December 31, 2003	–	88,767	88,767

Allowances for impairment of assets are deducted from the related assets. Provisions for claims, guarantees and commitments are recorded in liabilities. In accordance with the statutory 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.

13. Property and Equipment

The movements of property and equipment, were as follows:

	<i>Property</i>	<i>Furniture and fixtures</i>	<i>Computers and equipment</i>	<i>Motor vehicles</i>	<i>Assets under construction</i>	<i>Total</i>
Cost						
December 31, 2002	604,933	312,984	354,622	39,392	2,051	1,313,982
Additions	14,917	48,575	17,726	4,563	34,096	119,877
Disposals	456,227	35,953	2,214	2,519	–	496,913
December 31, 2003	163,623	325,606	370,134	41,436	36,147	936,946
Accumulated depreciation						
December 31, 2002	13,618	150,002	201,163	27,255	–	392,038
Charge	9,900	58,543	70,507	3,759	–	142,709
Disposals	11,767	18,815	942	929	–	32,453
December 31, 2003	11,751	189,730	270,728	30,085	–	502,294
Impairment						
December 31, 2002	243,404	–	–	–	–	243,404
Charge	115,569	–	–	–	–	115,569
Write-off	358,973	–	–	–	–	358,973
December 31, 2003	–	–	–	–	–	–
Net book value						
December 31, 2002	347,911	162,982	153,459	12,137	2,051	678,540
December 31, 2003	151,872	135,876	99,406	11,351	36,147	434,652

Loss on property and equipment disposal includes RUB 115,569 relating to the sale of a building under construction in Moscow based on restated (hyperinflated) value.

(Thousands of Russian Rubles)

14. Other Assets and Liabilities

Other assets comprise:

	2003	2002
Trade receivables	1,380,916	–
Prepayments	130,376	94,163
Settlements on payment cards	99,267	80,698
Settlements on operations with securities	24,172	–
Prepaid operating taxes	13,386	7,344
Intangible assets	10,886	28,138
Settlements on foreign exchange derivatives	135	153
Other	1,339	30
	1,660,477	210,526
Less – Allowance for impairment of other assets	–	(11,993)
Other assets	1,660,477	198,533

Other liabilities comprise:

	2003	2002
Trade payables	37,977	2,657
Settlements on payment cards	32,414	–
Operating taxes payable	5,364	5,450
Settlements on conversion operations	1,599	–
Settlements on operations with securities	–	8,651
Other	1,169	2,748
	78,523	19,506
Other liabilities	78,523	19,506

15. Amounts Due to Central Bank and Government

Amounts due to Central Bank and Government consisted of stabilisation loans received from the Central Bank of Russia as of December 31, 2002. The loans were fully repaid during 2003.

16. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	2003	2002
Current accounts and on demand deposits	1,434,268	839,437
Time deposits and loans	278,461	454,438
Repurchase agreements	–	475,458
Amounts due to credit institutions	1,712,729	1,769,333

In 2002 amounts owed to credit institutions included financing received by the Bank under repurchase agreements with eurobonds of the Russian Federation maturing in 2030.

During 2003, the Bank simultaneously placed with and received short-term funds from Russian banks in different currencies. As of December 31, 2003, the Bank placed RUB 322,591 and equivalents of RUB 147,273 in USD and RUB 36,824 in EUR (2002 – RUB 157,274 in USD) as deposits with Russian banks, which were secured by deposits received from the same banks (see Note 4).

*(Thousands of Russian Rubles)***17. Amounts Due to Customers**

The amounts due to customers comprise:

	2003	2002
Current accounts	6,979,702	4,375,011
Time deposits	9,841,544	5,510,919
Amounts due to customers	16,821,246	9,885,930
Held as security against letters of credit	35,936	-

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

	2003	2002
Individuals	8,549,882	6,141,463
Private enterprises	7,454,183	3,201,833
State and budgetary organisations	508,882	393,307
Employees	308,299	149,327
Amounts due to customers	16,821,246	9,885,930

18. Debt Securities Issued

Debt securities issued consisted of the following:

	2003	2002
Promissory notes	5,875,417	849,099
Certificates of deposit	-	43,886
Debt securities issued	5,875,417	892,985

As of December 31, 2003, the Bank had issued non-interest-bearing promissory notes having an aggregate nominal value of RUB 205,519 (2002 – RUB 86,710), which mature in 2004 or are issued on demand. Other debt securities issued by the Bank as of December 31, 2003, bear annual interest rates ranging from 2% to 17% (2002 – from 5% to 21%).

19. Provisions

Provisions as of December 31, comprise:

	2003	2002
Provisions for guarantees and credit-related commitments	17,017	26,614
Provisions for unsettled forward deals	71,750	71,750
Provisions	88,767	98,364

(Thousands of Russian Rubles)

20. Shareholders' Equity

Movement of shares authorised, fully paid and outstanding follows:

	Number of shares Common	Nominal amount Common	Inflation adjustment	Total
December 31, 2002 and 2001	13,770,000	1,377,000	2,345,215	3,722,215
Contributed in Rubles	40,000,000	4,000,000	-	4,000,000
December 31, 2003	53,770,000	5,377,000	2,345,215	7,722,215

As of 2003 year-end, 53,770,000 shares were issued, fully paid and registered (2002 – 13,770,000 shares).

The share capital of the Bank was contributed by the shareholders in Russian Rubles and they are entitled to dividends and any capital distribution in Russian Rubles.

The Bank's distributable reserves are determined by the amount of its reserves as disclosed in its accounts prepared in accordance with RAL. At December 31, 2003, the statutory accounts of the Bank disclosed distributable reserves of RUB 359,273 (2002 – RUB 354,379) and the amount of non-distributable reserves was RUB 209,521 (2002 – RUB 90,145). Non-distributable reserves are represented by revaluation fund and a general reserve fund, which is created 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 5% of the Bank's share capital reported in statutory books.

21. Commitments and Contingencies

Operating Environment

The Russian economy while deemed to be on the market status, continues to display certain traits consistent with that of a market in transition including all necessary characteristics of business and regulatory infrastructure that would generally exist in a more mature market economy.

However, the political stabilisation beginning in 2000 and continued in 2001 - 2003 has been a positive contributing factor for the further development of the political, tax and legal environment. That resulted also in certain optimistic trends in the Russian economy. GDP level by year end 2003 increased by 106.7% and reported foreign currency reserves of the Central Bank of Russia increased by 63.1% compared with year-end 2002 and reached USD 77.8 billion. Additionally, the Government had reduced debt to the International Monetary Fund by USD 1.4 billion during 2003. Standard & Poor's sovereign rating remained at level BB+ in local currency and BB in foreign currency with Stable outlook.

Nevertheless, some uncertainties with respect to legal and tax infrastructures, including potential changes in these areas, may affect the positions taken by the Bank. The accompanying consolidated financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the Bank's financial statements in the period when they become known and estimable.

Legal

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

(Thousands of Russian Rubles)

Financial commitments and contingencies

As of December 31, the Bank's financial commitments and contingencies comprised the following:

	<u>2003</u>	<u>2002</u>
Credit related commitments		
Undrawn loan commitments	1,991,313	969,180
Promissory note guarantees	1,533,619	–
Guarantees	852,385	176,429
	<u>4,377,317</u>	<u>1,145,609</u>
Lease commitments		
Not later than 1 year	98,480	277,582
Later than 1 year but not later than 5 years	118,021	107,811
Later than 5 years	12,009	24,042
	<u>228,510</u>	<u>409,435</u>
Capital expenditure commitments	<u>18,659</u>	<u>402</u>
Less – Provisions	(17,017)	(26,614)
Less – Cash and promissory notes security	(674,676)	(5,614)
Financial commitments and contingencies	<u><u>3,932,793</u></u>	<u><u>1,523,218</u></u>

Financial commitments and contingencies

Part of property leased by the Bank is subleased to third parties. As of December 31, 2003, total future minimum sublease payments under non-cancellable subleases were RUB 2,725 (2002 – RUB 1,392).

Insurance

The Bank's premises are insured for RUB 727,769. The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Russia at present.

22. Salaries and Administrative and Operating Expenses

Salaries and benefits, administrative and operating expenses comprise:

	<u>2003</u>	<u>2002</u>
Salaries and bonuses	713,158	714,933
Social security costs	156,619	153,150
Salaries and benefits	<u>869,777</u>	<u>868,083</u>
Occupancy and rent	187,819	177,434
Operating taxes	182,060	182,853
Repair and maintenance of property and equipment	73,546	93,771
Communications	68,508	71,035
Data processing	52,397	61,783
Marketing and advertising	44,108	38,386
Business travel and related expenses	13,109	10,972
Office supplies	9,635	11,877
Legal and consultancy	5,602	6,742
Penalties incurred	4,435	10,531
Insurance	4,367	9,349
Personnel training	1,920	1,689
Charity	1,457	911
Other	58,122	54,119
Administrative and operating expenses	<u><u>707,085</u></u>	<u><u>731,452</u></u>

The aggregate remuneration and other benefits paid to members of the Shareholders' Council and Management Boards for 2003 was RUB 41,688 (2002 – RUB 63,483).

(Thousands of Russian Rubles)

23. Risk Management Policies

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

Credit Risk

The Bank is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank 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 and geographical segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

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 at least 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 mitigated 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 Bank 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 Bank on behalf of a customer authorizing a third party to draw drafts on the Bank 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 Bank is potentially exposed to loss in 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.

(Thousands of Russian Rubles)

23. Risk Management Policies (continued)**Concentration**

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

	2003				2002			
	Russia	OECD	CIS and other foreign countries	Total	Russia	OECD	CIS and other foreign countries	Total
Assets:								
Cash and cash equivalents	9,087,617	214,205	–	9,301,822	2,193,970	580,455	3,215	2,777,640
Trading securities	1,342,114	–	–	1,342,114	4,215,806	–	–	4,215,806
Credit institutions	2,193,720	–	–	2,193,720	1,185,318	1,821	–	1,187,139
Derivatives	3,475	4,830	–	8,305	637	1,517	–	2,154
Available-for-sale securities	6,443,856	402	11,594	6,455,852	591,956	1	11,759	603,716
Loans to customers	8,790,056	–	–	8,790,056	3,800,127	–	–	3,800,127
Due from Group members	1,117,880	–	–	1,117,880	1,925,255	–	–	1,925,255
All other assets	2,097,866	–	–	2,097,866	906,560	–	–	906,560
	31,076,584	219,437	11,594	31,307,615	14,819,629	583,794	14,974	15,418,397
Liabilities:								
Due to CBR and Government	–	–	–	–	600,690	–	–	600,690
Due to credit institutions	1,465,667	246,745	317	1,712,729	1,217,532	514,600	37,201	1,769,333
Due to customers	16,207,965	6,606	606,675	16,821,246	9,834,674	51,256	–	9,885,930
Derivatives	2,914	–	–	2,914	172	468	–	640
Debt securities issued	5,875,417	–	–	5,875,417	892,985	–	–	892,985
All other liabilities	356,025	–	–	356,025	239,266	–	–	239,266
	23,907,988	253,351	606,992	24,768,331	12,785,319	566,324	37,201	13,388,844
Net balance sheet position	7,168,596	(33,914)	(595,398)	6,539,284	2,034,310	17,470	(22,227)	2,029,553

Market Risk

The Bank 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 Bank manages market risk 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.

With respect to undrawn loan commitments the Bank 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.

(Thousands of Russian Rubles)

23. Risk Management Policies (continued)**Currency Risk**

The Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's 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 Russia. The Bank's exposure to foreign currency exchange rate risk follows.

	2003			2002				
	Rubles	Freely convertible	Non convertible	Total	Rubles	Freely convertible	Non convertible	Total
Assets:								
Cash and cash equivalents	7,621,379	1,680,443	–	9,301,822	1,305,488	1,468,757	3,395	2,777,640
Trading securities	1,342,114	–	–	1,342,114	2,850,005	1,365,801	–	4,215,806
Credit institutions	1,101,565	1,092,155	–	2,193,720	1,153,534	33,605	–	1,187,139
Derivatives	–	8,305	–	8,305	321	1,833	–	2,154
Available-for-sale securities	6,443,856	11,996	–	6,455,852	577,200	26,516	–	603,716
Loans to customers	5,961,890	2,828,166	–	8,790,056	2,599,123	1,201,004	–	3,800,127
Due from Group members	1,117,880	–	–	1,117,880	1,925,255	–	–	1,925,255
All other assets	2,009,113	88,753	–	2,097,866	906,560	–	–	906,560
	25,597,797	5,709,818	–	31,307,615	11,317,486	4,097,516	3,395	15,418,397
Liabilities:								
Due to CBR and Government	–	–	–	–	600,690	–	–	600,690
Due to credit institutions	1,108,089	604,575	65	1,712,729	320,078	1,448,176	1,079	1,769,333
Due to customers	10,664,587	6,146,614	10,045	16,821,246	5,194,736	4,691,194	–	9,885,930
Derivatives	1,971	943	–	2,914	438	202	–	640
Debt securities issued	4,597,473	1,277,944	–	5,875,417	692,470	200,515	–	892,985
All other liabilities	327,589	28,436	–	356,025	239,266	–	–	239,266
	16,699,709	8,058,512	10,110	24,768,331	7,047,678	6,340,087	1,079	13,388,844
Net balance sheet position	8,838,564	(2,348,694)	(10,110)	6,539,284	4,269,808	(2,242,571)	2,316	2,029,553

Freely convertible currencies represent mainly USD amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Russia.

(Thousands of Russian Rubles)

23. Risk Management Policies (continued)

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The Bank's interest rate policy is reviewed and approved by the Bank's Assets and Liabilities Management Committee.

As of December 31, the effective average interest rates by currencies and comparative market rates for interest generating/ bearing monetary financial instruments were as follows:

	2003			2002		
	Rubles	USD	Other foreign currencies	Rubles	USD	Other foreign currencies
Credit institutions	4%	2%	2%	11%	4%	2%
Trading securities	11%	–	–	14%	9%	–
Available-for-sale securities	10%	–	–	–	–	–
Loans to customers	14%	12%	–	17%	15%	–
Due to credit institutions	1%	5%	3%	5%	4%	3%
Customer deposits to individuals	12%	7%	6%	15%	8%	–
Debt securities issued	8%	1%	–	4%	6%	–

The majority of the Bank's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. Additionally, as disclosed in maturity analysis below, the maturity dates applicable to the majority of the Bank's assets and liabilities are relatively short-term. The Bank monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Liquidity Risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The following tables provide an analysis of banking assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date.

Year ended December 31, 2003*(Thousands of Russian Rubles)***23. Risk Management Policies (continued)****Liquidity Risk (continued)**

	2003							Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Past due	
Assets:								
Cash and cash equivalents	5,032,570	4,269,252	–	–	–	–	–	9,301,822
Trading securities	1,342,114	–	–	–	–	–	–	1,342,114
Credit institutions	574,404	297,300	350,021	956,989	15,006	–	–	2,193,720
Derivatives	–	8,305	–	–	–	–	–	8,305
Available-for-sale securities	6,455,852	–	–	–	–	–	–	6,455,852
Loans to customers	–	1,708,605	1,392,264	5,053,557	618,869	544	16,217	8,790,056
Due from Group members	1,070,000	–	–	47,880	–	–	–	1,117,880
Other assets	254,150	1,063,387	261,918	75,235	2,144	–	3,643	1,660,477
	14,729,090	7,346,849	2,004,203	6,133,661	636,019	544	19,860	30,870,226
Liabilities:								
Due to credit institutions	1,434,268	150,400	95,366	32,695	–	–	–	1,712,729
Due to customers	7,244,025	1,942,337	4,468,251	3,008,153	158,480	–	–	16,821,246
Derivatives	–	2,914	–	–	–	–	–	2,914
Debt securities issued	186,506	905,565	1,135,639	3,629,216	18,491	–	–	5,875,417
Other liabilities	22,697	55,018	84	96	628	–	–	78,523
	8,887,496	3,056,234	5,699,340	6,670,160	177,599	–	–	24,490,829
Net position	5,841,594	4,290,615	(3,695,137)	(536,499)	458,420	544	19,860	6,379,397
Accumulated gap	5,841,594	10,132,209	6,437,072	5,900,573	6,358,993	6,359,537	6,379,397	
	2002							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Past due	Total
Assets:								
Cash and cash equivalents	1,712,012	1,041,698	23,930	–	–	–	–	2,777,640
Trading securities	4,215,806	–	–	–	–	–	–	4,215,806
Credit institutions	691,049	92,546	187,417	212,752	3,375	–	–	1,187,139
Derivatives	–	2,154	–	–	–	–	–	2,154
Available-for-sale securities	461,736	–	20,457	82,284	30,209	9,030	–	603,716
Loans to customers	–	277,844	986,838	2,257,160	112,898	647	164,740	3,800,127
Due from the group members	1,491,373	–	79,440	–	354,442	–	–	1,925,255
	8,571,976	1,414,242	1,298,082	2,552,196	500,924	9,677	164,740	14,511,837
Liabilities:								
Due to CBR and Government	–	–	–	600,690	–	–	–	600,690
Due to credit institutions	839,437	577,184	–	–	352,712	–	–	1,769,333
Due to customers	4,495,292	1,090,912	2,244,846	2,048,695	6,185	–	–	9,885,930
Derivatives	–	640	–	–	–	–	–	640
Debt securities issued	224,988	191,428	290,726	149,310	36,515	18	–	892,985
	5,559,717	1,860,164	2,535,572	2,798,695	395,412	18	–	13,149,578
Net position	3,012,259	(445,922)	(1,237,490)	(246,499)	105,512	9,659	164,740	1,362,259
Accumulated gap	3,012,259	2,566,337	1,328,847	1,082,348	1,187,860	1,197,519	1,362,259	

Year ended December 31, 2003*(Thousands of Russian Rubles)***23. Risk Management Policies (continued)****Liquidity Risk (continued)**

Long-term credits and overdraft facilities 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. As such, the ultimate maturity of assets may be different from the analysis presented above. In addition, the maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above. While trade and available-for-sale securities are shown at demand, realizing such assets upon demand is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects.

24. Fair Values of Financial Instruments

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

The Bank's assets and operations are concentrated primarily in the Russian Federation. Management believes, based upon its best estimates, that as December 31, 2003 and 2002 substantially all the Bank's monetary assets and liabilities are carried at their estimated fair values.

25. Related Party Transactions

Related parties, as defined by IAS 24 "Related Party Disclosures", are those counter parts 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 Bank. (This includes holding companies, subsidiaries and fellow subsidiaries);
- (b) associates – enterprises in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank, and anyone expected to influence, or be influenced by, that person in their dealings with the Bank;
- (d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals; and
- (e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank.

Year ended December 31, 2003*(Thousands of Russian Rubles)***25. Related Party Transactions (continued)**

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. As of December 31, the Bank had the following transactions with related parties:

	2003			2002		
	<i>Related party transactions</i>	<i>Percent on normal conditions</i>	<i>Total category</i>	<i>Related party transactions</i>	<i>Percent on normal conditions</i>	<i>Total category</i>
Cash and cash equivalents	976,403	100%	9,301,822	68,000	100%	2,777,640
Trading securities	57,046	100%	1,342,114	1,036,575	100%	4,215,806
Amounts due from credit institutions, gross	721,345	100%	2,193,850	74,000	100%	1,208,765
Available-for-sale securities, gross	5,925,641	100%	6,468,198	46,055	100%	616,062
Loans to customers, gross	2,307,640	100%	9,447,961	4,608	100%	4,534,042
Due from the Group members	1,117,880	100%	1,117,880	1,925,255	100%	1,925,255
Other assets	1,380,890	100%	1,660,477	-	-	-
Amounts due to credit institutions	46,450	100%	1,712,729	1,414	100%	1,769,333
Amounts due to customers	48,570	100%	16,821,246	154,095	100%	9,885,930
Debt securities issued	3,186,479	81%	5,875,417	48,805	100%	892,985
Provisions	71,750	-	88,767	71,750	-	98,364
Commitments and guarantees issued	1,691,194	100%	4,377,317	-	-	-
Interest income	176,807	100%	1,313,603	40,243	100%	2,095,287
Gains less losses from trading securities	429,477	100%	742,982	-	-	-
Other income	75,235	100%	105,906	-	-	-
Interest expense	88,237	100%	806,951	1,522	100%	900,755
Administrative and operating expenses – Occupancy & rent	41,676	-	187,819	36,035	-	177,434

In consolidation of the Bank's operating results into the Group financial statements, trading gains and losses will be offset against the carrying value of the related securities carried by members of the Group.

26. Capital Adequacy

The CBR requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on RAL. As of December 31, 2003 and 2002, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

The Bank's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines issued in 1988, as of December 31, 2003 and 2002, was 30.0% and 18.2%, respectively. These ratios exceeded the minimum ratio of 8% recommended by the Basle Accord.

27. Subsequent Events

On 5 April 2004 the Bank's Supervisory Board made the following decisions:

- to recommend the shareholders to change the Bank's name to Avtobank-Uralsib,
- to recommend the shareholders to increase maximum amount of declared and outstanding ordinary shares to 15,000,000,000 and to slit ordinary shares of the Bank with nominal value of 100 Rubles each into 1,000 shares with nominal value of 0.1 Rubles.