

**SBERBANK**  
**(SAVINGS BANK OF THE RUSSIAN FEDERATION)**  
**Financial Statements and Independent Auditors' Report**  
*For the year ended 31 December 2003*

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders and Supervisory Board of Sberbank  
(Savings Bank of the Russian Federation) -

We have audited the accompanying balance sheet of Sberbank (Savings Bank of the Russian Federation) (the "Bank") as of 31 December 2003, and the related 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 financial position of the Bank as of 31 December 2003, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.




25 June 2004

**Sberbank (Savings Bank of the Russian Federation)**  
**Balance Sheets as of 31 December**  
(Thousands of Russian Rubles, unless otherwise indicated)

	Note	2003	2002
<b>Assets</b>			
Cash and cash equivalents	5	45,615,928	67,608,513
Mandatory cash balances with the Central Bank of the Russian Federation		98,893,608	74,808,687
Trading securities	6	135,309,528	125,854,436
Due from banks	7	78,629,557	40,024,779
Securities available for sale	8	176,694,073	93,025,286
Loans and advances to customers	9	792,363,615	516,671,183
Securities acquired at original issuance	10	73,535,315	102,027,415
Tax asset	26	3,481,131	1,643,607
Premises and equipment	11	66,101,471	61,675,642
Other assets	12	6,877,032	3,673,820
<b>Total assets</b>		<b>1,477,501,258</b>	<b>1,087,013,368</b>
<b>Liabilities</b>			
Due to banks	13	37,889,470	4,053,218
Deposits from individuals	14	978,580,839	708,015,138
Customer accounts	14	211,561,162	187,745,057
Own securities issued	15	104,010,365	54,160,970
Other borrowed funds	16	1,053,151	1,467,509
Other liabilities	17	9,533,108	8,451,980
<b>Total liabilities</b>		<b>1,342,628,095</b>	<b>963,893,872</b>
<b>Shareholders' equity</b>			
Share capital	18	20,980,583	20,980,583
Share premium		10,016,190	10,016,190
Treasury shares	18	(312)	(411)
Revaluation reserve for premises	11	474,987	497,605
Retained earnings and other reserves		103,401,715	91,625,529
<b>Total shareholders' equity</b>	19	<b>134,873,163</b>	<b>123,119,496</b>
<b>Total liabilities and shareholders' equity</b>		<b>1,477,501,258</b>	<b>1,087,013,368</b>

Signed on behalf of the Board on 25 June 2004.

  
A.I. Kazmin  
Chairman of the Board and CEO

  
V.I. Tkachenko  
Deputy Chief Accountant

**Sberbank (Savings Bank of the Russian Federation)**  
**Statements of Income for the Years Ended 31 December**  
*(Thousands of Russian Rubles, unless otherwise indicated)*

	Note	2003	2002
Interest income on loans	20	102,637,027	94,794,887
Interest income on securities	20	25,872,758	36,785,503
Interest expense	20	(79,642,994)	(58,729,018)
<b>Net interest income</b>		<b>48,866,791</b>	<b>72,851,372</b>
Impairment of interest earning assets	7, 9	(16,509,860)	(13,651,554)
<b>Net interest income after impairment of interest earning assets</b>		<b>32,356,931</b>	<b>59,199,818</b>
Gains less losses arising from securities and derivatives	21, 31	40,979,241	19,344,898
Gains less losses arising from dealing in foreign currencies		4,274,093	2,886,561
Foreign exchange translation gains less losses		(6,300,889)	3,579,901
Fee and commission income	22	22,096,989	16,929,637
Fee and commission expense	22	(644,722)	(480,229)
Other operating income	23	2,604,506	2,220,310
<b>Net operating income</b>		<b>95,366,149</b>	<b>103,680,896</b>
Payroll and other staff expense	24	(50,193,457)	(43,462,154)
Operating expenses	25	(28,981,804)	(24,380,268)
Provision for credit related commitments		(30,993)	(16,659)
Monetary loss		–	(7,922,164)
<b>Profit before taxation</b>		<b>16,159,895</b>	<b>27,899,651</b>
Income tax	26	(2,226,382)	(7,641,373)
<b>Net profit</b>		<b>13,933,513</b>	<b>20,258,278</b>
<b>Earnings per share</b> (expressed in Russian Rubles per share)	27	<b>727</b>	<b>1,063</b>

*The accompanying notes are an integral part of these financial statements.*

**Sberbank (Savings Bank of the Russian Federation)**  
**Statements of Cash Flows for the Years Ended 31 December**  
(Thousands of Russian Rubles, unless otherwise indicated)

	Note	2003	2002
<b>Cash flows from operating activities</b>			
Interest received on loans		101,112,617	94,743,781
Interest received on securities		30,067,610	32,767,528
Interest paid		(72,937,761)	(56,817,683)
Income received from dealing in securities and derivatives		43,442,442	11,713,336
Income received from dealing in foreign currencies		4,274,093	2,886,561
Fees and commissions received		22,096,989	16,929,637
Fees and commissions paid		(644,722)	(480,229)
Other operating income received		2,305,534	2,190,166
Staff costs paid		(47,149,134)	(40,731,100)
Operating expenses		(19,696,543)	(24,000,002)
Income tax paid		(4,056,763)	(6,267,197)
<b>Operating profits before changes in operating assets and liabilities</b>		<b>58,814,362</b>	<b>32,934,798</b>
<b>Cash flows from operating assets and liabilities</b>			
Net (increase)/decrease in assets:			
Mandatory cash balances with the Central Bank of the Russian Federation		(24,084,921)	(22,852,002)
Trading securities		(15,772,527)	(55,783,548)
Due from banks		(38,046,455)	(41,378,278)
Loans and advances to customers		(292,737,858)	(153,640,094)
Securities available for sale		(75,830,911)	(8,141,134)
Securities acquired at original issuance		21,684,994	4,985,996
Other assets		(3,232,210)	1,584,261
Net increase/(decrease) in liabilities:			
Due to banks		30,707,858	(12,367,011)
Deposits from individuals		265,228,588	212,790,671
Customer accounts		22,942,794	60,015,812
Own securities issued other than eurobonds		17,026,397	26,469,692
Other liabilities		(4,949,074)	1,007,387
<b>Net cash (used in) / provided by operating activities</b>		<b>(38,248,963)</b>	<b>45,626,550</b>
<b>Cash flows used in investing activities</b>			
Purchase of premises and equipment	11	(11,836,195)	(9,661,646)
Proceeds from sale of premises and equipment		1,061,772	448,660
Sales of other investments		(53,232)	–
Dividend income received	23	110,174	30,144
<b>Net cash used in investing activities</b>		<b>(10,717,481)</b>	<b>(9,182,842)</b>
<b>Cash flows from financing activities</b>			
Eurobond issuance		29,718,636	–
Sale of treasury shares		99	800
Other borrowed funds repaid		(427,447)	(95,897)
Dividends paid	28	(2,177,906)	(1,115,484)
<b>Net cash provided by / (used in) financing activities</b>		<b>27,113,382</b>	<b>(1,210,581)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>(139,523)</b>	<b>370,723</b>
<b>Effect of inflation on cash and cash equivalents</b>		<b>–</b>	<b>(8,066,210)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(21,992,585)</b>	<b>27,537,640</b>
Cash and cash equivalents at the beginning of the year		67,608,513	40,070,873
<b>Cash and cash equivalents at the end of the year</b>	5	<b>45,615,928</b>	<b>67,608,513</b>

The accompanying notes are an integral part of these financial statements.

**Sberbank (Savings Bank of the Russian Federation)**  
**Statements of Changes in Shareholders' Equity for the Years Ended 31 December**  
*(Thousands of Russian Rubles, unless otherwise indicated)*

	Share capital	Share premium	Treasury shares	Revaluation reserve for premises	Retained earnings and other reserves	Total shareholders' equity
<b>Balance at 31 December 2001 as previously reported</b>	<b>20,980,583</b>	<b>10,016,190</b>	<b>(1,211)</b>	<b>521,300</b>	<b>62,188,502</b>	<b>93,705,364</b>
Restatement of deferred tax liability	–	–	–	–	10,263,037	10,263,037
<b>Balance at 31 December 2001 as restated</b>	<b>20,980,583</b>	<b>10,016,190</b>	<b>(1,211)</b>	<b>521,300</b>	<b>72,451,539</b>	<b>103,968,401</b>
Net profit	–	–	–	–	20,258,278	20,258,278
Sale of treasury shares, net	–	–	800	–	–	800
Depreciation of revalued premises, net of tax	–	–	–	(23,695)	31,178	7,483
Dividends declared						
- Ordinary shares	–	–	–	–	(1,055,688)	(1,055,688)
- Preference shares	–	–	–	–	(59,778)	(59,778)
<b>Balance at 31 December 2002</b>	<b>20,980,583</b>	<b>10,016,190</b>	<b>(411)</b>	<b>497,605</b>	<b>91,625,529</b>	<b>123,119,496</b>
Net profit	–	–	–	–	13,933,513	13,933,513
Sale of treasury shares, net	–	–	99	–	–	99
Depreciation of revalued premises, net of tax	–	–	–	(22,618)	29,761	7,143
Dividends declared						
- Ordinary shares	–	–	–	–	(2,071,083)	(2,071,083)
- Preference shares	–	–	–	–	(116,005)	(116,005)
<b>Balance at 31 December 2003</b>	<b>20,980,583</b>	<b>10,016,190</b>	<b>(312)</b>	<b>474,987</b>	<b>103,401,715</b>	<b>134,873,163</b>

*The accompanying notes are an integral part of these financial statements.*

## **1. Principal Activities**

Sberbank (Savings Bank of the Russian Federation) (the “Bank”) is a joint stock commercial bank established in 1841 and having operated in various forms since then. The Bank’s principal shareholder, the Central Bank of the Russian Federation (“the Bank of Russia”), owns 63.76% of ordinary shares or 60.57% of the issued and outstanding shares at 31 December 2003. The Bank is registered in the Russian Federation to conduct banking activities and has operated under a full banking license issued by the Bank of the Russian since 1991. The Bank’s principal business activity is retail and commercial banking operations within the Russian Federation. Deposits of individuals placed with the Bank are guaranteed by the Russian Federation (the “State”).

The Supervisory Board of the Bank is headed by the Chairman of the Bank of Russia and co-chaired by the Deputy Chairman of the Bank of Russia. The Supervisory Board also includes representatives of the Bank’s other shareholders.

The Bank has 17 regional head offices, 1 028 branches and 19 143 sub-branches within the Russian Federation. The main office of the Bank is located at 19 Vavilova St., 117 997 Moscow. The average number of the Bank’s employees during 2003 was 219,048 (2002: 205,477).

## **2. Operating Environment**

The Bank’s financial position and results of operations are significantly influenced by the economic and social policies of the Russian Federation. The Bank has a significant level of lending operations with companies that are controlled by the State or where the State holds more than 25% of the voting shares. As of 31 December 2003, loans granted to such companies with exposure over 1% of the Bank’s loan portfolio represented 7.9% of the total loan portfolio (2002: 13.6%).

During 2003, Moody’s, the international rating agency assigned Russia an investment grade rating. Nevertheless, the Russian economy continues to display certain features consistent with those of a transitional economy. These attributes have in the past included higher than normal inflation rates, lack of liquidity in capital markets. The continued success and stability of the Russian economy will be significantly impacted by the Government’s continued actions with regard to supervisory, legal, and economic reforms.

Those uncertainties may affect the ability of the banking sector to conduct operations. The Bank could be affected, in the foreseeable future, by these risks and their consequences. As a result, these uncertainties may affect the Bank’s future operations, the recoverability of its assets, and the ability to maintain or pay its obligations as they mature. The Bank’s risk management processes give consideration to these uncertainties (please refer to Note 30).

## **3. Basis of Presentation**

These 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. The Bank maintains its accounting records in accordance with Russian banking regulations. These financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with IFRS in all material aspects.

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 financial statements date. Actual results, therefore, could differ from these estimates.

The financial statements are presented in the national currency of the Russian Federation, the Russian Ruble (“RR”), expressed in terms of the purchasing power of thousands of Russian Rubles as of 31 December 2003, unless otherwise indicated.



### **3. Basis of Presentation (continued)**

Effective from 1 January 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.

The 2001 financial statements of the Bank were restated for the effect of a RR 10,263,037 fundamental error that resulted from the calculation of deferred taxes as of 31 December 2001. In 2002, the correction of this fundamental error was reflected in the 2002 financial statements as allowed under the alternative treatment in accordance with IAS 8, with presentation of pro-forma financial information for 2001 as if the correction had been made during 2001.

During 2003, the Bank changed its accounting policy regarding the presentation of fundamental errors. Under the new accounting policy, the Bank will apply the benchmark treatment under IAS 8 with any fundamental error correction presented as an adjustment to the opening balance of retained earnings and restating the comparative information. Management believes that the use of the benchmark treatment will result in a more appropriate presentation of historical events and transactions in the financial statements.

Following this change in accounting policy, the 2003 financial statements present the 2002 comparative information as if the historical 2002 and 2001 financial statements had been restated for correction of the 2001 fundamental error, without the presentation of pro-forma financial information.

### **4. Significant Accounting Policies**

**Cash and cash equivalents.** Cash and cash equivalents are items, which can be converted into cash within a day. They include correspondent accounts (including accounts in precious metals) with the CBR, banks and non-banking institutions, as well as deposits, that mature not later than the first working day after the reporting date, and cash balances. Other interbank placements are included in due from banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

**Mandatory balances with the Central Bank of the Russian Federation.** Mandatory balances with the Bank of Russia represent mandatory reserve deposits that are not available to finance the Bank's day-to-day operations.

**Precious metals.** Gold and other precious metals are recorded at the balance sheet date at London Fixing. Precious metals are included in cash and cash equivalents.

**Trading securities.** Trading securities are securities that were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or securities included in a portfolio in which a pattern of short-term profit taking exists. The Bank classifies securities into trading securities if it has an intention to sell them within 180 days after purchase.

Trading securities are initially recognised at cost (which includes transaction costs) and are subsequently re-measured at fair value based on their market value or after the application of various valuation methodologies, including assumptions as to the future ability to realise these securities. In determining market value, trading securities are valued at the last trade price if quoted on an exchange or, if traded over-the-counter, at the last bid price.

Changes in fair values are recorded within gains less losses arising from securities in the statements of income in the period in which the change occurs. Coupon and interest earned on trading securities are reflected in the statements of income as interest income on securities. Dividends received are included in other operating income.

#### **4. Significant Accounting Policies (continued)**

**Sale and repurchase agreements.** Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under repos are included into trading securities, securities available for sale or securities acquired at original issuance as appropriate. The corresponding liability is presented within due to banks.

Securities purchased under agreements to resell (“reverse repos”) are recorded as loans and advances to banks or customers, as appropriate. The difference between the sale and repurchase price is treated as interest income or expense and accrued over the life of the agreements using the effective interest method.

Securities purchased by the Bank under reverse repo are not recognised in the financial statements, unless they are sold to third parties, in which case the purchase and sale are recorded within gains less losses arising from securities and derivatives in the statements of income. The obligation to return them is recorded at fair value as a trading liability.

**Originated loans and advances and allowance for loan impairment.** Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent at draw down are categorised as loans originated by the Bank and are carried at amortised cost, less allowance for loan impairment.

Loans and advances are recognised when cash is advanced to borrowers. The allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect the amounts due. The allowance is the difference between the carrying value and estimated recoverable amounts based on discounted cash flows.

The allowance 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 reflecting the current economic environment in which the borrowers operate.

When a loan cannot be collected, it is written off against the related allowance for loan impairment. Such loans are written off after the necessary legal procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are credited to the related impairment account in the statements of income.

**Bills of exchange purchased.** The Bank purchases bills of exchange from its customers or on the market. These bills of exchange are included in trading securities, securities available for sale, loans and advances to customers, or in due from banks, depending on their substance and subsequently re-measured and accounted in accordance with the accounting policies described above for those categories of assets.

**Other credit related commitments.** In the normal course of business, the Bank enters into other credit related commitments including loan commitments, letters of credit, and guarantees. The accounting policy and allowance methodology are similar to those for originated loans noted above. Specific allowances are raised against other credit related commitments when losses are considered probable.

**Securities available for sale.** This classification includes securities that the Bank intends to hold for an indefinite period of time but may be sold in response to needs for liquidity or changes in interest rates, exchange rates, or equity prices. The Bank determines the appropriate classification of securities at the time of purchase.

Securities available for sale include other investments, which represent equity investments in non-consolidated subsidiary companies, associated companies and investments held for resale.

Securities available for sale are initially recognised at cost (which includes transaction costs) and subsequently re-measured to fair value based on quoted bid prices. Certain securities available for sale, for which there is no available external independent quotation have been fair valued by the Bank. Fair value has been determined after the application of various valuation methodologies, including assumptions as to amounts to be realised on settlement. Realised and unrealised gains and losses arising from changes in the fair value of securities available for sale are included in the statement of income under gains less losses from securities in the period in which they arise. Coupon and interest earned on securities available for sale are reflected in the statements of income as interest income on securities. Dividends received are included in other operating income.

#### 4. Significant Accounting Policies (continued)

**Securities acquired at original issuance.** The Bank classifies its investment securities acquired at original issuance directly from a debtor, other than those that are purchased with the intent to be sold in the short-term, as “securities acquired at original issuance.” Such securities are carried at amortized cost. Income arising from the accretion of these securities’ purchase discount are recognized in the statements of income as interest income from securities using the effective interest method.

**Premises and equipment.** Premises and equipment are stated at revalued amounts, restated to the equivalent purchasing power of the Russian Ruble at 31 December 2002, less accumulated depreciation and allowance for impairment, where required. Where the carrying amount of an asset is greater than its estimated recoverable amount, an allowance is provided to reduce it to the recoverable amount and the related provision is charged to the statements of income. The estimated recoverable amount is the higher of an asset’s net selling price and its value in use.

The revaluation reserve represents the difference between the restated net book amount of premises and their market value. The proportion of revaluation reserve, representing the amount depreciated, is transferred annually to retained earnings based on the estimated average useful life of the underlying premises.

Construction in progress is carried at cost, restated to the equivalent purchasing power of the Russian Ruble at 31 December 2002. Upon completion, assets are transferred to premises at their carrying value. Construction in progress is not depreciated until the asset is available for use.

Gains and losses on disposal of premises and equipment are determined by reference to their net book value. Repairs and maintenance are charged to the statement of income when the expenditure is incurred.

**Depreciation and amortisation.** Depreciation and amortisation are applied on a straight-line basis over the estimated useful lives of the assets using the following annual rates:

Premises	2.5% - 4.5%;
Equipment	18% - 25%;
Intangible assets	25%.

Depreciation and amortisation is calculated starting from the month following the month when the fixed / intangible asset has been placed into operation. Depreciation and amortisation for the reporting period are recorded in the statements of income under operating expenses.

**Due to banks and customers.** Amounts due to banks and to customers are initially recognized at cost, which amounts to the issue proceeds less transaction costs incurred. 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 maturity period of the borrowings using the effective interest method.

**Own securities issued.** Bills of exchange, deposit certificates, saving certificates, eurobonds are issued by the Bank to its customers and carry a fixed date of repayment. Bills of exchange may be issued against cash deposits or as a payment instrument, which the customer can discount in the over-the-counter secondary market. Own securities issued by the Bank are recognised initially at cost, being their issue proceeds, net of transaction costs incurred. Subsequently, own securities issued are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the statements of income over the period of the security issue using the effective interest method.

**Share capital.** Share capital is recognized at restated cost reflecting the cumulative impact of inflation indexing through December 31, 2002.

**Share premium.** Share premium represents the excess of contributions over the nominal value of the shares issued and is recognized at restated cost reflecting the cumulative impact of inflation indexing through December 31, 2002.

**Preference shares.** Preference shares are not redeemable, they guarantee payment of annual dividends of not less than 15% of their nominal value. Dividend payments in excess of that minimum are determined at the Bank’s Annual Shareholders Meeting. Preference shares are classified as a part of equity.

#### 4. Significant Accounting Policies (continued)

**Treasury shares.** Shares of the Bank owned and held at the balance sheet date, are defined as treasury shares. The cost of such shares is shown as a reduction in shareholders' equity.

**Dividends.** Dividends payable are not recognised until they have been ratified at the Bank's Annual Shareholders Meeting. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit determined in accordance with statutory requirements.

**Taxes.** Taxation has been provided in accordance with Russian legislation currently in force. The charge for taxation in the statements of income comprises current taxes and changes in deferred tax assets and liabilities. Current tax is calculated on the basis of the expected taxable profit for the year, using the tax rates in force during the relevant period.

Deferred income tax is provided, using the balance sheet liability method, for temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax assets are recognised 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 in 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.

The deferred tax liability arising on the revaluation of premises is charged directly to the revaluation reserve. Any tax effect of subsequent impairment of the revaluation reserve is recognised through the statement of changes in shareholders equity; any deferred tax benefit beyond the remaining amount of revaluation reserve is reflected in the statements of income.

The Bank is subject to certain taxes, other than on net profit. These are recorded in operating expenses.

**Income and expense recognition.** Interest income and expense are recognised in the statements of income on an accrual basis calculated using the effective interest method. Interest income on loans is accrued only if delays of interest and principal payments are less than 90 days. Interest income is not recognised where the Bank believes it is not collectible.

Commissions and other income are credited to income when the related transactions are completed. Non-interest expenses are recognised at the time the products are received or the service is provided.

**Foreign currency translation.** Transactions denominated in foreign currencies are recorded at the CBR exchange rate prevailing on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currencies are included in the statements of income using the CBR official exchange rate prevailing on that date.

Monetary assets and liabilities denominated in foreign currencies are translated into Russian Rubles at the official exchange rate of the Bank of Russia at the balance sheet date. Foreign currency gains and losses arising from the translation of assets and liabilities are reflected in the statements of income as foreign exchange translation gains less losses. As of 31 December 2003, the CBR exchange rate used for translating USD balances was USD 1 = RR 29.4545 (2002: USD 1 = RR 31.7844). Exchange restrictions and controls exist relating to converting Russian Rubles into other currencies. At present, the Russian Ruble is not a convertible currency outside of the Russian Federation.

**Derivative financial instruments.** Derivative financial instruments including forward foreign exchange contracts, currency swaps, currency options, forwards with securities and precious metals and other derivative financial instruments are initially recognized in the balance sheet at cost (including transaction costs) and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models, or using the spot rate at the year-end, as appropriate. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

#### 4. Significant Accounting Policies (continued)

Changes in the fair value of derivatives are included in gains less losses arising from securities and derivatives.

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

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

**Provisions.** Provisions are recognised when the Bank 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.

**Social funds costs.** The Bank contributes to the Russian Federation state pension, social insurance and obligatory medical insurance funds in respect of its employees. The Bank's funds contributions are expensed as incurred. The contributions are included in staff costs.

**Operating leases.** Payments made under operating leases are charged against income in equal instalments over the period of the lease.

**Segment reporting.** A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment) that is subject to risks and rewards that are different from those of other segments. The Bank determined that the primary segments for its activities are business segments (corporate and retail), and the secondary segments are the geographical areas of Russia.

**Fiduciary assets:** Fiduciary assets are not included in the Bank's balance sheet as they are not assets of the Bank.

#### 5. Cash and Cash Equivalents

	2003	2002
Cash on hand	25,798,913	17,970,344
Cash balances with the Bank of Russia (other than mandatory reserve deposits)	12,327,864	40,515,431
Correspondent accounts and overnight deposits with other banks		
- Russian Federation	4,089,790	1,446,874
- Other countries	738,788	6,068,419
Balances with non-banking settlement organisations	2,892	1
Precious metals	2,657,681	1,607,444
<b>Total cash and cash equivalents</b>	<b>45,615,928</b>	<b>67,608,513</b>

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## 6. Trading Securities

	2003	2002
<b>RR denominated securities</b>		
Federal loan bonds (OFZ) and federal short term bonds (GKO)	57,546,097	55,300,224
Municipal bonds	16,556,880	6,688,279
Corporate shares	3,117,173	1,151,668
Corporate bonds	477,274	–
<b>Foreign currency denominated securities</b>		
Russian Federation Eurobonds	31,273,191	54,179,583
Federal currency bonds (OVLVZ)	1,319,933	8,534,682
<b>Foreign currency denominated securities sold under repo</b>		
Russian Federation Eurobonds	25,018,980	–
<b>Total trading securities</b>	<b>135,309,528</b>	<b>125,854,436</b>

Stated coupon rates and maturity of trading securities are as follows:

	2003		2002	
	%	Maturity	%	Maturity
Federal loan bonds (OFZ) and federal short term bonds (GKO)	8.00% - 14.00%	2004 - 2018	10.00% - 15.00%	2003 - 2008
Federal currency bonds (OVLVZ)	3.00%	2006 - 2011	3.00%	2003 - 2011
Russian Federation Eurobonds	5.00% - 12.75%	2004 - 2030	5.00% - 12.75%	2003 - 2030
Municipal bonds	7.48% - 17.00%	2004 - 2011	8.48% - 20.00%	2003 - 2009
Corporate bonds	8.50% - 16.00%	2004 - 2006	–	–

## 7. Due from Banks

	2003	2002
Current loans to banks	47,520,681	40,024,779
Reverse repo deals with Bank of Russia	31,108,876	–
Overdue loans to banks	76,900	81,537
Less: allowance for loan impairment	(76,900)	(81,537)
<b>Total due from banks</b>	<b>78,629,557</b>	<b>40,024,779</b>

The Bank accepted 61.6% and 100% of two OFZ issues as collateral for reverse repo transactions with the Bank of Russia.

Movement in the allowances for loan impairment is as follows:

	2003	2002
<b>Allowance for loan impairment at 1 January</b>	<b>(81,537)</b>	<b>(324,158)</b>
Reversal of allowance for loan impairment	270	85,261
Due from banks written off as uncollectable	4,367	114,785
Effect of inflation	–	42,575
<b>Allowance for loan impairment at 31 December</b>	<b>(76,900)</b>	<b>(81,537)</b>

## 8. Securities Available for Sale

	<b>2003</b>	<b>2002</b>
<b>Debt securities</b>		
Federal loan bonds (OFZ) and federal short term bonds (GKO)	151,430,367	64,556,098
Federal currency bonds (OVGVZ)	–	13,895,779
Russian Federation Eurobonds	15,975,926	13,657,697
Municipal bonds	–	406,654
Corporate bonds	2,440,976	–
<b>Equity securities</b>		
Investments in non-consolidated subsidiary companies	257,631	270,051
Investments in associated companies	–	32,913
Investments held for sale	6,589,173	206,094
<b>Total securities available for sale</b>	<b>176,694,073</b>	<b>93,025,286</b>

Stated coupon rates and maturities of federal government securities in the Bank's portfolio are presented in Note 6.

For the year ended 31 December 2003, the majority of subsidiary and associated companies have not prepared financial statements in accordance with IFRS. These investments have not been consolidated with the results of the Bank nor accounted for under equity method, as the effect of consolidation or equity accounting would not materially alter the financial position of the Bank at 31 December 2003 or the results of its operations or cash flows for the year then ended.

## 9. Loans and Advances to Customers

	<b>2003</b>	<b>2002</b>
Current loans	844,855,369	557,917,456
Overdue loans	14,068,226	10,622,627
Less: allowance for loan impairment	(66,559,980)	(51,868,900)
<b>Total loans and advances to customers</b>	<b>792,363,615</b>	<b>516,671,183</b>

Movements in the allowances for loan impairment are as follows:

	<b>2003</b>	<b>2002</b>
<b>Allowance for loan impairment at 1 January</b>	<b>(51,868,900)</b>	<b>(44,828,154)</b>
Provision for loan impairment	(16,510,130)	(13,736,815)
Loans and advances to customers written off as uncollectable	1,819,050	808,285
Effect of inflation	–	5,887,784
<b>Allowance for loan impairment at 31 December</b>	<b>(66,559,980)</b>	<b>(51,868,900)</b>

## 9. Loans and Advances to Customers (continued)

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

	2003		2002	
	Amount	%	Amount	%
Trade	156,013,372	18.16%	114,095,187	20.07%
Individuals	145,604,017	16.95%	65,919,396	11.59%
Machine-building	89,740,231	10.45%	61,463,368	10.81%
Metallurgy	83,299,731	9.70%	42,962,791	7.56%
Food and agriculture	82,241,174	9.57%	57,392,389	10.09%
Oil, gas and chemical	82,030,021	9.56%	104,467,924	18.37%
Services	53,159,527	6.19%	5,529,958	0.97%
Construction	39,323,699	4.58%	23,932,443	4.21%
Telecommunications	38,925,824	4.53%	21,251,692	3.74%
Transport, aviation, space industry	30,988,219	3.61%	17,877,327	3.14%
Energy	21,412,462	2.49%	24,181,779	4.25%
Timber industry	16,157,812	1.88%	11,573,543	2.04%
Government and municipal bodies	15,304,955	1.78%	11,421,453	2.01%
Other	4,722,551	0.55%	6,470,833	1.15%
<b>Total loans and advances to customers, gross</b>	<b>858,923,595</b>	<b>100.00%</b>	<b>568,540,083</b>	<b>100.00%</b>

The Bank's loan portfolio has been extended to the following types of borrowers:

	2003	2002
Limited liability and joint-stock companies	646,570,568	444,427,027
Individuals	145,604,017	65,919,396
State enterprises	39,080,724	33,676,402
Entities of the subjects of the Russian Federation	15,340,316	11,420,816
Municipal bodies	2,648,901	2,465,545
Others	9,679,069	10,630,897
<b>Total loans and advances to customers, gross</b>	<b>858,923,595</b>	<b>568,540,083</b>

The Bank's largest ten borrowers constitute RR 175,567,927 or 20.4% of the total loan portfolio (2002: RR 117,743,803 or 20.7%). As of 31 December 2003, the largest borrower is represented by a group of the companies that operate under common control with loans of RR 54,724,886 or 6.37% (2002: RR 43,192,992 or 7.6%).

## 10. Securities Acquired at Original Issuance

	2003		2002	
	Nominal value	Carrying value	Nominal value	Carrying value
Russian Federation Eurobonds	82,511,185	71,252,208	107,666,79	92,077,087
Federal loan bonds (OFZ)	2,254,483	2,283,107	10,407,02	9,950,328
<b>Total securities acquired at original issuance</b>	<b>84,765,668</b>	<b>73,535,315</b>	<b>118,073,81</b>	<b>102,027,415</b>

Securities acquired at original issuance include securities obtained directly from the issuer – the Ministry of Finance of the Russian Federation, and not designated for immediate or short-term sale.



## 10. Securities Acquired at Original Issuance (continued)

The Bank's portfolio of Russian Federation Eurobonds consists of two issues with maturity dates of 24 July 2005 and 24 July 2018 and effective yield to maturity 15.45% and 15.76%, correspondingly. The annual coupon rate on these bonds ranges from 8.75% to 11.00%, and interest is payable semi-annually. Market value of these Eurobonds as of 31 December 2003 was RR 102,749,403 (2002: RR 122,766,243). These Eurobonds were received from the Ministry of Finance in July 1998, in exchange for part of the Bank's Russian Ruble denominated state securities portfolio.

OFZ portfolio consists of two issues of Federal loan bonds with maturity in 2004. Yield to maturity varies from 19.64% to 31.91%, and coupon rates during 2003 were 12.00% and 10.00% respectively. Market value of these OFZ bonds as of 31 December 2003, was RR 2,269,255 (2002: RR 10,267,791).

During 2003, the Bank disposed of certain Russian Federation Eurobonds with par value of USD 586,100 thousand and maturity in 2005.

## 11. Premises and Equipment

	Premises	Office and computer equipment	Vehicles and other equipment	Intangible assets	Construction in progress	Total
<b>Net book amount at 31 December 2002</b>	<b>45,671,756</b>	<b>9,332,820</b>	<b>2,963,012</b>	<b>711,376</b>	<b>2,996,678</b>	<b>61,675,642</b>
<b>Carrying amount at cost or revaluation</b>						
Balance at 31 December 2002	49,953,328	15,344,632	6,549,746	1,621,039	2,996,678	76,465,423
Additions	201,138	7,433,157	1,165,046	8,314	3,028,540	11,836,195
Transfers	2,010,563	–	–	–	(2,010,563)	–
Disposals	(475,096)	(672,805)	(306,515)	(835,240)	(167,584)	(2,457,240)
<b>Balance at 31 December 2003</b>	<b>51,689,933</b>	<b>22,104,984</b>	<b>7,408,277</b>	<b>794,113</b>	<b>3,847,071</b>	<b>85,844,378</b>
<b>Accumulated depreciation and amortisation</b>						
Balance at 31 December 2002	(4,281,572)	(6,011,812)	(3,586,734)	(909,663)	–	(14,789,781)
Depreciation and amortisation charge	(2,220,177)	(3,232,725)	(697,162)	(198,528)	–	(6,348,592)
Disposals	54,888	354,705	197,737	788,136	–	1,395,466
<b>Balance at 31 December 2003</b>	<b>(6,446,861)</b>	<b>(8,889,832)</b>	<b>(4,086,159)</b>	<b>(320,055)</b>	<b>–</b>	<b>(19,742,907)</b>
<b>Net book amount at 31 December 2003</b>	<b>45,243,072</b>	<b>13,215,152</b>	<b>3,322,118</b>	<b>474,058</b>	<b>3,847,071</b>	<b>66,101,471</b>

Construction in progress consists mainly of construction and refurbishment of Bank premises. Upon completion, assets will be transferred to premises.

Premises were independently appraised as of 31 December 2000. An internationally recognised independent appraisal firm performed the valuation. The basis used for the appraisal was the sales comparison approach. Included in the net book value of premises at 31 December 2003 is RR 474,987 representing revaluation reserve relating to premises of the Bank, net of deferred tax (2002: RR 497,605). The deferred tax liability with respect to this fair value adjustment was recorded directly to revaluation reserve for premises.

## 12. Other Assets

	2003	2002
Banking cards debtors	2,292,008	1,152,080
Settlements on operations with banknotes with non-resident banks	1,472,786	–
Prepaid operating taxes	1,064,538	793,439
Trade debtors and prepayments	866,228	726,495
Deferred charges	771,482	856,295
Balances arising from derivative financial instruments	88,130	65,026
Settlements on operations with securities and conversion operations	1,561	1,994
Other	320,299	78,491
<b>Total other assets</b>	<b>6,877,032</b>	<b>3,673,820</b>

## 13. Due to Banks

	2003	2002
<b>Amounts on “LORO” accounts of other banks</b>		
- Russian Federation	6,823,415	2,373,542
- Other countries	1,996,102	1,149,900
<b>Short term deposits due to banks</b>		
- Russian Federation	683,903	529,776
- Other countries	28,386,050	–
<b>Total due to banks</b>	<b>37,889,470</b>	<b>4,053,218</b>

## 14. Deposits from Individuals and Customer Accounts

	2003	2002
<b>Individuals</b>		
- Current/demand accounts	130,375,539	104,035,718
- Term deposits	848,205,300	603,979,420
<b>Total deposits from individuals</b>	<b>978,580,839</b>	<b>708,015,138</b>
<b>State and public organisations</b>		
- Current/settlement accounts	39,206,809	36,159,495
- Term deposits	437,843	1,670,111
<b>Other legal entities</b>		
- Current/settlement accounts	154,510,183	119,369,794
- Term deposits	17,406,327	30,545,657
<b>Total customer accounts</b>	<b>211,561,162</b>	<b>187,745,057</b>
<b>Total deposits from individuals and customer accounts</b>	<b>1,190,142,001</b>	<b>895,760,195</b>

**14. Deposits from Individuals and Customer Accounts (continued)**

Economic sector concentrations within customer accounts are as follows:

	2003		2002	
	Amount	%	Amount	%
Individuals	978,580,839	82.22%	708,015,138	79.04%
Trade	38,371,147	3.22%	28,401,492	3.17%
Oil and gas	27,480,568	2.31%	36,726,001	4.10%
Construction	17,468,521	1.47%	13,284,822	1.48%
Food and agriculture	14,700,988	1.24%	12,158,487	1.36%
Municipal bodies and state organisations	10,677,141	0.90%	27,656,439	3.09%
Equipment manufacturing	8,602,025	0.72%	6,142,167	0.69%
Telecommunications	7,741,794	0.65%	8,280,146	0.92%
Transport, aviation and space	7,302,412	0.61%	5,041,506	0.56%
Metallurgy	5,576,048	0.47%	5,164,900	0.58%
Energy	4,363,940	0.37%	3,007,185	0.33%
Other	69,276,578	5.82%	41,881,912	4.68%
<b>Total deposits from individuals and customer accounts</b>	<b>1,190,142,001</b>	<b>100.00%</b>	<b>895,760,195</b>	<b>100.00%</b>

Included in customer accounts are deposits of RR 9,776,039 (2002: RR 4,139,811) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 31.

**15. Own Securities Issued**

	2003	2002
Bills of exchange	70,283,192	46,782,791
Eurobonds	29,429,729	–
Deposit certificates	2,602,135	6,244,271
Savings certificates	1,695,309	1,133,908
<b>Total own securities issued</b>	<b>104,010,365</b>	<b>54,160,970</b>

In October 2003, the Bank issued floating rate (three month LIBOR + 1.75%) notes maturing in three years. The bonds have par value of USD 1,000,000 thousand, and carry 12 quarterly coupons. The bonds are accounted for at amortised cost of USD 999,159 thousand, or RR 29,429,729. The transaction was structured as an issue of notes by UBS Luxembourg S.A., for the purpose of financing a loan to the Bank.

**16. Other Borrowed Funds**

As of 31 December 2003, the Bank had borrowings of USD 32,740 thousand carried at amortised cost of USD 33,204 thousand, or RR 977,998 (2002: borrowings of USD 45,000 thousand carried at amortised cost of USD 46,171 thousand, or RR 1,467,509), and borrowings of EUR 2,038 thousand carried at amortised cost of EUR 2,041 thousand, or RR 75,153 (2002: none). The borrowings are attracted in the form of special purpose lines of credit from international and foreign banking institutions. The contractual maturities of the borrowings vary from one to 66 months (2002: from one to 38 months), the annual interest rate for USD borrowings ranges from LIBOR + 0.99% to LIBOR + 1.95% (2002: LIBOR + 1.95%) and for EUR borrowings – EURIBOR + 0.875%.

## 17. Other Liabilities

	<b>2003</b>	<b>2002</b>
Accrued compensation expenses	5,441,370	4,461,367
Operating taxes payable	2,792,845	2,719,216
Trade creditors	520,917	196,260
Banking card creditors	138,434	58,623
Settlements on conversion operations and operations with securities	97,232	168,404
Provision for credit related commitments	57,232	26,239
Balances arising from derivative financial instruments	44,435	1,618
Dividends payable	23,602	14,420
Other accruals and deferred income	4,171	7,633
Other	412,870	798,200
<b>Total other liabilities</b>	<b>9,533,108</b>	<b>8,451,980</b>

## 18. Share Capital

As of 31 December 2003, authorised share capital of the Bank amounted to RR 1,000,000, including 19,000,000 ordinary shares and 50,000,000 preference shares. Share capital issued and fully paid comprised:

	<b>2003</b>			<b>2002</b>		
	<b>Number of shares</b>	<b>Nominal value</b>	<b>Inflation adjusted amount</b>	<b>Number of share</b>	<b>Nominal value</b>	<b>Inflation adjusted amount</b>
Ordinary shares	19,000,000	950,000	19,525,646	19,000,000	950,000	19,525,646
Preference shares	50,000,000	50,000	1,454,937	50,000,000	50,000	1,454,937
Less: Treasury shares						
Ordinary shares	(1,770)	(89)	(226)	(1,772)	(89)	(275)
Preference shares	(1,780)	(2)	(86)	(3,145)	(3)	(136)
<b>Total share capital</b>	<b>68,996,450</b>	<b>999,909</b>	<b>20,980,271</b>	<b>68,995,083</b>	<b>999,908</b>	<b>20,980,172</b>

Ordinary shares have a nominal value of 50 Russian Rubles per share, rank equally and carry one vote.

The preference shares have a nominal value of 1 Russian Ruble and carry no voting rights, but rank ahead of the ordinary shares in event of liquidation of the Bank. Preference shares are not subject to obligatory redemption. They carry a minimum annual dividend equal to 15% of their nominal value.

## 19. Shareholders' Equity

Shareholders' equity and net profit are reconciled between Russian statutory books and IFRS as follows:

	2003		2002	
	Shareholders' equity	Net Profit	Shareholders' equity	Net Profit
<b>Russian statutory books</b>	157,392,208	38,816,378	127,314,512	36,015,985
Inflation impact on:				
- share capital	–	–	–	(4,070,841)
- other non-monetary items	39,539,689	–	39,576,676	(1,405,248)
Premises revaluation reserve	(36,593,231)	–	(36,693,322)	–
Additional allowance for impairment	(21,244,705)	(329,321)	(20,915,384)	(5,108,306)
Depreciation and amortisation	(10,044,679)	(3,748,727)	(6,295,952)	(2,984,264)
Fair value adjustment for securities	9,074,103	(2,691,122)	11,765,225	7,631,562
Accrued staff costs and administrative expenses	(8,047,532)	(2,395,438)	(5,652,094)	(3,072,762)
Deferred tax	3,073,292	2,841,336	217,330	(1,940,381)
Accrued interest income and expense, net	1,689,062	(10,687,166)	12,376,228	2,244,802
Expenses booked directly to shareholders' funds	–	(7,922,551)	–	(7,934,039)
Current tax	–	–	1,426,277	872,816
Other	34,956	50,124	–	8,954
<b>International Financial Reporting Standards</b>	<b>134,873,163</b>	<b>13,933,513</b>	<b>123,119,496</b>	<b>20,258,278</b>

In accordance with Russian banking regulations, the Bank must distribute profits as dividends or transfer them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules as of 31 December 2003 were RR 79,963,340 (2002: RR 81,504,412) (non-inflated).

## 20. Interest Income and Expense

	2003	2002
<b>Interest income</b>		
Loans and advances to customers	97,465,093	88,939,592
Interbank loans	5,171,934	5,855,295
Securities	25,872,758	36,785,503
<b>Total interest income</b>	<b>128,509,785</b>	<b>131,580,390</b>
<b>Interest expense</b>		
Term deposits from individuals	(68,674,149)	(53,560,404)
Current/settlement accounts	(3,928,430)	(1,614,553)
Term deposits of legal entities	(1,253,296)	(2,098,599)
Own securities issued	(5,359,259)	(1,238,057)
Term placements of banks and other borrowed funds	(427,860)	(217,405)
<b>Total interest expense</b>	<b>(79,642,994)</b>	<b>(58,729,018)</b>
<b>Net interest income</b>	<b>48,866,791</b>	<b>72,851,372</b>

As of 31 December 2003, the Bank had RR 16,608,757 of loans (2002: RR 14,323,686) that have been placed on non-performing status as to contractual interest in accordance with the Bank's accounting policy. As of 31 December 2003, interest income not recognised for non-performing loans was RR 2,924,851.

**21. Gains Less Losses Arising from Securities and Derivatives**

	2003			2002		
	Adjusting to fair value	Realized revaluation income and income from redemption	Total	Adjusting to fair value	Realized revaluation income and income from redemption	Total
Derivative financial instruments	(19,713)	1,647,488	<b>1,627,775</b>	112,229	(19,819)	<b>92,410</b>
Trading securities and securities available for sale	10,574,170	28,777,296	<b>39,351,466</b>	4,286,525	14,965,963	<b>19,252,488</b>
<b>Total gains less losses arising from securities and derivatives</b>	<b>10,554,457</b>	<b>30,424,784</b>	<b>40,979,241</b>	<b>4,398,754</b>	<b>14,946,144</b>	<b>19,344,898</b>

**22. Fee and Commission Income and Expense**

	2003	2002
Commission on cash transactions	13,397,918	8,100,141
Commission for lending operations	3,599,658	1,917,839
Commission on settlement transactions	2,267,094	3,764,356
Commission related to operations with foreign currency	1,355,047	1,906,204
Commission on cash collection	975,930	766,098
Commission on transactions with securities	320,647	277,631
Commission on guarantees issued	61,210	28,252
Other	119,485	169,116
<b>Total fee and commission income</b>	<b>22,096,989</b>	<b>16,929,637</b>
Commission related to operations with foreign currency	(295,278)	(251,832)
Commission on settlement transactions	(130,990)	(66,666)
Commission on transactions with securities	(117,871)	(90,527)
Commission on cash collection	(75,317)	(55,003)
Commission on cash transactions	(914)	(599)
Other	(24,352)	(15,602)
<b>Total fee and commission expense</b>	<b>(644,722)</b>	<b>(480,229)</b>
<b>Net fee and commission income</b>	<b>21,452,267</b>	<b>16,449,408</b>

## 23. Other Operating Income

	<b>2003</b>	<b>2002</b>
Recoveries of amounts previously written off	932,325	11,085
Late charges on loans and other penalties	519,801	811,114
Leasing and other income on premises and equipment	449,409	495,079
Gains less losses arising from dealing in precious metals	188,798	239,671
Dividends received	110,174	30,144
Other	403,999	633,217
<b>Total other operating income</b>	<b>2,604,506</b>	<b>2,220,310</b>

## 24. Payroll and Other Staff Expenses

	<b>2003</b>	<b>2002</b>
Payroll expenses	(40,319,744)	(33,997,979)
Unified social tax expenses	(9,873,713)	(9,464,175)
<b>Total payroll and other staff expenses</b>	<b>(50,193,457)</b>	<b>(43,462,154)</b>

## 25. Operating Expenses

	<b>2003</b>	<b>2002</b>
Administrative expenses	(6,516,071)	(4,726,085)
Taxes other than income tax	(6,488,433)	(7,159,688)
Depreciation and amortisation	(6,348,592)	(5,574,910)
Other expenses related to premises and equipment	(3,953,789)	(2,968,070)
Advertising and marketing	(674,354)	(503,194)
Expenses related to clients claims and court expenses	(198,768)	(87,417)
Professional services	(129,475)	(97,076)
Other	(4,672,322)	(3,263,828)
<b>Total operating expenses</b>	<b>(28,981,804)</b>	<b>(24,380,268)</b>

## 26. Income Taxes

Income tax expense is comprised of the following:

	<b>2003</b>	<b>2002</b>
Current tax expense	(5,067,718)	(5,700,992)
Deferred tax benefit / (expense)	2,841,336	(1,940,381)
<b>Income tax expense</b>	<b>(2,226,382)</b>	<b>(7,641,373)</b>

## 26. Income Taxes (continued)

Russian legal entities must individually report taxable income and remit profit taxes thereon to the appropriate tax authorities. The income tax rate for banks other than on state securities was 24%. The tax rate for interest income on state securities was 15% for Federal taxes.

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

	2003	2002
<b>IFRS profit before taxation</b>	<b>16,159,830</b>	<b>27,899,651</b>
Statutory income tax rate	24%	24%
<b>Theoretical tax charge at the applicable statutory rate</b>	<b>(3,878,359)</b>	<b>(6,695,916)</b>
Income exempt from taxation	160,648	270,177
Income on government securities taxed at different rates	2,857,530	2,381,692
Non-temporary elements of monetary gains and losses	–	(2,886,061)
Other non-temporary differences	(556,223)	(294,632)
Non-deductible expenses	(262,533)	(416,633)
Transfer-pricing adjustment for securities operations	(547,445)	–
<b>Income tax expense</b>	<b>(2,226,382)</b>	<b>(7,641,373)</b>

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

	2002	Change	2003
<b>Tax effect of deductible temporary differences</b>			
Allowance for impairment of interest earning assets	6,472,028	803,242	7,275,270
Premises and equipment depreciation and amortisation	1,420,916	101,553	1,522,469
Accruals	2,685,053	(179,344)	2,505,709
Other	103,370	(51,511)	51,859
<b>Deferred tax asset</b>	<b>10,681,367</b>	<b>673,940</b>	<b>11,355,307</b>
<b>Tax effect of taxable temporary differences</b>			
Fair valuation of securities	(8,030,874)	2,552,391	(5,478,483)
Premises and equipment	(2,425,361)	(346,608)	(2,771,969)
Other	(7,802)	(31,244)	(39,046)
<b>Deferred tax liability</b>	<b>(10,464,037)</b>	<b>2,174,539</b>	<b>(8,289,498)</b>
<b>Net deferred tax asset</b>	<b>217,330</b>	<b>2,848,479</b>	<b>3,065,809</b>

The tax effect of the movement in temporary differences for premises and equipment includes deferred tax reductions in respect of the depreciation of revalued premises of RR 7,143 (2002: RR 7,483). These amounts are recorded directly to revaluation reserve for premises.

The Bank's current tax asset related to prepaid income taxes is RR 415,322 (2002: RR 1,426,277).



## 27. Earnings per Share

Basic earnings per share are calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares.

The Bank has no potentially diluted ordinary shares; therefore, the diluted earnings per share equal basic earnings per share.

	<b>2003</b>	<b>2002</b>
Net profit attributable to shareholders	13,933,513	20,258,278
Less: dividends on preference shares	(116,005)	(59,778)
Net profit attributable to ordinary shareholders	13,817,508	20,198,500
Weighted average number of ordinary shares outstanding (thousands)	18,998	18,998
<b>Basic and diluted earnings per share</b> (expressed in Russian Rubles per share)	<b>727</b>	<b>1,063</b>

## 28. Dividends

	<b>2003</b>		<b>2002</b>	
	<b>Ordinary</b>	<b>Preference</b>	<b>Ordinary</b>	<b>Preference</b>
Dividends payable at 1 January	13,647	773	15,749	873
Dividends declared during the year	2,071,083	116,005	1,055,688	59,778
Dividends paid during the year	(2,062,380)	(115,526)	(1,055,721)	(59,763)
Effect of inflation	–	–	(2,069)	(115)
<b>Dividends payable at 31 December</b>	<b>22,350</b>	<b>1,252</b>	<b>13,647</b>	<b>773</b>
<b>Dividends per share declared during the year</b> (expressed in Russian Rubles per share)	<b>109.00</b>	<b>2.32</b>	<b>55.56</b>	<b>1.20</b>

Dividends are declared and paid in Russian Rubles. On June 18, 2004, shareholders' meeting of Sberbank made a decision to pay dividends for 2003 of RR 2,699,593.

## 29. Analysis by Segment and Geography

**Geographical analysis.** The geographical analysis of the Bank's assets and liabilities as of 31 December 2003 is presented below:

	Russia	Other countries	Total
<b>Assets</b>			
Cash and cash equivalents	44,877,140	738,788	45,615,928
Mandatory cash balances with the Central Bank of the Russian Federation	98,893,608	–	98,893,608
Trading securities	135,309,528	–	135,309,528
Due from banks	78,409,077	220,480	78,629,557
Securities available for sale	176,694,073	–	176,694,073
Loans and advances to customers	791,066,031	1,297,584	792,363,615
Securities acquired at original issuance	73,535,315	–	73,535,315
Tax asset	3,481,131	–	3,481,131
Premises and equipment	66,101,471	–	66,101,471
Other assets	6,877,032	–	6,877,032
<b>Total assets</b>	<b>1,475,244,406</b>	<b>2,256,852</b>	<b>1,477,501,258</b>
<b>Liabilities</b>			
Due to banks	(7,507,318)	(30,382,152)	(37,889,470)
Deposits from individuals	(975,781,705)	(2,799,134)	(978,580,839)
Customer accounts	(210,654,421)	(906,741)	(211,561,162)
Own securities issued	(74,580,636)	(29,429,729)	(104,010,365)
Other borrowed funds	–	(1,053,151)	(1,053,151)
Other liabilities	(9,533,108)	–	(9,533,108)
<b>Total liabilities</b>	<b>(1,278,057,188)</b>	<b>(64,570,907)</b>	<b>(1,342,628,095)</b>
<b>Net balance sheet position at 31 December 2003</b>	<b>197,187,218</b>	<b>(62,314,055)</b>	<b>134,873,163</b>
<b>Net balance sheet position at 31 December 2002</b>	<b>100,280,971</b>	<b>22,838,525</b>	<b>123,119,496</b>

Other countries consist primarily of OECD member countries.

**29. Analysis by Segment and Geography (continued)**

**Segment reporting.** In accordance with requirements of IAS 14 “Segment reporting”, the Bank defined that its primary segments are business (corporate and retail). The secondary segments are geographical based on Russia regions where the Bank operates. Segment reporting per business segments as of 31 December 2003 follows:

	<b>Corporate Sector</b>	<b>Retail Sector</b>	<b>Unallocated</b>	<b>Total</b>
<b>Assets</b>				
Trading securities	135,309,528	–	–	135,309,528
Due from banks	78,629,557	–	–	78,629,557
Securities available for sale	176,694,073	–	–	176,694,073
Loans and advances to customers	651,171,267	141,192,348	–	792,363,615
Securities acquired at original issuance	73,535,315	–	–	73,535,315
Unallocated assets	–	–	220,969,170	220,969,170
<b>Total Assets</b>	<b>1,115,339,740</b>	<b>141,192,348</b>	<b>220,969,170</b>	<b>1,477,501,258</b>
<b>Liabilities</b>				
Due to banks	37,889,470	–	–	37,889,470
Deposits from individuals	–	978,580,839	–	978,580,839
Customer accounts	211,561,162	–	–	211,561,162
Own securities issued	95,782,043	8,228,322	–	104,010,365
Other borrowed funds	1,053,151	–	–	1,053,151
Unallocated liabilities	–	–	9,533,108	9,533,108
<b>Total Liabilities</b>	<b>346,285,826</b>	<b>986,809,161</b>	<b>9,533,108</b>	<b>1,342,628,095</b>
Interest income on loans	84,011,921	18,625,106	–	102,637,027
Interest income on securities	25,872,758	–	–	25,872,758
Fee and commission income	14,162,135	7,934,854	–	22,096,989
Fee and commission expense	(644,722)	–	–	(644,722)

**29. Analysis by Segment and Geography (continued)**

Segment reporting per business segments as of 31 December 2002 follows:

	<b>Corporate Sector</b>	<b>Retail Sector</b>	<b>Unallocated</b>	<b>Total</b>
<b>Assets</b>				
Trading securities	125,854,436	-	-	125,854,436
Due from banks	40,024,779	-	-	40,024,779
Securities available for sale	93,025,286	-	-	93,025,286
Loans and advances to customers	452,755,399	63,915,784	-	516,671,183
Securities acquired at original issuance	102,027,415	-	-	102,027,415
Unallocated assets	-	-	209,410,269	209,410,269
<b>Total Assets</b>	<b>813,687,315</b>	<b>63,915,784</b>	<b>209,410,269</b>	<b>1,087,013,368</b>
<b>Liabilities</b>				
Due to banks	4,053,218	-	-	4,053,218
Deposits from individuals	-	708,015,138	-	708,015,138
Customer accounts	187,745,057	-	-	187,745,057
Own securities issued	52,117,479	2,043,491	-	54,160,970
Other borrowed funds	1,467,509	-	-	1,467,509
Unallocated liabilities	-	-	8,451,980	8,451,980
<b>Total Liabilities</b>	<b>245,383,263</b>	<b>710,058,629</b>	<b>8,451,980</b>	<b>963,893,872</b>
Interest income on loans	83,493,809	11,301,078	-	94,794,887
Interest income on securities	36,785,503	-	-	36,785,503
Fee and commission income	16,183,357	746,280	-	16,929,637
Fee and commission expense	(480,229)	-	-	(480,229)

**29. Analysis by Segment and Geography (continued)**

Geographical segment reporting is based on the Bank's activity among its central head office and 17 regional head offices. The Bank has defined five geographical segments:

<b>Geographical segment</b>	<b>Name of territorial bank</b>	<b>Location of the regional head offices</b>
Moscow	Central head office	Moscow
European Russia	Severny	Yaroslavl
	Severo-Zapadny	Saint-Petersburg
	Tsentralno-Chernozemny	Voronezh
	Volgo-Vyatsky	Nizhniy Novgorod
	Povolzhsky	Samara
	Srednerussky	Moscow
	Severo-Kavkazsky	Stavropol
Ural	Yugo-Zapadny	Rostov-on-Don
	Zapadno-Uralsky	Perm
Western Siberia	Uralsky	Ekaterinburg
	Sibirsky	Novosibirsk
	Altaisky	Barnaul
Eastern Siberia and Far East	Zapadno-Sibirsky	Tumen
	Severo-Vostochny	Magadan
	Dalnevostochny	Khabarovsk
	Vostochno-Sibirsky	Krasnoyarsk
	Baikalsky	Irkutsk

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**29. Analysis by Segment and Geography (continued)**

The Bank's reporting by geographical segments as of 31 December 2003 follows:

	<b>Moscow</b>	<b>European Russia</b>	<b>Ural</b>	<b>Western Siberia</b>	<b>Eastern Siberia and Far East</b>	<b>Unallocated</b>	<b>Total</b>
<b>Assets:</b>							
Cash and cash equivalents	21,969,883	14,833,773	4,363,452	2,107,196	2,341,624	–	<b>45,615,928</b>
Trading securities	73,430,220	43,538,426	6,783,415	5,360,631	6,196,836	–	<b>135,309,528</b>
Due from banks	78,626,610	2,947	–	–	–	–	<b>78,629,557</b>
Securities available for sale	107,337,827	48,799,881	7,602,711	6,007,862	6,945,792	–	<b>176,694,073</b>
Loans and advances to customers	304,909,766	294,220,945	74,076,365	67,657,164	51,499,375	–	<b>792,363,615</b>
Securities acquired at original issuance	39,299,286	24,088,878	3,752,894	2,965,635	3,428,622	–	<b>73,535,315</b>
Premises and equipment	12,839,124	34,296,240	6,331,978	6,830,713	5,803,416	–	<b>66,101,471</b>
Unallocated assets	–	–	–	–	–	109,251,771	<b>109,251,771</b>
<b>Total assets</b>	<b>638,412,716</b>	<b>459,781,090</b>	<b>102,910,815</b>	<b>90,929,201</b>	<b>76,215,665</b>	<b>109,251,771</b>	<b>1,477,501,258</b>
<b>Liabilities:</b>							
Due to banks	33,999,040	1,745,882	1,135,217	816,375	192,956	–	<b>37,889,470</b>
Deposits from individuals	263,237,951	469,477,799	87,222,495	77,394,316	81,248,278	–	<b>978,580,839</b>
Customer accounts	78,284,327	84,799,661	21,264,680	11,745,529	15,466,965	–	<b>211,561,162</b>
Own securities issued	48,200,993	28,986,992	13,757,251	9,492,559	3,572,570	–	<b>104,010,365</b>
Other borrowed funds	1,053,151	–	–	–	–	–	<b>1,053,151</b>
Unallocated liabilities	–	–	–	–	–	9,533,108	<b>9,533,108</b>
<b>Total liabilities</b>	<b>424,775,462</b>	<b>585,010,334</b>	<b>123,379,643</b>	<b>99,448,779</b>	<b>100,480,769</b>	<b>9,533,108</b>	<b>1,342,628,095</b>
<b>Operating income:</b>							
	<b>Moscow</b>	<b>European Russia</b>	<b>Ural</b>	<b>Western Siberia</b>	<b>Eastern Siberia and Far East</b>		<b>Total</b>
Interest income on loans	32,062,325	42,394,560	10,162,534	10,062,772	7,954,836		<b>102,637,027</b>
Interest income on securities	11,876,152	9,775,343	1,609,899	1,301,214	1,310,150		<b>25,872,758</b>
Interest expense	(25,884,663)	(35,382,260)	(7,026,050)	(5,767,114)	(5,582,907)		<b>(79,642,994)</b>
Gains less losses arising from securities and derivatives	30,601,875	7,719,215	875,758	922,214	860,179		<b>40,979,241</b>
Gains less losses arising from dealing in foreign currencies	1,324,558	1,958,444	265,813	268,566	456,712		<b>4,274,093</b>
Foreign exchange translation gains less losses	(2,999,442)	(2,236,906)	(542,973)	(313,159)	(208,409)		<b>(6,300,889)</b>
Fee and commission income	3,703,178	10,838,848	2,223,914	2,628,491	2,702,558		<b>22,096,989</b>
Fee and commission expense	(513,475)	(50,334)	(14,218)	(20,885)	(45,810)		<b>(644,722)</b>
Other operating income	261,569	1,359,576	507,162	234,065	242,134		<b>2,604,506</b>
Additionally acquired premises and equipment	2,298,986	6,141,119	1,133,810	1,223,115	1,039,165		<b>11,836,195</b>

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**29. Analysis by Segment and Geography (continued)**

The Bank's reporting by geographical segments as of 31 December 2002 follows:

	<b>Moscow</b>	<b>European Russia</b>	<b>Ural</b>	<b>Western Siberia</b>	<b>Eastern Siberia and Far East</b>	<b>Unallocated</b>	<b>Total</b>
<b>Assets:</b>							
Cash and cash equivalents	49,898,571	12,939,223	1,657,823	1,283,261	1,829,635	–	67,608,513
Trading securities	44,875,368	54,966,206	10,650,047	8,364,268	6,998,547	–	125,854,436
Due from banks	39,996,805	–	8,910	8,700	10,364	–	40,024,779
Securities available for sale	17,985,934	57,771,665	5,694,630	7,366,193	4,206,864	–	93,025,286
Loans and advances to customers	208,018,951	186,944,215	45,638,157	42,817,964	33,251,896	–	516,671,183
Securities acquired at original issuance	36,057,651	47,244,292	7,615,042	4,407,926	6,702,504	–	102,027,415
Premises and equipment	18,406,080	28,615,299	4,234,606	5,687,313	4,732,344	–	61,675,642
Unallocated assets	–	–	–	–	–	80,126,114	80,126,114
<b>Total assets</b>	<b>415,239,360</b>	<b>388,480,900</b>	<b>75,499,215</b>	<b>69,935,625</b>	<b>57,732,154</b>	<b>80,126,114</b>	<b>1,087,013,368</b>
<b>Liabilities:</b>							
Due to banks	2,466,557	569,504	599,537	291,704	125,916	–	4,053,218
Deposits from individuals	176,218,624	350,957,363	65,402,880	56,865,437	58,570,834	–	708,015,138
Customer accounts	81,521,431	69,485,133	13,622,120	9,909,296	13,207,077	–	187,745,057
Own securities issued	18,552,766	18,604,856	9,543,091	5,176,988	2,283,269	–	54,160,970
Other borrowed funds	1,467,509	–	–	–	–	–	1,467,509
Unallocated liabilities	–	–	–	–	–	8,451,980	8,451,980
<b>Total liabilities</b>	<b>280,226,887</b>	<b>439,616,856</b>	<b>89,167,628</b>	<b>72,243,425</b>	<b>74,187,096</b>	<b>8,451,980</b>	<b>963,893,872</b>
	<b>Moscow</b>	<b>European Russia</b>	<b>Ural</b>	<b>Western Siberia</b>	<b>Eastern Siberia and Far East</b>	<b>Total</b>	
Interest income on loans	38,620,918	34,305,155	7,959,380	7,947,483	5,961,951	<b>94,794,887</b>	
Interest income on securities	13,141,451	16,312,662	2,929,191	2,071,327	2,330,872	<b>36,785,503</b>	
Interest expense	(16,038,187)	(28,309,414)	(5,584,494)	(4,520,494)	(4,276,429)	<b>(58,729,018)</b>	
Gains less losses arising from securities and derivatives	14,141,172	3,610,013	712,808	470,507	410,398	<b>19,344,898</b>	
Gains less losses arising from dealing in foreign currencies	798,752	1,355,322	209,680	185,612	337,195	<b>2,886,561</b>	
Foreign exchange translation gains less losses	512,623	2,036,402	451,914	338,292	240,670	<b>3,579,901</b>	
Fee and commission income	2,732,395	8,161,976	1,821,282	1,954,225	2,259,759	<b>16,929,637</b>	
Fee and commission expense	(264,276)	(97,491)	(24,111)	(39,942)	(54,409)	<b>(480,229)</b>	
Other operating income	539,861	983,617	345,248	113,909	237,675	<b>2,220,310</b>	
Additionally acquired premises and equipment	2,883,359	4,482,659	663,362	890,932	741,334	<b>9,661,646</b>	

### 30. Interest Rate, Currency, Liquidity, Market and Credit Risks

The Bank's risk management processes give consideration to various uncertainties. The evaluation of these risks is based on balance sheet modelling and analysis of various scenarios. The results of such testing are measured by the exposure of the Bank's equity capital to loss based upon the scenarios modelled.

**Interest rate risk.** The Bank is exposed to interest rate pricing risk, principally as a result of lending to customers and other banks, at fixed interest rates in amounts and for periods, which differ from those of term deposits and other borrowed funds 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 often renegotiated to reflect current market conditions.

The table below summarises the effective average year-end interest rate, by major currencies, for monetary financial instruments outstanding as of 31 December 2003. The analysis has been prepared on the basis of weighted average interest rates for the various financial instruments using year-end effective rates.

	2003		2002	
	RR	Other currencies	RR	Other currencies
<b>Assets</b>				
Cash and cash equivalents	0.40%	0.70%	0.50%	0.90%
Trading securities	6.50%	5.62%	13.52%	8.24%
Due from banks	0.90%	1.50%	12.10%	1.80%
Securities available for sale	7.28%	7.47%	13.64%	8.47%
Loans and advances to customers	15.31%	8.51%	19.05%	9.56%
Securities acquired at original issuance	25.62%	15.64%	31.67%	15.60%
<b>Liabilities</b>				
Due to banks	1.30%	2.80%	2.90%	5.50%
Deposits from individuals	8.70%	5.00%	9.80%	4.50%
Customer accounts	1.93%	3.61%	2.28%	3.04%
Own securities issued	5.67%	3.25%	5.33%	5.70%
Other borrowed funds	–	3.01%	–	5.27%

The sign “–” in the table above means, that the Bank does not have the respective assets or liabilities in the corresponding currency.

**Liquidity risk.** Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. Liquidity risk management at the Bank is performed on the basis of measuring liquidity surplus/deficit and liquidity ratios that are calculated using scenario analysis. Liquidity ratios limits are approved by the Committee on Interest Rates and Limits of the Bank at least once a year. The Bank has also developed an action plan to deal with liquidity issues in the event of an economic crisis. The table below shows assets and liabilities as of 31 December 2003 by their remaining contractual maturity. 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 matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transactions are 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 Bank and its exposure to changes in interest and exchange rates.



### 30. Interest Rate, Currency, Liquidity, Market and Credit Risks (continued)

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

	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 months</b>	<b>From 1 to 3 years</b>	<b>More than 3 years</b>	<b>Overdue / no stated maturity</b>	<b>Total</b>
<b>Assets</b>							
Cash and cash equivalents	45,615,928	–	–	–	–	–	45,615,928
Mandatory cash balances with the Central Bank of the Russian Federation	–	–	–	–	–	98,893,608	98,893,608
Trading securities	135,309,528	–	–	–	–	–	135,309,528
Due from banks	48,264,195	10,005,737	2,426,194	17,933,431	–	–	78,629,557
Securities available for sale	–	–	17,268,339	82,118,735	70,460,197	6,846,802	176,694,073
Loans and advances to customers	44,527,048	188,683,418	197,596,921	239,737,920	121,471,021	347,287	792,363,615
Securities acquired at original issuance	1,237,922	1,045,185	–	30,989,962	40,262,246	–	73,535,315
Tax asset	–	–	–	–	–	3,481,131	3,481,131
Premises and equipment	–	–	–	–	–	66,101,471	66,101,471
Other assets	4,646,491	1,029,848	149,104	207,643	25,506	818,440	6,877,032
<b>Total assets</b>	<b>279,601,112</b>	<b>200,764,188</b>	<b>217,440,558</b>	<b>370,987,691</b>	<b>232,218,970</b>	<b>176,488,739</b>	<b>1,477,501,258</b>
<b>Liabilities</b>							
Due to banks	(14,245,682)	(14,750,154)	(8,893,634)	–	–	–	(37,889,470)
Deposits from individuals	(249,573,126)	(272,732,366)	(232,510,166)	(197,430,835)	(26,334,346)	–	(978,580,839)
Customer accounts	(196,657,061)	(5,403,936)	(5,316,072)	(3,937,252)	(246,841)	–	(211,561,162)
Own securities issued	(48,096,339)	(18,139,586)	(4,535,316)	(33,229,731)	(9,393)	–	(104,010,365)
Other borrowed funds	(13,413)	(9,198)	(15,883)	(946,807)	(67,850)	–	(1,053,151)
Other liabilities	(5,048,602)	(1,108,840)	(1,382,075)	(979,284)	(155,524)	(858,783)	(9,533,108)
<b>Total liabilities</b>	<b>(513,634,223)</b>	<b>(312,144,080)</b>	<b>(252,653,146)</b>	<b>(236,523,909)</b>	<b>(26,813,954)</b>	<b>(858,783)</b>	<b>(1,342,628,095)</b>
<b>Net liquidity gap</b>	<b>(234,033,111)</b>	<b>(111,379,892)</b>	<b>(35,212,588)</b>	<b>134,463,782</b>	<b>205,405,016</b>	<b>175,629,956</b>	<b>134,873,163</b>
<b>Cumulative liquidity gap at 31 December 2003</b>	<b>(234,033,111)</b>	<b>(345,413,003)</b>	<b>(380,625,591)</b>	<b>(246,161,809)</b>	<b>(40,756,793)</b>	<b>134,873,163</b>	
<b>Cumulative liquidity gap at 31 December 2002</b>	<b>(162,748,941)</b>	<b>(231,433,765)</b>	<b>(151,975,054)</b>	<b>(123,563,943)</b>	<b>(14,429,982)</b>	<b>123,119,496</b>	

The entire portfolio of trading securities is classified within demand and less than one month as the portfolio is of a dealing nature and the Bank believes this is the proper presentation of its liquidity position. Overdue loans and advances to customers represent overdue payments of loan principal.

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Bank's interest rate sensitivity analysis based on the re-pricing of the Bank's assets and liabilities does not differ significantly from the maturity analysis disclosed in the table above. For certain interest sensitive instruments the Bank establishes limits of their respective maturities. The Bank evaluates its risk exposure under negative market conditions and considers these results in interest rate risk and asset and liability management. Interest rate limits and decisions in respect of interest rate policy are made by the Bank's Committee on Interest Rates and Limits.

### 30. Interest Rate, Currency, Liquidity, Market and Credit Risks (continued)

The Bank believes that in spite of a substantial portion of deposits from individuals being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these deposits provide a long-term and stable source of funding for the Bank. Further, the Bank's available-for-sale securities portfolio is presented above according to the contractual maturities of the securities. These securities represent an additional source of liquidity for the Bank in managing their cumulative liquidity gap.

**Currency risk.** Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. At year end the Bank had balances in RR and other currencies. Other currencies represent mainly amounts in US Dollars and Euro.

At 31 December 2003, the Bank has the following positions in currencies:

	RR	USD	Euro	Other currencies	Total
<b>Assets</b>					
Cash and cash equivalents	33,029,493	7,051,906	2,312,011	3,222,518	45,615,928
Mandatory cash balances with the Central Bank of the Russian Federation	98,893,608	–	–	–	98,893,608
Trading securities	77,697,422	54,328,309	3,283,797	–	135,309,528
Due from banks	74,215,323	4,414,234	–	–	78,629,557
Securities available for sale	160,718,147	15,975,926	–	–	176,694,073
Loans and advances to customers	621,633,878	162,850,423	7,865,039	14,275	792,363,615
Securities acquired at original issuance	2,283,107	71,252,208	–	–	73,535,315
Tax asset	3,481,131	–	–	–	3,481,131
Premises and equipment	66,101,471	–	–	–	66,101,471
Other assets	5,381,474	1,477,136	5,360	13,062	6,877,032
<b>Total assets</b>	<b>1,143,435,054</b>	<b>317,350,142</b>	<b>13,466,207</b>	<b>3,249,855</b>	<b>1,477,501,258</b>
<b>Liabilities</b>					
Due to banks	(7,571,898)	(29,887,073)	(427,343)	(3,156)	(37,889,470)
Deposits from individuals	(768,766,259)	(182,801,764)	(26,527,989)	(484,827)	(978,580,839)
Customer accounts	(174,803,628)	(27,572,135)	(9,006,287)	(179,112)	(211,561,162)
Own securities issued	(68,768,889)	(34,744,107)	(497,369)	–	(104,010,365)
Other borrowed funds	–	(977,998)	(75,153)	–	(1,053,151)
Other liabilities	(9,231,761)	(245,788)	(51,332)	(4,227)	(9,533,108)
<b>Total liabilities</b>	<b>(1,029,142,435)</b>	<b>(276,228,865)</b>	<b>(36,585,473)</b>	<b>(671,322)</b>	<b>(1,342,628,095)</b>
<b>Net balance sheet position</b>	<b>114,292,619</b>	<b>41,121,277</b>	<b>(23,119,266)</b>	<b>2,578,533</b>	<b>134,873,163</b>
<b>Credit related commitments</b>	<b>78,278,914</b>	<b>34,131,946</b>	<b>8,551,237</b>	<b>13,408</b>	<b>120,975,505</b>

At 31 December 2002, the Bank had the following positions in currency:

	RR	USD	EUR	Other currencies	Total
<b>Net balance sheet position</b>	<b>63,880,986</b>	<b>58,196,391</b>	<b>7,397,218</b>	<b>(6,355,099)</b>	<b>123,119,496</b>
<b>Credit related commitments</b>	<b>62,471,103</b>	<b>19,083,274</b>	<b>1,252,699</b>	<b>1,066,502</b>	<b>83,873,578</b>

### **30. Interest Rate, Currency, Liquidity, Market and Credit Risks (continued)**

**Market risk.** The Bank takes an exposure to market risk due to price fluctuations in financial, currency and precious metals markets. The Bank sets limits on the value at risk that may be accepted in respect of the open positions in various financial products. The stop-loss limits are set by the Bank to prevent excessive losses when market conditions change significantly. Limits are monitored on a daily basis. Market risk limits are approved by the Committee on Interest Rates and Limits of the Bank. However, the use of this approach does not fully prevent losses outside of these limits in the event of more significant market movements.

**Credit risk.** The Bank takes an exposure to credit risk, which is the risk that a counterpart may not be able to pay amounts in full when due. The Bank has implemented an internal risk rating system in respect of its largest borrowers to assess probability of default on loans to these borrowers. To manage the level of credit risk, the Bank sets limits by one borrower, or a group of related borrowers, geographical and industry segments. Credit risk limits are approved by the Loans and Investments Committee, Interest rates and Limits Committee, and Credit Committees of regional head offices or branches within their authority. Procedures of risk limits setting, monitoring, usage, and control are governed by internal regulations. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review: limits for resident banks are reviewed monthly, for non-resident banks and foreign countries – not less than once a year, for corporate borrowers and subjects of the Russian Federation – at least twice a year. In certain cases defined by internal regulations, the Bank can perform an unscheduled review of established limits. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate or personal guarantees as well as by providing for loan losses.

The Bank's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the 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 Bank 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.

### **31. Contingencies, Commitments and Derivative Financial Instruments**

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

**Tax legislation.** Due to the presence in Russian tax legislation of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgement of business activities, the Bank's judgement of its business activities may not coincide with the interpretation of the same activities by tax authorities.

Transfer pricing legislation, which was introduced from 1 January 1999, provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect to all controlled transactions, provided that the transaction price differs from the market price by more than 20%. Controlled transactions include transactions with related parties, and transactions with unrelated parties if the price differs on similar transactions with different counterparts by more than 20%. There is no formal guidance as to how these rules should be applied in practice.

If a particular treatment was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest, which can be significant. Tax years remain open to review by the tax authorities for three years.

**Capital commitments.** As of 31 December 2003, the Bank had capital commitments in respect of construction and computer equipment installation totalling RR 2,785,341 (2002: RR 1,347,947). The Bank has already allocated the necessary resources in respect of this commitment. The Bank believes that future net revenues and funding will be sufficient to cover this and any similar commitments.

### 31. Contingencies, Commitments and Derivative Financial Instruments (continued)

**Operating lease commitments.** In the course of its business the Bank enters into a number of lease agreements. The majority of these lease agreements are cancellable. Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2003	2002
Not later than 1 year	109	10,164
Later than 1 year and not later than 5 years	372	4,218
Later than 5 years	729	23,425
<b>Total operating lease commitments</b>	<b>1,210</b>	<b>37,807</b>

**Credit related commitments.** The credit related commitments comprise loan commitments, letters of credit and guarantees. 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. In general, most of the Bank's import letters of credit are collateralised with cash deposits or collateral pledged to the Bank and accordingly the Bank normally assumes minimal risk. Outstanding credit related commitments are as follows:

	2003	2002
Undrawn credit lines and commitments to extend credit	107,725,413	76,671,021
Import letters of credit	10,546,724	5,178,953
Export letters of credit	8,410,654	4,119,624
Guarantees issued	2,861,601	1,311,960
Letters of credit for domestic settlements	1,264,384	758,070
Less: cash deposits held as collateral	(9,776,039)	(4,139,811)
Less: provision for losses on credit related commitments	(57,232)	(26,239)
<b>Total credit related commitments</b>	<b>120,975,505</b>	<b>83,873,578</b>

The Bank evaluated the likelihood of possible losses arising from other credit related commitments and concluded that a provision of RR 57,232 was necessary as of 31 December 2003 (2002: RR 26,239). This provision is accounted under other liabilities. The total outstanding contractual amount of guarantees, letters of credit, and undrawn credit lines does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

**Derivatives.** The Bank enters into derivative agreements that include forward, option and swap agreements with foreign currency, forward agreements with securities and precious metals and other derivatives. Currency-based and other derivatives are usually traded on the over-the-counter market on the basis of the standard contracts.

### 31. Contingencies, Commitments and Derivative Financial Instruments (continued)

The table below includes contracts with a maturity date subsequent to 31 December 2003. These contracts were entered into in 2003 and are short term in nature.

	Domestic				Foreign			
	Principal or agreed amount of asset purchased	Principal or agreed amount of asset sold	Unrealised Loss	Unrealised Gain	Principal or agreed amount of asset purchased	Principal or agreed amount of asset sold	Unrealised Loss	Unrealised Gain
<b>Spot transactions</b>								
Foreign currency								
- purchase	147,273	147,073	–	200	22,698,314	22,690,908	(3,079)	10,485
- sale	2,228,816	2,236,706	(7,890)	–	29,452	29,455	(3)	–
<b>Term deals</b>								
Foreign currency								
- sale	94,107	94,696	(589)	–	–	–	–	–
Precious metals								
- purchase	4,585,671	4,512,733	–	72,938	760,165	755,658	–	4,507
- sale	–	–	–	–	3,153,801	3,186,675	(32,874)	–
<b>Total</b>	<b>7,055,867</b>	<b>6,991,208</b>	<b>(8,479)</b>	<b>73,138</b>	<b>26,641,732</b>	<b>26,662,696</b>	<b>(35,956)</b>	<b>14,992</b>

Unrealised gains or losses in the table above reflect the fair value adjustment of outstanding derivatives as of each year-end. The Bank has recorded a net gain of RR 43,695 (2002: RR 63,408), which is included in gains less losses arising from securities and derivatives.

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

	2003 Nominal value	2002 Nominal value
Shares in companies held in other custodies	11,318,763	4,458,183
Debt securities of municipal authorities of RF	2,574,936	1,569,918
OVGVZ	1,595,698	2,484,173
Bills of exchange	1,495,452	1,467,555
GKO and OFZ	408,049	2,147,232
RF Eurobonds	2,945	3,178
Other securities	2,915,417	115,904

**Assets pledged.** As of 31 December 2003, the Bank has pledged securities with fair value of RR 36,938,861 as collateral against overnight interbank borrowings that the Bank takes on a regular basis from the Bank of Russia (2002: RR 4,965,348). As of 31 December 2003 and 2002, the Bank had no overnight borrowings from the Bank of Russia.

### 32. 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 Bank using available market information, where it exists, and appropriate valuation methodologies. 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 taking into account the existing volume of operations on the Russian financial markets.

The Bank has estimated that the fair value of certain balance sheet instruments is not materially different than their recorded values. These balance sheet instruments include cash, nostros and term deposits, placements with banks and other financial institutions, securities held for trading or available for sale purposes, loans and advances to customers, deposits from banks and other financial institutions, current accounts and deposits from customers, certificates of deposit and bills of exchange and other short-term assets and liabilities which are of a contractual nature. The Bank believes that the carrying amount of these particular financial assets and liabilities approximates their fair value, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions (refer to Note 30). Fair values of securities acquired at original issuance have been disclosed in Note 10.

As set out in Note 4, external independent market quotations were not available for certain securities available for sale. These were fair valued by the Bank using relevant factors such as discounted cash flows and financial information of the underlying investments.

The fair values of equity securities in associated and subsidiary companies, share capital, premises and equipment, and other assets and liabilities which are not of a contractual nature are not calculated as they are not considered financial instruments under IAS 32, "Financial Instruments: Disclosure and Presentation".

### 33. Related Party Transactions

For the purposes of these 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.

Banking transactions are entered into in the normal course of business with significant shareholders, directors, subsidiaries and companies with which the Bank has significant shareholders in common. These transactions include settlements, loans, deposit taking, trade finance and foreign currency transactions. 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 other than the Central Bank of the Russian Federation are as follows:

	2003	2002
<b>Correspondent accounts and overnight deposits with other banks</b>	2,617	46,937
<b>Due from banks</b>		
Placements with the banks	–	776,766
Interest income	3,264	17,600
<b>Loans and advances to customers</b>		
Loans outstanding	2,960,739	3,293,258
Allowance for loan impairment	(1,203,242)	(1,668,463)
Interest income	171,958	109,672
<b>Due to banks</b>		
Correspondent accounts and overnight deposits of other banks	6,092	23,251
Interest expense	782	4,272
<b>Customer deposits</b>		
Current/settlement accounts	200,265	178,990
Interest expense	6,519	16,767

### 33. Related Party Transactions (continued)

The Bank of Russia is the majority shareholder of the Bank. As noted in the financial statements, the Bank maintains a number of balances, and carries out a range of transactions with the Bank of Russia, which are not included in the above analysis. These transactions included settlements, deposit placement and deposit taking, transfer of funds to the mandatory cash balances in accordance with the Russian banking regulations. These transactions were priced predominantly at market rates, where applicable.

The outstanding balances at the year-end and interest income and expense as well as other transactions for the year with the Bank of Russia are stated in the table below:

	2003	2002
Mandatory cash balances with the Bank of Russia as of year end	98,893,608	74,808,687
Account with the Bank of Russia as of year end (other than mandatory cash balances)	12,327,864	40,515,431
Loans and advances to the Bank of Russia as of year end (including reverse repo transactions with the Bank of Russia)	74,215,323	15,276,822
Interest income	4,680,894	4,627,708
Interest expense	(64,073)	(5,503)

### 34. Capital Adequacy

The Central Bank of the Russian Federation requires banks to maintain a capital adequacy ratio of 10% (2002: 10%) of risk weighted assets, computed based on statutory rules for Banks with equity capital more than five million EUR. As of 31 December 2003 and 2002, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

As of 31 December 2003 and 2002 the Bank's international risk based capital adequacy ratio exceeded the minimum ratio of 8% recommended by the Basle Accord:

	2003	2002
Core capital adequacy ratio (Tier 1)	12.71%	14.66%
Total capital adequacy ratio (Tier 1 and Tier 2)	13.75%	15.97%