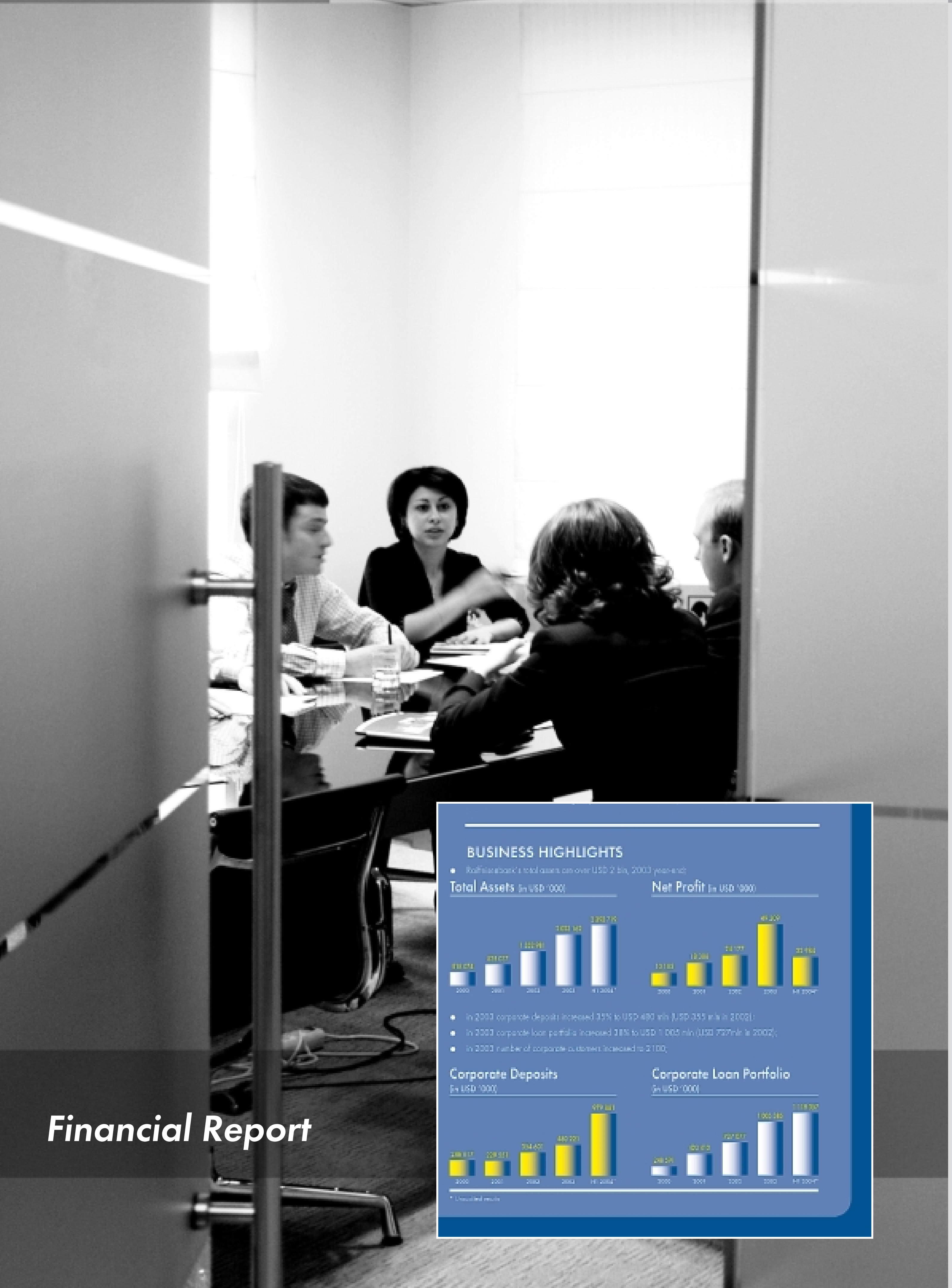

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AUDITORS' REPORT

To the Shareholders and Management of ZAO Raiffeisenbank Austria:

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

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

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

PricewaterhouseCoopers
Moscow, Russia
30 April 2004

ZAO Raiffeisenbank Austria
Consolidated Balance Sheet as at 31 December 2003
(expressed in thousands of US dollars - Note 3)

	Note	2003	2002
Assets			
Cash and cash equivalents	5	522 505	272 704
Mandatory cash balances with the Central Bank of the Russian Federation		103 179	68 049
Trading securities	6	74 725	48 024
Due from other banks	7	157 685	195 230
Loans and advances to customers	8	1 130 296	744 498
Investment securities available for sale	9	5 181	7 987
Investment in associate		1 582	-
Other assets		4 466	1 352
Premises and equipment	10	23 543	15 137
Total assets		**2 023 162**	**1 352 981**
Liabilities			
Due to other banks	11	829 201	569 548
Customer accounts	12	950 978	643 182
Promissory notes issued		4 079	2 667
Other borrowed funds	13	79 776	20 195
Other liabilities		1 569	3 714
Deferred tax liability, net	19	486	2 171
Total liabilities		**1 866 089**	**1 241 477**
Shareholders' equity			
Share capital	14	165 000	165 000
Additional paid-in capital		30 000	30 000
Accumulated deficit		(37 927)	(83 496)
Total shareholders' equity		**157 073**	**111 504**
Total liabilities and shareholders' equity		**2 023 162**	**1 352 981**

Approved for issue by the Board of Directors and signed on its behalf on 30 April 2004.

Michel Perhirin
President

Eugene Toutkevitch
Finance Director

The notes set out on pages 5 to 30 form an integral part of these consolidated financial statements.

Consolidated Statement of Income

Consolidated Statement of Income for the Year Ended 31 December 2003
(expressed in thousands of US dollars — Note 3)

	Note	2003	2002
Interest income	16	88 212	58 902
Interest expense	16	(30 544)	(26 750)
Net interest income		**57 668**	**32 152**
Provision for loan impairment	8	(9 053)	(6 134)
Net interest income after provision for loan impairment		**48 615**	**26 018**
Gains less losses arising from trading securities		3 306	400
Gains less losses arising from trading in foreign currencies		27 125	17 743
Gains from sales of originated loans		664	2 183
Foreign exchange translation gains less losses		(421)	(588)
Fee and commission income	17	26 980	19 345
Fee and commission expense	17	(13 734)	(11 415)
Other operating income		830	473
Operating income		**93 365**	**54 159**
Operating expenses	18	(32 555)	(24 746)
Profit from operations		**60 810**	**29 413**
Share of profit of associate after tax		1 222	–
Profit before tax		**62 032**	**29 413**
Income tax expense	19	(12 823)	(5 236)
Net profit		**49 209**	**24 177**

Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows for the Year Ended 31 December 2003
(expressed in thousands of US dollars — Note 3)

	Note	2003	2002
Cash flows from operating activities			
Interest received		93 025	57 475
Interest paid		(30 835)	–22 795
Gains arising from trading securities		3 203	188
Income received from trading in foreign currencies		27 401	17 978
Fees and commissions received		26 980	19 345
Fees and commissions paid		(13 734)	–11 415
Other operating income received		830	473
Operating expenses paid		(30 040)	–22 842
Income tax paid		(16 734)	–6 797
Cash flows from operating activities before changes in operating assets and liabilities		**60 096**	**31 610**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(28 631)	(29 101)
Net increase in trading securities		(22 823)	(34 972)
Net decrease/(increase) in due from other banks		44 018	(35 011)
Net increase in loans and advances to customers		(388 056)	(323 264)
Net (increase)/decrease in other assets		(1 804)	2 127
Net increase in due to other banks		252 842	286 950
Net increase in customer accounts		272 039	229 211
Net increase/(decrease) in promissory notes issued		1 255	(928)
Net decrease in other liabilities		(1 694)	(5 492)
Net cash from operating activities		**187 242**	**121 130**
Cash flows from investing activities			
Sale/(acquisition) of investment securities available for sale		2 380	(7 700)
Acquisition of premises and equipment	10	(10 389)	(4 394)
Net cash used in investing activities		**(8 009)**	**(12 094)**
Cash flows from financing activities			
Proceeds from other borrowed funds		60 000	–
Dividends paid	20	(3 640)	(3 000)
Net cash from/(used in) financing activities		**56 360**	**(3 000)**
Effect of exchange rate changes on cash and cash equivalents		**14 208**	**1 580**
Net increase in cash and cash equivalents		**249 801**	**107 616**
Cash and cash equivalents as at the beginning of the year	5	272 704	165 088
Cash and cash equivalents as at the end of the year	**5**	**522 505**	**272 704**

Consolidated Statement of Changes in Shareholders' Equity

Consolidated Statement of Changes in Shareholders' Equity for the Year Ended 31 December 2003 (expressed in thousands of US dollars — Note 3)

	Note	Share capital	Additional paid-in capital	Accumulated deficit	Total shareholders' equity
Balance as at 31 December 2001		**165 000**	**30 000**	**(104 673)**	**90 327**
Net profit for the year		—	—	24 177	24 177
Dividends declared and paid	20	—	—	(3 000)	(3 000)
Balance as at 31 December 2002		**165 000**	**30 000**	**(83 496)**	**111 504**
Net profit for the year		—	—	49 209	49 209
Dividends declared and paid	20	—	—	(3 640)	(3 640)
Balance as at 31 December 2003		**165 000**	**30 000**	**(37 927)**	**157 073**

Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements – 31 December 2003 (expressed in thousands of US dollars — Note 3)

1 Principal Activities

These consolidated financial statements include the financial statements of ZAO Raiffeisenbank Austria (the "Bank") and its subsidiaries and associates. The Bank and its subsidiaries together are referred to as the "Group".

ZAO Raiffeisenbank Austria (the "Bank") is a commercial bank owned by shareholders whose liability is limited to the equity invested. The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 1996. The Bank's principal business activity is commercial and retail banking operations within the Russian Federation.

The Bank is a subsidiary of Raiffeisen Zentralbank Osterreich (the "Parent Bank"), which owns 100% of the shareholders' capital through Raiffeisen International Beteiligungs AG.

The Bank's registered office is located at the following address: 17/1 Troitskaya str., 129090 Moscow, Russia. The Bank has 1 Branch in St Petersburg and 6 divisions in Moscow.

The average number of the Group's employees during the year was 494 (2002: 350).

A list of principal consolidated subsidiaries and associates is disclosed in Note 25.

2 Operating Environment of the Group

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

Whilst there have been improvements in economic trends, the future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

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

In addition, economic conditions continue to limit the volume of activity in the financial markets. Market quotations may not be reflective of the values for financial instruments which would be determined in an efficient, active market involving willing buyers and willing sellers. Management has therefore used the best available information to adjust market quotations to reflect their best estimate of fair values, where considered necessary.

3 Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board, including International Accounting Standards ("IAS") issued by the International Accounting Standards Committee and Interpretations issued by the Standing Interpretations Committee. The Group maintains its accounting records in accordance with Russian banking and accounting regulations and in accordance with IFRS. These consolidated financial statements have been prepared from the accounting records maintained by the Group in accordance with IFRS.

The national currency of the Russian Federation, where the Group is domiciled, is the Russian Rouble ("RR"). However, the Group's assets and liabilities are mostly denominated in United States dollars ("US dollars" or "USD") — refer to Note 21. The US dollar is used to a significant extent in, and has a significant impact on, the operations of the Group. Also, the US dollar is the currency in which Management manages the business risks and exposures, and measures the performance, of the Group's business. Based upon these and other factors, the measurement currency of the Group is considered to be the US dollar and, therefore, these consolidated financial statements are measured and presented in US dollars. The Group's accounting records provide sufficient accounting information regarding the original US dollar equivalent of transactions executed in other currencies.

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

Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current year. Accrued interest income and accrued interest expense previously disclosed along with other assets and other liabilities currently are disclosed along with related items.

4 Significant Accounting Policies

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

Associates. Associates are entities over which the Group has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Investments in associates are accounted for using the equity method of accounting. Under this method, the Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated statement of income, and its share of post-acquisition movements in reserves is recorded in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investments. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses unless the Group has incurred obligations or made payments on behalf of the associate.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Report

Management determines the appropriate classification of its investment securities at the time of purchase.

Investment securities available for sale are initially recorded at cost (which includes transaction costs) and subsequently remeasured to fair value based on quoted bid prices. Realised and unrealised gains and losses arising from changes in the fair value of investment securities available for sale are included in the consolidated statement of income in the period in which they arise. Interest earned on investment securities available for sale is reflected in the consolidated statement of income as interest income on investment securities available for sale. Dividends received are included in other operating income within the consolidated statement of income.

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

Premises and equipment. Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

At each reporting date the Group assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, the Group estimates the recoverable amount, which is determined as the higher of an asset's net selling price or its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the consolidated statement of income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the assets recoverable amount.

Construction in progress is carried at cost less provision for impairment. Upon completion, assets are transferred to premises and equipment at their carrying amount. 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 carrying amount and are taken into account in determining profit/(loss). Repairs and maintenance are charged to the consolidated statement of income when the expenditure is incurred.

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

Premises 2.5% per annum; and

Equipment 15–25% per annum.

Leasehold improvements — over the term of the underlying lease.

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

Promissory notes issued. Promissory notes issued by the Group to its customers, more commonly known as "veksels", carry a fixed date of repayment. These may be issued against cash deposits or as a payment instrument which the customer can discount in the over-the-counter secondary market. Promissory notes issued by the Group are recorded initially at cost, being their issue proceeds net of transaction costs incurred. Subsequently, promissory notes issued by the Group are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the consolidated statement of income over the period of the security issue using the effective yield method.

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

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

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

Additional paid-in capital. Additional paid-in capital represents the excess of contributions over the nominal value of shares issued and amounts contributed by shareholders in addition to payment for shares.

Dividends. Dividends are recorded in equity in the period in which they are declared. The statutory accounting reports of the Group are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

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

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

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

Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recorded as an adjustment to the effective yield on the loan. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recorded on completion of the underlying transaction.

Foreign currency translation. Monetary assets and liabilities originally denominated in USD are stated at their original USD amounts. Monetary assets and liabilities in other currencies have been translated to USD using the exchange rate ruling at the balance sheet date. Non-monetary assets and liabilities, which are denominated in currencies other than USD, have been translated into USD at the exchange rates in effect as at the date of transaction. Income and expenses, which were earned and incurred in currencies other than USD, have been translated into USD using a basis that approximates the rate of exchange ruling at the date of transaction.

Gains and losses arising from the translation of assets and liabilities into USD are reflected in the consolidated statement of income as foreign exchange translation losses net of gains.

As at 31 December 2003 the principal rate of exchange used for translating balances in Russian Roubles to USD was USD 1 = RR 29.45 (2002: USD 1 = RR 31.78).

Derivative financial instruments. Derivative financial instruments including foreign exchange contracts and other derivative financial instruments are initially recorded in the consolidated balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models, options pricing models or using the spot rate at the year end as the basis as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives are included in gains less losses arising from trading in foreign currency or gains less losses arising from trading securities depending on the related contracts.

The Group also trades in forwards in securities. All related gains and losses are recorded within gains less losses arising from trading securities.

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

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

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

Staff costs and related contributions. The Group's contributions to the Russian Federation state pension and social insurance funds in respect of its employees are expensed as incurred and included into staff costs. Bonuses are recorded when the decision on bonus payment is made by the Parent Bank.

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5 Cash and Cash Equivalents

	2003	2002
Cash on hand	47 304	24 758
Cash balances with the CBRF (other than mandatory reserve deposits)	54 942	34 494
Correspondent accounts and overnight placements with other banks		
– Russian Federation	8 908	5 115
– Other countries	411 351	208 337
Total cash and cash equivalents	**522 505**	**272 704**

Correspondent accounts in other countries include USD 380 011 thousand of term placements received from the Parent Bank and placed on a nostro account with the Parent Bank. Refer to Note 11.

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 21. The information on related party balances is disclosed in Note 24.

6 Trading Securities

	2003	2002
Corporate bonds	36 952	10 002
Municipal bonds	31 512	–
Federal loan bonds (OFZ bonds)	3 410	19 761
Corporate shares	1 614	5 181
Russian Federation Eurobonds	–	11 751
Accrued interest income	1 237	1 329
Total trading securities	**74 725**	**48 024**

Corporate bonds are interest bearing securities denominated in RR, issued by large Russian companies, and are freely tradable in Russia. These bonds have maturity dates ranging from 2004 to 2009, coupon rates of approximately 9–17% in 2003 (2002: 12–20%) and a yield to maturity from 7% to 15% as at 31 December 2003 (2002: 14–19%), depending on the type of bond issue.

Municipal bonds are interest bearing securities denominated in RR, issued by the Moscow Government, and are freely tradable in Russia. These bonds have maturity dates from 2004 to 2007, coupon rates of approximately 10–15% in 2003 and yield to maturity from 7% to 9% as at 31 December 2003, depending on type of bond issue.

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds are issued at a discount to face value, have maturity dates in 2004, a coupon rate of approximately 10% in 2003 (10–12% in 2002) and yield to maturity of 3.3% as at 31 December 2003 (2002: from 13.3% to 13.8%).

Corporate shares are shares of Russian companies.

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

Geographical, currency and interest rate analyses of trading securities are disclosed in Note 21.

7 Due from Other Banks

	2003	2002
Current term placements with other banks	157 236	194 378
Accrued interest income	449	852
Total due from other banks	**157 685**	**195 230**

As at 31 December 2003 the estimated fair value of due from other banks was USD 157 685 thousand (2002: USD 195 230 thousand). Refer to Note 23.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 21. The information on related party balances is disclosed in Note 24.

8 Loans and Advances to Customers

	2003	2002
Current loans	1 122 633	743 033
Securities directly purchased from the issuer and classified as originated loans	23 382	9 056
Overdue loans	1 230	1 171
Accrued interest income	3 612	2 746
Less: Provision for loan impairment	(20 561)	(11 508)
Total loans and advances to customers	**1 130 296**	**744 498**

Movements in the provision for loan impairment are as follows:

	2003	2002
Provision for loan impairment as at 1 January	**(11 508)**	**(5 374)**
Provision for loan impairment during the year	(9 053)	(6 134)
Provision for loan impairment as at 31 December	**(20 561)**	**(11 508)**

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

	2003		2002	
	Amount	%	Amount	%
Manufacturing	516 751	45	446 639	59
Individuals	141 860	12	26 183	3
Mining	121 499	11	87 736	12
Trade	120 240	10	46 500	6
Financial Services	92 446	8	37 532	5
Real estate	69 584	6	29 843	4
Construction	20 107	2	4 900	1
Other	64 758	6	73 927	10
Total loans and advances to customers (aggregate amount net of accrued interest income)	**1 147 245**	**100**	**753 260**	**100**

At 31 December 2003 the Group had 12 borrowers with aggregated loan amounts above USD 27 000 thousand. The aggregate amount of these loans is USD 478 400 thousand, or 42% of the gross loan portfolio.

For the purposes of decreasing the risk associated with the loan portfolio, some of the loans are secured with a cash collateral held by the Group or guarantees from other banks. As at 31 December 2003 the total amount of cash collateral received by the Group in relation to loans outstanding amounted to USD 29 338 thousand (2002: USD 600 thousand) and the total amount of guarantees received from other banks as collateral in relation to loans outstanding amounted to USD 97 730 thousand (2002: USD 209 453 thousand), including guarantees in the amount of USD 95 442 thousand (2002: USD 207 465 thousand) received from the Parent Bank. Management has not established a provision against the loans guaranteed by the Parent Bank. Refer to Note 24 for information on related party transactions.

As at 31 December 2003 the estimated fair value of loans and advances to customers was USD 1 130 296 thousand (2002: USD 744 498 thousand). Refer to Note 23.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 21.

9 Investment Securities Available for Sale

Securities available for sale represent corporate bonds denominated in RR issued by a large Russian company, which are freely tradable in Russia. These bonds have maturity dates in 2006, a coupon rate of approximately 8.8% in 2003 and yield to maturity of 7% as at 31 December 2003.

Geographical, currency, maturity and interest rate analyses of investment securities available for sale are disclosed in Note 21.

10 Premises and Equipment

	Note	Premises	Leasehold improvements	Office and computer equipment	Construction in progress	Total
Net book amount as at 31 December 2002		**7 368**	**2 737**	**4 468**	**564**	**15 137**
Book amount at cost						
Opening balance		8 261	3 301	7 431	564	19 557
Additions		5 056	1 102	2 849	1 382	10 389
Transfers		34	530	—	(564)	—
Disposals		—	—	(139)	—	(139)
Closing balance		**13 351**	**4 933**	**10 141**	**1 382**	**29 807**
Accumulated depreciation						
Opening balance		(893)	(564)	(2 963)	—	(4 420)
Depreciation charge	18	(307)	(371)	(1 292)	—	(1 970)
Disposals		—	—	126	—	126
Closing balance		**(1 200)**	**(935)**	**(4 129)**	**—**	**(6 264)**
Net book amount as at 31 December 2003		**12 151**	**3 998**	**6 012**	**1 382**	**23 543**

Construction in progress consists mainly of construction and refurbishment of Branch premises. Upon completion, assets are transferred to premises and equipment.

11 Due to Other Banks

	2003	2002
Current term placements of other banks	754 638	556 839
Correspondent accounts and overnight placements of other banks	72 887	2 962
Amounts due under sale and repurchase agreements with other banks	—	7 614
Accrued interest expense	1 676	2 133
Total due to other banks	**829 201**	**569 548**

Current term placements of other banks include USD 380 011 thousand received from the Parent Bank which have been placed on a nostro account with the Parent Bank. Refer to Note 5.

As at 31 December 2003 the estimated fair value of due to other banks was USD 829 201 thousand (2002: USD 569 548 thousand). Refer to Note 23.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 21. The information on related party balances is disclosed in Note 24.

12 Customer Accounts

	2003	2002
Legal entities		
— Current/settlement accounts	391 638	246 168
— Term deposits	88 583	108 433
Individuals		
— Current/demand accounts	267 434	137 211
— Term deposits	201 584	150 012
Accrued interest expense	1 739	1 358
Total customer accounts	**950 978**	**643 182**

Economic sector concentrations within customer accounts are as follows:

	2003		2002	
	Amount	%	Amount	%
Individuals	469 018	49	287 223	46
Manufacturing	182 144	19	171 924	27
Financial services	115 127	12	46 628	7
Transport and communications	52 382	6	85 672	13
Real estate and renting	44 341	5	6 371	1
Trade	32 322	3	20 811	3
Mining	15 637	2	14 397	2
Other	38 268	4	8 798	1
Total customer accounts (net of accrued interest expense)	**949 239**	**100**	**641 824**	**100**

As at 31 December 2003 the estimated fair value of customer accounts was USD 950 978 thousand (2002: USD 643 182 thousand). Refer to Note 23.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 21.

13 Other Borrowed Funds

	2003	2002
Subordinated loans from other banks	40 000	20 000
Term borrowings from other banks	39 495	—
Accrued interest expense	281	195
Total other borrowed funds	**79 776**	**20 195**

The Group has borrowings net of accrued interest in the amount of USD 20 000 thousand (2002: USD 20 000 thousand) in the form of a subordinated loan from European Bank for Reconstruction and Development. The contractual maturity of this loan is 18 December 2007 and the annual interest rate is LIBOR plus 2.5% per annum.

The Group has borrowings net of accrued interest in the amount of USD 20 000 thousand in the form of a subordinated loan from the Parent Bank. The contractual maturity of this loan is 15 June 2010 and the annual interest rate is LIBOR plus 3.5% per annum.

The Group has borrowings net of accrued interest in the amount of USD 39 495 thousand in the form of a loan from the International Finance Corporation. The contractual maturity of this loan is 15 December 2012 and the annual interest rate is LIBOR plus 2% per annum.

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As at 31 December 2003 the estimated fair value of other borrowed funds was USD 79 776 thousand (2002: USD 20 195 thousand). Refer to Note 23.

Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 21. The information on related party balances is disclosed in Note 24.

14 Share Capital

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

	2003			2002		
	Number of shares	Nominal amount in thousands of RR	Amount in thousands of USD	Number of shares	Nominal amount in thousands of RR	Amount in thousands of USD
Ordinary shares	1 000	1 004 000	165 000	1 000	1 004 000	165 000
Total share capital	**1 000**	**1 004 000**	**165 000**	**1 000**	**1 004 000**	**165 000**

Contributions to the Group's share capital were originally made in the form of USD. All ordinary shares have a nominal value of RR 1 004 thousand per share, rank equally and carry one vote.

As at 31 December 2003 shareholders of the Group approved a decision to increase the share capital of the Group by USD 30 000 thousand.

15 Accumulated Deficit and Other Reserves

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers 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 at 31 December 2003 are RR 3 213 992 thousand (2002: RR 1 910 072 thousand).

16 Interest Income and Expense

	2003	2002
Interest income		
Loans and advances to customers	68 127	44 131
Securities	12 130	4 595
Due from other banks	7 955	10 176
Total interest income	**88 212**	**58 902**
Interest expense		
Term placements of other banks	19 007	13 632
Term deposits of individuals	4 237	3 773
Current/settlement accounts	3 402	3 618
Term deposits of legal entities	2 582	4 706
Other borrowed funds	1 273	925
Promissory notes	43	96
Total interest expense	**30 544**	**26 750**
Net interest income	**57 668**	**32 152**

17 Fee and Commission Income and Expense

	2003	2002
Fee and commission income		
Commission income on foreign exchange operations	5 534	2 988
Commissions on operations with plastic cards	4 839	3 872
Documentary business commissions	4 127	2 441
Commissions on export operations	3 660	2 518
Commission on settlement transactions	2 814	2 200
Commission on transactions with securities	2 742	2 315
Commission on cash operations	1 670	1 910
Other	1 594	1 101
Total fee and commission income	**26 980**	**19 345**
Fee and commission expense		
Standby facility fees (Note 21)	6 000	6 000
Documentary business commissions	3 381	1 784
Commissions on settlement transactions	1 428	973
Commission on transactions with securities	1 270	761
Other	1 655	1 897
Total fee and commission expense	**13 734**	**11 415**
Net fee and commission income	**13 246**	**7 930**

18 Operating Expenses

	Note	2003	2002
Staff costs		16 885	12 350
Other expenses related to premises and equipment		3 131	2 611
Taxes other than on income		2 411	2 272
Depreciation	10	1 970	1 904
Advertising and marketing		1 296	754
Professional services		651	485
Other operating expenses		6 211	4 370
Total operating expenses		**32 555**	**24 746**

19 Income Taxes

Income tax expense comprises the following:

	2003	2002
Current tax charge	14 508	7 915
Deferred taxation movement due to origination and reversal of temporary differences	(1 685)	(2 679)
Income tax expense for the year	**12 823**	**5 236**

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

	2003	2002
Profit before taxation	**62 032**	**29 413**
Theoretical tax charge at the applicable statutory rate	14 888	7 059
Tax effect of items which are not deductible or assessable for taxation purposes:		
— Non taxable recovery of provision for impairment of loans	(878)	(65)
— Non temporary elements of translation gains and losses	(1 993)	1 690
— Other accrued income/expenses	1 396	(156)
— Utilisation of tax losses carried forward	(290)	(1 637)
— Income on government securities taxed at different rates	(300)	(148)
Non-recognised net deferred tax asset movement	—	(1 507)
Income tax expense for the year	**12 823**	**5 236**

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

	2001	Movement	2002	Movement	2003
Tax effect of deductible temporary differences					
Accruals	*415*	*(415)*	*–*	*1 119*	*1 119*
Tax loss carried forward	*3 015*	*(1 545)*	*1 470*	*(1 470)*	*–*
Gross deferred tax asset	***3 430***	***(1 960)***	***1 470***	***(351)***	***1 119***
Less: non-recorded deferred tax asset	*(1 507)*	*1 507*	*–*	*–*	*–*
Net deferred tax asset	***1 923***	***(453)***	***1 470***	***(351)***	***1 119***
Tax effect of taxable temporary differences					
Accruals	*(938)*	*938*	*–*	*–*	*–*
Premises and equipment	*(1 118)*	*45*	*(1 073)*	*(17)*	*(1 090)*
Valuation of trading securities	*(55)*	*(29)*	*(84)*	*(199)*	*(283)*
Loan impairment provision	*(4 662)*	*2 178*	*(2 484)*	*2 252*	*(232)*
Gross deferred tax liability	***(6 773)***	***3 132***	***(3 641)***	***2 036***	***(1 605)***
Total net deferred tax liability	***(4 850)***	***2 679***	***(2 171)***	***1 685***	***(486)***

20 Dividends

Interim dividends for the year 2003 were declared and paid by the Group in December 2003 in the amount of USD 3 640 thousand (2002: USD 3 000 thousand). Dividend per share declared and paid during 2003 were USD 3.64 per share (2002: USD 3 per share).

21 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, borrower and industry sector are approved regularly by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

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

The Group's maximum exposure to credit risk is primary reflected in the carrying amounts of financial assets in the consolidated balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

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

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

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

	Russia	OECD	Non OECD	Total
Assets				
Cash and cash equivalents	*111 154*	*411 340*	*11*	*522 505*
Mandatory cash balances with the Central Bank of the Russian Federation	*103 179*	*–*	*–*	*103 179*
Trading securities	*74 725*	*–*	*–*	*74 725*
Due from other banks	*106 603*	*51 082*	*–*	*157 685*
Loans and advances to customers	*1 130 296*	*–*	*–*	*1 130 296*
Investment securities available for sale	*5 181*	*–*	*–*	*5 181*
Investment in associate	*1 582*	*–*		*1 582*
Other assets	*4 405*	*61*	*–*	*4 466*
Premises and equipment	*23 543*	*–*	*–*	*23 543*
Total assets	***1 560 668***	***462 483***	***11***	***2 023 162***
Liabilities				
Due to other banks	*158 390*	*670 734*	*77*	*829 201*
Customer accounts	*845 300*	*33 271*	*72 407*	*950 978*
Promissory notes issued	*4 079*	*–*	*–*	*4 079*
Other borrowed funds	*–*	*79 776*	*–*	*79 776*
Other liabilities	*1 365*	*204*	*–*	*1 569*
Deferred tax liability, net	*486*	*–*	*–*	*486*
Total liabilities	***1 009 620***	***783 985***	***72 484***	***1 866 089***
Net balance sheet position	***551 048***	***(321 502)***	***(72 473)***	***157 073***
Credit related commitments	***170 954***	***5 896***	***123***	***176 973***

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from off-shore companies of these Russian counterparties are allocated to the caption "Russia". Cash on hand, precious metals and premises and equipment have been allocated based on the country in which they are physically held.

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

	Russia	OECD	Non OECD	Total
Net balance sheet position	344 881	(231 383)	(1 994)	111 504
Credit related commitments	124 587	150	–	124 737

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

	RR	USD	Euro	Other currencies	Total
Assets					
Cash and cash equivalents	79 131	430 171	12 138	1 065	522 505
Mandatory cash balances with the Central Bank of the Russian Federation	103 179	–	–	–	103 179
Trading securities	74 725	–	–	–	74 725
Due from other banks	107 427	50 225	33	–	157 685
Loans and advances to customers	91 055	1 006 598	30 021	2 622	1 130 296
Investment securities available for sale	5 181	–	–	–	5 181
Investment in associate	1 582				1 582
Other assets	3 959	418	89	–	4 466
Premises and equipment	23 543	–	–	–	23 543
Total assets	489 782	1 487 412	42 281	3 687	2 023 162
Liabilities					
Due to other banks	93 362	723 763	10 720	1 356	829 201
Customer accounts	315 440	505 732	129 025	781	950 978
Promissory notes issued	3 531	299	249	–	4 079
Other borrowed funds	–	79 776	–	–	79 776
Other liabilities	1 160	381	28		1 569
Deferred tax liability, net	486	–	–	–	486
Total liabilities	413 979	1 309 951	140 022	2 137	1 866 089
Net balance sheet position	75 803	177 461	(97 741)	1 550	157 073
Credit related commitments	5 043	117 591	54 165	174	176 973
Off-balance sheet net notional position	115 250	(211 419)	97 766	(1 873)	(276)

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

	RR	USD	Euro	Other currencies	Total
Net balance sheet position	37 956	70 512	(2 716)	5 752	111 504
Credit related commitments	3 541	101 614	19 271	311	124 737
Off-balance sheet net notional position	82 931	(79 781)	3 125	(6 560)	(285)

The Group has extended loans and advances denominated in foreign currencies. Depending on the revenue stream of the borrower, the appreciation of the currencies against the Russian Rouble may adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

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

The table below shows assets and liabilities as at 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 liquidity position of the Group as at 31 December 2003 is set out below.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	522 505	–	–	–	–	522 505
Mandatory cash balances with the Central Bank of the Russian Federation	84 125	11 460	5 601	1 993	–	103 179
Trading securities	74 725	–	–	–	–	74 725
Due from other banks	120 957	25 074	7 281	4 373	–	157 685
Loans and advances to customers	106 434	224 970	181 181	617 711	–	1 130 296
Investment securities available for sale	–	–	53	5 128	–	5 181
Investment in associate	–	–	–	1 582	–	1 582
Other assets	4 466	–	–	–	–	4 466
Premises and equipment	–	–	–	–	23 543	23 543
Total assets	**913 212**	**261 504**	**194 116**	**630 787**	**23 543**	**2 023 162**
Liabilities						
Due to other banks	239 234	64 486	44 368	481 113	–	829 201
Customer accounts	775 367	105 623	51 623	18 365		950 978
Promissory notes issued	3 531	548	–	–	–	4 079
Other borrowed funds	–	281	–	79 495	–	79 776
Other liabilities	1 569	–	–	–	–	1 569
Deferred tax liability, net	–	–	–	–	486	486
Total liabilities	**1 019 701**	**170 938**	**95 991**	**578 973**	**486**	**1 866 089**
Net liquidity gap	**(106 489)**	**90 566**	**98 125**	**51 814**	**23 057**	**157 073**
Cumulative liquidity gap as at 31 December 2003	**(106 489)**	**(15 923)**	**82 202**	**134 016**	**157 073**	**–**
Cumulative liquidity gap as at 31 December 2002	**(62 232)**	**(257 013)**	**(69 866)**	**98 179**	**111 504**	**–**

The entire portfolio of trading securities is classified within demand and less than one month as the portfolio is of a trading nature and Management believe this is a fairer portrayal of its liquidity position.

Mandatory cash balances with the CBRF are mainly included within demand and less than one month as the majority of liabilities to which this balance relates are also included within this category. However, these balances could be withdrawn only in the month subsequent to the month of the withdrawal of related customer accounts.

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

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

Liquidity requirements to support calls under guarantees are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The Parent Bank has committed to provide financial support to the Group through the Bank in the event of a substantial change in market conditions in the Russian Federation via a loan facility of up to USD 400 million. This commitment is valid for one year up to 31 January 2004. A similar arrangement with a facility of up to USD 400 million was effective during 2002 and has been renewed for 2004. A substantial change of market conditions is defined as the impossibility for the Bank to borrow monetary funds on the currency market of the Russian Federation at a rate less than LIBOR plus 5%. During 2003 the Bank paid to the Parent Bank a standby facility fee of 1.5%, or USD 6 000 thousand with respect to this arrangement (2002: USD 6 000 thousand). Refer to Notes 17 and 24.

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

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

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

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

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non interest bearing	Total
Assets						
Cash and cash equivalents	522 505	–	–	–	–	522 505
Mandatory cash balances with the Central Bank of the Russian Federation	84 125	11 460	5 601	1 993	–	103 179
Trading securities	74 725	–	–	–	–	74 725
Due from other banks	120 957	25 074	7 281	4 373	–	157 685
Loans and advances to customers	818 020	147 509	20 892	143 875	–	1 130 296
Investment securities available for sale	–	–	53	5 128	–	5 181
Investment in associate	–	–	–	1 582	–	1 582
Other assets	4 466	–	–	–	–	4 466
Premises and equipment	–	–	–	–	23 543	23 543
Total assets	**1 624 798**	**184 043**	**33 827**	**156 951**	**23 543**	**2 023 162**
Liabilities						
Due to other banks	239 234	64 486	44 368	481 113	–	829 201
Customer accounts	775 367	105 623	51 623	18 365	–	950 978
Promissory notes issued	3 531	548	–	–	–	4 079
Other borrowed funds	–	281	–	79 495	–	79 776
Other liabilities	1 569	–	–	–	–	1 569
Deferred tax liability, net	–	–	–	–	486	486
Total liabilities	**1 019 701**	**170 938**	**95 991**	**578 973**	**486**	**1 866 089**
Net sensitivity gap	**605 097**	**13 105**	**(62 164)**	**(422 022)**	**23 057**	**157 073**
Cumulative sensitivity gap at 31 December 2003	**605 097**	**618 202**	**556 038**	**134 016**	**157 073**	**–**
Cumulative sensitivity gap at 31 December 2002	**463 914**	**208 085**	**238 130**	**98 179**	**111 504**	**–**

The table below summarises the effective interest rates by major currencies for major monetary financial instruments. The analysis has been prepared on the basis of weighted average interest rates using period-end effective contractual rates.

	2003				2002			
	USD	RR	Euro	Other currencies	USD	RR	Euro	Other currencies
Assets								
Cash and cash equivalents	0.03%	0.08%	0.03%	0%	0.03%	0.09%	0.03%	0%
Debt trading securities	–	9.12%	–	–	12.57%	16.49%	–	–
Due from other banks	1.21%	1.88%	0%	–	1.17%	14.18%	0%	–
Loans and advances to customers	6.63%	12.46%	6.61%	4.59%	6.68%	16.65%	6.70%	5.92%
Debt investment securities available for sale	–	7.00%	–	–	–	16.67%	–	–
Liabilities								
Due to other banks	3.53%	0.73%	3.58%	4.98%	3.36%	12.35%	7.54%	0%
Customer accounts								
- current and settlement accounts	0%	0.1%	0%	0%	0%	0.1%	0%	0%
- term deposits	2.30%	2.22%	2.68%	0.50%	3.31%	6.53%	2.06%	0%
Promissory notes issued	0.75%	1.73%	2.47%	–	1.81%	–	–	–
Other borrowed funds	4.06%	–	–	–	4.16%	–	–	–

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

22 Contingencies, Commitments and Derivative Financial Instruments

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

Tax legislation. Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgement of business activities, Management's judgement of the Group's 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 two different counterparties 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 Group may be assessed for 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 at 31 December 2003 the Group has capital commitments in respect of reconstruction of premises totalling USD 1 253 thousand (2002: nil). The Group's Management has already allocated the necessary resources in respect of this commitment. The Group's Management believes that future net revenues and funding will be sufficient to cover this and any similar such commitments.

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non cancellable premises operating leases are as follows:

	2003	2002
Not later than 1 year	*204*	*388*
Later than 1 year and not later than 5 years	*654*	*226*
Later than 5 years	*289*	*518*
Total operating lease commitments	***1 147***	***1 132***

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Outstanding credit related commitments are as follows:

	2003	2002
Export letter of credit	*1 067*	*–*
Import letters of credit	*8 247*	*44 392*
Guarantees issued	*167 659*	*80 345*
Total credit related commitments	***176 973***	***124 737***

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

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

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

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

	Domestic			Foreign		
	Principal or agreed amount	Negative fair value	Positive fair value	Principal or agreed amount	Negative fair value	Positive fair value
Deliverable forwards						
Foreign currency						
– sale of USD against foreign currencies	–	–	–	1 349	–	23
– purchase of USD against other currencies	–	–	–	3 200	(21)	–
Spot						
Foreign currency						
– purchase of RR against foreign currencies	53 789	(211)	–	82 377	–	2
– sale of RR against foreign currencies	21 000	–	84	–	–	–
– purchase of EUR against other currencies	1 875	(17)	–	96 265	(136)	–
Total	**76 664**	**(228)**	**84**	**183 191**	**(157)**	**25**

For these deals the Group has recorded a net loss of USD 276 thousand which is included within gains less losses arising from trading in foreign currencies in the consolidated statement of income.

In 2003 the Group entered into interest rate swap agreements with the Parent Bank. These agreements have maturity dates from 2006 to 2013. Total notional amount of interest rate swaps as at 31 December 2003 amounted to USD 33 134 thousand (2002: nil). As at 31 December 2003 the estimated fair value of interest rate swap agreements was nil (2002: nil).

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

	2003 Nominal value	2002 Nominal value
Shares in companies held in custody of Depository Clearing Centre	*23 389*	*13 766*
Corporate bonds held on an account with National Depository Centre (NDC)	*15 464*	*91 589*
Shares in companies held in custody of Aktsionerny Capital	*5 084*	*471*
Minfin RF Eurobonds held on an account with NDC	*2 870*	*31*
Client OFZ securities held on an account with NDC	*2 181*	*10 647*
Shares in companies held in other custodies	*1 715*	*160*
Client GKO securities held on an account with NDC	*1 698*	*5 012*
Other banks' bonds held on an account with NDC	*871*	*–*
Municipal bonds held on an account with NDC	*595*	*503*
Bank's promissory notes purchased by clients and held on account with the Bank	*550*	*2 695*
Shares in companies held in custody of NDC	*196*	*204*
Shares in banks held in custody of NDC	*155*	*–*

Assets pledged. As at 31 December 2003 the Group had no assets pledges as collateral. As at 31 December 2002 the Group pledged trading securities with a fair value of USD 7 570 thousand against liabilities of USD 7 614 thousand.

In addition, mandatory cash balances with the CBRF in the amount of USD 103 179 thousand (2002: USD 68 049 thousand) represent mandatory cash reserve deposits which are not available to finance the Group's day to day operations.

23 Fair Value of Financial Instruments

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

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. As described in more detail in Note 2, the Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Financial instruments carried at fair value. Cash and cash equivalents, trading securities and investment securities available for sale are carried on the balance sheet at their fair value.

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

Liabilities carried at amortised cost. The fair value of instruments with a quoted market price is based on quoted market prices. The estimated fair value of instruments with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest rate instruments without a quoted market price is based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 11, 12 and 13 for the estimated fair values of due to other banks, customer accounts and other borrowed funds, respectively.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of derivative financial instruments is disclosed in Note 22.

24 Related Party Transactions

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

Banking transactions are entered into in the normal course of business with significant shareholders, directors and other related parties. The balances and transactions included in the table below are mainly with the Parent Bank. These transactions include settlements, loans, deposit taking, guarantees, trade finance and foreign currency transactions. These transactions are priced predominantly at market rates. The outstanding balances at the year end and income and expense items for the year with related parties are as follows:

	2003	2002
Parent Bank		
Correspondent accounts and overnight placements with other banks	***385 681***	***188 162***
Due from other banks		
Term placements at the year end — RR denominated (contractual interest rate: 2003: 9.5%)	*2 072*	*—*
Term placements at the year end — USD denominated (contractual interest rate: 2003: 1.1%; 2002: 1.2%)	*35 000*	*169 160*
Term placements at the year end — cover for letters of credit (contractual interest rate: 2003: 0%; 2002: 0%)	*7 633*	*19 304*
Interest income	***1 938***	***3 375***
Due to other banks		
Correspondent accounts and overnight placements of other banks at the year end	*456*	*316*
Term placement at the year end (contractual interest rate: 2003: 1.3–7.5%; 2002: 1.7–9.5%)	*524 230*	*475 382*
Other borrowed funds (contractual interest rate: 2003: 4.6%)	***20 042***	***—***
Interest expense	***(14 575)***	***(7 532)***
Fee and commission expense	***(8 970)***	***(6 549)***
Profit from FOREX operations	***10 852***	***1 708***
Guarantees received by the Group as at the year end	***150 241***	***297 915***
Import letters of credit as at the year end	***4 202***	***651***
Interest rate swap agreements (notional amount)	***33 134***	***—***
Unused limit of the standby facility	***20 000***	***260 000***
Other related parties		
Loans and advances to customers		
Loans and advances at the year end (contractual interest rate: 2003: 3.5%; 2002: 3.4%)	*20 265*	*9 476*
Provision for loan impairment at the year end	*(1 137)*	*(1 142)*
Interest income	***739***	***383***
Customer accounts		
Current/ settlement accounts at the year end	*269*	*924*

In 2003 the total remuneration of members of the Board of Directors, including pension contributions, and discretionary compensation amounts to USD 757 thousand (2002: USD 653 thousand).

25 Investments in Subsidiaries and Associates

Below is listing of principal consolidated subsidiaries:

Name	Nature of business	Percentage of voting rights	Percentage of ownership	Country of registration
OOO "RBA – Finance"	*Finance/ Investments*	*100*	*100*	*Russia*

Below is listing of associates accounted for using the equity method of accounting:

Name	Nature of business	Percentage of voting rights	Percentage of ownership	Country of registration
ZAO "Raiffeisen-Leasing"	*Leasing*	*50*	*50*	*Russia*