

**PROMSVYAZBANK**

Consolidated  
Financial Statements  
for the year ended  
31 December 2003

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**Promsvyazbank  
Shareholders, Management and Auditors**

<b>Shareholders</b>	<b>% Ownership/ % Votes</b>
OOO "XXII vek"	17.53%
OOO "Svyaztorgservice"	12.86%
OOO "Electrotechsvyaz"	11.88%
OOO "Tehnosvyazinform"	11.82%
OOO "TFK Kontrast"	11.30%
OOO "Regionalny center svyazi"	11.01%
OOO "Pnevmo-service"	10.60%
OOO "Zvezdochka"	7.95%
OOO "Transsvyazservice"	4.18%
OAO "Rostelecom"	0.87%
	100.00%

**Council as of 31 December 2003**

<i>Ananyev D.N.</i>	<i>Chairman of the Council, OOO "Technoserv A/C", Deputy of Councillor of the Chairman of the Board</i>
<i>Ananyev A.N.</i>	<i>OOO "Technoserv A/C", Councillor of the Chairman of the Board</i>
<i>Levkovskiy A.A.</i>	<i>President, Chairman of the Promsvyazbank Board</i>
<i>Zyatkov N.I.</i>	<i>ZAO "Argumenty i facty", President</i>
<i>Chernavin V.S.</i>	<i>OAO "Volzhsky abrazivny zavod", General Director</i>

**Board of Management as of 31 December 2003**

<i>Levkovskiy A.A.</i>	<i>President, Chairman of the Board</i>
<i>Ivanov D.N.</i>	<i>First Vice-President</i>
<i>Sennikov D.S.</i>	<i>Senior Vice-President, Head of Department on Working with Corporate Clients</i>
<i>Khokhryakov P.S.</i>	<i>Vice-President</i>
<i>Morozova I.V.</i>	<i>Chief Accountant, Head of Accounting, Reporting and Settlements Department</i>
<i>Zudilina Yu.M.</i>	<i>Head of Financial Department</i>

**Auditors**

KPMG Limited, Moscow



KPMG Limited

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## INDEPENDENT AUDITORS' REPORT

To the Council of Promsvyazbank

We have audited the accompanying consolidated balance sheet of Promsvyazbank and its subsidiaries ("the Group") as of 31 December 2003, and the related statements of income, changes in shareholders' equity and cash flow for the year then ended. These consolidated financial statements as set on pages 5 to 46 are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2003, and the results of its operations, changes in shareholders' equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards as promulgated by the International Accounting Standards Board.

*KPMG Limited*

KPMG Limited  
Moscow, Russian Federation  
28 April 2004



**Promsvyazbank**  
*Consolidated Income Statement*  
*for the year ended 31 December 2003*

	Notes	2003 RUR'000	2002 RUR'000
Interest income		3,069,530	1,991,781
Interest expense		(1,097,823)	(757,296)
<b>Net interest income</b>	5	<b>1,971,707</b>	<b>1,234,485</b>
Fee and commission income	6	476,134	266,739
Fee and commission expense	7	(280,527)	(111,426)
<b>Net fee and commission income</b>		<b>195,607</b>	<b>155,313</b>
Net securities trading income	8	291,997	274,853
Net foreign exchange trading income		48,536	69,390
Net foreign exchange translation (loss)/gain		(103,935)	151,270
Net gain on non-trading financial instruments	9	43,768	62,040
Net loss on monetary position		-	(375,018)
Other income		87,349	44,127
<b>Other operating income</b>		<b>367,715</b>	<b>226,662</b>
Impairment losses	10	(493,533)	(205,157)
General administrative expenses	11	(921,574)	(695,777)
<b>Income before taxes</b>		<b>1,119,922</b>	<b>715,526</b>
Income tax expense	12	(383,948)	(231,827)
<b>Net income after taxes</b>		<b>735,974</b>	<b>483,699</b>
Minority interest		(14,593)	(22,565)
<b>Net income for the year</b>		<b>721,381</b>	<b>461,134</b>

The consolidated financial statements as set out on pages 5 to 46 were approved by the Board of Management of the Group on 28 April 2004.

*Levkovskiy A.A.*  
 President



*Morozova I.V.*  
 Chief Accountant

The consolidated income statement is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

**Promsvyazbank**  
*Consolidated Balance Sheet*  
*as of 31 December 2003*

	Notes	2003 RUR'000	2002 RUR'000
		<hr/>	<hr/>
<b>ASSETS</b>			
Cash and bullion		815,711	560,007
Due from the Central Bank of the Russian Federation	13	2,925,314	1,791,047
Placements with banks and other financial institutions	14	3,169,521	2,142,471
Financial instruments held for trading	15	5,603,764	4,745,996
Amounts receivable under reverse repurchase agreements	16	774,323	880,646
Loans to customers and lease receivables	17	24,989,734	13,484,011
Investments	18	392,780	267,656
Investment property	19	2,221,069	208,200
Prepaid taxes		21,472	3,925
VAT receivable		304,694	-
Other assets	20	89,455	58,302
Property and equipment	21	559,635	337,661
		<hr/>	<hr/>
<b>Total Assets</b>		<b><u>41,867,472</u></b>	<b><u>24,479,922</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Liabilities on financial instruments held for trading	15	46,601	2,910
Deposits and balances from banks and other financial institutions	22	8,943,033	3,025,783
Amounts payable under repurchase agreements	16	471,300	153,062
Current accounts and deposits from customers	23	17,185,981	10,132,321
Own securities issued	24	8,712,751	7,241,020
Other liabilities	25	135,206	19,272
Liability to purchase leasing equipment		254,673	-
Taxes payable		31,471	10,877
Deferred tax liability	26	289,090	130,523
		<hr/>	<hr/>
<b>Total Liabilities</b>		<b><u>36,070,106</u></b>	<b><u>20,715,768</u></b>
<b>Minority interest</b>		<b>134,739</b>	<b>55,667</b>
<b>Shareholders' Equity</b>			
Share capital	27	2,272,794	2,257,794
Share premium		1,902,245	867,245
Additional paid-in-capital		182,759	-
Retained earnings		1,304,829	583,448
		<hr/>	<hr/>
<b>Total Shareholders' Equity</b>		<b><u>5,662,627</u></b>	<b><u>3,708,487</u></b>
		<hr/>	<hr/>
<b>Total Liabilities and Shareholders' Equity</b>		<b><u>41,867,472</u></b>	<b><u>24,479,922</u></b>
Commitments and Contingencies	29,30,31		

The consolidated balance sheet is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

**Promsvyazbank**  
*Consolidated Statement of Cash Flows*  
*for the year ended 31 December 2003*

	2003	2002
Note	RUR'000	RUR'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest and fee and commission receipts	3,555,479	2,034,238
Interest and fee and commission payments	(1,338,921)	(641,854)
Net receipts from securities trading	309,383	176,469
Net receipts from foreign exchange	48,536	203,590
Net receipts from disposal of non-trading financial instruments	8,600	12,184
Other income	84,169	41,269
General administrative expenses	<u>(826,091)</u>	<u>(624,398)</u>
<b>Operating cash flow before changes in operating assets and liabilities</b>	<b><u>1,841,155</u></b>	<b><u>1,201,498</u></b>
<b>(Increase)/decrease in operating assets</b>		
Due from the Central Bank of the Russian Federation	(744,768)	(375,831)
Placements with banks and other financial institutions over		
1 month	(417,958)	(795,863)
Financial instruments held for trading and available for sale	(912,220)	(3,742,021)
Amounts receivable under reverse repurchase agreements	103,593	(873,047)
Loans to customers and lease receivables	(11,116,681)	(5,300,920)
Other assets	(8,106)	(43,610)
<b>Increase/(decrease) in operating liabilities</b>		
Deposits and balances from banks and other financial institutions	5,645,802	875,764
Amounts payable under reverse repurchase agreements	324,725	151,501
Current accounts and deposits from customers	7,191,452	4,668,856
Certificates of deposit and promissory notes	894,868	3,631,444
Other liabilities	<u>12,375</u>	<u>324</u>
<b>Net cash provided from operating activities before taxes paid</b>	<b><u>2,814,237</u></b>	<b><u>(601,905)</u></b>
Taxes paid	<u>(258,304)</u>	<u>(138,138)</u>
<b>Cash flows from operations</b>	<b><u>2,555,933</u></b>	<b><u>(740,043)</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of subsidiaries	-	5,720
Dividends received	3,180	2,415
Contribution to Promregionsvyaz pension fund	(37,650)	(23,000)
Acquisition of investment property	(2,048,446)	(188,212)
Cash flow effect from contribution of Promsvyazleasing Group	4 17	-
Proceeds from sale of property and equipment	51,358	32,866
Purchases of property and equipment	<u>(331,433)</u>	<u>(200,072)</u>
<b>Cash flows from investing activities</b>	<b><u>(2,362,974)</u></b>	<b><u>(370,283)</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of share capital	<u>1,050,000</u>	<u>500,500</u>
<b>Cash flows from financing activities</b>	<b><u>1,050,000</u></b>	<b><u>500,500</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b><u>1,242,959</u></b>	<b><u>(609,826)</u></b>
Effect of changes in exchange rates on cash and cash equivalents	(18,679)	(489,151)
Cash and cash equivalents at the beginning of the year	<u>2,624,438</u>	<u>3,723,415</u>
<b>Cash and cash equivalents at the end of the year</b>	33 <b><u>3,848,718</u></b>	<b><u>2,624,438</u></b>

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

**Promsvyazbank**  
*Consolidated Statement of Changes in Shareholders' Equity*  
*for the year ended 31 December 2003*

RUR'000

	Share capital	Share premium	Additional paid-in- capital	Retained earnings	Total
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
Balance at 1 January 2002	2,250,310	350,830	-	122,314	2,723,454
Shares issued	7,150	493,350	-	-	500,500
Hyperinflation adjustment	334	23,065	-	-	23,399
Net income for the year	-	-	-	461,134	461,134
<b>Balance at 31 December 2002</b>	<b>2,257,794</b>	<b>867,245</b>	<b>-</b>	<b>583,448</b>	<b>3,708,487</b>
Shares issued	15,000	1,035,000	-	-	1,050,000
Additional paid-in-capital	-	-	182,759	-	182,759
Net income for the year	-	-	-	721,381	721,381
<b>Balance at 31 December 2003</b>	<b>2,272,794</b>	<b>1,902,245</b>	<b>182,759</b>	<b>1,304,829</b>	<b>5,662,627</b>

The consolidated statement of changes in shareholders' equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

## **1. Background**

### **(a) Principal activities**

Promsvyazbank Group (the “Group”) consists of various legal entities formed under the laws of the Russian Federation. The major components of the Group are Promsvyazbank (the “Bank”) and Promsvyazleasing Group.

The Bank, which is the parent company of the Group, was initially established in the Russian Federation as a partnership converting subsequently to a closed joint-stock company in July 2001. The Bank was granted a banking license for operations in roubles on 12 May 1995. The Bank’s operations were expanded to include operations with all types of foreign currencies and operations with individuals in foreign currencies on 30 December 1996 and 30 June 1997 respectively.

In 2000 the Bank extended its licenses for conducting brokerage, dealer, custodian and management activities. Further, in the year ended 31 December 2001 the Bank received a general license for execution of all types of banking operations including opening branches and representative offices abroad.

The principal activities of the Bank are deposit taking, lending and operations with securities and foreign exchange. The activities of the Bank are regulated by the Central Bank of the Russian Federation (the “CBR”). The Bank’s head office is located in Moscow and as of 31 December 2003 it operated sixteen branches, which are located in Novosibirsk, Pskov, Voronezh, Nizhny Novgorod, Velikiy Novgorod, Kaliningrad, St-Petersburg, Tula, Vladimir, Irkutsk, Rostov, Belgorod, Yaroslavl, Volgograd, Omsk, and an International Banking Unit (“IBU”) in Limassol, Cyprus.

Promsvyazleasing Group, received by the Bank in 2003 (refer to Notes 2(d) and 4), consists of three legal entities – Promsvyazleasing, PSLeasing and Regionleasing – all limited liability companies as defined in the Civil Code of the Russian Federation. Promsvyazleasing Group conducts leasing operations.

The average number of persons employed by the Bank during the year was 1,280 (2002: 1,089). The average number of persons employed by the Promsvyazleasing Group during the year was 22.

### **(b) Russian business environment**

The Russian Federation has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks which do not typically exist in other markets.

The accompanying financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

## **2. Basis of preparation**

### **(a) Statement of compliance**

The Group maintains its accounting records in accordance with the legislative requirements of the Russian Federation. The accompanying financial statements have been prepared from those accounting records and adjusted as necessary to comply with the requirements of International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Reporting Interpretations Committee of the IASB.

### **(b) Basis of measurement**

The financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held for trading and available for sale, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost.

### **(c) Measurement and Presentation Currency**

The national currency of the Russian Federation is the Russian Rouble (“RUR”). Management have determined the Group’s measurement currency to be the RUR as it reflects the economic substance of the underlying events and circumstances of the Group. The RUR is also the Group’s presentation currency for the purposes of these financial statements.

Financial information presented in RUR has been rounded to the nearest thousand.

### **(d) Basis of consolidation**

#### **(i) Subsidiaries**

Subsidiaries are those companies 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 consolidated financial statements include the following subsidiaries of the Bank:

<b>Name</b>	<b>Country of Incorporation</b>	<b>Main activity</b>	<b>% Controlled</b>
OOO “Promsvyazleasing”	Russian Federation	Leasing	61%
OOO “PSLeasing”	Russian Federation	Leasing	66%
OOO “Regionleasing”	Russian Federation	Leasing	68%
OOO “Promsvyazinvest”	Russian Federation	Financial activity	70%
OOO “Bayard”	Russian Federation	Security	100%
OOO “Invest-Center”	Russian Federation	Financial activity	50%

## **2. Basis of preparation (continued)**

### **(d) Basis of consolidation (continued)**

#### **(i) Subsidiaries (continued)**

##### *Promsvyazinvest*

As at 31 December 2002 the Bank had legal title to 70% of the voting power of OOO "Promsvyazinvest". In October 2003, the Bank sold its share in OOO "Promsvyazinvest" to related parties on terms that included the option to repurchase within one year for the same price. As the Group continues to exercise control over OOO "Promsvyazinvest" under this agreement, it continues to consolidate its financial statements.

##### *Promsvyazleasing*

On 29 December 2003, the shareholders of the Bank contributed a controlling stake in Promsvyazleasing Group to OOO "Promsvyazinvest". This was done through the sale to OOO "Promsvyazinvest" of call options, allowing it to purchase a controlling stake in Promsvyazleasing group for a nominal amount. These options have a maturity of one year. This transaction has been treated as shareholders' contribution and accounted for accordingly. The fair value of the Promsvyazleasing Group on the date of its contribution was estimated by the Group's management to approximate the fair value of its identifiable net assets. This amount less the amount payable to exercise the call options and less amounts attributable to minorities has been recorded as additional paid-in-capital.

In addition, as part of this arrangement, OOO "Promsvyazinvest" has issued put options to the existing shareholders of Promsvyazleasing Group, allowing them to sell their shares in the Promsvyazleasing Group to OOO "Promsvyazinvest" for a nominal amount.

#### **(ii) Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

### **(e) Going concern**

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Group's assets, as well as the future operation of the Group, may be significantly affected by the current and future economic environment (refer Note 1 (b)). The accompanying financial statements do not include any adjustments should the Group be unable to continue as a going concern.

### **3. Significant accounting policies**

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied, except for the discontinuance of IAS 29 *“Financial Reporting in Hyperinflationary Economies”* as described in Note 3 (b).

#### **(a) Foreign currency transactions**

Transactions in foreign currencies are translated to Roubles at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to roubles at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to roubles at the foreign exchange rate ruling at the date of the transaction.

#### **(b) Inflation accounting**

In the years prior to 2003, Russia was considered to be a hyperinflationary economy as defined in IAS No. 29 *Financial Reporting in Hyperinflationary Economies*, which required that financial statements be expressed in terms of the measuring unit current as of the balance sheet date. Accordingly, amounts indicated in the Group’s financial statements prior to 1 January 2003, have been restated to account for changes in the general purchasing power of the RUR. The restatement is based on relevant price indices at the balance sheet date. The indices are derived from the inflation rates which are issued by the State Statistical Committee of the Russian Federation (“Goskomstat”). The indices used were as follows:

	<u>Indices</u>
31 December 1991	100
31 December 1992	2,642
31 December 1993	25,023
31 December 1994	78,470
31 December 1995	182,046
31 December 1996	221,597
31 December 1997	245,949
31 December 1998	453,704
31 December 1999	619,691
31 December 2000	744,425
31 December 2001	884,504
31 December 2002	1,018,277

As from 1 January 2003 the Russian Federation is no longer considered to be a hyperinflationary economy, and therefore from this date the consolidated financial statements have not been adjusted for inflation. The carrying amounts of the Group’s assets, liabilities and equity items at 1 January 2003 form the basis for subsequent accounting.

### **3. Significant accounting policies (continued)**

#### **(c) Cash and cash equivalents**

The Group considers cash and nostro accounts with the CBR, as well as placements with banks and other financial institutions with a maturity of less than one month to be cash and cash equivalents. The minimum reserve deposit with the CBR is not considered to be a cash equivalent due to restrictions on its withdrawability.

#### **(d) Financial instruments**

##### **(i) Classification**

*Trading instruments* are those that the Group principally holds for the purpose of short-term profit taking. These include securities and derivative contracts that are not designated and effective hedging instruments, and liabilities from short sales of financial instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

*Originated loans and receivables* are loans and receivables created by the Group providing money to a debtor other than those created with the intention of short-term profit taking. Originated loans and receivables comprise loans and advances to banks and customers other than purchased loans.

*Held-to-maturity assets* are financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity.

*Available-for-sale assets* are financial assets that are not held for trading purposes, originated by the Group, or held to maturity.

##### **(ii) Recognition**

The Group recognises financial instruments held for trading and available-for-sale assets on the date it commits to purchase the assets.

Held-to-maturity assets and originated loans and receivables are recognised on the day they are transferred to or originated by the Group.

##### **(iii) Measurement**

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all trading and all available-for-sale instruments are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

### **3. Significant accounting policies (continued)**

#### **(iv) Fair value measurement principles**

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

#### **(v) Gains and losses on subsequent measurement**

Gains and losses arising from a change in the fair value of all trading instruments and available-for-sale securities trading are recognised in the income statement.

#### **(e) Derecognition**

A financial asset is derecognised when the Group loses control over contractual rights that comprise those assets. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Group commits to sell the asset. The Group uses the specific identification method to determine the gain or loss on derecognition.

Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are transferred by the Group.

#### **(f) Securities borrowing and lending**

Investments lent under securities lending arrangements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for assets held for trading or available for sale as appropriate. Cash collateral received in respect of securities lent is recognised as liabilities to either banks or customers. Investments borrowed under securities borrowing agreements are not recognised. Cash collateral placements in respect of securities borrowed are recognised under loans and advances to either banks or customers. Income and expenses arising from the securities borrowing and lending business are recognised on an accrual basis over the period of the transactions and are included in interest income or expense.

### **3. Significant accounting policies (continued)**

#### **(g) Repurchase and reverse repurchase agreements**

Securities sold under agreements to repurchase are retained within the trading or available-for-sale securities portfolios and accounted for accordingly. Liability accounts are used to record the obligation to repurchase. The difference between the sale and repurchase price represents interest expense and is recognised in the income statement over the term of the repurchase agreement.

Securities held under reverse repurchase agreements are recorded as receivables. The difference between the purchase and sale price represents interest income and is recognised in the income statement over the term of the reverse repurchase agreement. The receivables due under reverse repurchase agreements have been shown net of provision for impairment.

#### **(h) Investment in lease**

When assets are sold under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the present value of the receivable and the gross receivable represents unearned finance income. Unearned finance income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

#### **(i) Inception of the lease**

The date of the inception of the lease is considered to be the earlier of the date that equipment is passed to the lessee, or the date that an advance payment is made by the lessee.

#### **(j) Investment property**

Property held to earn rentals or for capital appreciation or both, is classified as investment property. Investment property comprises freehold land and buildings.

The Group measures its investment property at cost less any accumulated depreciation and any impairment losses. The Group uses the same depreciation method, useful lives and depreciation rates as for its own property and equipment (refer below).

If investment property becomes owner-occupied, it is reclassified as property and equipment. If own property and equipment functions as investment property, it is reclassified accordingly.

#### **(k) Offsetting**

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

### **3. Significant accounting policies (continued)**

#### **(l) Property and equipment**

##### **(i) Owned assets**

Items of property and equipment are stated at cost less accumulated depreciation (refer below) and impairment losses (refer to Note 3(m) below). The cost for self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

##### **(ii) Leased assets**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (refer below) and impairment losses (refer to Note 3(m) below).

Operating leases, the terms of which the Group does not assume substantially all the risks and rewards of ownership, are expensed.

##### **(iii) Depreciation**

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings	50 years
Computers and computer software	4 years
Office equipment	6 years
Vehicles	5 years
Fixtures and fittings	6 to 7 years
Leasehold improvements	5 years
Other	5 years

#### **(m) Impairment**

The carrying amounts of the Group's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

##### **(i) Calculation of recoverable amount**

The recoverable amount of the Group's investments in held-to-maturity securities and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. The recoverable amount of the Group's trading investments and investments available-for-sale is their fair value.

### **3. Significant accounting policies (continued)**

#### **(m) Impairment (continued)**

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

#### **(ii) Reversals of impairment**

An impairment loss in respect of a held-to-maturity security or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### **(n) Interest bearing borrowings**

Interest-bearing borrowings are recognised initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings.

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the income statement.

#### **(o) Provisions**

A provision is recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### **3. Significant accounting policies (continued)**

#### **(p) Share capital**

##### **(i) Repurchase of share capital**

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

##### **(ii) Dividends**

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings as and when declared.

#### **(q) Taxation**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### **(r) Interest income and expense**

Interest income and expense is recognised in the income statement as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

### 3. Significant accounting policies (continued)

#### (s) Fee and commission income and expense

Fee and commission income (expense) arises on financial services provided by the Group (to the Group) including cash management services, brokerage services, investment advice and financial planning, investment banking services, project and structured finance transactions, guarantee services and asset management services.

Fee and commission income (expense) is recognised on an accrual basis when the service has been provided. Loan origination fees are deferred (together with related direct costs) and recognised as an adjustment to the effective yield on the loan. Guarantee and documentary operations commission income and expense are recognised over the period the service is provided.

#### (t) Net trading income

Net trading income includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading.

#### (u) Net gain on non-trading financial instruments

Net gain on non-trading financial instruments includes gains and losses arising from disposals and changes in the fair value of available-for-sale investments.

#### (v) Dividend income

Dividend income from investments in companies where the Group does not have control or significant influence is recognized in the income statement on the date that the dividend is declared.

### 4. Contribution of Promsvyazleasing Group

On 29 December 2003, the Group received from the Bank's shareholders a controlling stake in Promsvyazleasing Group (refer note 2 (d)). The fair value of assets and liabilities assumed as of the date of contribution were as follows:

	RUR '000	RUR '000
<b>(a) Net assets</b>		
<i>Assets</i>		
Cash	17	
Lease receivables	2,137,485	
Other assets	327,727	
Fixed assets	1,822	
Intra-group balances	74,278	
<b>Total assets</b>	74,278	2,541,329
<i>Liabilities</i>		
Loan received from banks and other financial institutions	259,398	
Own securities issued	595,969	
Liability to purchase equipment for leasing	368,660	
Other liabilities	43,770	
Intra-group balances	1,054,999	
<b>Total liabilities</b>	1,054,999	2,322,796
<b>Net assets of Promsvyazleasing Group received</b>		<b>218,533</b>

#### 4. Contribution of Promsvyazleasing Group (continued)

	RUR '000	RUR '000
Additional paid-in-capital	182,759	
Minority interest	<u>28,569</u>	
		<u>211,328</u>
<b>(b) Purchase liabilities</b>		
Payable on execution of call options (refer to Note 25)		<u>7,205</u>
<b>(c) Net cash flow effect</b>		
Cash and cash equivalents of Promsvyazleasing Group	<u>17</u>	

#### 5. Net interest income

	2003 RUR '000	2002 RUR '000
<b>Interest income</b>		
Loans to customers	2,508,958	1,630,667
Financial instruments held for trading and available for sale	421,111	227,479
Placements with banks and other financial institutions	109,374	96,043
Reverse repurchase agreements	<u>30,087</u>	<u>37,592</u>
	<u>3,069,530</u>	<u>1,991,781</u>
<b>Interest expense</b>		
Current accounts and deposits from customers	(477,312)	(404,078)
Own securities issued	(456,322)	(276,522)
Deposits and balances from banks and other financial institutions	(150,131)	(72,541)
Repurchase agreements	<u>(14,058)</u>	<u>(4,155)</u>
	<u>(1,097,823)</u>	<u>(757,296)</u>
<b>Net interest income</b>	<u>1,971,707</u>	<u>1,234,485</u>

#### 6. Fee and commission income

	2003 RUR '000	2002 RUR '000
Commission on lending and documentary operations	240,886	140,838
Money transfer fees	50,747	24,470
Commission for servicing plastic cards	45,236	15,239
Commission for operations with cash	41,118	24,741
Factoring fees	27,327	-
Cash collection fees	24,734	19,536
Investment banking fees	17,503	11,116
Commission on foreign currency operations	14,074	14,654
Securities trading fees	12,820	4,686
Other	<u>1,689</u>	<u>11,459</u>
	<u>476,134</u>	<u>266,739</u>

## 7. Fee and commission expense

	<b>2003</b>	<b>2002</b>
	<b>RUR '000</b>	<b>RUR '000</b>
Commission for documentary operations	205,975	58,678
Commission for servicing plastic cards	26,217	17,105
Money transfer fees	24,146	15,836
Commission on foreign currency operations	12,388	13,048
Cash collection fees	6,109	3,589
Securities trading fees	5,692	3,170
	<u><b>280,527</b></u>	<u><b>111,426</b></u>

## 8. Net securities trading income

	<b>2003</b>	<b>2002</b>
	<b>RUR '000</b>	<b>RUR '000</b>
Debt instruments and related derivatives	285,724	249,229
Equity instruments and related derivatives	6,273	25,624
	<u><b>291,997</b></u>	<u><b>274,853</b></u>

## 9. Net gain on non-trading financial instruments

	<b>2003</b>	<b>2002</b>
	<b>RUR '000</b>	<b>RUR '000</b>
Available-for-sale assets:		
Unrealised gains on debt and equity securities	45,368	65,674
Net loss on disposal of equity investments	(1,600)	(3,634)
	<u><b>43,768</b></u>	<u><b>62,040</b></u>

## 10. Impairment losses

	<b>2003</b>	<b>2002</b>
	<b>RUR '000</b>	<b>RUR '000</b>
<b>Impairment losses</b>		
Placements with banks and other financial institutions	801	-
Financial instruments held for trading	598	11,140
Loans to customers	458,395	199,569
Off-balance sheet commitments	33,739	18,641
	<u><b>493,533</b></u>	<u><b>229,350</b></u>
<b>Reversals of impairment losses</b>		
Placements with banks and other financial institutions	-	(5,264)
Investments	-	(18,929)
	<u><b>-</b></u>	<u><b>(24,193)</b></u>
<b>Net impairment losses</b>	<u><b>493,533</b></u>	<u><b>205,157</b></u>

**11. General administrative expenses**

	2003 RUR '000	2002 RUR '000
Employee compensation	313,716	263,804
Taxes other than income tax	102,170	113,730
Depreciation and amortisation	95,483	38,536
Occupancy	69,440	43,158
Business development costs	61,284	43,645
Communications and information services	50,958	40,136
Advertising and marketing	30,893	18,484
Investment property maintenance	28,432	33,570
Repairs and maintenance	26,402	22,903
Security	21,149	14,640
Transportation costs	19,180	13,527
Charity and sponsorship	17,678	15,711
Insurance of cash in transit and in vault	15,100	-
Office supplies	15,090	3,798
Other insurance	4,702	3,564
Professional services	4,307	5,106
Other	45,590	21,465
	<u>921,574</u>	<u>695,777</u>

**12. Income tax expense**

	2003 RUR '000	2002 RUR '000
<i>Current tax expense</i>		
Current year	<u>251,192</u>	<u>152,036</u>
<i>Deferred tax expense</i>		
Origination and reversal of timing differences	<u>132,756</u>	<u>79,791</u>
<b>Total income tax expense in the income statement</b>	<u><b>383,948</b></u>	<u><b>231,827</b></u>

The Group's applicable tax rate is 24% (2002 – 24%).

Reconciliation of effective tax rate:

	2003 RUR '000	%	2002 RUR '000	%
Income before tax	<u>1,119,922</u>	24%	<u>715,526</u>	24%
Theoretical income tax charge at the statutory rate	268,781		171,726	
Net non-deductible costs/(non-taxable income)	119,394		61,383	
Effect of income taxed at lower tax rates	<u>(4,227)</u>		<u>(1,282)</u>	
<b>Income tax paid</b>	<u><b>383,948</b></u>		<u><b>231,827</b></u>	

### 13. Due from the Central Bank of the Russian Federation

	<b>2003</b> <b>RUR '000</b>	<b>2002</b> <b>RUR '000</b>
Minimum reserve deposit	1,806,200	1,061,432
Nostro accounts	<u>1,119,114</u>	<u>729,615</u>
	<b><u>2,925,314</u></b>	<b><u>1,791,047</u></b>

The minimum reserve deposit is a mandatory non-interest bearing deposit calculated in accordance with regulations issued by the CBR and whose withdrawability is restricted. The nostro balances represent balances with the CBR related to settlement activity and were available for withdrawal at year end.

### 14. Placements with banks and other financial institutions

	<b>2003</b> <b>RUR '000</b>	<b>2002</b> <b>RUR '000</b>
Loans	1,626,373	808,897
Nostro accounts	<u>1,545,191</u>	<u>1,334,816</u>
	<b><u>3,171,564</u></b>	<b><u>2,143,713</u></b>
Provision for impairment	<u>(2,043)</u>	<u>(1,242)</u>
	<b><u>3,169,521</u></b>	<b><u>2,142,471</u></b>

#### Analysis of movements in the provision for impairment

	<b>2003</b> <b>RUR '000</b>	<b>2002</b> <b>RUR '000</b>
Balance at the beginning of the year	1,242	9,602
Impact of IAS 29	-	(938)
Net charge for the year	801	(5,264)
Write-offs	-	(2,158)
<b>Balance at the end of the year</b>	<b><u>2,043</u></b>	<b><u>1,242</u></b>

#### Concentration of placements with banks and other financial institutions

As at 31 December 2003 and 2002, placements with bank and other financial institutions which individually comprised more than 10% of deposit and balances with banks and other financial institutions were as follows:

	<b>2003</b> <b>RUR '000</b>	<b>2002</b> <b>RUR '000</b>
Bank 1	982,173	-
Bank 2	<u>-</u>	<u>1,144,667</u>
	<b><u>982,173</u></b>	<b><u>1,144,667</u></b>

## 15. Financial instruments held for trading

	2003 RUR '000	2002 RUR '000
<b>Financial assets held for trading</b>		
<i>Debt and other fixed-income instruments</i>		
<i>Listed</i>		
Russian Government Eurobonds	2,861,772	1,397,588
Corporate bonds	1,088,589	1,062,462
Russian municipal and regional bonds	166,320	325,714
Russian Government OFZ	78,919	19,994
<i>Unlisted</i>		
Promissory notes	1,378,595	1,902,283
<i>Equity investments</i>		
Gazprom	22,603	31,657
Surgutneftegaz	-	5,086
<i>Foreign currency and precious metals contracts</i>	18,020	11,668
	<b>5,614,818</b>	<b>4,756,452</b>
<i>Provision for diminution in value of debt securities</i>	(11,054)	(10,456)
	<b>5,603,764</b>	<b>4,745,996</b>
<b>Liabilities on financial instruments held for trading</b>		
<i>Foreign currency and precious metals contracts</i>	46,601	2,910
	<b>46,601</b>	<b>2,910</b>

Gains and losses arising on foreign currency contracts are recognised in net foreign exchange trading income. Gains and losses arising on changes in fair value of other trading instruments are recognised in net securities trading income.

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 and have a medium to long-term maturity period. The coupon rate on these securities ranges from 10.50% to 12.00%. As at 31 December 2003, the yield to maturity ranged from 8.07% to 9.49%, depending on the bond issue. Russian Government OFZ are reflected at market value as at the year-end.

Corporate bonds are those issued by medium and large Russian companies and banks. As at 31 December 2003, the yield to maturity of these bonds ranged from 8.99% to 16.56% and coupon rate – from 11.50% to 19.00%. Corporate bonds are reflected at market value as at the year-end and have a short to medium-term maturity period.

Russian municipal and regional bonds are represented by the municipal bonds of a region of the Russian Federation, which are reflected at market value as at the year-end. These bonds have a medium to long-term maturity period. The yield to maturity of these bonds range from 11.25% to 19.00% and coupon rate - from 11.50% to 19.00%.

Russian Government Eurobonds are securities issued by the Ministry of Finance of the Russian Federation and are freely tradable internationally. The Bank's portfolio of Russian Federation Eurobonds consists of two tranches with maturity dates in 2028 and 2030. As at 31 December 2003, the yield to maturity on these tranches was 7.48% and 7.13% respectively. The annual coupon rates on these bonds range from 12.75% to 5.00%, and interest is payable semi-annually. Russian Government Eurobonds are reflected at market value as at the year-end.

## 15. Financial instruments held for trading (continued)

In respect of promissory notes, as at 31 December 2003, the yield to maturity ranged from 9.00% to 17.00% and coupon rate – from 12.00% to 17.50%. Promissory notes are reflected at market value as at the year-end.

### Foreign currency and precious metals contracts

The table below summarises, by major currency, the notional amounts of the Group's forward exchange contracts outstanding at 31 December 2003 with details of the contracted exchange rates. All of the foreign currency contracts were concluded for a period of less than one month. Foreign currency amounts presented below are translated at rates ruling at the balance sheet date. The resultant unrealised gains and losses on these unmatured contracts have been recognised in the income statement and in financial instruments held for trading, as appropriate.

#### Foreign currency contracts

	Weighted average contracted exchange rates		Notional amount	
	2003	2002	2003 RUR'000	2002 RUR'000
Buy US Dollar and Sell Russian Rouble	29.4043	31.9425	5,773,082	543,023
Sell US Dollar and Buy Russian Rouble	29.3105	31.8254	8,114,715	5,792,217
Sell Euro and Buy Russian Rouble	37.0979	33.2719	147,296	166,360
Buy Euro and Sell US Dollars	1.2518	1.0417	117,689	33,266
Sell Euro and Buy US Dollars	1.2445	1.0417	394,016	134,369
Sell US Dollar and Buy Swedish Krone	7.2614	-	32,450	-
Sell US Dollar and Buy Japanese Yen	106.8880	-	11,573	-

#### Precious metals contracts

In addition to the above, as at 31 December 2003 the Group has commitments to purchase gold bullion with a nominal value 655,209 RUR thousand (2002: 109,646 RUR thousand) and sell gold bullion with a nominal value 62,656 RUR thousand (2002: nil) under contracts to be settled at prices linked to the market.

## 16. Repurchase and resell agreements, securities lending agreements

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates.

## 16. Repurchase and resell agreements, securities lending agreements (continued)

As at 31 December 2003, assets sold under repurchase agreements were as follows:

	Face value of underlying assets 2003 RUR'000	Fair value of underlying assets 2003 RUR'000	Carrying amount of corresponding liabilities 2003 RUR'000	Transaction maturity dates 2003
Russian Government Eurobonds (2030)	556,926	571,418	453,750	16.01.2004
Promissory notes of Vypelkom	19,201	19,801	17,550	16.11.2004
	<u>576,127</u>	<u>591,219</u>	<u>471,300</u>	

As at 31 December 2002 the Group's assets sold under repurchase agreements were as follows:

	Face value of underlying assets 2002 RUR'000	Fair value of underlying assets 2002 RUR'000	Carrying amount of corresponding liabilities 2002 RUR'000	Transaction maturity dates 2002
Minfin bonds (5 <sup>th</sup> tranche)	92,365	74,716	57,393	29.04.2003
Minfin bonds (5 <sup>th</sup> tranche)	77,808	61,987	42,482	10.01.2003
Minfin bonds (4 <sup>th</sup> tranche)	69,799	70,595	52,948	29.04.2003
Minfin bonds (4 <sup>th</sup> tranche)	318	318	239	10.01.2003
	<u>240,290</u>	<u>207,616</u>	<u>153,062</u>	

As at 31 December 2003, the Group was not a party to any securities borrowing or lending agreement.

As at 31 December 2002, the Group entered into a transaction to borrow financial instruments from third parties. These financial instruments were sold by the Group under the repurchase deal as disclosed above. The Group did not advance cash as collateral for the instruments borrowed. In accordance with the Group's accounting policy, these financial instruments are not recognised on the balance sheet. The details of the securities borrowing deal were as follows:

### Amounts payable to corporate customers

	Face value of securities borrowed 2002 RUR'000	Fair value of securities borrowed 2002 RUR'000	Return dates 2002
Minfin bonds (5 <sup>th</sup> tranche)	170,174	136,703	29.04.2003
Minfin bonds (4 <sup>th</sup> tranche)	70,116	70,913	29.04.2003
	<u>240,290</u>	<u>207,616</u>	

## 16. Repurchase and resell agreements, securities lending agreements (continued)

The Group also purchases financial instruments under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchase agreements are entered into as a facility to provide funds to customers. As at 31 December 2003 and 2002, assets purchased subject to agreements to resell them were as follows:

	<b>Carrying amounts of receivable</b>	<b>Fair value of assets held as collateral</b>	<b>Carrying amounts of receivable</b>	<b>Fair value of assets held as collateral</b>
	<b>2003 RUR'000</b>	<b>2003 RUR'000</b>	<b>2002 RUR'000</b>	<b>2002 RUR'000</b>
Amounts receivable from banks and other financial institutions	774,323	786,761	353,972	357,988
Amounts receivable from corporate clients	-	-	526,674	533,637
	<u>774,323</u>	<u>786,761</u>	<u>880,646</u>	<u>891,625</u>

## 17. Loans to customers and lease receivables

	<b>2003 RUR '000</b>	<b>2002 RUR '000</b>
Gross loans to customers	23,956,804	14,130,836
Net lease receivables	<u>2,197,212</u>	<u>-</u>
	<b>26,154,016</b>	<b>14,130,836</b>
Provision for impairment	<u>(1,164,282)</u>	<u>(646,825)</u>
	<u><b>24,989,734</b></u>	<u><b>13,484,011</b></u>

Lease receivables represent the net investments in variable interest rate finance leases.

	<b>2003 RUR'000</b>
Gross lease receivables	2,963,325
Unearned income	<u>(766,113)</u>
<b>Net investment in leases</b>	<b>2,197,212</b>
Less provision for investment in lease	<u>(63,362)</u>
<b>Net investment in leases less provision</b>	<u><b>2,133,850</b></u>

## 17. Loans to customers and lease receivables (continued)

### Industry and geographical analysis of the loan portfolio and lease receivables

Loans and advances to customers and lease receivables are issued primarily to customers located within the Russian Federation and who operate in the following economic sectors:

	2003 RUR '000	2002 RUR '000
<b>Retail customers</b>	622,192	150,692
<b>Commercial customers</b>		
Real estate investment and development	4,002,537	1,776,300
Trade	3,089,866	1,525,619
Machinery	2,708,707	1,394,959
Finance, leasing and insurance	2,620,503	2,243,510
Telecommunications	2,612,862	887,712
Information technology	2,062,726	644,503
Food production	1,297,987	585,662
State and local authorities	1,172,654	501,713
Agriculture	842,839	130,088
Construction	805,325	532,027
Aircraft industry	743,586	437,612
Research and development activities	628,108	554,157
Metallurgy	562,898	135,479
Chemical production	514,334	330,674
Mineral resources industry	473,321	26,562
Publishing	437,703	798,356
Services	338,891	605,945
Energy	302,122	-
Wood processing	135,181	125,611
Light industry	44,962	86,302
Automobile production	44,019	139,994
Transport	36,327	71,355
Pharmaceutical industry	10,640	-
Construction materials	3,032	379,486
Other	40,694	66,518
	<b>26,154,016</b>	<b>14,130,836</b>
Provision for impairment	(1,164,282)	(646,825)
	<b>24,989,734</b>	<b>13,484,011</b>

### Significant credit exposures

As at 31 December 2003 and 2002, the Group had no exposures to a customer or group of customers, which individually comprised more than 10% of loans to customers and lease receivables (gross of provision for impairment).

Included in the category Finance, leasing and insurance in 2002 is exposure to Promsvyazleasing Group entities of RUR'000 723,319.

## 17. Loans to customers and lease receivables (continued)

Loans and lease receivables have been granted to customers in the following geographical areas:

	<b>2003</b> <b>RUR '000</b>	<b>2002</b> <b>RUR '000</b>
<b>Russian Federation</b>		
Moscow and Moscow region	15,864,614	11,222,615
Central Chernozem and Northern Caucasus region	2,716,783	421,235
Central region (excluding Moscow and Moscow region)	2,315,474	584,883
Urals, Siberia and Far East	2,115,578	522,757
North-Western and North regions	1,833,129	879,754
Volgo-Viatskiy and Volga region	609,244	359,604
<b>Customers outside the Russian Federation</b>	<u>699,194</u>	<u>139,988</u>
	<b>26,154,016</b>	<b>14,130,836</b>
Provision for impairment	<u>(1,164,282)</u>	<u>(646,825)</u>
	<b><u>24,989,734</u></b>	<b><u>13,484,011</u></b>

### Contractually overdue loans and lease receivables

Information in relation to contractually overdue loans and lease receivables as at 31 December 2003 is summarised as follows:

	<b>2003</b> <b>RUR '000</b>	<b>2002</b> <b>RUR '000</b>
Gross contractually overdue loans and lease receivables	219,951	374,726
Provision for losses	<u>(188,898)</u>	<u>(46,315)</u>
Net contractually overdue loans and lease receivables	<b><u>31,053</u></b>	<b><u>328,411</u></b>

### Analysis of movements in the provision for impairment

	<b>2003</b> <b>RUR '000</b>	<b>2002</b> <b>RUR '000</b>
Balance at the beginning of the year	646,825	529,028
Impact of IAS 29	-	(81,772)
Write offs	(4,300)	-
Effect of Promsvyazleasing Group contribution	63,362	-
Net charge for the year	<u>458,395</u>	<u>199,569</u>
Balance at the end of the year	<b><u>1,164,282</u></b>	<b><u>646,825</u></b>

## 17. Loans to customers and lease receivables (continued)

### Loan and lease receivable maturities

The maturity of the Group's loan and lease receivable portfolio is presented in Note 36, which shows the remaining period from the reporting date to the contractual maturity of the loans and lease receivables comprising the portfolio. In the Russian marketplace, many short-term credits are granted with the expectation of renewing the loan on maturity. Accordingly, the effective maturity of the loan and lease receivables portfolio may be longer than the classification indicated based on contractual terms.

## 18. Investments

	2003 RUR '000	2002 RUR '000
<b>Available for sale</b>		
<b>Debt instruments</b>		
Certificates of deposits	73,698	56,232
Russian Government OFZ	30	211
<b>Equity instruments - listed</b>		
CenterTelecom	195,488	154,584
Gazprom	34,895	1,164
<b>Equity instruments - unlisted</b>		
Unconsolidated subsidiary (see below)	62,860	25,210
Corporate shares	13,343	24,659
Capital contributions to partnerships	12,466	5,596
	<b>392,780</b>	<b>267,656</b>

Certificate of deposits are issued by Russian commercial banks. These debt securities have a short-term maturity period. The interest rate on these securities ranges from 12.00% to 17.50%. As at 31 December 2003, the average yield to maturity comprises 16.46%. Certificate of deposits are reflected at management's estimate of their fair value as at the year-end.

The unlisted equity instruments are stated at cost less any necessary provision for impairment.

The unconsolidated subsidiary is:

Name	Country of incorporation	Main Activity	% Controlled		2003	2002
			2003	2002	Carrying Value RUR '000	Carrying Value RUR '000
Promregionsvya z	Russia	Pension fund	60.65%	76.67%	62,860	25,210
					<b>62,860</b>	<b>25,210</b>

The financial statements of the subsidiary company listed above have not been consolidated into those of the Group, as there are long term restrictions under the laws of Russian Federation concerning property of non-state pension funds which impair the ability to transfer it to parent companies.



## 19. Investment property

	Land	Building	Total
<b>Cost</b>			
At 1 January 2003	177,401	31,879	209,280
Additions	1,512,988	535,458	2,048,446
Disposals	-	(31,879)	(31,879)
<b>At 31 December 2003</b>	<b>1,690,389</b>	<b>535,458</b>	<b>2,225,847</b>
<b>Depreciation</b>			
At 1 January 2003	-	1,080	1,080
Depreciation charge	-	4,778	4,778
Disposals	-	(1,080)	(1,080)
<b>At 31 December 2003</b>	<b>-</b>	<b>4,778</b>	<b>4,778</b>
<b>Carrying value</b>			
<b>At 31 December 2003</b>	<b>1,690,389</b>	<b>530,680</b>	<b>2,221,069</b>
<b>At 31 December 2002</b>	<b>177,401</b>	<b>30,799</b>	<b>208,200</b>

Investment property comprises of the following items:

Description	Location	Area	Purpose	Fair Value, RUR'000
Plot of land	Moscow region	1 500 000 sq.m.	Capital appreciation	1 287 014
Plot of land	Moscow region	22 720 000 sq.m.	Capital appreciation	284,782
Plot of land	Moscow region	257 000 sq.m.	Capital appreciation	249,122
Plot of land	Moscow region	11 600 000 sq.m.	Capital appreciation	145,536
Trading premises	Moscow region	3 773 sq.m.	Rental income	108 643
Office building	Moscow	4 946 sq.m.	Rental income	378 516
Office building	Moscow	1 099 sq.m.	Rental income	134 570
Office building	Moscow	4 003 sq.m.	Rental income	106 118

Rental income on office buildings and trading premises amounted to 72,076 RUR thousand (included in Other income) (2002: RUR 34,868 thousand), whereas investment property maintenance expense amounted to 28,432 RUR thousand (included in General administrative expense) (2002: RUR 33,570 thousand).

## 20. Other assets

	2003 RUR '000	2002 RUR '000
Advances and prepayments	42,982	37,155
Deferred expenses	33,701	19,224
Receivables on deals with foreign currencies and securities	3,313	-
Other	9,459	1,923
	<b>89,455</b>	<b>58,302</b>

**21. Property and equipment**

<u>In thousands of RUR</u>	<b>Land and buildings</b>	<b>Computers and computer software</b>	<b>Office equipment</b>	<b>Vehicles</b>	<b>Furniture, fixtures and fittings</b>	<b>Leasehold improvements</b>	<b>Other</b>	<b>Construction in progress</b>	<b>Total</b>
<b>Cost</b>									
At 1 January 2003	107,747	116,917	110,184	39,024	38,671	36,990	1,589	6,356	457,478
Additions	65,860	26,173	52,591	13,874	9,195	73,224	901	92,010	333,828
Disposals and transfers	(16,605)	(1,172)	(2,622)	(5,567)	(301)	-	(354)	-	(26,621)
At 31 December 2003	<b>157,002</b>	<b>141,918</b>	<b>160,153</b>	<b>47,331</b>	<b>47,565</b>	<b>110,214</b>	<b>2,136</b>	<b>98,366</b>	<b>764,685</b>
<b>Depreciation</b>									
At 1 January 2003	4,456	51,922	31,852	15,164	12,985	2,478	960	-	119,817
Depreciation charge	2,086	33,471	20,697	11,590	6,430	16,683	320	-	91,277
Disposals and transfers	(558)	(483)	(324)	(4,609)	(68)	-	(2)	-	(6,044)
At 31 December 2003	<b>5,984</b>	<b>84,910</b>	<b>52,225</b>	<b>22,145</b>	<b>19,347</b>	<b>19,161</b>	<b>1,278</b>	<b>-</b>	<b>205,050</b>
<b>Carrying value</b>									
At 31 December 2003	<b>151,018</b>	<b>57,008</b>	<b>107,928</b>	<b>25,186</b>	<b>28,218</b>	<b>91,053</b>	<b>858</b>	<b>98,366</b>	<b>559,635</b>
At 31 December 2002	103,291	64,995	78,332	23,860	25,686	34,512	629	6 356	337,661

## 22. Deposits and balances from banks and other financial institutions

	2003 RUR '000	2002 RUR '000
Term deposits	4,500,931	1,156,797
Due to foreign banks under post-finance agreements	3,184,850	1,288,536
Vostro accounts	1,257,252	580,450
	<u>8,943,033</u>	<u>3,025,783</u>

Due to foreign banks under post-finance agreements represent amounts of financing received from foreign banks through the extension of settlement dates in respect of amounts payable by the Group to these banks in respect of documentary credit transactions.

### Concentration of deposits and balances from banks and other financial institutions

As at 31 December 2003 and 2002, term deposits and balances from banks and other financial institutions which individually comprised more than 10% of deposits and balances received from banks and other financial institutions were as follows:

	2003 RUR '000	2002 RUR '000
Bank 1	971,999	-
Bank 2	-	379,211
	<u>971,999</u>	<u>379,211</u>

## 23. Current accounts and deposits from customers

	2003 RUR '000	2002 RUR '000
<b>Individuals</b>		
Term deposits	3,377,360	1,727,107
Current accounts	41,205	12,220
<b>Total from individuals</b>	<u>3,418,565</u>	<u>1,739,327</u>
<b>Corporate entities</b>		
Current accounts	10,789,099	6,280,000
Term deposits	2,978,317	2,112,994
<b>Total from corporate entities</b>	<u>13,767,416</u>	<u>8,392,994</u>
	<u>17,185,981</u>	<u>10,132,321</u>

### Blocked accounts

As of 31 December 2003, the Group maintained customer deposit balances of RUR 482,072 thousand (2002: RUR 267,569 thousand) which were blocked by the Group as collateral for loans and off-balance sheet credit instruments granted by the Group.

## 23. Current accounts and deposits from customers (continued)

### Concentrations of current accounts and customer deposits

As at 31 December 2003, deposits and current accounts from one customer which individually exceeded 10% of total current accounts and deposits from customers comprised RUR 2,023,770 thousand (2002: RUR 1,637,925 thousand).

## 24. Own securities issued

	2003 RUR '000	2002 RUR '000
Certificates of deposit	4,528,332	4,109,507
Promissory notes	3,776,223	2,426,233
Bonds	408,196	705,280
	<u>8,712,751</u>	<u>7,241,020</u>

## 25. Other liabilities

	2003 RUR '000	2002 RUR '000
Deferred income on guarantees	54,801	-
Provision for guarantees and letters of credit issued	51,235	17,496
Creditors and advances received	10,822	-
Payables on insurance of property under lease	7,741	-
Payables on execution of call options	7,205	-
Other	3,402	1,776
	<u>135,206</u>	<u>19,272</u>

## 26. Deferred tax liability

Accumulated temporary differences between the carrying amounts of assets and liabilities reflected in these financial statements and their bases for local taxation purposes give rise to a deferred tax liability of RUR 289,090 thousand as of 31 December 2003, of which RUR 25,811 thousand is attributable to Promsvyazleasing Group.

## 26. Deferred tax liability (continued)

This deferred liability is attributable to the following items, listed below at their tax effected values:

<u>In thousands of RUR</u>	<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Amounts receivable under repurchase and resell agreements	447	1,213	(801)	-	(354)	1,213
Accrued interest and commissions	56,996	6,151	(3,679)	-	53,317	6,151
Financial instruments held for trading	-	6,601	(3,311)	-	(3,311)	6,601
Provisions for loan impairment	-	-	(328,481)	(104,719)	(328,481)	(104,719)
Investment property	-	-	(12,503)	(3,707)	(12,503)	(3,707)
Investments available-for-sale	-	-	(9,545)	(25,488)	(9,545)	(25,488)
Other items	18,054	2,916	-	-	18,054	2,916
Property and equipment	21,586	-	(50)	(13,490)	21,536	(13,490)
Investment in lease	296,952	-	(334,427)	-	(37,475)	-
Lease receivables	24,175	-	(14,503)	-	9,672	-
Net deferred tax assets/(liabilities)	418,210	16,881	(707,300)	(147,404)	(289,090)	(130,523)
	(418,210)	(16,881)	418,210	16,881	-	-
<b>Net tax assets/(liabilities)</b>	<b>-</b>	<b>-</b>	<b>(289,090)</b>	<b>(130,523)</b>	<b>(289,090)</b>	<b>(130,523)</b>

### Movement in temporary differences during the year

<u>In thousands of RUR</u>	<b>Balance as at 1 January 2003</b>	<b>Recognised in income</b>	<b>Promsvyaz- leasing Group contribution</b>	<b>Balance as at 31 December 2003</b>
Amounts receivable under reverse repurchase agreements	1,213	(1,567)	-	(354)
Accrued interest and commissions	6,151	44,959	2,207	53,317
Financial instruments held for trading	6,601	(9,912)	-	(3,311)
Provisions for loan impairment	(104,719)	(223,762)	-	(328,481)
Investment property	(3,707)	(8,796)	-	(12,503)
Investments available-for-sale	(25,488)	16,120	(177)	(9,545)
Other items	2,916	15,138	-	18,054
Property and equipment	(13,490)	35,064	(38)	21,536
Investment in lease	-	-	(37,475)	(37,475)
Lease receivables	-	-	9,672	9,672
	<b>(130,523)</b>	<b>(132,756)</b>	<b>(25,811)</b>	<b>(289,090)</b>

## 27. Share capital

### Issued capital

The Bank was established in the Russian Federation as a partnership, converting subsequently to a closed joint-stock company in July 2001.

	<u>Number of ordinary shares</u>	<u>Nominal amount, RUR'000</u>	<u>Nominal value, RUR'000</u>	<u>Inflation adjusted amount, RUR'000</u>
Balance as of 1 January 2003	23,795	50	1,189,750	2,257,794
Issued during the year	300	50	15,000	15,000
<b>Balance as of 31 December 2003</b>	<b><u>24,095</u></b>		<b><u>1,204,750</u></b>	<b><u>2,272,794</u></b>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation in the Russian Federation. In accordance with the legislation of the Russian Federation, as of the balance sheet date, reserves available for distribution amount to RUR'000 531,480 (2002: RUR'000 299,165).

No dividends were declared or paid during 2003 and 2002.

## 28. Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Group are those related to credit exposures, liquidity and movements in interest rates and foreign exchange rates. These risks are managed in the following manner:

### (i) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group.

The Group has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Group's credit risk.

The Group's credit policy is reviewed and approved by the Board of Management.

## **28. Risk management (continued)**

### **(ii) Interest rate risk**

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates.

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

The Group's interest rate policy is reviewed and approved by the Board of Management.

See Note 35 "Average effective interest rates".

### **(iii) Liquidity risk**

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due.

The Group's liquidity policy is reviewed and approved by the Board of Management.

See Note 36 "Maturity analysis".

### **(iv) Foreign exchange rate risk**

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

The Group's foreign currency policy is reviewed and approved by the Board of Management.

See Note 37 "Currency analysis".

## **29. Commitments**

At any time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits and overdraft facilities. At 31 December 2003 interest rates on loans subject to commitments range from 10,0% to 16,5% on loans denominated in foreign currencies and from 11,0% to 20,0% on rouble loans (2002: from 10% to 19% on loans denominated in foreign currencies and from 11% to 26% on rouble loans). Outstanding loan commitments have a commitment period that does not extend to beyond the normal underwriting and settlement period of one to three months.

## 29. Commitments (continued)

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. Expirations are not concentrated in any period. The Group also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	<b>2003</b>	<b>2002</b>
	<b>RUR '000</b>	<b>RUR '000</b>
<i>Contracted amount</i>		
Undrawn loan facilities	2,482,555	1,216,320
Guarantees	1,899,052	1,010,130
Undrawn overdraft facilities	948,770	442,203
Letters of credit	900,971	416,713

The total outstanding contractual commitments to extend credit indicated above do not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

## 30. Operating leases

### Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	<b>2003</b>	<b>2002</b>
	<b>RUR '000</b>	<b>RUR '000</b>
<u>In thousands of RUR</u>		
Less than one year	50,844	8,909
Between one and five years	33,201	37,294
More than five years	33,202	71,750
	<u><b>117,247</b></u>	<u><b>117,953</b></u>

The Group leases a number of premises and equipment under operating lease. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During the current year RUR 69,440 thousand was recognised as an expense in the income statement in respect of operating leases (2002: RUR 43,158 thousand).

## 31. Contingencies

### (i) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

### (ii) Litigation

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

### (iii) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by numerous taxes and frequently changing legislation which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in the Russian Federation substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

## 32. Related party transactions

For the purposes of these consolidated financial statements, related parties include shareholders with holdings greater than 5% in the Group, controlled and associated companies, and Managers and Directors of the Group. The outstanding balances and the average interest rates as of 31 December 2003 and 2002 with related parties are as follows:

	<b>2003</b>	<b>Average</b>	<b>2002</b>	<b>Average</b>
	<b>RUR '000</b>	<b>Effective</b>	<b>RUR '000</b>	<b>Effective</b>
		<b>Interest</b>		<b>Interest</b>
		<b>Rate</b>		<b>Rate</b>
<i>Assets</i>				
Placements with banks and other financial institutions	49,951	15.00%	23,272	14.00%
Loans to shareholders	-	-	1,000	21.00%
Loans to other related parties	3,211,089	11.24%	1,276,977	12.54%

### 32. Related party transactions (continued)

	2003 RUR '000	Average Effective Interest Rate	2002 RUR '000	Average Effective Interest Rate
<i>Liabilities</i>				
Placements from banks and other financial institutions	90,956	2.00%	58,090	0.75%
Customer accounts and deposits from shareholders	-	-	3,040	1.00%
Customer accounts and deposits from other related parties	300,987	4.06%	140,905	5.55%
Own securities issued	1,616,253	7.34%	507,425	11.68%

The results of transactions with related parties are as follows:

	2003 RUR '000	2002 RUR '000
Interest income	215,792	163,001
Interest expense	62,410	34,511
Commission income	25,182	11,193
Administration expense	22,557	37,811
Insurance expense	19,802	3,504
Business development expense	6,023	-
Administration income	352	-
Other expense	2	-

### 33. Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flow is composed of the following items:

	2003 RUR '000	2002 RUR '000
Cash	815,711	560,007
Due from Central Bank - nostro accounts	1,119,114	729,615
Placements with banks and other financial institutions with a contractual maturity less than one month	1,913,893	1,334,816
	<u>3,848,718</u>	<u>2,624,438</u>

### 34. Fair value of financial instruments

The Group has performed an assessment of its financial instruments, as required by IAS 32 *Financial Instruments: Disclosure and Presentation*, to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability.

**Cash and bullion, Due from the Central Bank of the Russian Federation** – for liquid instruments, the carrying amount is a reasonable estimate of fair value. Reserve deposits with the Central Bank of the Russian Federation are non-interest bearing and are estimated to mature as the underlying deposits in respect of which those deposits are maintained mature. As the underlying deposits are relatively short-term in nature, the carrying value of these reserve deposits are a reasonable estimate of their fair value.

### **34. Fair value of financial instruments (continued)**

***Placements with banks and other financial institutions, Amounts receivable/payable under reverse repurchase/repurchase agreements*** – for these assets and liabilities, the carrying amount is a reasonable estimate of fair value due to their relatively short term nature.

***Financial instruments held for trading*** are stated at fair value. The fair value of financial instruments held for trading is determined with reference to an active market.

***Loans to customers*** – the fair value of loan portfolio is based on the credit and interest rate characteristics of the individual loans within each sector of the portfolio. The estimation of the provision for loan impairment includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation of the economic sector in which each borrower operates, the economic situation of each borrower and guarantees obtained. Due to the lack of liquidity and published “indicator interest rates” in the Russian markets, it is not possible to reliably estimate the fair value of loans. However, the provision for loan impairment is considered a reasonable estimate of the discount required to reflect the impact of credit risk.

***Securities available-for-sale***, except for non-traded equity securities, are stated at fair value, which was determined with reference to an active market for those securities quoted publicly or at over-the-counter market. For unquoted debt securities, fair value was determined by reference to market prices of securities with similar credit risk and/or maturity. As described in Note 18, non-traded equity securities for which no fair value is determinable are stated at cost less provision for impairment.

***Deposits and balances from banks and other financial institutions*** – the carrying amount of short-term deposits and deposits repayable on demand is a reasonable estimate of their fair value due to their relatively short-term nature.

***Current accounts and deposits from customers*** – the carrying amount of deposits and current accounts of the Group’s customers is a reasonable estimate of their fair value due to their relatively short-term nature.

***Own securities issued*** – debt securities issued are stated at cost, adjusted for amortisation of premium and discounts, which approximates fair value.

***Liability to purchase leasing equipment*** – these payables are stated at cost, which approximates fair value, due to their short-term nature.

This estimate of fair value is intended to approximate the amount at which the above listed assets could be exchanged in a current transaction between willing parties. However given the uncertainties and the use of subjective judgement, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

### 35. Average effective interest rates

The table below displays the Group's interest bearing assets and liabilities as at 31 December 2003 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	Value RUR '000	2003 Average Effective Interest Rate	Value RUR '000	2002 Average Effective Interest Rate
<b>Interest Bearing Assets</b>				
<b>Due from the Central Bank of the Russian Federation</b>	2,925,314	0.00%	1,791,047	0.00%
<b>Placements with banks and other financial institutions</b>				
- Roubles	2,177,573	5.50%	375,219	16.00%
- other currencies	991,948	0.87%	1,767,252	0.22%
<b>Financial instruments held for trading</b>				
- Roubles	2,691,651	13.48%	3,284,578	24.75%
- other currencies	2,871,490	7.39%	1,413,007	5.40%
<b>Amounts receivable under reverse repurchase agreements</b>				
- Roubles	774,323	12.29%	878,606	17.00%
- other currencies	-	-	2,040	16.00%
<b>Loans to customers and lease receivables</b>				
- Roubles	12,042,305	16.00%	5,829,500	16.81%
- other currencies	12,947,429	13.20%	7,654,511	13.27%
<b>Investments</b>				
- Roubles	73,728	14.58%	56,443	20.50%
<b>Interest Bearing Liabilities</b>				
<b>Deposits and balances from banks and other financial institutions</b>				
- Roubles	1,487,175	2.94%	1,048,338	4.81%
- other currencies	7,455,858	4.61%	1,977,445	2.80%
<b>Amounts payable under repurchase Agreements</b>				
- other currencies	471,300	2.63%	153,062	3.32%
<b>Current accounts and deposits from customers</b>				
- Roubles	11,360,086	3.62%	7,090,154	3.17%
- other currencies	5,825,895	2.77%	3,042,167	1.89%
<b>Own securities issued</b>				
- Roubles	6,932,586	9.05%	6,445,193	11.56%
- other currencies	1,780,165	9.20%	795,827	9.15%

### **36. Maturity analysis**

The following table show assets and liabilities of the Group by their remaining contractual maturity, with the exception of trading securities, which are shown in the category “Demand and less than 1 month” based on the fact that Management believes that all of these trading securities could be liquidated within one month in normal course of business.

As at 31 December 2003 the contractual maturities of financial instruments held for trading were as follows:

	<b>RUR'000</b>
Less than 1 months	104,639
1 to 6 months	1,263,634
6 months to 1 year	402,660
1 year to 5 years	885,931
More than 5 years	2,924,297
No maturity	22,603
	<hr/> <b>5,603,764</b> <hr/>

**36. Maturity analysis (continued)**

	Less than 1 month RUR '000	1 to 6 months RUR '000	6 months to 1 year RUR '000	1 year to 5 years RUR '000	More than 5 years RUR '000	No maturity RUR '000	Overdue RUR '000	Total RUR '000
<b>Assets</b>								
Cash and bullion	815,711	-	-	-	-	-	-	815,711
Due from the Central Bank of the Russian Federation	2,463,161	216,027	156,621	42,953	46,552	-	-	2,925,314
Placements with banks and other financial institutions	1,973,414	1,137,093	29,608	-	29,406	-	-	3,169,521
Financial instruments held for trading	5,603,764	-	-	-	-	-	-	5,603,764
Amounts receivable under reverse repurchase agreements	774,323	-	-	-	-	-	-	774,323
Loans to customers and lease receivables	3,837,147	10,474,640	5,824,700	4,136,549	685,645	-	31,053	24,989,734
Investments	32,863	40,835	-	30	-	319,052	-	392,780
Investment property	-	-	-	-	-	2,221,069	-	2,221,069
Prepaid taxes	21,472	-	-	-	-	-	-	21,472
VAT receivable	50,041	57,744	60,680	136,229	-	-	-	304,694
Other assets	42,934	28,526	10,131	7,864	-	-	-	89,455
Property and equipment	-	-	-	-	-	559,635	-	559,635
<b>Total assets</b>	<b>15,614,830</b>	<b>11,954,865</b>	<b>6,081,740</b>	<b>4,323,625</b>	<b>761,603</b>	<b>3,099,756</b>	<b>31,053</b>	<b>41,867,472</b>
<b>Liabilities</b>								
Liabilities of financial instruments held for trading	44,960	1,641	-	-	-	-	-	46,601
Deposits and balances from banks and other financial institutions	2,985,978	4,063,973	1,615,119	277,963	-	-	-	8,943,033
Amounts payable under repurchase agreements	453,750	9,370	8,180	-	-	-	-	471,300
Current accounts and deposits from customers	12,788,691	2,055,448	1,490,211	408,693	442,938	-	-	17,185,981
Own securities issued	1,077,682	4,923,159	1,631,861	1,080,049	-	-	-	8,712,751
Other liabilities	126,685	1,316	-	-	-	7,205	-	135,206
Liability to purchase equipment leasing	40,935	122,098	26,571	65,069	-	-	-	254,673
Taxes payable	31,471	-	-	-	-	-	-	31,471
Deferred tax liability	-	-	-	-	-	289,090	-	289,090
<b>Total liabilities</b>	<b>17,550,152</b>	<b>11,177,005</b>	<b>4,771,942</b>	<b>1,831,774</b>	<b>442,938</b>	<b>296,295</b>	<b>-</b>	<b>36,070,106</b>
<b>Net position as at 31 December 2003</b>	<b>(1,935,322)</b>	<b>777,860</b>	<b>1,309,798</b>	<b>2,491,851</b>	<b>318,665</b>	<b>2,803,461</b>	<b>31,053</b>	<b>5,797,366</b>
Net position as at 31 December 2002	1,434,156	795,838	1,075,658	(482,251)	(14,209)	626,551	328,411	3,764,154

### 37. Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2003:

	<b>RUR</b>	<b>Other</b>	<b>Total</b>
	<b>RUR '000</b>	<b>currencies</b>	<b>RUR '000</b>
		<b>RUR '000</b>	<b>RUR '000</b>
<b>Assets</b>			
Cash and bullion	342,257	473,454	815,711
Due from the Central Bank of the Russian Federation	2,925,314	-	2,925,314
Placements with banks and other financial institutions	2,177,573	991,948	3,169,521
Financial instruments held for trading	2,728,123	2,875,641	5,603,764
Amounts receivable under reverse repurchase agreements	774,323	-	774,323
Loans to customers and lease receivables	12,042,305	12,947,429	24,989,734
Investments	392,276	504	392,780
Investment property	2,221,069	-	2,221,069
Prepaid taxes	21,472	-	21,472
VAT receivable	304,694	-	304,694
Other assets	84,771	4,684	89,455
Property and equipment	559,635	-	559,635
	<b>24,573,812</b>	<b>17,293,660</b>	<b>41,867,472</b>
<b>Liabilities</b>			
Liabilities on financial instruments held for trading	-	46,601	46,601
Deposits and balances from banks and other financial institutions	1,487,175	7,455,858	8,943,033
Amounts payable under repurchase agreements	-	471,300	471,300
Current accounts and deposits from customers	11,360,086	5,825,895	17,185,981
Own securities issued	6,932,586	1,780,165	8,712,751
Other liabilities	135,196	10	135,206
Liability to purchase equipment leasing	19,918	234,755	254,673
Taxes payable	31,471	-	31,471
Deferred tax liability	289,090	-	289,090
<b>Total liabilities</b>	<b>20,255,522</b>	<b>15,814,584</b>	<b>36,070,106</b>
<b>Net on balance sheet position as of 31 December 2003</b>	<b>4,318,290</b>	<b>1,479,076</b>	<b>5,797,366</b>
<b>Net off balance sheet position as of 31 December 2003</b>	<b>2,488,929</b>	<b>(2,488,929)</b>	<b>-</b>
<b>Net on and off balance sheet position 31 December 2003</b>	<b>6,809,235</b>	<b>(1,011,869)</b>	<b>5,797,366</b>
<b>Net on balance sheet position as at 31 December 2002</b>	<b>(1,456,897)</b>	<b>5,221,051</b>	<b>3,764,154</b>
<b>Net off balance sheet position as of 31 December 2002</b>	<b>5,415,554</b>	<b>(5,415,554)</b>	<b>-</b>
<b>Net on and off balance sheet position 31 December 2002</b>	<b>3,849,011</b>	<b>(84,857)</b>	<b>3,764,154</b>

Other currencies comprise primarily US dollars and Euros.

### 38. Capital adequacy

As at 31 December 2003 the Group's total capital, calculated in accordance with International Convergence of Capital Measurement and Capital Standards issued by the Basle Committee totalled 6,091,717 RUR thousand. The Group's risk based total capital adequacy ratio was 16.5%, which exceed the minimum ratio of 8% recommended by the Basle Accord.

As at 31 December 2003 the components of capital adequacy ratio were as follows:

<b>Tire 1 Capital</b>	
Share capital	2,272,794
Share premium	1,902,245
Additional paid-in-capital	182,759
Retained earnings	1,304,829
	<u>5,662,627</u>
<b>Tier 2 Capital</b>	
Subordinated debt	442,433
	<u>6,105,060</u>
Deduction from capital – investment in the capital of other bank	(13,343)
<b>Total Capital</b>	<u><u>6,091,717</u></u>
<b>Total Risk Weighted Assets</b>	<u><u>36,814,192</u></u>
<b>Tier 1 Ratio</b>	<b>15.4%</b>
<b>Total Capital Ratio</b>	<b>16.5%</b>