

BANK FOR FOREIGN TRADE

**Consolidated Financial Statements and Auditors'
Report**

31 December 2003

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Report of Independent Auditors

To the Board of Directors and Shareholders of the Bank for Foreign Trade:

We have audited the accompanying consolidated balance sheet of the Bank for Foreign Trade (“the Bank”) and its subsidiaries (together “the Group”) as of 31 December 2003, and the related consolidated statements of income, cash flows, and changes in shareholders’ equity for the year then ended. These financial statements are the responsibility of the Group’s management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Group as of and for the year ended 31 December 2002, were audited by other auditors whose report dated 18 April 2003 expressed an unqualified opinion.

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

In our opinion, the 2003 financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Bank for Foreign Trade and its subsidiaries at 31 December 2003, and the consolidated results of their operations and their cash flows for the year then ended in conformity with International Financial Reporting Standards as published by the International Accounting Standard Board.

7 May 2004

Bank for Foreign Trade
Consolidated Balance Sheets at 31 December
(expressed in millions of US dollars)

	Note	2003	2002
Assets			
Cash and short term funds	5	1,030	643
Mandatory cash balances with local central banks		382	211
Trading securities	6	1,270	921
Due from other banks	7	1,895	1,246
Loans and advances to customers, net	8	4,795	3,016
Investment securities available for sale	9	1,174	961
Investment securities held to maturity		7	–
Accrued interest income and other assets	10	330	144
Premises and equipment	11	262	130
Deferred tax asset	23	83	–
Total assets		11,228	7,272
Liabilities			
Due to other banks	12	1,812	1,285
Customer accounts	13	4,259	2,437
Other borrowed funds	14	707	694
Debt securities in issue	15	1,738	460
Accrued interest expense and other liabilities	16	222	175
Deferred tax liability	23	12	27
Total liabilities		8,750	5,078
Minority interest	17	105	76
Shareholders' equity			
Share capital	18	2,153	2,153
Share premium		34	34
Retained earnings (accumulated deficit)		186	(69)
Total shareholders' equity		2,373	2,118
Total liabilities, minority interest and shareholders' equity		11,228	7,272

Approved for issue by the Management Board and signed on its behalf on 07 May 2004.

A.L. Kostin
President - Chairman of the Management Board

O.A. Avdeeva
Chief Accountant

Bank for Foreign Trade
Consolidated Statements of Income for the years ended 31 December
(expressed in millions of US dollars)

	Note	2003	2002
Interest income	19	665	530
Interest expense	19	(345)	(182)
Net interest income		320	348
(Provision for) release of loan impairment	7,8	(78)	36
Net interest income after provision for loan impairment		242	384
Gains less losses arising from trading securities		105	36
Gains less losses arising from investment securities available for sale		105	168
Gains less losses arising from dealing in foreign currencies		34	17
Gains less losses from derivative financial instruments	27	24	7
Foreign exchange translation gains less losses		22	(23)
Fee and commission income	20	74	44
Fee and commission expense	20	(6)	(6)
Other operating income	21	61	20
Operating income		661	647
Operating expenses	22	(391)	(263)
Profit before taxation		270	384
Income tax benefit (expense)	23	17	(106)
Profit after taxation		287	278
Minority interest	17	(23)	(17)
Net profit		264	261

Bank for Foreign Trade
Consolidated Statements of Cash Flows for the years ended 31 December
(expressed in millions of US dollars)

	Note	2003	2002
Cash flows from operating activities			
Interest received		650	543
Interest paid		(289)	(166)
Income received on operations with securities		421	244
Income received on dealing in foreign currency		39	19
Fees and commissions received		74	44
Fees and commissions paid		(6)	(6)
Other operating income received		44	18
Operating expenses paid		(366)	(239)
Income tax paid		(119)	(121)
Operating profit before changes in operating assets and liabilities		448	336
Net cash decrease (increase) in operating assets			
Net increase in mandatory cash balances with local central banks		(146)	(58)
Net decrease (increase) in restricted cash		69	(17)
Net increase in trading securities		(393)	(688)
Net increase in due from banks		(585)	(614)
Net increase in loans and advances to customers		(1,734)	(837)
Net (increase) decrease in other assets		(60)	77
Net cash increase in operating liabilities			
Net increase in due to banks		443	667
Net increase in customer accounts		1,659	654
Net increase in debt securities in issue		820	99
Net increase in other liabilities		11	74
Net cash provided by (used in) operating activities		532	(307)
Cash flows from investing activities			
Net cash paid in purchase of subsidiaries		(40)	(13)
Net cash received in disposal of subsidiaries		(1)	–
Proceeds from disposal of investments		–	1
Cash inflow from dividends		2	–
Proceeds from sales or maturities of investment securities available for sale		322	1,458
Purchases of investment securities available for sale		(641)	(388)
Purchases of investment securities held to maturity		(7)	–
Purchases of premises and equipment		(99)	(43)
Proceeds from disposal of premises and equipment		2	1
Net cash (used in) provided by investing activities		(462)	1,016
Cash flows from financing activities			
Increase in Central Bank of the Russian Federation funding		–	1,096
Decrease in Central Bank of the Russian Federation funding		(380)	(2,002)
Proceeds from other borrowed funds		144	65
Repayment of other borrowed funds		(86)	(51)
Cash proceeds from issue of debentures		66	24
Cash paid in redemption of debentures		–	(32)
Dividends paid		(53)	(20)
Proceeds from issuance of Eurobonds		300	–
Proceeds from syndicated loan		455	225
Repayment of syndicated loan		(120)	–
Net cash provided by (used in) financing activities		326	(695)
Effect of exchange rate changes on cash and cash equivalents		46	(16)
Net increase (decrease) in cash and cash equivalents		442	(2)
Cash and cash equivalents at beginning of the year	5	487	489
Cash and cash equivalents at the end of the period	5	929	487

Bank for Foreign Trade**Consolidated Statements of Changes in Shareholders' Equity for the Years ended 31 December 2003 and 2002***(expressed in millions of US dollars)*

	Share capital	Share premium	Retained earnings (accumulated deficit)	Total shareholders' equity
Balance at 1 January 2002	2,153	34	(352)	1,835
Profit for the period	–	–	261	261
Dividends declared and paid	–	–	(20)	(20)
Other movements	–	–	42	42
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Balance at 31 December 2002	2,153	34	(69)	2,118
Profit for the period	–	–	264	264
Dividends declared and paid	–	–	(53)	(53)
Other movements	–	–	44	44
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Balance at 31 December 2003	2,153	34	186	2,373

1 Principal Activities

The Bank for Foreign Trade and its subsidiaries and associates (the “Group”) comprise Russian and foreign commercial banks, and other companies and entities that the Group controls.

The Bank for Foreign Trade, more commonly known as Vneshtorgbank (the “Bank”, “Vneshtorgbank”, or “VTB”), is an open joint-stock commercial bank. The Bank is licensed by the Central Bank of the Russian Federation to carry on banking activities and has operated under a full banking license since 1990. The Bank is the second largest bank in Russia in terms of both capital and total assets. The Bank’s registered office is located at the following address: 16 Kuznetsky Most, Moscow 103031, Russian Federation.

A full list of subsidiaries and associates included within these consolidated financial statements is provided in Note 30.

The Group operates in the commercial banking sector. This includes deposit taking and commercial lending in freely convertible currencies and in Russian Roubles, support of clients’ export/import transactions, foreign exchange, securities trading, and trading in derivative financial instruments. The Group’s operations are conducted in both Russian and international markets. VTB conducts its banking business in Russia through its network of 43 branches, 76 sub-branches and 39 outlets, located in Moscow and all major Russian regions.

The number of employees of the Group at 31 December 2003 was 6,892 (31 December 2002: 5,840).

In October 2002 the Central Bank of the Russian Federation (“CBRF”) transferred its 99.9% shareholding in the Bank to the Ministry of Property Relations of the Russian Federation. Also during the second half of 2002 a majority of new directors were appointed to the Management Board. On November 29, 2002 VTB’s shareholders elected a new Supervisory Council, following the CBR’s transfer of its shares in VTB to the predecessor of the Ministry of Property Relations. In March 2004 the Ministry of Property Relations was abolished and succeeded by the Federal Service for the Management of Federal Property.

Unless otherwise noted herein, all amounts are expressed in million of US dollars.

2 Operating Environment of the Group

The Group operates primarily within the Russian Federation. While there have been improvements in recent years in the economic situation in the Russian Federation, the economy of 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, and relatively high inflation.

In addition, 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 certain categories of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in the Russian Federation. The ongoing political stabilisation has been a positive contributing factor to the further development of the political and legal environment.

The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory, and political developments, which are beyond the Group’s control.

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 Presentation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”), which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards (“IAS”) and Standing Interpretations Committee interpretations (“SIC”) approved by the International Accounting Standards Committee that remain in effect. The Bank and its subsidiaries and associates maintain their accounting records in accordance with regulations applicable in their country of registration. These consolidated financial statements are based on those accounting books and records, as adjusted and reclassified to comply with IFRS.

The national currency of the Russian Federation, where the Bank is domiciled, is the Russian Rouble (RR). However, the Group’s (and the Bank’s) assets and liabilities are mostly denominated in United States dollars (“US dollars” or “USD”) and other freely convertible currencies. The US dollar is used to a significant extent in, and has a significant impact on the operations of the Group, and the Group’s cash flows are primarily denominated in US dollars. 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 financial statements requires management to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of the financial statements. Actual results can differ significantly from such estimates.

4 Significant Accounting Policies

Principles of Consolidation

Subsidiaries are those companies and other entities in which the Group owns, either directly or indirectly, more than 50% of the voting rights of a company’s share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

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 an acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. The purchases of subsidiaries from the major shareholder have been accounted for under the uniting of interest method as the transactions are between two entities under common control.

Intercompany transactions, balances, and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

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

The line “Other movements” in the consolidated statement of changes in shareholders’ equity includes the translation effect on equity, which arises for those subsidiaries whose measurement currency differs from the reporting currency of the Group (the US dollar), and other movements due to the acquisition and consolidation of certain subsidiaries.

4 Significant Accounting Policies (continued)

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 recognised in the consolidated statement of income, and its share of post-acquisition movements in reserves, which is not recognized in the consolidated statements of income, is recognised directly in equity. 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 associate; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associates includes goodwill (net of accumulated amortisation) on acquisition. When the Group's share of losses of 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 short-term funds. Cash and cash equivalents are items which can be converted into cash within a day. All short term interbank placements, including 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 local Central banks. Mandatory cash balances with local Central banks represent mandatory reserve deposits which are not available to finance the Group's day to day operations and are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

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 as trading securities if it has the intention to sell them within one year after purchase.

Trading securities are initially recognised at cost (which includes transaction costs) and subsequently remeasured at their estimated fair value. In determining fair 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 securities. Dividends received are included 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 recognised at the trade date, which is the date that the Group commits to purchase or sell the asset. Otherwise such transactions are treated as derivatives until settlement.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included in 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 interest method.

Securities lent to counterparties continue to be recognised in the consolidated financial statements. Securities borrowed are not recognised in the consolidated financial statements, unless they are sold to third parties, in which case the results of purchase and sale are recorded within gains less losses arising from trading securities in the consolidated statement of income. The obligation to return the securities is recorded at fair value as a trading liability.

4 Significant Accounting Policies (continued)

Originated loans and advances and allowances 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 recognised 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 allowance 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 the origination date.

A credit risk allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect the amounts due according to the original contractual terms. The amount of the allowance 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 allowance for loan impairment also covers losses where there is objective evidence that probable losses are present in homogeneous components of the loan portfolio at the balance sheet date. These losses 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 allowance 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 allowance for loan impairment subsequently decreases due to an event occurring after the write-down, the release of the allowance is credited to the provision for loan impairment in the consolidated statement of income.

Loans held for sale

Loans are designated as held for sale when the Bank has a positive intent to sell them. Loans held for sale are carried at the lower of cost or market value. Interest income with respect to loans held for sale is accrued on the principal amount outstanding.

Leases

- **Finance – Group as lessor.** The Group presents leased assets as lease receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are recognised as expenses when incurred.
- **Operating – Group as lessee.** Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under operating lease are recognised as expenses on a straight-line basis over the lease-term and included into operating expenses.

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

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

4 Significant Accounting Policies (continued)

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

Investment securities available for sale are initially recognised at cost (which includes transaction costs) and are subsequently remeasured to fair value based at the last trade price if quoted on an exchange or, if traded over-the-counter, at the last bid price, or fair value as estimated by Management. Certain investments available for sale for which there is no available independent quotation have been fair valued by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies. Realised and unrealised gains and losses arising from changes in the 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 are reflected in the consolidated statement of income as interest income on securities. Dividends received are included within other operating income.

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

Investment securities held to maturity. This classification includes investment securities which Management intends to hold to maturity. Initially, investment securities held to maturity are recorded at cost (which includes transaction costs), which is the fair value of the consideration given, and subsequently are carried at amortised cost less allowance for impairment, if any. Amortised cost is based on the fair value of expected future cash inflows discounted at the market rate on acquisition. The difference between cost and amortised cost is recorded in the consolidated statement of income as interest income from securities.

Premises and equipment. Premises and equipment are stated at cost or revalued amounts less accumulated depreciation and allowance for impairment where required. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is recognised in the consolidated statement of income. The estimated recoverable amount is the higher of an asset's net selling price and its value in use.

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

Premises of the Group are subject to revaluation on a regular basis, approximately every three to five years. The frequency of revaluation depends upon the movements in the fair values of the premises and equipment being revalued.

Construction in progress is carried at cost less allowance for impairment in value, if any. Upon completion, assets are transferred to premises and equipment at their carrying value. Construction in progress is not depreciated until the asset is available for use.

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

Goodwill. The excess of the cost of an acquisition over the Bank's interest in the fair value of the net identifiable assets acquired at the date of the transaction is recorded as goodwill and recognised as an asset in the consolidated balance sheet. Goodwill is carried at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight-line basis over its useful life, which has been estimated as being 10 years. Goodwill net of amortisation is included within other assets; amortisation of goodwill is included in operating expenses of the consolidated income statement.

4 Significant Accounting Policies (continued)

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

	Useful life	Depreciation rates
Premises	40 years	2.5% per annum
Equipment	4 – 20 years	5 – 25% per annum

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

If the Group purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised as gain or loss arising from early retirement of debt in the consolidated statement of income.

Debt securities in issue. Debt securities in issue include promissory notes, certificates of deposit, eurobonds, and debentures issued by the Group. Debt securities in issue are recognised initially at cost, being their issue proceeds (the fair value of consideration received) net of transaction costs incurred. Subsequently, debt securities in issue are stated at amortised cost and any difference between the net proceeds and the redemption value is recognised in the consolidated statement of income over the period of the security issue using the effective interest method.

If the Group purchases its own debt securities in issue, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised as gain or loss arising from early retirement of debt in the consolidated statement of income.

Share premium. Share premium represents the excess of contributions received over the nominal value of the shares issued.

Dividends. Dividends are recorded in equity in the period in which they are declared. The statutory accounting reports of the Group entities are the basis for profit distribution and other appropriations.

Taxation. Taxation has been provided for in the consolidated financial statements in accordance with taxation legislation currently in force in the respective territories that the Group operates. The income tax charge in the consolidated statement of income comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted at the balance sheet date.

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

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Taxes, other than on income, are recorded within operating expenses.

4 Significant Accounting Policies (continued)

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

Fees, commissions, and other income and expense items are generally recorded on an accrual basis when the service has been provided. 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 into USD using the exchange rate 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 at the date of the 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 at the date of the 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 gains less losses.

As certain members of the Group located outside Russia operate independently of the Group, in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates" ("IAS 21"), these entities are considered to be foreign entities (operations not integral to those of the parent) with respect to the Group. Thus, the financial statements of these foreign entities have been translated into USD as follows: balance sheets are translated at the applicable period end exchange rate and the statements of income are translated using a basis that approximates the rate of exchange at the date of the transactions. This method of translation leads to the translation of non-monetary assets and liabilities, existing at 31 December 2003, at two different rates (e.g. 31 December 2002 and 31 December 2003). In accordance with IAS 21, the exchange difference arising from the use of the two different exchange rates forms part of the Group's net investment in the foreign entity and is classified as an element of equity in the consolidated financial statements until disposal, at which time it is recognised as income or expense. This exchange difference is reflected within the "Other movements" line in the consolidated statement of changes in shareholders' equity.

At 31 December 2003, the principal rate of exchange used for translating balances in Russian Roubles to USD was USD 1 =RR 29.4545 (at 31 December 2002: USD 1 =RR 31.7844) and the principal rate of exchange used for translating balances in Euro was USD 1 =Euro 0.7999 (at 31 December 2002: USD 1 =EURO 0.9600).

Derivative financial instruments. Derivative financial instruments including foreign exchange contracts, currency swaps, options, 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, 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 and are included within other assets or other liabilities as appropriate.

Changes in the fair value of derivatives are included in gains less losses arising from derivative financial instruments.

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 operations are shown within fee and commission income within the consolidated statement of income.

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

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.

Salary costs. The Group's contributions to state and Group pension schemes, social insurance, and obligatory medical insurance funds in respect of its employees are expensed as incurred and included in staff costs within operating expenses.

4 Significant Accounting Policies (continued)

Segment reporting. A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, net profit or assets are ten per cent or more of all the segments are reported separately. Geographical segments of the Group have been reported separately within these consolidated financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

5 Cash and Short-Term Funds

	31 December 2003	31 December 2002
Cash on hand	165	79
Cash balances with local central banks (other than mandatory reserve deposits)	408	135
Correspondent accounts with other banks		
- Russian Federation	195	259
- Other countries	262	170
Total cash and short-term funds	1,030	643
Less: restricted cash	(101)	(156)
Total cash and cash equivalents	929	487

Restricted cash balances represent the balances on escrow accounts placed by the Bank in foreign banks on behalf of its customers totalling USD 52 million (31 December 2002: USD 108 million) and cash placed by the Bank on nostro accounts with foreign and Russian banks in non-freely convertible currencies totalling USD 49 million (31 December 2002: USD 48 million). For the purposes of the consolidated statement of cash flows, restricted cash is not considered to be cash and cash equivalents.

6 Trading Securities

	31 December 2003	31 December 2002
USD denominated securities		
MinFin bonds (OVGVZ)	500	506
Russian corporate Eurobonds	90	105
Bills of exchange	63	53
Other	12	15
RR denominated securities		
Bills of exchange and debentures	424	68
Federal loan bonds (OFZ)	92	54
Other	56	25
Securities denominated in other currencies		
Securities issued by foreign governments	3	43
Russian corporate Eurobonds	15	19
Other	15	33
Total trading securities	1,270	921

6 Trading Securities (continued)

MinFin bonds (OVGVZ) are interest bearing securities denominated in USD, which carry the guarantee of the Ministry of Finance of the Russian Federation. The bonds are purchased at a discount to nominal value and carry an annual coupon of 3%. These bonds have maturity dates ranging from November 2007 to May 2011, and yields to maturity ranging from 5% to 7%.

Russian corporate Eurobonds are interest bearing securities issued by major Russian corporates, which are freely tradable internationally. These bonds have maturity dates ranging from February 2004 to March 2013, coupon rates ranging from 8% to 13%, and yields to maturity ranging from 6% to 9%.

Bills of exchange and debentures represent securities issued primarily by Russian banks, large manufacturing, telecom and oil and gas companies, and local authorities. These bills of exchange and debentures have maturity dates ranging from January 2004 to February 2009 and yields to maturity ranging from 6% to 20%.

Federal loan bonds (OFZ) are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. These OFZ bonds are issued at a discount to their nominal value, have maturity dates ranging from January 2004 to August 2012, coupon rates ranging from 8% to 12%, and yields to maturity ranging from 3% to 8%.

Included in trading securities are USD nil (31 December 2002: USD 234 million) of securities pledged under sale and repurchase agreements with other banks. All sale and repurchase agreements mature within one month of their inception.

7 Due from Other Banks

	31 December 2003	31 December 2002
Current term placements with other banks	1,792	1,165
Reverse sale and repurchase agreements with other banks	112	35
Overdue placements with other banks	113	165
Less: Allowance for loan impairment	(122)	(119)
Total due from other banks	1,895	1,246

Due from other banks include Rouble denominated loans to a Russian bank totalling USD 96 million (31 December 2002: USD 144 million). At 31 December 2003, the allowance for impairment on these loans comprised USD 96 million (31 December 2002: USD 96 million).

Movements in the allowance for loan impairment are as follows:

	2003	2002
Allowance for loan impairment at 1 January	119	173
Provision for (reversal of) loan impairment during the period	3	(54)
Allowance for loan impairment at 31 December	122	119

At 31 December 2003, the estimated fair value of due from other banks was USD 1,895 million (31 December 2002: USD 1,246 million).

8 Loans and Advances to Customers

	31 December 2003	31 December 2002
Current loans and advances	4,925	3,097
Rescheduled loans and advances	100	100
Overdue loans and advances	202	181
Less: Allowance for loan impairment	(432)	(362)
Total loans and advances to customers	4,795	3,016

At 31 December 2003, included in current loans is lease receivables of USD 9 million (31 December 2002: nil), equal to the net investment in the lease.

Movements in the allowance for loan impairment are as follows:

	2003	2002
Allowance for loan impairment at 1 January	362	395
Provision for loan impairment during the period	75	18
Loans and advances to customers written off during the period as uncollectable	(5)	(51)
Allowance for loan impairment at 31 December	432	362

Included in overdue loans is a deposit of USD 100 million placed with a foreign bank for the purpose of financing Russian fishing enterprises. The Group has treated this amount as loans to customers and created a 100% allowance for loan impairment against these loans. The loans were originally financed by deposits from a state-owned Russian bank, which are included in due to other banks.

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

	31 December 2003		31 December 2002	
	Amount	%	Amount	%
Manufacturing	1,958	37	703	21
Trade and commerce	764	15	357	11
Finance	530	10	139	4
Energy	506	10	1,201	36
Construction	216	4	85	2
Food and Agriculture	205	4	104	3
Chemical	201	4	161	5
Mining	185	4	183	5
Telecommunications and media	161	3	130	4
Transport	158	3	79	2
Fishing	109	2	101	3
Government bodies	128	2	66	2
Other	106	2	69	2
Total loans and advances to customers	5,227	100	3,378	100

At 31 December 2003, the Group has 20 borrowers with aggregated loan amounts above USD 50 million. The total amount of these loans is USD 2,236 million or 43% of the gross loan portfolio. Included in loans and advances were loans to a large corporate customer totalling USD 322 million (6% of the loan portfolio) with maturity dates from March 2005 to March 2006 and a fixed interest rate of 8.4% per annum.

8 Loans and Advances to Customers (continued)

At 31 December 2002, the Group had 9 borrowers with aggregated loan amounts above USD 50 million. The total amount of these loans was USD 1,607 million or 48% of the gross loan portfolio. Included in loans and advances were loans to a large corporate customer totalling USD 734 million (22% of the loan portfolio) with maturity dates from March 2003 to January 2004 and a fixed interest rate of 10% per annum. The loans were repaid in time.

At 31 December 2003, the total gross amount of impaired loans, on which interest was not accrued, was USD 259 million. Unrecognised interest, in accordance with the original terms of the loans, related to such loans amounted to USD 69 million.

At 31 December 2003, the estimated fair value of loans and advances to customers was USD 4,795 million (31 December 2002: USD 3,016 million).

9 Investment Securities Available for Sale

	31 December 2003	31 December 2002
Debt securities		
Eurobonds of the Russian Federation	483	756
MinFin bonds (OVGVZ)	100	93
Bills of exchange of Russian companies and banks	22	–
Bonds of Russian companies and banks	213	–
State bonds of foreign countries	122	–
Bonds of foreign companies and banks	58	–
Other	21	2
Equity securities		
Corporate shares	104	68
Other	51	42
Total investment securities available for sale	1,174	961

Debt securities. Eurobonds of the Russian Federation are US dollar denominated securities issued by the Ministry of Finance of the Russian Federation, which are freely tradable internationally. The Group's portfolio of Eurobonds consists of 8 tranches of securities with maturity dates ranging from March 2004 to March 2030. The annual coupon rates on these bonds range from 5% to 13% p.a. and interest is payable semi-annually. The Group's nominal value of investments in Eurobonds of the Russian Federation range from approximately 0.01% to 1.62% of the respective tranches' total nominal value issued.

MinFin bonds (OVGVZ) are interest bearing securities denominated in USD, which carry the guarantee of the Ministry of Finance of the Russian Federation. The bonds are purchased at a discount to their nominal value and carry an annual coupon of 3%. The bonds have maturity dates ranging from November 2007 to May 2011 and yields to maturity ranging from 5% to 7%.

Bonds of Russian companies and banks are mainly Eurobonds of large Russian companies and banks, which are freely tradable internationally. These bonds have maturities ranging from March 2004 to March 2013 and have both floating and fixed rates from 3 month LIBOR plus 1.75% to 12.75%.

Included in state bonds of foreign countries are bonds of Austria with a fair value of USD 63 million, bonds of Germany with a fair value of USD 20 million and bonds of Ukraine with a fair value of USD 16 million.

Bonds of foreign companies and banks are held by foreign subsidiaries of the Group and represent bonds of local issuers.

Equity securities. Corporate shares are shares of automobile production companies KAMAZ and Avtovaz. On 29 December 1999, the Group restructured a previously issued loan to KAMAZ into KAMAZ shares. At 31 December 2003, the Group owned 19.9% (31 December 2002: 19.9%) of KAMAZ's and 8.3% (31 December 2002: 8.3%) of Avtovaz's authorised ordinary share capital. These investments have been included in securities available for sale at Management's estimate of their fair value.

Included in the line "other" of equity securities is an investment in Ost-West Handelsbank of USD 41 million (31 December 2002: USD 29 million). This represents 31.9% of the net assets of this bank. This associate is accounted for in these consolidated financial statements using the equity method.

9 Investment Securities Available for Sale (continued)

Also included in the line "Other" of equity securities is an investment in a Russian commercial bank (Most-Bank). In 2000 the Group acquired 100% of the share capital of Most-Bank for RR 5.5 million (USD 0.2 million). At the time of acquisition, the acquired bank was under the temporary administration of the CBRF. The CBRF withdrew Most-Bank's banking licenses on 20 April 2001 and the bank is currently subject to bankruptcy procedures initiated in May 2001. Due to the poor financial condition of this bank, the fair value of this investment has been estimated by Management as nil (31 December 2002: nil). The Group had also issued loans to this bank in 2000 which have been fully reserved. Most-Bank is not consolidated into Group's financial statements as the Group does not exercise control over its financial and operating activities.

Included in investment securities available for sale are securities with fair value at 31 December 2003 of USD 503 million (31 December 2002: USD 107 million) pledged under sale and repurchase agreements. All sale and repurchase agreements mature within one month of their inception.

In addition, investment securities available for sale with fair value of USD 56 million (31 December 2002: USD 13 million) have been pledged to third parties as collateral with respect to term placements of other banks and other borrowed funds.

10 Accrued Interest Income and Other Assets

	31 December 2003	31 December 2002
Accrued interest income	75	60
Trade debtors and prepayments	43	33
Unsettled transactions	30	12
Precious metals	10	9
Balances arising from derivative financial instruments	25	8
Settlements on conversion operations	3	4
Goodwill	20	–
Prepaid taxes	53	7
Loans held for sale	34	–
Other	37	11
Total accrued interest income and other assets	330	144

11 Premises and Equipment

	Premises	Office and computer equipment	Construction in progress	Total
Net book amount at 31 December 2002	86	44	–	130
Cost or revalued amount, net of impairment				
Opening balance at 1 January 2003	95	87	–	182
Acquisitions of subsidiaries	11	36	2	49
Additions	71	28	13	112
Disposals	(9)	(8)	(5)	(22)
Translation difference	3	8	–	11
Closing balance at 31 December 2003	171	151	10	332
Accumulated depreciation				
Opening balance at 1 January 2003	9	43	–	52
Depreciation charge	4	19	–	23
Disposals	(1)	(4)	–	(5)
Translation difference	1	(1)	–	–
Closing balance at 31 December 2003	13	57	–	70
Net book amount at 31 December 2003	158	94	10	262

The Bank's premises were independently valued as of 31 December 2000. The valuation was carried out by an internationally recognised independent firm of valuers, American Appraisal. The basis used for the appraisal was primarily open market value.

12 Due to Other Banks

	31 December 2003	31 December 2002
Correspondent accounts and overnight deposits of other banks	512	495
Sale and repurchase agreements with other banks	503	273
Term loans and deposits	797	517
Total due to other banks	1,812	1,285

Securities pledged against sale and repurchase agreements are available for sale securities with a fair value of USD 503 million at 31 December 2003 (31 December 2002: USD 234 million) and trading securities with a fair value of USD nil at 31 December 2003 (31 December 2002: USD 107 million). The repurchase agreements bear interest rates ranging from 0.1% to 10% and mature from January 2004 to October 2006.

Included in correspondent accounts and overnight deposits of other banks are USD 100 million collateral deposits placed by a state-owned Russian bank in relation to a deposit placed by the Group with a foreign bank for the purpose of financing Russian fishing enterprises.

At 31 December 2003, the estimated fair value of due to other banks was USD 1,812 million (31 December 2002: USD 1,285 million).

13 Customer Accounts

	31 December 2003	31 December 2002
State and public organisations		
Current/settlement accounts	167	249
Term deposits	7	7
Other legal entities		
Current/settlement accounts	1,441	802
Term deposits	1,665	835
Individuals		
Current/settlement accounts	169	103
Term deposits	810	441
Total customer accounts	4,259	2,437

Economic sector concentrations within customer accounts are as follows:

	31 December 2003		31 December 2002	
	Amount	%	Amount	%
Individuals	979	23	544	22
Trade	940	22	398	16
Manufacturing	820	19	255	10
Finance	634	15	166	7
Government bodies	174	4	256	11
Energy	172	4	474	19
Transport	67	2	67	3
Construction	52	1	19	1
Foreign entities representative offices	50	1	66	3
Telecommunication and mass media	41	1	68	3
Other	330	8	124	5
Total customer accounts	4,259	100	2,437	100

Included in customer accounts are:

- Restricted deposits amounting to USD 52 million (31 December 2002: USD 108 million), where matching deposits were placed by the Group in escrow accounts.
- Deposits of USD 60 million (31 December 2002: USD 56 million) was held as collateral against irrevocable commitments under import letters of credit.

At 31 December 2003, the estimated fair value of customer accounts was USD 4,259 million (31 December 2002: USD 2,437 million).

14 Other Borrowed Funds

	31 December 2003	31 December 2002
CBRF funding	–	380
Syndicated loans	560	225
Revolving credit lines	147	89
Total other borrowed funds	707	694

At 31 December 2002, CBRF funding included term deposits totalling USD 150 million with interest rates ranging from 3.8 to 3.9% which was repaid in January and March 2003.

In December 2002 the Group attracted a syndicated loan of USD 225 million from a syndicate of international banks. The loan was arranged by Citibank, N.A., London and Deutsche Bank AG, London and bears an interest rate of LIBOR plus 2.5-2.7% with maturities ranging from December 2003 to June 2004. In December 2003 the Group rolled-over and increased the first tranche of the loan up to USD 270 million maturing in December 2004 and bearing an interest rate of LIBOR plus 1.5%.

In October 2003 the Group attracted a syndicated loan with a carrying amount of USD 175 million arranged by a group of thirteen major international financial institutions with an interest rate of LIBOR plus 1.5% and maturity in September 2004.

At 31 December 2003 syndicated loans include several JPY-denominated syndicated loans of USD 10 million arranged by Japan Bank for International Cooperation jointly with three Japanese banks with interest rates from 2.54% to 2.64% and maturity ranging from February 2006 to February 2008.

The Group attracted a revolving credit line opened with the European Bank for Reconstruction and Development (EBRD), which carries an interest rate of LIBOR plus 1.5-2%. At 31 December 2003, the carrying amount of the loan was USD 147 million (31 December 2002 USD 89 million).

Syndicated loans and revolving credit lines have certain covenants. The Group is in compliance with all of such covenants.

15 Debt Securities in Issue

	31 December 2003	31 December 2002
Promissory notes	1,154	432
Eurobonds	298	–
Debentures and deposit certificates	286	28
Total debt securities in issue	1,738	460

In April 2002 and February 2003 the Group issued the second and third tranches of Russian Rouble denominated debentures, which are publicly traded in the Russian market. The second tranche of debentures, with a face value of USD 33 million, was issued at a discount to nominal value, with an effective rate of 16%. The second tranche was fully repaid at its maturity in April 2004. The market price of these securities at 31 December 2003 represented 98% of their nominal value. The third tranche of debentures, with a face value USD 66 million, was issued at nominal value with a coupon rate ranging from 14% to 15.5% and maturing in February 2006. The market price of these securities at 31 December 2003 represented 111.6% of their nominal value.

In December 2003 the Group issued Series 1 USD-denominated Eurobonds with face value of USD 300 million maturing in December 2008 under Euro Medium Term Note borrowings program of USD 2,000 million. The Eurobonds carry fixed coupon payable semi-annually of 6.875%. The market price of the securities at 31 December 2003 was 101%.

15 Debt Securities in Issue (continued)

At 31 December 2003, the estimated fair value of debt securities in issue was USD 1,748 million (31 December 2002: USD 458 million).

16 Accrued Interest Expense and Other Liabilities

	31 December 2003	31 December 2002
Trade creditors	41	37
Taxation payable	72	45
Accrued interest expense	45	40
Other reserves	26	21
Unsettled transactions	13	11
Allowance for credit related commitments	10	10
Settlements on conversion operations	–	2
Balances arising from derivative financial instruments	1	1
Other	14	8
Total accrued interest expense and other liabilities	222	175

17 Minority Interest

	2003	2002
Minority interest at 1 January	76	50
Share of net profit	23	17
Other movements	6	9
Minority interest at 31 December	105	76

The caption “Other movements” includes movements in the minority interest arising due to the translation effect on minority interest arising for subsidiaries whose operating currency differs from the reporting currency of the Group (US dollar).

18 Share Capital

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

	31 December 2003		31 December 2002	
	Number of shares	Amount	Number of shares	Amount
Ordinary shares	42,137,236	2,153	42,137,236	2,153
Total share capital	42,137,236	2,153	42,137,236	2,153

Contributions to the Bank’s share capital were originally made in the form of Roubles, foreign currency, and gold bullion. All ordinary shares have a nominal value of RR 1 thousand per share, rank equally and carry one vote. The Bank also has 10,000,000 authorized ordinary shares with a par value of RR 1 thousand each, which are currently unissued.

In October 2002 the CBRF transferred its 99.9% shareholding in the Bank to the Ministry of Property Relations of the Russian Federation. In March 2004 the Ministry of Property Relations was abolished and succeeded by the Federal Service for the Management of Federal Property.

19 Interest Income and Expense

	2003	2002
Interest income		
Loans and advances to customers	454	334
Securities	139	157
Due from other banks	72	39
Total interest income	665	530
Interest expense		
Customer accounts	(154)	(108)
Debt securities in issue	(121)	(31)
Due to banks and other borrowed funds	(70)	(43)
Total interest expense	(345)	(182)
Net interest income	320	348

20 Fee and Commission Income and Expense

	2003	2002
Commission on settlement transactions	28	22
Commission on cash transactions	12	9
Commission on guarantees issued	16	4
Other	18	9
Total fee and commission income	74	44
Commission on settlement transactions	(2)	(2)
Commission on cash transactions	(1)	(1)
Commission on cash collection	(1)	(1)
Other	(2)	(2)
Total fee and commission expense	(6)	(6)
Net fee and commission income	68	38

21 Other Income

	2003	2002
Dividends received	2	-
Income less expenses on operations with precious metals	1	1
Income arising from non-banking activities	40	8
Other	18	11
Total other income	61	20

22 Operating Expenses

	2003	2002
Staff costs	165	117
Taxes other than on income	40	23
Depreciation and other expenses related to premises and equipment	40	24
Administrative expenses	38	17
Leasing and rent expenses	20	19
Professional services	7	3
Charity	6	13
Impairment charge on premises and equipment	–	10
Amortization of goodwill	2	–
Other	73	37
Total operating expenses	391	263

23 Income Taxes

Income tax (benefit) expense comprises the following:

	2003	2002
Current tax charge	81	167
Deferred taxation movement due to the origination and reversal of temporary differences	(98)	(61)
Income tax (benefit) expense for the year	(17)	106

The income tax rate applicable to the majority of the Group's income is 24%. The income tax rate applicable to subsidiaries income ranges from 4.25% to 34%. A reconciliation between the expected and the actual taxation charge is provided below.

	2003	2002
IFRS profit before taxation	270	384
Theoretical tax charge at the applicable statutory rate	76	92
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible expenses	38	114
- Income which is exempt from taxation	(6)	(75)
- Income on government securities taxed at different rates	(9)	(5)
- Effect of change in tax rates	21	–
- Other non-temporary differences	9	6
- Tax losses utilized	(14)	(26)
- Translation effect	(33)	–
- Previously unrecorded tax losses now recognized	(99)	–
Income tax (benefit) expense for the year	(17)	106

23 Income Taxes (continued)

Differences between IFRS and 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 4.25% to 34%. The Bank and its subsidiaries have no right to set off current tax assets and tax liabilities, so that deferred tax assets and deferred tax liabilities are separately assessed for each entity.

	31 December 2003	Movement	31 December 2002
Tax effect of deductible temporary differences			
Tax loss carry forward	78	78	–
Provision for loan impairment	48	17	31
Fair valuation of securities	–	(9)	9
Accruals	1	(14)	15
Other	6	6	–
Gross deferred tax asset	133	78	55
Tax effect of taxable temporary differences			
Fair valuation of securities	(48)	19	(67)
Premises and equipment	(14)	(8)	(6)
Other	–	9	(9)
Gross deferred tax liability	(62)	20	(82)
Total net deferred tax liability	(12)	15	(27)
Total net deferred tax asset	83	83	–

The Group's subsidiaries have approximately USD 203 million (31 December 2002: USD 502 million) of tax losses available for relief against future profits. The Group also has negative valuation of securities of USD 101 million. In 2003 the Group recognized the probable portion of tax losses carry forward for one of its subsidiaries of USD 292 million. These tax losses can be carried forward for an indefinite period of time. The remaining tax losses carry forwards and negative valuation of securities have not been recognised as a deferred tax asset due to uncertainty surrounding the Group's ability to utilise these tax losses and negative valuation of securities in the future.

24 Dividends

In 2003 the Bank declared and paid dividends in the amount of USD 53 million for the year 2002 (2002: USD 20 million). Dividends were declared and paid in Russian roubles.

25 Analysis by Segment

In accordance with IAS 14, "Segment Reporting", the Group's primary format for reporting segment information is geographical segments and the secondary format is business segments. Segment information for the two main reportable geographical segments of the Group, Russia and Europe, is set out below for the year ended 31 December 2003.

25 Analysis by Segment (continued)

	Russia	Europe	Total
Operating income	509	152	661
Segment results	156	114	270
Taxation			17
Profit after taxation			287
Minority interest			(23)
Net profit			264
Segment assets	8,441	2,787	11,228
Segment liabilities	6,768	1,982	8,750
Other segment items			
Capital expenditure	107	5	112
Depreciation	22	1	23
Other non-cash (expenses) income	(55)	–	(55)

The Group has one reportable business segment, which is commercial banking. The summary information of this business segment at 31 December 2003 is presented below:

	Commercial banking
Operating income	661
Segment assets	11,228
Credit related commitments	3,041
Capital expenditure	112

Segment information for the year ended 31 December 2002 is set out below:

	Russia	Europe	Total
Operating income	535	112	647
Segment results	288	96	384
Taxation			(106)
Profit after taxation			278
Minority interest			(17)
Net profit			261
Segment assets	5,932	1,340	7,272
Segment liabilities	4,080	998	5,078
Other segment items			
Capital expenditure	42	1	43
Depreciation	11	1	12
Impairment charge	(10)	–	(10)
Other non-cash (expenses) income	(31)	34	3

25 Analysis by Segment (continued)

The summary information of the business segment for the year ended 31 December 2002 is presented below:

	Commercial banking
Operating income	647
Segment assets	7,272
Credit related commitments	675
Capital expenditure	43

External revenues, assets, other than assets detailed above, liabilities, and credit related commitments have generally been allocated based on the domicile of the counterparty. Cash on hand, precious metals, premises and equipment, and capital expenditure have been allocated based on the country in which they are physically held.

26 Financial Risk Management

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

Credit risk. The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay 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 continuous basis and limits are subject to an annual or more frequent review. Limits on the level of credit risk by borrower and industry sector are approved regularly by the Credit Committee.

The exposure to any one borrower including groups 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 regularly.

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 primarily reflected in the carrying amounts of financial assets on the consolidated balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

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

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency, and equity products, all of which are exposed to general and specific market movements. The Asset/Liability Committee sets limits on the value of risk that may be accepted, which is monitored on a regular basis.

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 Asset/Liability Committee sets limits on the level of exposure by currency and in total for both spot and forward positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk 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. At 31 December 2003, the Group has the following positions in currencies:

26 Financial Risk Management (continued)

	USD	RR	Euro	Other currencies	Total
Assets					
Cash and short term funds	352	508	106	64	1,030
Mandatory cash balances with local central banks	–	371	11	–	382
Trading securities	665	572	19	14	1,270
Due from other banks	1,307	315	231	42	1,895
Loans and advances to customers	2,925	1,697	143	30	4,795
Investment securities available for sale	891	45	238	–	1,174
Investment security held to maturity	–	1	–	6	7
Accrued interest income and other assets	93	157	67	13	330
Premises and equipment	1	243	16	2	262
Deferred tax asset	–	34	49	–	83
Total assets	6,234	3,943	880	171	11,228
Liabilities					
Due to other banks	1,101	249	370	92	1,812
Customer accounts	2,104	1,701	439	15	4,259
Other borrowed funds	689	–	8	10	707
Debt securities in issue	1,150	582	6	–	1,738
Accrued interest expense and other liabilities	53	124	36	9	222
Deferred tax liability	–	–	12	–	12
Total liabilities	5,097	2,656	871	126	8,750
Net balance sheet position	1,137	1,287	9	45	2,478
Credit related commitments	2,443	373	183	42	3,041
Off-balance sheet net notional position	(578)	(39)	481	160	24

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

	USD	RR	Euro	Other currencies	Total
Net balance sheet position	1,730	357	81	26	2,194
Credit related commitments	569	15	34	57	675
Off-balance sheet net notional position	(282)	4	247	38	7

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 Asset/Liability Committee and the Treasury department.

26 Financial Risk Management (continued)

The table below shows assets and liabilities at 31 December 2003 by their remaining contractual maturity.

	On 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 short-term funds	923	–	–	–	107	1,030
Mandatory cash balances with local central banks	274	70	28	10	–	382
Trading securities	1,270	–	–	–	–	1,270
Due from other banks	1,159	354	77	305	–	1,895
Loans and advances to customers	515	1,393	1,200	1,613	74	4,795
Investment securities available for sale	1,174	–	–	–	–	1,174
Investment securities held to maturity	–	–	–	7	–	7
Accrued interest income and other assets	170	51	40	3	66	330
Premises and equipment	–	–	–	–	262	262
Deferred tax asset	–	–	–	83	–	83
Total assets	5,485	1,868	1,345	2,021	509	11,228
Liabilities						
Due to banks	1,142	440	92	137	1	1,812
Customer accounts	2,830	878	361	190	–	4,259
Other borrowed funds	6	120	562	19	–	707
Securities issued	174	537	121	905	1	1,738
Accrued interest expense and other liabilities	62	16	34	7	103	222
Deferred tax liability	–	–	–	–	12	12
Total liabilities	4,214	1,991	1,170	1,258	117	8,750
Net liquidity gap	1,271	(123)	175	763	392	2,478
Cumulative liquidity gap	1,271	1,148	1,323	2,086	2,478	

26 Financial Risk Management (continued)

The liquidity position of the Group at 31 December 2002 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 short-term funds	487	–	–	–	156	643
Mandatory cash balances with local central banks	125	51	16	1	18	211
Trading securities	921	–	–	–	–	921
Due from other banks	897	144	117	40	48	1,246
Loans and advances to customers	353	969	636	1,047	11	3,016
Investment securities available for sale	851	–	–	–	110	961
Accrued interest income and other assets	107	29	7	1	–	144
Premises and equipment, net	–	–	–	–	130	130
Total assets	3,741	1,193	776	1,089	473	7,272
Liabilities						
Due to banks	1,127	95	33	30	–	1,285
Customer accounts	1,357	568	233	123	156	2,437
Other borrowed funds	70	290	215	119	–	694
Securities issued	261	130	41	28	–	460
Accrued interest expense and other liabilities	73	62	4	26	10	175
Deferred tax liability	–	–	27	–	–	27
Total liabilities	2,888	1,145	553	326	166	5,078
Net liquidity gap	853	48	223	763	307	2,194
Cumulative liquidity gap	853	901	1,124	1,887	2,194	–

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 or diminished profitability. 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 the fact that the majority of the Group's security portfolio matures after one year in accordance with the terms of issue, the majority of these securities are freely traded on the market and as such securities represent a hedge against potential liquidity risks. As such, the Group has included the securities in the "on demand and less than one month" category.

Further, Management believes that although a substantial portion of customer deposits are on demand and mature in less than one month, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these deposits provide a long-term and stable source of funding for the Group.

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates in 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

26 Financial Risk Management (continued)

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 Assets/Liability Committee sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored on a regular basis. 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 at 31 December 2003. 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	No stated maturity/ overdue/ non- interest bearing	Total
Assets						
Cash and short-term funds	923	–	–	–	107	1,030
Mandatory cash balances with local central banks	274	70	28	10	–	382
Trading securities	1,270	–	–	–	–	1,270
Due from other banks	1,159	354	77	305	–	1,895
Loans and advances to customers	515	1,420	1,333	1,453	74	4,795
Investment securities available for sale	1,174	–	–	–	–	1,174
Investment securities held to maturity	–	–	–	7	–	7
Accrued interest income and other assets	170	51	40	3	66	330
Premises and equipment	–	–	–	–	262	262
Deferred tax asset	–	–	–	83	–	83
Total assets	5,485	1,895	1,478	1,861	509	11,228
Liabilities						
Due to banks	1,142	440	92	137	1	1,812
Customer accounts	2,830	878	361	190	–	4,259
Other borrowed funds	6	690	5	6	–	707
Securities issued	174	537	121	905	1	1,738
Accrued interest expense and other liabilities	62	16	34	7	103	222
Deferred tax liability	–	–	–	–	12	12
Total liabilities	4,214	2,561	613	1,245	117	8,750
Net repricing gap	1,271	(666)	865	616	392	2,478
Cumulative repricing gap	1,271	605	1,470	2,086	2,478	

26 Financial Risk Management (continued)

At 31 December 2002 the Group's interest rate sensitivity analysis based on the repricing of the Group's assets and liabilities is set out below.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity/ overdue/ non- interest bearing	Total
Assets						
Cash and short-term funds	487	–	–	–	156	643
Mandatory cash balances with local central banks	125	51	16	1	18	211
Trading securities	921	–	–	–	–	921
Due from other banks	898	234	60	6	48	1,246
Loans and advances to customers	373	1,108	624	900	11	3,016
Investment securities available for sale	851	–	–	–	110	961
Accrued interest income and other assets	98	29	7	1	9	144
Premises and equipment	–	–	–	–	130	130
Total assets	3,753	1,422	707	908	482	7,272
Liabilities						
Due to banks	1,163	98	16	8	–	1,285
Customer accounts	1,357	568	233	123	156	2,437
Other borrowed funds	70	525	77	22	–	694
Securities issued	261	130	41	28	–	460
Accrued interest expense and other liabilities	73	62	4	26	10	175
Deferred tax liability	–	–	–	–	27	27
Total liabilities	2,924	1,383	371	207	193	5,078
Net repricing gap	829	39	336	701	289	2,194
Cumulative repricing gap	829	868	1,204	1,905	2,194	–

26 Financial Risk Management (continued)

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

	31 December 2003				31 December 2002			
	USD	RR	Euro	Other currencies	USD	RR	Euro	Other currencies
Assets								
Cash and cash equivalents	1%	0%	1%	1%	1%	0%	1%	1%
Debt trading securities	4%	10%	8%	4%	10%	13%	7%	5%
Due from other banks	5%	8%	3%	1%	4%	9%	4%	2%
Loans and advances to customers	9%	14%	7%	2%	9%	21%	10%	–
Debt investment securities available for sale	8%	2%	6%	–	9%	–	–	–
Liabilities								
Due to other banks	5%	6%	2%	1%	1%	9%	3%	2%
Customer accounts	4%	6%	4%	4%	6%	6%	2%	2%
Other borrowed funds	3%	–	4%	3%	3%	–	–	–
Debt securities in issue	8%	12%	3%	–	7%	9%	7%	–

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

27 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. Management is of the opinion that no material unaccrued 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. If a particular treatment was to be challenged by the tax authorities, the Group entities may be assessed additional taxes, penalties, and interest, which can be significant. Tax years remain open to review by the tax authorities for three years.

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%.

Management believes that it has provided an adequate accrual for taxes.

Capital commitments. At 31 December 2003 the Group has no capital commitments.

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are USD 3 million during 2004 and 2005.

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 and commercial 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 cash deposits and therefore carry less risk than direct borrowings.

27 Contingencies, Commitments and Derivative Financial Instruments (continued)

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees, or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

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

Outstanding credit related commitments are as follows:

	31 December 2003	31 December 2002
Guarantees issued	1,514	226
Undrawn credit lines	718	292
Import letters of credit	157	123
Commitments to extend credit	162	44
Other credit related commitments	500	–
Less: allowance for losses on credit related commitments	(10)	(10)
Total credit related commitments	3,041	675

The Bank has also received export letters of credit for further advising to its customers. Total amount outstanding as of 31 December 2003 and 31 December 2002 was USD 1,345 and 1,088 million, respectively. Commitments under import letters of credit are collateralised by customer deposits of USD 60 million (31 December 2002: USD 56 million).

At 31 December 2003, included in other credit related commitments above is a commitment of the Group to guarantee the repayment of a loan issued to one Russian company in the amount of USD 500 million. This commitment is enforceable only on 9 March 2005.

At 31 December 2003, included in guarantees issued above are guarantees issued for one Russian company of USD 932 million (62% of the guaranties issued). The guarantee was secured by promissory notes issued by VTB with total nominal amount of USD 577 million. Movements in the allowance for losses on credit related commitments are as follows:

	2003	2002
Allowance for losses on credit related commitments at 1 January	10	10
Provision for losses on credit related commitments during the period	–	–
Allowance for losses on credit related commitments at 31 December	10	10

Derivative financial instruments. Foreign exchange and other off-balance sheet 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 recognised in the 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.

27 Contingencies, Commitments and Derivative Financial Instruments (continued)

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 mainly entered into in December 2003 and settled early in January 2004.

The table below includes contracts outstanding at 31 December 2003.

	Domestic			Foreign		
	Principal or agreed amount	Negative fair value	Positive fair value	Principal or agreed amount	Negative fair value	Positive fair value
<i>Deals entered into in 2003:</i>						
Spot						
- sale of foreign currency	28	–	–	54	–	–
- purchase of foreign currency	49	–	–	26	–	–
- sale of securities	8	–	–	–	–	–
- purchase of securities	–	–	–	–	–	–
Term						
-sale of securities	25	–	–	–	–	–
-purchase of securities	–	–	–	–	–	–
Deliverable forwards						
- sale of securities	–	–	–	–	–	–
- purchase of securities	–	–	–	1	–	–
Swap						
- sale of foreign currency	98	–	–	–	–	–
- purchase of foreign currency	17	–	–	565	(1)	25
Total	225	–	–	646	(1)	25

The table below includes contracts outstanding at 31 December 2002.

	Domestic			Foreign		
	Principal or agreed amount	Negative fair value	Positive fair value	Principal or agreed amount	Negative fair value	Positive fair value
<i>Deals entered into in 2002:</i>						
Deliverable forwards						
- sale of foreign currency	–	–	–	6	–	–
- sale of precious metals	–	–	–	1	–	–
- sale of securities	20	–	–	–	–	–
Spot						
- sale of foreign currency	11	–	–	3	–	–
- purchase of foreign currency	11	–	–	3	–	–
- sale of securities	13	–	–	–	–	–
Swap						
- sale of foreign currency	–	–	–	24	(1)	–
- purchase of foreign currency	12	–	–	295	–	8
Total	67	–	–	332	(1)	8

27 Contingencies, Commitments and Derivative Financial Instruments (continued)

Purchase commitments. As of 31 December 2003 the Group had a USD 119 million outstanding commitments for purchase of precious metals.

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 the respective securities. The fiduciary assets fall into the following categories:

	31 December 2003 Nominal value	31 December 2002 Nominal value
MinFin bonds (OVGVZ)	4,712	6,252
Eurobond of the Russian Federation	304	858
Eurobond of foreign countries	39	–
Russian Corporate Eurobonds	155	–
Other	649	260

Assets pledged. At 31 December 2003, the Group has USD 56 million (31 December 2002: USD 13 million) of securities pledged as collateral. At 31 December 2003, the Bank also pledged securities with the fair value of USD 503 million (31 December 2002: of USD 341 million) under sale and repurchase agreements with other banks. All of these operations were performed by the Bank in the normal course of business.

28 Fair Value of Financial Instruments

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

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation has shown signs 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. The fair value of these assets were determined by Management on the basis of market quotations.

Due from other banks. Management has estimated that at 31 December 2003 and 2002 the fair value of due from other banks was not materially different from their respective carrying value. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

Loans and advance to customers. Management has estimated that at 31 December 2003 and 2002 the fair value of loans and advances to customers was not materially different from respective carrying value. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

Borrowings. Management has estimated that at 31 December 2003 and 2002 the fair values of borrowings were not materially different from their respective carrying values. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

Debt securities in issue. The fair value of debt securities were determined by Management on the basis of market quotations.

29 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 shareholders, non-consolidated subsidiaries, and associates. These transactions include settlements, loans, deposit taking, trade finance, and foreign currency transactions. Transactions are priced predominantly at market rates.

The interest income and expense as well as other transactions for the period with the major shareholder (commencing October 2002: the Ministry of Property Relations of the Russian Federation; prior to October 2002: the CBRF) are as stated in the table below:

	2003	2002
Interest income	–	1
Interest expense	–	(18)
Dividends declared	(53)	(20)
Gains less losses on operations with investment securities available for sale	–	36
Dividends (USD per share)	1.26	0.47

The Group did not have any balances outstanding with related parties at 31 December 2003 and 2002.

In the year ended 31 December 2003, the total remuneration of the directors and key management personnel, including pension contributions and discretionary compensation amounted to USD 11 million (31 December 2002: USD 10 million).

30 Consolidated Subsidiaries and Associates

The subsidiaries and associate included in these consolidated financial statements are presented in the table below:

Name	Activity	Country of registration	Equity controlled	
			31 December 2003	31 December 2002
Subsidiaries				
Donau-bank	Banking	Austria	85.0%	85.0%
Russian Commercial Bank	Banking	Cyprus	100.0%	100.0%
Russian Commercial Bank	Banking	Switzerland	100.0%	100.0%
East-West United Bank	Banking	Luxembourg	53.0%	53.0%
Bank “Zabaikalsky”	Banking	Russia	99.9%	99.9%
VOK Vneshtorgbank	Banking	Russia	–	99.4%
Novosibirskvneshtorgbank	Banking	Russia	97.5%	97.5%
Ulyanovskvneshtorgbank	Banking	Russia	60.4%	60.4%
Multicarta Ltd	Plastic cards	Russia	100.0%	50.0%
Euroleasing, GMBH	Leasing	Germany	60.0%	60.0%
Rafinco Co., NY	Trading	USA	100.0%	100.0%
ITC Consultants	Finance	Cyprus	100.0%	100.0%
VB Service	Commerce	Russia	100.0%	100.0%
Trading House VTB	Commerce	Russia	100.0%	100.0%
Vypel-B Ltd	Security	Russia	100.0%	100.0%
Non-state Pension Fund of Vneshtorgbank	Finance	Russia	100.0%	100.0%
ZAO Konobeevo	Recreation	Russia	89.9%	89.9%
Insurance capital Ltd	Insurance	Russia	69.8%	69.8%
ZAO “Binex”	Oil	Russia	51.0%	51.0%
ZAO “Almaz Press”	Publishing	Russia	100.0%	–
OAO “VTB-Leasing”	Leasing	Russia	100.0%	–
Associates				
Ost -West Handelsbank	Banking	Germany	31.9%	31.9%

30 Consolidated Subsidiaries and Associates (continued)

On 4 November 2003, the Group sold its stake in VOK Vneshtorgbank for a cash payment of RR 76 million (USD equivalent was USD 2.6 million).

On 30 December 2002, the Group sold 5% of the share capital of EWUB for USD 1 million, which decreased the Group's holding from 58% to 53%.

On 16 April 2002, the Group acquired 2% of Ost-West Handelsbank's share capital for a cash payment of Euro 1 million (USD equivalent is USD 1 million), thus increasing its share in Ost-West Handelsbank to 31.9%.

31 Acquisition of Subsidiaries

In April 2003 the Group acquired 100% of ZAO "Almaz-Press"'s share capital for a cash payment of USD 41 million and recognised goodwill in the amount of USD 20 million.

In July and August 2003 the Group made two cash contributions to the share capital of OAO "VTB-Leasing" of RR 310 million each (the USD equivalent was USD 20 million). The share of the Group in the share capital of OAO "VTB-Leasing" comprised 100%.

32 Subsequent Events

In March 2004 the Group issued the fourth tranche of Russian Rouble denominated debentures. The fourth tranche with a face value of USD 176 million at the exchange rate at the date of issue, was issued at nominal value with a coupon rate of 5.43% and maturing in March 2009.

In March 2004 the Group issued additional Series 1 Eurobonds with a face value of USD 250 million which were consolidated and formed a single series with the Eurobonds with a face value of USD 300 million maturing in December 2008 under the Euro Medium Term Note program of USD 2,000 million (the "Program").

In April 2004 the Group also issued under the Program Series 2 USD denominated floating rate Eurobonds with a face value of USD 325 million maturing in April 2005. The Eurobonds carry a floating rate coupon payable quarterly of LIBOR plus 2%.

In April 2004 the Group acquired 70% of the share capital of ArmSberbank located in Armenia in exchange for a cash payment of USD 9 million.