

WEB-INVEST BANK
(formerly Palmira Bank)
INDEPENDENT AUDITORS' REPORT
&
CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2002

**INDEPENDENT AUDITORS' REPORT AND CONSOLIDATED FINANCIAL
STATEMENTS
31 DECEMBER 2002**

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INDEPENDENT AUDITORS' REPORT

To the Management and Board of Directors of Web-Invest Bank:

We have audited the accompanying consolidated balance sheet of Web-Invest Bank ("the Bank") at 31 December 2002 and the related consolidated statements of income, cash flow and changes in shareholders' equity. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on the financial statements based on our audit.

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

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2002 and the results of its operations and cash flows for the year then ended in accordance with International Accounting Standards.

Without qualifying our opinion we draw attention to the fact that the Bank has significant transactions with related parties as set out in note 24. Familiarity with the reasons for and circumstances surrounding these transactions is necessary for a proper understanding of these financial statements.

16 Strastnoy Boulevard
Moscow 103031, Russia

Moore Stephens Moscow

25 June 2003

**Web-Invest Bank
Statement of Management Responsibilities**

Management has prepared and is responsible for the financial statements and related notes of Web-invest Bank (the "Bank"). They have been prepared in accordance with International Accounting Standards and necessarily include amounts based on judgements and estimates by management.

The Bank maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorisation and properly recorded, and that accounting records may be relied upon for the preparation of financial statements and other financial information. The system contains self-monitoring mechanisms that allow management to be reasonably confident that controls, as well as the Bank's administrative procedures and internal reporting requirements operate effectively. There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error or the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation.

A.I. Vinokurov
Chairman

Dated: 25 June 2003

Web-Invest Bank
(formerly Palmira Bank)

Consolidated Balance Sheet
As at 31 December 2002
(RUR 000s)

	<u>Notes</u>	<u>2002</u>	<u>2001</u>
Assets			
Cash and short term funds	4	165,390	245,181
Mandatory reserves with Central Bank	5	31,657	1,382
Other reserves with Central Bank	5	304,500	-
Loans to banks	6	51,480	69,300
Dealing securities	7	838,686	701,589
Loans and advances to customers	8	122,909	105,353
Other assets	9	420,575	25,712
Available for sale investments	10	18,915	18,900
Fixed assets	11	13,504	10,388
Negative goodwill	12	(35,345)	(39,346)
Total assets		<u>1,932,271</u>	<u>1,138,459</u>
Liabilities and shareholders' equity			
Loans and deposits from banks	13	34,359	248,633
Customer accounts	14	589,351	458,942
Promissory notes issued	15	767,076	253,401
Other liabilities	16	27,976	10,888
Deferred Taxation	17	15,223	3,570
Total liabilities		<u>1,433,985</u>	<u>975,434</u>
Shareholders' equity			
Issued capital	18	16,000	12,000
Shareholders' contribution	18	200,100	-
Share premium		187,420	133,420
Retained earnings / (losses) and other reserves		76,509	(1,558)
Total shareholders' equity		<u>480,029</u>	<u>143,862</u>
Minority Interest		18,257	19,163
Total liabilities and shareholders' equity		<u>1,932,271</u>	<u>1,138,459</u>

| Approved on behalf of the Board of Management on 25 June 2003.

A.I Vinokurov
Chairman

| The accompanying notes on pages 9 to 22 form an integral part of these financial statements.

Web-Invest Bank
(formerly Palmira Bank)

Consolidated Statement of Income
for the year ended 31 December 2002
(RUR 000s)

	<u>Notes</u>	<u>2002</u>	<u>2001</u>
Interest income		119,297	30,307
Interest expense		<u>(103,263)</u>	<u>(7,989)</u>
Net interest income before deduction of loan loss charge		16,034	22,318
Loan loss charge	20	<u>(13,625)</u>	<u>(35,157)</u>
Net interest income/(loss)		2,409	(12,839)
Net gains from investment securities transactions		158,112	15,861
Net gains from foreign exchange transactions		316	176
Commission and fee income		593	9,665
Commission and fee expense		(507)	(44)
Income from underwriting services		24,597	-
Income from claim settlements		11,388	-
Other operating income		<u>12,944</u>	<u>4,978</u>
Operating income		209,852	17,797
General, administrative and other operating costs	21	(81,228)	(18,713)
Release of negative goodwill		<u>4,001</u>	<u>667</u>
Income before taxation and minority interest		132,625	(249)
Tax charged	22	(55,463)	(10,126)
Minority Interest		<u>905</u>	<u>(588)</u>
Net profit/(loss) for the year		<u>78,067</u>	<u>(10,963)</u>

The accompanying notes on pages 9 to 22 form an integral part of these financial statements.

**Web-Invest Bank
(formerly Palmira Bank)**

**Consolidated Cash Flow Statement
for the year ended 31 December 2002
(RUR 000s)**

	<u>Notes</u>	<u>2002</u>	<u>2001</u>
Cash flows from operations			
Interest received		119,297	30,307
Interest paid		(103,263)	(6,925)
Net gains arising from dealing in securities		157,983	30,443
Net commissions and fees received		86	17
Administrative cash paid		(66,877)	(18,730)
Income tax paid		(22,391)	(4,402)
		<u>84,835</u>	<u>30,710</u>
Cash flows from operations before changes in operating assets			
Increase in Mandatory Reserves with Central Bank		(30,275)	(1,382)
Increase in other reserves with Central Bank		(304,500)	-
Decrease/(increase) in loans and advances to banks		17,820	(70,000)
Increase in dealing securities		(137,126)	(495,579)
Increase in loans to customers		(17,555)	(75,023)
Decrease/(increase) in deposits from banks		(214,274)	245,393
Increase in customer accounts		130,410	225,284
Increase in debt securities issued		513,735	-
Net change in other assets and liabilities		(377,845)	154,568
		<u>(334,775)</u>	<u>13,971</u>
Net cash used by operations			
Cash flows from investing activities			
Fixed assets additions		(3,116)	(5,788)
Net cash acquired on purchase of subsidiaries		-	123,377
		<u>(3,116)</u>	<u>117,589</u>
Net cash used in investing activities			
Cash flows from financing activities			
Issue of share capital		258,100	112,000
		<u>258,100</u>	<u>112,000</u>
Net cash provided by financing activities			
Net (decrease)/increase in cash and short term funds		<u>(79,791)</u>	<u>243,560</u>
Cash and short term funds at the beginning of the year		<u>245,181</u>	<u>1,621</u>
Cash and short term funds at the end of the year	4	<u><u>165,390</u></u>	<u><u>245,181</u></u>

The accompanying notes on pages 9 to 22 form an integral part of these financial statements.

Web-Invest Bank
(formerly Palmira Bank)

Consolidated Statement of Changes in Shareholders' Equity
for the year ended 31 December 2002
(RUR 000s)

	<u>Issued capital (Note 18)</u>	<u>Share premium (Note 18)</u>	<u>Shareholders contribution (Note 18)</u>	<u>Retained earnings and other reserves</u>	<u>Total Shareholders' equity</u>
Balance at 31 December 2000	10,600	22,820	-	9,422	42,842
Decrease in revaluation reserve	-	-	-	(17)	(17)
Net loss	-	-	-	(10,963)	(10,963)
Issued in year	1,400	110,600	-	-	112,000
Balance at 31 December 2001	12,000	133,420	-	(1,558)	143,862
Net income	-	-	-	78,067	78,067
Issued in year	4,000	54,000	-	-	58,000
Contributed by shareholders	-	-	200,100	-	200,100
Balance at 31 December 2002	16,000	187,420	200,100	76,509	480,029

The Bank's distributable reserves are determined in accordance with the Bank's constitution and Russian accounting regulations and do not correspond to the amounts shown above.

The accompanying notes on pages 9 to 22 form an integral part of these financial statements.

**Notes to Consolidated Financial Statements
for the year ended 31 December 2002
(RUR 000s)**

NOTE 1 - PRINCIPAL ACTIVITIES OF THE BANK AND GROUP

Web-Invest Bank (“the Bank”) registered with the Central Bank of the Russian Federation under the name of “Palmira Bank” on 11 June 1992 and commenced operations as a commercial bank at the end of that year. In 2001 the bank was renamed “Web-Invest Bank”. The bank holds a general license from the Central Bank of Russia to carry out banking and foreign exchange activities in the Russian Federation. The Bank operates from headquarters in St Petersburg. In addition to providing banking services, the Bank and the Group it leads (“the Group”) are also engaged in stockbroking activities, including an internet trading operation.

In the opinion of the directors the Bank has no ultimate controlling party.

At 31st December 2002 the group employed 119 (2001 - 74) staff.

NOTE 2 - BASIS OF PRESENTATION

The Bank maintains its primary accounting records in accordance with Russian banking regulations. These financial statements have been prepared from those accounting records with adjustments in order to ensure compliance with the accounting policies set out in note 3. These financial statements are presented in the national currency of the Russian Federation, the Rouble (“RUR”).

The preparation of financial statements in conformity with International Accounting Standards (IAS) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

(a) Accounting Conventions

The financial statements of the Bank have been prepared under applicable IAS issued by the International Accounting Standards Committee except that fixed assets are accounted for in accordance with Russian Statutory requirements (as set out in note 3(h)) rather than in accordance with IAS. In the opinion of management this departure from IAS is not material.

The Bank has decided that it is not appropriate to adopt International Accounting Standard 29 “Financial Reporting in Hyperinflationary Economies”. Management of the Bank believes that although hyperinflationary conditions have existed in Russia in the past, it is a matter of judgement whether or not these conditions existed in 2002 and 2001. Further, management believes that the economy will prove not to be hyperinflationary during 2003. Consequently IAS 29 has not been adopted.

(b) Financial Instruments and International Accounting Standard 39

IAS 39, issued by the International Accounting Standards committee, has introduced a comprehensive framework for accounting for all financial instruments. Unless otherwise stated the financial instruments of the Bank have been stated at their estimated fair values in accordance with IAS 39. The estimated fair values are intended to approximate the amounts at which these instruments could be exchanged in an arms length transaction between willing parties at the year end. Certain financial instruments lack an active trading market and therefore fair values are based on valuation techniques, which involve assumptions and judgement. The specific valuation methodologies applied to these instruments are outlined below. In light of the foregoing, the fair values should not necessarily be interpreted as being realisable in an immediate settlement of the instruments. The effects of the remeasurement of certain of the assets has been recognised with effect from 1 January 2001.

(c) Consolidation

The financial statements include the accounts of Web-Invest Bank and its principal subsidiaries as set out in note 19 for the year ended 31 December 2002, date of disposal if earlier or from date of acquisition.

**Notes to Consolidated Financial Statements
for the year ended 31 December 2002
(RUR 000s)**

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Negative goodwill

Negative goodwill, being the excess of the fair values of the assets and liabilities of subsidiaries acquired over the cost of acquisition, is credited to the profit and loss account in equal instalments over the remaining weighted average useful lives of the amortisable assets acquired, estimated to be 10 years.

(e) Dealing securities

Dealing securities are comprised of securitised debt and equity instruments held for trade. They are stated at market value. Any gain or loss on dealing securities is included in the statement of income for the period in which it arises.

(f) Available for sale investments

Available for sale investments are comprised of equity investments. Available for sale investments are stated at market value or, for unquoted investments, at fair value as estimated by management.

(g) Loans and provision for loan losses

Loans originated by the Bank are stated at underlying amortised cost, net of provisions for bad and doubtful debts. Amortised cost is calculated as the amount outstanding after amortisation of the premium or discount arising at initial recognition using the effective interest method. Loans or receivables purchased by the Bank and originated debt available for sale are classified as dealing securities or available for sale debt as appropriate. Available for sale debt is stated at market value or in the case of debt for which there is not a ready market, at fair value as estimated by management. Where it is not possible to estimate fair value available for sale debt is stated at cost.

Provisions for bad and doubtful debts are based on management's year-end appraisal of the collectability of loans and advances. Specific provisions are made against debts whose recovery has been identified as doubtful. A general provision is made against the potential bad and doubtful debts which are present in the loan portfolio but which at the date of preparing the financial statements had not been specifically identified. The aggregate of the provisions made during the year is charged against profit for the year.

Estimates of future losses involve the exercise of judgement and the use of assumptions. The principal factors considered in determining the provision are the growth, composition and quality of the loan portfolio, the level of past due loans, current economic conditions and the value and adequacy of collateral.

Loans and advances, which cannot be recovered, are written off and charged against the provision for losses. Such loans are written off after all necessary legal procedures have been completed and the amount of the loss is finally determined.

(h) Fixed assets

In the Bank's statutory financial statements, from which these statements are prepared, fixed assets are stated in accordance with Russian statutory regulations, which require fixed assets to be held at valuation less accumulated depreciation. Management has considered the differences between Russian accounting standards and IAS in respect of the Bank's fixed assets and are satisfied that these differences are not material. As a result no adjustments have been made in order to restate fixed assets in accordance with IAS.

(i) Depreciation

Depreciation is calculated in accordance with Russian legislation so as to write off the carrying value of fixed assets on a straight line basis using the following annual prescribed rates:

Bank equipment	1- 2%
Office equipment and motor vehicles	10-20%

**Notes to Consolidated Financial Statements
for the year ended 31 December 2002
(RUR 000s)**

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Taxation

Provision is made for all foreseeable taxation liabilities.

The tax charge in the statement of income includes the charge in respect of the taxable profit for the year calculated under Russian taxation laws and deferred tax. All other taxes, including those based on gross interest received, are included in general, administrative and other operating costs in the statement of income.

In accordance with IAS 12, provision is made for deferred taxation on all temporary differences which arise because the carrying amount of an asset or liability in the balance sheet differs from its tax base. Movements are charged or credited to the Statement of Income.

(k) Interest income and expense recognition

Interest income and expense are recognised in the statement of income as earned or incurred on an accruals basis. Interest income on loans is suspended when overdue by more than 30 days and is excluded from interest income in the statement of income unless deemed collectible. Any interest earned during the temporary holding of investments is shown as interest income in the statement of income.

All interest expense on borrowings is charged to the statement of income.

(l) Commission and fee income and expense recognition

Commission and fee income and expenses are recognised in the statement of income as earned or incurred on an accruals basis. Commission and fee income is earned on securities, foreign exchange, trade finance, and other transactions performed by the Bank on behalf of its clients. Commission and fee expense is incurred from the use of settlement accounts, correspondent accounts, stock exchange, and other services required by the Bank to administer its banking transactions.

(m) Foreign currency translation

Transactions denominated in foreign currency are recorded at the rate ruling on the date of the transaction. Exchange differences resulting from the settlement of these transactions are included in the results of operations at the time of settlement using the exchange rate ruling at that date.

Monetary assets and liabilities denominated in foreign currency are expressed in Roubles at the market rate of exchange existing at the balance sheet date. Foreign currency gains and losses arising from the translation of the monetary assets and liabilities at the year-end are reflected in the statement of income for the year. At 31 December 2002 the rate of exchange used for translating USD balances was USD 1=RUR 31.78 (2001 USD 1=RUR 30.14).

(n) Pensions

The Bank contributes to the state pension fund on behalf of its employees. These contributions are recognised in the financial statements on an accruals basis at the stipulated time. The scheme is a defined contribution scheme and accordingly no future liabilities have been incurred by the bank through entering into this scheme.

(o) Dividends

In accordance with IAS 10 “Events after the balance sheet date”, dividends are accounted for in the year they are paid.

**Web-Invest Bank
(formerly Palmira Bank)**

**Notes to Consolidated Financial Statements
for the year ended 31 December 2002
(RUR 000s)**

NOTE 4 – CASH AND SHORT TERM FUNDS

	<u>2002</u>	<u>2001</u>
Cash in hand:		
Roubles	1,713	497
US dollars	516	-
	<u>2,229</u>	<u>497</u>
Correspondent accounts with other banks in Russia:		
Roubles	135,256	45,287
US dollars	27,903	199,397
Euros	2	-
	<u>163,161</u>	<u>244,684</u>
	<u>165,390</u>	<u>245,181</u>

NOTE 5 – RESERVES WITH CENTRAL BANK

Mandatory reserves with the Central Bank of Russia amounting to RUR 31,657,000 (2001 - RUR 1,382,000) as at 31 December 2002 are required to maintain minimum levels of liquidity. The funds in the CBR reserve deposit are not available to the Bank to finance its day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the cash flow statement.

In addition the Bank also had funds of RUR 304,500,000 held at the Central Bank in connection with the Bank's 11th emission of shares (see note 18). These funds were also not available to the Bank to finance its day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the cash flow statement.

NOTE 6 – LOANS TO BANKS

	<u>2002</u>	<u>2001</u>
Repayable on demand or less than one month	52,000	70,000
Provision for loan losses	(520)	(700)
	<u>51,480</u>	<u>69,300</u>

Provision for loan losses

	<u>2002</u>	<u>2001</u>
Balance at 1 January	700	-
(Release)/charge against profit	(180)	700
	<u>520</u>	<u>700</u>

**Web-Invest Bank
(formerly Palmira Bank)**

**Notes to Consolidated Financial Statements
for the year ended 31 December 2002
(RUR 000s)**

NOTE 7 – DEALING SECURITIES

	<u>2002</u>	<u>2001</u>
Rouble denominated securities		
Corporate shares	183,052	96,337
Municipal bonds	274,725	185,437
Corporate bonds	216,520	-
GKO	-	116,510
	<u>674,297</u>	<u>398,284</u>
Foreign currency denominated securities		
Foreign sovereign debt, denominated in US dollars	8,180	-
Russian Government bonds, denominated in US dollars	156,209	303,305
	<u>164,389</u>	<u>303,305</u>
Total securities	<u>838,686</u>	<u>701,589</u>

NOTE 8 – LOANS AND ADVANCES TO CUSTOMERS

	<u>2002</u>	<u>2001</u>
Loans and advances comprise:		
Loans to companies, denominated in roubles	65,572	134,749
Loans to companies, denominated in US dollars	84,945	-
Loans to individuals, denominated in roubles	15,636	4,157
Loans to individuals, denominated in US dollars	5,018	904
	171,171	139,810
Provision for loan losses	<u>(48,262)</u>	<u>(34,457)</u>
	<u>122,909</u>	<u>105,353</u>

All loans have been issued to customers located in the Russian Federation. The Bank has several loans to related parties (Note 24). Loans and credit facilities approved but not disbursed amounted to RUR 209,540,000 as at 31 December.

Maturity of the loan portfolio is:

	<u>2002</u>	<u>2001</u>
Repayable on demand or less than one month	64,857	21,667
Repayable between one month and three months	901	29,070
Repayable between three months and six months	68,626	36,061
Repayable between six months and one year	5,028	30,050
Repayable between one year and five years	31,759	22,962
	<u>171,171</u>	<u>139,810</u>

The above maturity analysis is based on contracted maturity at 31 December 2002. As is common practice among Russian banks, loans are occasionally renewed, generally for periods of three to six months with a repricing mechanism for interest on renewal, and accordingly short term loans can have a longer term nature.

**Notes to Consolidated Financial Statements
for the year ended 31 December 2002
(RUR 000s)**

NOTE 8 - LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	<u>2002</u> <u>Amount</u>	<u>2002</u> <u>%</u>	<u>2001</u> <u>Amount</u>	<u>2001</u> <u>%</u>
Timber	65,678	38	18,000	13
Construction	11,000	6	26,152	19
Natural resources	-	-	47,292	33
Leasing	2,518	2	12,684	9
Trading	17,147	10	8,164	6
Food	-	-	9,983	7
Telecommunication	23,679	14	-	-
Brokerage	8,758	5	-	-
Individuals	20,652	12	5,061	4
Other	21,739	13	12,474	9
	<u>171,171</u>	<u>100</u>	<u>139,810</u>	<u>100</u>

Loans to the biggest customer represent 28% (2001 - 14%) of the gross loan portfolio. Loans to the next biggest customer represent 13% of the loan portfolio. Loans to OOO Terminal (see note 10) represent a further 10.5% of the loan portfolio but are fully provided.

NOTE 9 – OTHER ASSETS

	<u>2002</u>	<u>2001</u>
Accrued interest income	460	302
Receivable from state budget	6	620
Due on sale of marketable shares	377,390	21,323
Other prepaid expenses	6,803	1,765
Other debtors	35,916	1,702
	<u>420,575</u>	<u>25,712</u>

NOTE 10 – AVAILABLE FOR SALE INVESTMENTS

	<u>2002</u>	<u>2001</u>
Subsidiary – OOO Terminal	<u>18,915</u>	<u>18,900</u>

OOO Terminal is a limited liability partnership engaged in timber trading. The Bank provided loan facilities to Terminal of RUR 18,000,000 which cannot be repaid by the company. This amount has been fully provided against in these financial statements. As a strategy for realising the loan the Group had acquired a 60% holding in the company by 31 December 2002.

Management intends to realise value by selling OOO Terminal to a third party investor or by selling its individual assets. Management cannot reliably estimate how much will be realised for the disposal but believe that this will be more than the purchase price. Consequently the investment is carried at cost.

**Web-Invest Bank
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**Notes to Consolidated Financial Statements
for the year ended 31 December 2002
(RUR 000s)**

NOTE 11 – FIXED ASSETS

	<u>Bank equipment</u>	<u>Office and Computer Equipment</u>	<u>Intangible Assets</u>	<u>Total</u>
Cost or valuation				
Balance at 31 December 2001	597	8,896	1,771	11,264
Additions	-	3,695	1,229	4,924
Disposals	-	(343)	-	(343)
	<u>597</u>	<u>12,248</u>	<u>3,000</u>	<u>15,845</u>
Accumulated depreciation				
Balance at 31 December 2001	4	715	157	876
Charge for the year	9	1,311	287	1,607
Disposals	-	(142)	-	(142)
	<u>13</u>	<u>1,884</u>	<u>444</u>	<u>2,341</u>
Net book value at 31 December 2002	<u>584</u>	<u>10,364</u>	<u>2,556</u>	<u>13,504</u>
Net book value at 31 December 2001	<u>593</u>	<u>8,181</u>	<u>1,614</u>	<u>10,388</u>

NOTE 12 - NEGATIVE GOODWILL

	<u>2002</u>	<u>2001</u>
Balance at 1 January	39,346	-
Arising on acquisition of sub-group	-	40,013
Released in period	(4,001)	(667)
Balance at 31 December	<u>35,345</u>	<u>39,346</u>

NOTE 13 – LOANS AND DEPOSITS FROM BANKS

	<u>2002</u>	<u>2001</u>
Repayable on demand or less than one month	34,359	178,633
Repayable between one month and three months	-	70,000
	<u>34,359</u>	<u>248,633</u>

The Central Bank does not hold any deposits with the Bank.

**Web-Invest Bank
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**Notes to Consolidated Financial Statements
for the year ended 31 December 2002
(RUR 000s)**

NOTE 14 – CUSTOMER ACCOUNTS

	<u>2002</u>	<u>2001</u>
Repayable on demand or less than one month	566,000	142,472
Repayable between one month and three months	222	316,470
Repayable between three months and six months	2,993	-
Repayable between six months and 1 year	636	-
Repayable between one year and five years	19,500	-
	<u>589,351</u>	<u>458,942</u>

The Bank has several customer accounts with related parties (note 24). The largest customer holds balances of RUR 73,000,000 (12.4% of all customer accounts) with the Bank.

NOTE 15 – PROMISSORY NOTES ISSUED

	<u>2002</u>	<u>2001</u>
Repayable on demand or less than one month	254,482	-
Repayable between one month and three months	-	21,350
Repayable between three months and six months	-	79,138
Repayable between six months and one year	512,594	5,814
Repayable between one year and five years	-	147,099
	<u>767,076</u>	<u>253,401</u>

The promissory notes include promissory notes for USD 3,000,000 and deposit certificate for RUR 76,959,000 issued to OAO Komiregionbank “Uchtabank” and deposit certificates for RUR 292,542,000 issued to OOO “Bank of Corporate Reserve Funds”.

In addition the Bank has several promissory notes issued to related parties (note 24).

NOTE 16 - OTHER LIABILITIES

	<u>2002</u>	<u>2001</u>
Accrued interest expense	4,319	1,064
Taxation payable	14,485	5,156
Other	9,172	4,668
	<u>27,976</u>	<u>10,888</u>

NOTE 17 – DEFERRED TAX PROVISION

Deferred taxation has been provided on all temporary timing differences between the carrying value of assets and liabilities reported for tax purposes and for accounting purposes. A deferred tax charge of RUR 11,653,000 (2001- 3,570,000) was recognised during the year.

Movement on the provision during the periods was:

	<u>2002</u>	<u>2001</u>
Balance at 1 January	3,570	-
Movement in the year	11,653	3,570
Balance at 31 December	<u>15,223</u>	<u>3,570</u>

**Web-Invest Bank
(formerly Palmira Bank)**

**Notes to the Financial Statements
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NOTE 18 - ISSUED CAPITAL

	<u>2002 Amount</u>	<u>2001 Amount</u>
Share capital authorised, issued and fully paid consists of the following: 1,600,000 (2001 – 12,000) ordinary shares of RUR 10 each	<u>16,000</u>	<u>12,000</u>

During 2002 the Bank completed its 10th emission of shares. Under this emission 400,000 ordinary shares with a nominal value of RUR 10 were issued at a price of 145 Roubles each, generating an increase in share premium of RUR 54,000,000. Of this issue 319,000 shares were sold to the Bank's subsidiary Web-Invest.ru. Web-Invest.ru subsequently sold 168,653 of these shares to OOO Leasing Company, 142,979 of these shares to OOO Finance Group Web-Invest and the rest to other shareholders. These transactions were made at the same price as the initial issue. These amounts were fully paid in cash.

During 2002 the Bank also initiated its 11th emission of shares involving 2,100,000 ordinary shares of RUR 10 issued at a price of RUR 145 each. Registration of the emission was finalised on 13 March 2003. At 31 December 2002 subscribers to the issue had paid in full for this emission in cash however the funds involved, RUR 304,500,000, were held in a special account at the Central Bank.

Subscription to the 11th emission was as follows:-

	<u>Number of shares</u>	<u>Shareholders' contribution</u>
<u>Subsidiaries</u>		
OOO Web-Invest.ru	360,000	52,200
OOO Balt Unexim Finance	360,000	52,200
Total for subsidiaries	<u>720,000</u>	<u>104,400</u>
<u>Other (see note 24)</u>		
OOO Rondo	690,000	100,050
OOO Centre of Financial Consulting	690,000	100,050
Total for other	<u>1,380,000</u>	<u>200,100</u>
Total	<u><u>2,100,000</u></u>	<u><u>304,500</u></u>

The amounts paid by related parties as at 31 December 2002 in respect of the 11th emission have been treated as shareholders' contributions in the Statement of Changes in Shareholders' Equity and were reclassified as issued as capital and share premium during 2003 following completion of the registration process. Amounts paid by subsidiaries have been cancelled on consolidation. On completion of the registration process, the shares held by subsidiaries were classified as treasury stock.

On 15 April 2003 the shareholders approved a decision to proceed with a 12th emission of shares. Under this emission the Bank will issue 11,300,000 ordinary shares with a nominal value of RUR 10 each at a price of RUR 133 each.

NOTE 19 – SUBSIDIARY COMPANIES

As at 31 December 2002 Web-Invest Bank had the following subsidiary companies: -

<u>Name</u>	<u>Country of Incorporation</u>	<u>Percentage Held</u>	<u>Activity</u>
ZAO LenRosInvest	Russia	100%	Holding Company
OOO Terminal*	Russia	60%	Timber trading

* Not consolidated as control considered temporary (see note 10).

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NOTE 19 – SUBSIDIARY COMPANIES (continued)

ZAO LenRosInvest owns and controls the following subsidiary companies: -

OOO Balt Unexim Finance*	Russia	90%	Share trading
OOO Web-Invest.ru	Russia	75%	Internet share trading
OAO Creative Investment Technologies	Russia	100%	Share trading

* 90% of ownership with nominal value of RUR 1,665,000 was transferred to the General Director of ZAO LenRosInvest on 27 December 2002 at RUR 14,000. The transaction considered temporary and the company is controlled by ZAO LenRosInvest.

The LenRosInvest sub-group was acquired on 25 October 2001. OAO Creative Investment Technologies was formed on 24 October 2002.

NOTE 20 – LOAN LOSS CHARGE

	<u>2002</u>	<u>2001</u>
Movement on provision on loans and advances to customers (Note 8)	13,805	34,457
Movement on provision on loans to banks (Note 6)	(180)	700
	<u>13,625</u>	<u>35,157</u>

NOTE 21 – GENERAL, ADMINISTRATIVE AND OTHER OPERATING COSTS

	<u>2002</u>	<u>2001</u>
Other taxes (see Note 22)	14,410	3,134
Depreciation	1,465	794
Office rent	6,518	3,399
Other operating expenses	58,835	11,386
	<u>81,228</u>	<u>18,713</u>

NOTE 22 – TAXATION

	<u>2002</u>	<u>2001</u>
Income tax on profit as computed for Russian fiscal purposes:		
Parent company	39,589	8,232
Subsidiaries	4,221	1,326
Sub-total	<u>43,810</u>	<u>9,558</u>
Deferred tax charge (see Note 17)		
Parent company	9,015	407
Subsidiaries	2,638	161
Sub-total	<u>11,653</u>	<u>568</u>
Total income tax	<u>55,463</u>	<u>10,126</u>

The current charge for income tax was determined on the basis of the Bank's Russian statutory profit. The Bank was subject to profits tax charged at 24% (2001 -33%) on the majority of its income. Interest on government bonds is charged at 15%.

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NOTE 22 – TAXATION (continued)

The Bank's accounting (loss)/profit may be reconciled to profit for fiscal purposes as follows:

	<u>2002</u>	<u>2001</u>
IAS accounting profit / (loss) before taxation	132,625	(249)
IAS adjustments	(61,646)	34,753
Accounting profit before tax according to Russian Accounting Standards	70,979	34,504
Differences between Russian accounting and tax profits	122,656	(5,540)
Income for tax purposes	<u>193,635</u>	<u>28,964</u>

Other taxes:

Other significant domestic taxes borne by the Group and included in general, administrative and other operating costs comprise:

	<u>2002</u>	<u>2001</u>
Property tax	250	79
Road tax	9,345	738
Other	4,815	2,317
	<u>14,410</u>	<u>3,134</u>

Property tax is calculated at a rate of 2% on the value of assets as computed under Russian accounting regulations. Road tax is calculated at a rate of 1% on turnover.

Provision has been made for all foreseeable liabilities. However, commercial legislation, particularly tax legislation, may allow for more than one interpretation. Due to this and the practise developed by the tax authorities in a generally unstable environment, of making arbitrary judgements about business activities, management's judgement of the Bank's business activities may not coincide with interpretation of the same activities by tax authorities. Management does not currently believe there are any known situations, which might be challenged by the tax authorities, which have not already been appropriately reflected in the financial statements.

NOTE 23 – CURRENCY ANALYSIS

	<u>2002</u>	<u>2001</u>
Assets		
Denominated in Roubles	1,655,786	938,158
Denominated in Euros	2	-
Denominated in US dollars	276,483	200,301
	<u>1,932,271</u>	<u>1,138,459</u>
Liabilities and shareholders' equity		
Denominated in Roubles	1,171,458	565,791
Denominated in Euros	-	-
Denominated in US dollars	262,527	428,806
	<u>1,433,985</u>	<u>994,597</u>
Net assets		
Denominated in Roubles	484,328	372,367
Denominated in Euros	2	-
Denominated in US dollars	13,956	(228,505)
	<u>498,286</u>	<u>143,862</u>

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All of the Bank's assets and liabilities are located in Russia.

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NOTE 24 - RELATED PARTY TRANSACTIONS

For the purposes of these financial statements, the Bank considers related parties to be its employees, management, and shareholders that own or control 5% or more of the Bank's shares and companies in which the Bank's investment exceeds 10% or over which the Bank has significant influence.

Shareholders that owned or controlled 5% or more of the Bank's shares as at 31 December 2002 were as follows:

	Nominal value of shares	Number of shares	% of Bank Share Capital
ZAO Kompakt	<u>2,239,740</u>	<u>223,974</u>	<u>13.99</u>
OOO Finance Group Web-Invest	<u>3,198,400</u>	<u>319,840</u>	<u>19.99</u>
OOO Leasing Company	<u>3,198,400</u>	<u>319,840</u>	<u>19.99</u>
OOO Composition of Assets Management	<u>3,198,400</u>	<u>319,840</u>	<u>19.99</u>
OAo Leningrad Metal Factory	<u>1,173,740</u>	<u>117,374</u>	<u>7.34</u>

In addition to transactions with subsidiaries consolidated in these financial statements the Bank entered into a number of banking transactions with OOO Terminal.

As set out in note 18, OOO Rondo and OOO Centre of Financial Consulting each subscribed for 690,000 shares of the 11th emission prior to the year end. This transaction was registered in March 2003 at which point these companies each had a stake giving the 5% in the Bank.

The transactions entered into with the organisations listed above involved the Bank in purchasing and selling promissory notes and other securities, making loans and taking deposits. Some of the transactions were performed at rates other than market price.

The total outstanding balances at the year end and the related income and expense transactions for the year with the major related parties are as follows:

	<u>2002</u>	<u>2001</u>
Customer accounts	<u>35,436</u>	<u>239,463</u>
Loans	<u>20,873</u>	<u>48,576</u>
Provision against loans	<u>(19,437)</u>	<u>(18,000)</u>
Other liabilities	<u>2,406</u>	<u>382,938</u>
Other assets	<u>164,906</u>	<u>-</u>
Promissory Notes issued	<u>-</u>	<u>47,217</u>

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NOTE 25 – CONTINGENCIES AND COMMITMENTS

Guarantees and letters of credit

The Bank has not issued any guarantees or letters of credit on behalf of its customers.

Capital commitments

No material commitments for capital expenditures were outstanding at 31 December 2002.

General claims

Claims against the Bank are received in the normal course of business. The Bank's management are of the opinion that no material losses will be incurred in connection with outstanding claims at 31 December 2002.

NOTE 26 – INTEREST RATE RISK

Due to the short term nature of the Russian market, and the fact the majority of the Bank's assets and liabilities re-price within similar time intervals, the Bank does not have significant interest rate exposure, except for the potential effects of the following:

- Loans to customers re-price subject to changes in CBR refinancing rate which on average happens every six months, though in some cases they are extended with longer re-pricing intervals (see the maturity analysis at Note 8) and
- Customer accounts include term deposits and settlement accounts. The deposits receive interest at various rates and re-price subject to changes in CBR refinancing rate which is on average every six months. Operating accounts receive interest at either zero percent or low rates and are repayable on demand (see the maturity analysis at Note 14).

NOTE 27 – COUNTRY RISK

Despite improvements since the 1998 financial crisis uncertainty remains in the Russian Federation as to the future direction of domestic policy, regulatory policy and political developments. Management is therefore acting in conditions of uncertainty and it is impossible to predict what effect these might have on the financial position of the Bank.

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NOTE 28 – LIQUIDITY RISK

The Bank has an excess of short term assets over short term liabilities (see also the maturity analyses set out in notes 8, 14 and 15).

	Repayable					Total
	On demand or less than one month	Between 1 and 3 months	Between 3 and 6 months	Between six months and one year	After one year	
Assets						
Cash and short term funds	165,390	-	-	-	-	165,390
Balances with Central Bank	31,657	-	-	-	-	31,657
Other reserves with Central Bank	-	304,500	-	-	-	304,500
Loans to banks	51,480	-	-	-	-	51,480
Dealing securities	838,686	-	-	-	-	838,686
Loans and advances to customers	44,086	504	52,522	1,705	24,092	122,909
Other assets	420,575	-	-	-	-	420,575
Shares for resale	-	-	-	-	18,915	18,915
Fixed assets	-	-	-	-	13,504	13,504
Negative goodwill	-	-	-	-	(35,345)	(35,345)
Total assets	1,551,874	305,004	52,522	1,705	21,166	1,932,271
Liabilities and shareholders' equity						
Loans and deposits from banks	34,359	-	-	-	-	34,359
Customer accounts	566,000	222	2,993	636	19,500	589,351
Promissory notes issued	254,482	-	-	512,594	-	767,076
Other liabilities	27,976	-	-	-	-	27,976
Deferred tax	-	-	-	-	15,223	15,223
Total liabilities	882,817	222	2,993	513,230	34,723	1,433,985
Surplus / (Deficit)	669,057	304,782	49,529	(511,525)	(13,557)	498,286
Cumulative Surplus	669,057	973,839	1,023,368	511,843	498,286	

NOTE 29 – POST BALANCE SHEET EVENTS

Significant events which occurred after the balance sheet date are recorded in note 18.