

**WEB-INVEST BANK**  
**INDEPENDENT AUDITORS' REPORT**  
**&**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2003**

**INDEPENDENT AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS  
31 DECEMBER 2003**

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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 2003 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 2003 and the results of its operations and cash flows for the year then ended in accordance with International Accounting Standards.

16 Strastnoy Boulevard  
Moscow 103031, Russia

Moore Stephens Moscow

25 April 2004

**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 April 2004

**Consolidated Balance Sheet  
As at 31 December 2003  
(RUR 000s)**

	<u>Notes</u>	<u>2003</u>	<u>2002</u>
<b>Assets</b>			
Cash and short term funds	<b>4</b>	880,160	165,390
Mandatory reserves with Central Bank	<b>5</b>	106,206	31,657
Other reserves with Central Bank		-	304,500
Loans to banks	<b>6</b>	950,956	51,480
Dealing securities	<b>7</b>	1,348,421	838,686
Loans and advances to customers	<b>8</b>	1,433,766	122,909
Other assets	<b>9</b>	2,944,960	420,575
Available for sale investments	<b>10</b>	18,915	18,915
Fixed assets	<b>11</b>	36,317	13,504
Deferred tax asset	<b>17</b>	87,849	-
Negative goodwill	<b>12</b>	(36,568)	(35,345)
<b>Total assets</b>		<b><u>7,770,982</u></b>	<b><u>1,932,271</u></b>
<b>Liabilities and shareholders' equity</b>			
Loans and deposits from banks	<b>13</b>	1,911,520	34,359
Customer accounts	<b>14</b>	2,082,234	589,351
Promissory notes issued	<b>15</b>	866,932	767,076
Other liabilities	<b>16</b>	712,294	27,976
Deferred tax liability	<b>17</b>	-	15,223
<b>Total liabilities</b>		<b><u>5,572,980</u></b>	<b><u>1,433,985</u></b>
<b>Shareholders' equity</b>			
Issued capital	<b>18</b>	150,000	16,000
Shareholders' contribution		-	200,100
Share premium		1,860,820	187,420
Retained earnings / (losses) and other reserves		189,551	76,509
<b>Total shareholders' equity</b>		<b><u>2,200,371</u></b>	<b><u>480,029</u></b>
Minority Interest		(2,369)	18,257
<b>Total liabilities and shareholders' equity</b>		<b><u>7,770,982</u></b>	<b><u>1,932,271</u></b>

Approved on behalf of the Board of Management on 25 April 2004.

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A.I Vinokurov  
Chairman

The accompanying notes on pages 9 to 21 form an integral part of these financial statements.

**Consolidated Statement of Income  
for the year ended 31 December 2003  
(RUR 000s)**

	<u>Notes</u>	<u>2003</u>	<u>2002</u>
Interest income		344,314	119,297
Interest expense		<u>(362,079)</u>	<u>(103,263)</u>
<b>Net interest income before deduction of loan loss charge</b>		<b>(17,765)</b>	<b>16,034</b>
Loan loss charge	<b>20</b>	<u>(214,482)</u>	<u>(13,625)</u>
<b>Net interest (loss)/income</b>		<b>(232,247)</b>	<b>2,409</b>
Net gains from investment securities transactions		589,593	158,112
Net (loss)/gains from foreign exchange transactions		(2,388)	316
Commission and fee income		1,307	593
Commission and fee expense		(410)	(507)
Other operating income		<u>74,347</u>	<u>48,929</u>
<b>Operating income</b>		<b>430,202</b>	<b>209,852</b>
General, administrative and other operating costs	<b>21</b>	(208,039)	(81,228)
Loss on disposal of subsidiary		(31,054)	-
Release of negative goodwill		<u>2,833</u>	<u>4,001</u>
<b>Income before taxation and minority interest</b>		<b>193,942</b>	<b>132,625</b>
Tax charged	<b>22</b>	(80,900)	(55,463)
Minority Interest		<u>(2,369)</u>	<u>905</u>
<b>Net profit for the year</b>		<b><u>110,673</u></b>	<b><u>78,067</u></b>

The accompanying notes on pages 9 to 21 form an integral part of these financial statements.

**Consolidated Cash Flow Statement  
for the year ended 31 December 2003  
(RUR 000s)**

	<u>Notes</u>	<u>2003</u>	<u>2002</u>
<b>Cash flows from operations</b>			
Interest received		344,314	119,297
Interest paid		(362,079)	(103,263)
Net gains arising from dealing in securities		587,205	157,983
Net commissions and fees received		897	86
Administrative cash paid		(97,112)	(66,877)
Income tax paid		(178,159)	(22,391)
<b>Cash flows from operations before changes in operating assets</b>		<b>295,066</b>	<b>84,835</b>
(Increase) in Mandatory Reserves with Central Bank		(74,549)	(30,275)
Decrease in other reserves with Central Bank		-	(304,500)
(Increase)/decrease in loans and advances to banks		(899,476)	17,820
(Increase) in dealing securities		(509,735)	(137,126)
(Increase) in loans to customers		(1,310,857)	(17,555)
Increase/(decrease) in deposits from banks		1,877,161	(214,274)
Increase in customer accounts		1,492,883	130,410
Increase in debt securities issued		99,856	513,735
Net change in other assets and liabilities		(1,840,066)	(377,845)
<b>Net cash used by operations</b>		<b>(869,717)</b>	<b>(334,775)</b>
<b>Cash flows from investing activities</b>			
Fixed assets additions		(22,813)	(3,116)
<b>Net cash used in investing activities</b>		<b>(22,813)</b>	<b>(3,116)</b>
<b>Cash flows from financing activities</b>			
Issue of share capital		1,607,300	258,100
<b>Net cash provided by financing activities</b>		<b>1,607,300</b>	<b>258,100</b>
<b>Net (decrease)/increase in cash and short term funds</b>		<b>714,770</b>	<b>(79,791)</b>
<b>Cash and short term funds at the beginning of the year</b>		<b>165,390</b>	<b>245,181</b>
<b>Cash and short term funds at the end of the year</b>	<b>4</b>	<b>880,160</b>	<b>165,390</b>

The accompanying notes on pages 9 to 21 form an integral part of these financial statements.

**Consolidated Statement of Changes in Shareholders' Equity  
for the year ended 31 December 2003  
(RUR 000s)**

	<b>Issued capital</b>	<b>Share premium</b>	<b>Shareholders contribution</b>	<b>Retained earnings and other reserves</b>	<b>Total Shareholders' equity</b>
<b>Balance at 31 December 2001</b>	<b>12,000</b>	<b>133,420</b>	-	<b>(1,558)</b>	<b>143,862</b>
Issued in year	4,000	54,000	-	-	58,000
Contributed by shareholders	-	-	200,100	-	200,100
Net income	-	-	-	78,067	78,067
<b>Balance at 31 December 2002</b>	<b>16,000</b>	<b>187,420</b>	<b>200,100</b>	<b>76,509</b>	<b>480,029</b>
Issued in year	134,000	1,673,400	(200,100)		1,607,300
Net income				110,673	110,673
<b>Balance at 31 December 2003</b>	<b>150,000</b>	<b>1,860,820</b>	-	<b>187,182</b>	<b>2,198,002</b>

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 21 form an integral part of these financial statements.

**Notes to Consolidated Financial Statements**



**for the year ended 31 December 2003  
(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 31<sup>st</sup> December 2003 the group employed (2002 - 119) 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 Financial Reporting Standards (IFRS) 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 IFRS 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.

**(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 20 for the year ended 31 December 2003. Where subsidiaries are acquired or disposed of during the year they are accounted for from and to these dates.

for the year ended 31 December 2003  
(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. Changes in fair value are recorded within gains less losses arising from securities in the statement of income in the period in which the change occurs. Coupons earned on government securities are reflected in the statement of income as interest income on securities whereas any trading gains or losses on these securities are reflected as gains less losses arising from securities.

**(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 IFRS 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 IFRS.

**(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 2003  
(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. The official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US Dollar (US\$) at 31 December 2003 was RR 29.45 = US\$ 1.00 (31 December 2002: RR 31.78 = US\$ 1.00), between the Russian Rouble and Euro at 31 December 2003 was RR 36.82 = Euro 1.00 (31 December 2002:RR 33.11 = Euro 1.00).

**(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.

**Notes to Consolidated Financial Statements  
for the year ended 31 December 2003  
(RUR 000s)**

**NOTE 4 – CASH AND SHORT TERM FUNDS**

	<u>2003</u>	<u>2002</u>
Cash in hand:		
Roubles	865,104	1,713
US dollars	2,148	516
Euros	298	-
	<u>867,550</u>	<u>2,229</u>
Correspondent accounts with other banks in Russia:		
Roubles	4,327	135,256
US dollars	5,027	27,903
Euros	3,256	2
	<u>12,610</u>	<u>163,161</u>
	<u><b>880,160</b></u>	<u><b>165,390</b></u>

**NOTE 5 – RESERVES WITH CENTRAL BANK**

Mandatory reserves with the Central Bank of Russia amounting to RUR 106,206,000 (2002 - RUR 31,657,000) as at 31 December 2003 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.

**NOTE 6 – LOANS TO BANKS**

	<u>2003</u>	<u>2002</u>
Repayable on demand or less than one month	495,364	52,000
Repayable between three months and six months	420,000	-
Repayable between six months and one year	45,000	-
Repayable between one year and five years	10,000	-
Provision for loan losses	<u>(19,408)</u>	<u>(520)</u>
	<u><b>950,956</b></u>	<u><b>51,480</b></u>

**Provision for loan losses**

	<u>2003</u>	<u>2002</u>
Balance at 1 January	520	700
(Release)/charge against profit	<u>18,888</u>	<u>(180)</u>
	<u><b>19,408</b></u>	<u><b>520</b></u>

**Notes to Consolidated Financial Statements  
for the year ended 31 December 2003  
(RUR 000s)**

**NOTE 7 – DEALING SECURITIES**

	<u>2003</u>	<u>2002</u>
<b>Rouble denominated securities</b>		
Corporate shares	361,717	183,052
Municipal bonds	168,722	274,725
Corporate bonds	762,134	216,520
	<u><b>1,292,573</b></u>	<u><b>674,297</b></u>
<b>Foreign currency denominated securities</b>		
Foreign sovereign debt, denominated in US dollars	-	8,180
Russian Government bonds, denominated in US dollars	55,848	156,209
	<u><b>55,848</b></u>	<u><b>164,389</b></u>
<b>Total securities</b>	<u><b>1,348,321</b></u>	<u><b>838,686</b></u>

**NOTE 8 – LOANS AND ADVANCES TO CUSTOMERS**

	<u>2003</u>	<u>2002</u>
Loans and advances comprise:		
Loans to companies, denominated in roubles	1,582,423	65,572
Loans to companies, denominated in US dollars	31,228	84,945
Loans to individuals, denominated in roubles	37,124	15,636
Loans to individuals, denominated in US dollars	26,846	5,018
	1,677,621	171,171
Provision for loan losses	<u>(243,885)</u>	<u>(48,262)</u>
	<u><b>1,433,766</b></u>	<u><b>122,909</b></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 1,256,299,000 as at 31 December 2003 (RUR 209,540,000 as at 31 December 2002).

Maturity of the loan portfolio is:

	<u>2003</u>	<u>2002</u>
Repayable on demand or less than one month	569,616	64,857
Repayable between one month and three months	152,120	901
Repayable between three months and six months	552,229	68,626
Repayable between six months and one year	127,911	5,028
Repayable between one year and five years	31,890	31,759
	<u><b>1,433,766</b></u>	<u><b>171,171</b></u>

The above maturity analysis is based on contracted maturity at 31 December 2003. 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 2003  
(RUR 000s)**

**NOTE 8 - LOANS AND ADVANCES TO CUSTOMERS (continued)**

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

	<u>2003 Amount</u>	<u>2003 %</u>	<u>2002 Amount</u>	<u>2002 %</u>
Timber	68,757	5	65,678	38
Construction	-		11,000	6
Trading	348,072	24	17,147	10
Finance	410,858	29	-	-
Telecommunication	-		23,679	14
Brokerage	472,717	33	8,758	5
Individuals	56,786	4	20,652	12
Other	76,576	5	24,257	15
	<u><b>1,433,766</b></u>	<u><b>100</b></u>	<u><b>171,171</b></u>	<u><b>100</b></u>

Loans to the biggest customer represent 31% (2002 - 28%) of the gross loan portfolio. Loans to the next biggest customer represent 21% of the loan portfolio.

**NOTE 9 – OTHER ASSETS**

	<u>2003</u>	<u>2002</u>
Net investment in leases	709,645	460
Receivable from state budget	185,654	6
Due on sale of marketable shares	1,738,233	377,390
Other prepaid expenses	23,642	6,803
Other debtors	287,786	35,916
	<u><b>2,944,960</b></u>	<u><b>420,575</b></u>

**NOTE 10 – AVAILABLE FOR SALE INVESTMENTS**

	<u>2003</u>	<u>2002</u>
Subsidiary – OOO Terminal	<u><b>18,915</b></u>	<u><b>18,915</b></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 2003.

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.

**Notes to Consolidated Financial Statements  
for the year ended 31 December 2003  
(RUR 000s)**

**NOTE 11 – FIXED ASSETS**

	<b>Bank equipment</b>	<b>Office and Computer Equipment</b>	<b>Intangible Assets</b>	<b>Total</b>
<b>Cost or valuation</b>				
Balance at 31 December 2002	597	12,248	3,000	15,845
Additions	400	30,925	-	31,325
Disposals	-	(1,823)	(3,000)	(4,823)
Balance at 31 December 2003	997	41,350	-	42,347
<b>Accumulated depreciation</b>				
Balance at 31 December 2002	13	1,884	444	2,341
Charge for the year	19	4,155	-	4,174
Disposals	-	(41)	(444)	(485)
Balance at 31 December 2003	32	5,998	-	6,030
<b>Net book value at 31 December 2003</b>	<b>965</b>	<b>35,352</b>	<b>-</b>	<b>36,317</b>
<b>Net book value at 31 December 2002</b>	<b>584</b>	<b>10,364</b>	<b>2,556</b>	<b>13,504</b>

**NOTE 12 - NEGATIVE GOODWILL**

	<b>2003</b>	<b>2002</b>
<b>Balance at 1 January</b>	35,345	39,346
Arising on acquisition of sub-group	4,056	-
Released in period	(2,833)	(4,001)
<b>Balance at 31 December</b>	<b>36,568</b>	<b>35,345</b>

**NOTE 13 – LOANS AND DEPOSITS FROM BANKS**

	<b>2003</b>	<b>2002</b>
Repayable on demand or less than one month	775,271	34,359
Repayable between one month and three months	223,282	-
Repayable between six months and one year	912,967	-
	<b>1,911,520</b>	<b>34,359</b>

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

for the year ended 31 December 2003  
(RUR 000s)

**NOTE 14 – CUSTOMER ACCOUNTS**

	<u>2003</u>	<u>2002</u>
Repayable on demand or less than one month	2,024,345	566,000
Repayable between one month and three months	32,550	222
Repayable between three months and six months	1,237	2,993
Repayable between six months and 1 year	4,602	636
Repayable between one year and five years	19,500	19,500
	<u>2,082,234</u>	<u>589,351</u>

The Bank has several customer accounts with related parties (note 24). The largest customer holds balances of 14.4% of all customer accounts (2002 : 12.4% of all customer accounts) with the Bank.

**NOTE 15 – PROMISSORY NOTES ISSUED**

	<u>2003</u>	<u>2002</u>
Repayable on demand or less than one month	131,313	254,482
Repayable between one month and three months	290,229	-
Repayable between three months and six months	44,619	-
Repayable between six months and one year	382,847	512,594
Repayable between one year and five years	17,924	-
	<u>866,932</u>	<u>767,076</u>

**NOTE 16 - OTHER LIABILITIES**

	<u>2003</u>	<u>2002</u>
Advances received	374,141	-
Taxation payable	6,821	14,485
Due on sale of marketable securities	265,548	-
Other	65,784	13,491
	<u>712,294</u>	<u>27,976</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 asset of RUR 97,259,000 (2002- deferred tax liability of RUR 11,653,000) was recognised during the year.

Movement on the provision during the period was:

	<u>2003</u>	<u>2002</u>
Balance at 1 January	(15,223)	(3,570)
Deferred tax asset of disposed subsidiary	5,813	-
Movement in the year	97,259	(11,653)
<b>Balance at 31 December</b>	<u>87,849</u>	<u>(15,223)</u>



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**NOTE 18 - ISSUED CAPITAL**

	<u>2003 Amount</u>	<u>2002 Amount</u>
Share capital authorised, issued and fully paid consists of the following: 15,000,000 (2002 – 1,600,000) ordinary shares of RUR 10 each	<u>150,000</u>	<u>16,000</u>

During 2003 the Bank completed its 12<sup>th</sup> emission of shares. Under this emission 11,300,000 ordinary shares with a nominal value of RUR 10 were issued at a price of 133 Roubles each, generating an increase in share premium of RUR 1,389,900,000. These amounts were fully paid in cash.

**NOTE 19 – RETAINED EARNINGS AND OTHER RESERVES**

In accordance with Russian Law on Banking Activity, the Bank must use financial statements prepared under Russian accounting rules as the basis for calculating distributable profit. This may be used to pay dividends or transferred to reserves. The Bank's reserves under Russian Accounting Rules as at 31 December 2003 were RUR 153,768,000 (2002: RUR 42,349,000).

**NOTE 20 – SUBSIDIARY COMPANIES**

As at 31 December 2003 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 Company	Russia	100%	Holding
OOO Terminal*	Russia	60%	Timber trading

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

ZAO LenRosInvest owns and controls the following subsidiary companies: -

OOO Leasing Company Magistral Finance	Russia	100%	Leasing
OOO Web-Invest.ru trading	Russia	100%	Internet share
OAO Creative Investment Technologies	Russia	100%	Share trading

**NOTE 21 – LOAN LOSS CHARGE**

	<u>2003</u>	<u>2002</u>
Movement on provision on loans and advances to customers (Note 8)	195,594	13,805
Movement on provision on loans to banks (Note 6)	18,888	(180)
	<u>214,482</u>	<u>13,625</u>

**NOTE 22 – GENERAL, ADMINISTRATIVE AND OTHER OPERATING COSTS**

	<u>2003</u>	<u>2002</u>
Compensation and benefits to employees	56,380	22,162
Advertising	29,192	3,550
Other taxes	32,583	14,410
Depreciation	4,174	1,465
Office rent	10,448	6,518
Other operating expenses	75,262	33,123
	<u>208,039</u>	<u>81,228</u>

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**NOTE 23 – TAXATION**

	<u>2003</u>	<u>2002</u>
Profit tax as computed for Russian fiscal purposes:		
Parent company	173,891	39,589
Subsidiaries	4,268	4,221
<b>Sub-total</b>	<b>178,159</b>	<b>43,810</b>
Deferred tax charge (see Note 17)		
Parent company	(103,249)	9,015
Subsidiaries	5,990	2,638
<b>Sub-total</b>	<b>(97,259)</b>	<b>11,653</b>
<b>Profit tax</b>	<b>80,900</b>	<b>55,463</b>

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% (2002 -24%) on the majority of its income. Interest on government bonds is charged at 15%.

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

	<u>2003</u>	<u>2002</u>
<b>IFRS accounting profit before taxation</b>	193,941	132,625
IFRS adjustments	174,357	(61,646)
<b>Accounting profit before tax according to Russian Accounting Standards</b>	<b>368,298</b>	<b>70,979</b>
Differences between Russian accounting and tax profits	414,872	122,656
<b>Taxable profit</b>	<b>783,170</b>	<b>193,635</b>

Other taxes:

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

	<u>2003</u>	<u>2002</u>
Property tax	4,334	250
Road tax	-	9,345
Other	28,249	4,815
	<b>32,583</b>	<b>14,410</b>

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

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.

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**NOTE 24 – CURRENCY ANALYSIS**

	<u>2003</u>	<u>2002</u>
<b>Assets</b>		
Denominated in Roubles	7,309,576	1,655,786
Denominated in Euros	3,554	2
Denominated in US dollars	<u>457,852</u>	<u>276,483</u>
	<u>7,770,982</u>	<u>1,932,271</u>
<b>Liabilities and shareholders' equity</b>		
Denominated in Roubles	5,200,404	1,171,458
Denominated in Euros	185	-
Denominated in US dollars	<u>372,392</u>	<u>262,527</u>
	<u>5,572,981</u>	<u>1,433,985</u>
<b>Net assets</b>		
Denominated in Roubles	2,109,172	484,328
Denominated in Euros	3,369	2
Denominated in US dollars	<u>85,460</u>	<u>13,956</u>
	<u><b>2,198,001</b></u>	<u><b>498,286</b></u>

**NOTE 25 - 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 2003 were as follows:

	<u>Nominal value of shares</u>	<u>Number of shares</u>	<u>% of Bank Share Capital</u>
OOO Finance Group Web-Invest	<u>29,990,010</u>	<u>2,999,001</u>	<u>19.99</u>
OOO Centre of Financial Consulting	<u>29,990,010</u>	<u>2,999,001</u>	<u>19.99</u>
Individuals	<u>82,500,000</u>	<u>8,250,000</u>	<u>55.00</u>

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

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>2003</u>	<u>2002</u>
Customer accounts	<u>216,098</u>	<u>35,436</u>
Loans	<u>264,468</u>	<u>20,873</u>
Other liabilities	<u>-</u>	<u>2,406</u>
Other assets	<u>113,047</u>	<u>164,906</u>

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**NOTE 26 – CONTINGENCIES AND COMMITMENTS**

**Guarantees and letters of credit**

The Bank has issued guarantees amounting to RUR 586,139,000 as at 31 December 2003. The guarantee amounting to RUR 418,139,291 expired on 9 March 2004.

**Capital commitments**

No material commitments for capital expenditures were outstanding at 31 December 2003.

**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 2003.

**NOTE 27 – 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 28 – COUNTRY RISK**

The economic situation in the Russian Federation has shown signs of improvement in recent years, with significant rates of growth which have averaged about 6 percent a year. The balance of payments has risen steadily partly driven by high oil prices and also as a reflection of a marked reduction in capital flight. There have also been improvements in external and fiscal balances positions. External public debt has fallen from nearly 80 percent of GDP after the crisis in 1998 to under 30 percent at the end of 2003, eliminating any major concern about Russia's ability to service its debts. Financial markets have also recovered significantly, and even after some fallback in the middle of the year, the stock market index continues to grow. Moody's recently upgraded Russia to investment grade. Despite these factors, the existence of a currency which is not freely convertible outside the Russian Federation, relatively high rates of inflation and a small and underdeveloped capital market still remain as characteristics of an emerging economy.

Banking sector reform is a matter of the highest priority if Russia is to achieve its growth potential in the coming years, together with developments in the capital market and insurance sector.

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

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**NOTE 29 – 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	
<b>Assets</b>						
Cash and short term funds	880,160	-	-	-	-	880,160
Balances with Central Bank	106,206	-	-	-	-	106,206
Loans to banks	485,457	-	411,600	44,100	9,799	950,956
Dealing securities	1,348,421	-	-	-	-	1,348,421
Loans and advances to customers	569,616	152,120	552,229	127,911	31,890	1,433,766
Other assets	2,235,315	-	-	-	709,645	2,944,960
Shares for resale	-	-	-	-	18,915	18,915
Fixed assets	-	-	-	-	36,317	36,317
Deferred tax	-	-	-	-	87,849	87,849
Negative goodwill	-	-	-	-	(36,568)	(36,568)
<b>Total assets</b>	<b>5,625,175</b>	<b>152,120</b>	<b>963,829</b>	<b>172,011</b>	<b>857,847</b>	<b>7,770,982</b>
<b>Liabilities and shareholders' equity</b>						
Loans and deposits from banks	775,271	223,282	-	912,967	-	1,911,520
Customer accounts	2,024,345	32,550	1,237	4,602	19,500	2,082,234
Promissory notes issued	131,313	290,229	44,619	382,847	17,924	866,932
Other liabilities	712,295	-	-	-	-	712,295
<b>Total liabilities</b>	<b>3,643,224</b>	<b>546,061</b>	<b>45,856</b>	<b>1,300,416</b>	<b>37,424</b>	<b>5,572,981</b>
<b>Surplus / (Deficit)</b>	<b>1,981,951</b>	<b>(393,941)</b>	<b>917,973</b>	<b>(1,128,405)</b>	<b>820,423</b>	<b>2,198,001</b>
<b>Cumulative Surplus</b>	<b>1,981,951</b>	<b>1,588,010</b>	<b>2,505,983</b>	<b>1,377,578</b>	<b>2,198,001</b>	

**NOTE 30 – POST BALANCE SHEET EVENTS**