Aljba Alliance

Consolidated financial statements
December 31, 2003

Together with report of independent auditors

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CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2003 and 2002

REPORT OF INDEPENDENT AUDITORS

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REPORT OF INDEPENDENT AUDITORS

To the Members of Aljba Alliance -

We have audited the accompanying consolidated balance sheet of Aljba Alliance and its subsidiaries (the "Company") as of December 31, 2003, and the related consolidated statements of income, changes in members' funds, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2003, and the consolidated results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Ernst & Young (CIS) Limited

April 15, 2004

CONSOLIDATED BALANCE SHEETS

At December 31, 2003 and 2002

(Thousands of US Dollars)

	Notes	2003	2002
Assets			
Cash and cash equivalents	4	**$ 105,664**	$ 48,620
Central Bank obligatory reserve		**11,920**	5,800
Trading securities	5	**11,728**	8,174
Available-for-sale securities	5	**12,944**	–
Loans to customers	7	**3,806**	10,501
Trade receivables and other advances		**9,888**	9,028
Tax assets	9	**195**	291
Property and equipment	10	**28,498**	29,130
Other assets		**518**	432
Total assets		**$ 185,161**	$ 111,976
Liabilities			
Due to credit institutions		**–**	8
Amounts due to customers	11	**104,548**	41,376
Certificated debts	12	**17,183**	20,850
Trade payables and advances received		**9,361**	5,490
Provisions, accruals and deferred income		**5,463**	436
Tax liabilities	9	**940**	341
Other liabilities		**852**	522
Total liabilities		**138,347**	69,023
Minority interest		**7**	
Members' funds			
Units issued	13	**13,367**	13,367
Retained earnings and reserves	14	**33,440**	29,586
Total members' funds		**46,807**	42,953
Total liabilities and members' funds		**$ 185,161**	$ 111,976
Commitments and contingencies	15	**785**	525

Signed and authorized for release on behalf of the Board of Directors

Andrei M. Datsenko President

Alexander N. Yakimov Chief Financial Officer

March 14, 2004

The accompanying notes on pages 5 through 28 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2003 and 2002

(Thousands of US Dollars)

	Notes	2003	2002
Interest income		**$ 2,538**	$ 2,720
Interest expense		**2,536**	2,658
Net interest income	16	**2**	62
Impairment reversal	8	**(140)**	(63)
		142	125
Fee and commission income	18	**21,373**	7,987
Dealing profit, net		**6,029**	6,314
Foreign exchange gains, net		**1,561**	568
Other operating income		**3,903**	1,024
Non interest income		**32,866**	15,893
Salaries and benefits	17	**10,689**	4,274
Administrative expenses		**1,080**	1,578
Fee and commission expense	18	**8,024**	1,126
Depreciation		**1,226**	844
Other provision charge (reversal)	8	**(64)**	65
Other operating expenses		**4,197**	1,257
Non interest expense		**25,152**	9,144
Income from operations		**7,856**	6,874
Translation gain (loss)		**917**	(35)
Income before taxation		**8,773**	6,839
Income tax expense	9	**1,424**	306
Net income		**$ 7,349**	$ 6,533

The accompanying notes on pages 5 through 28 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF MEMBERS' FUNDS

For the years ended December 31, 2003 and 2002

(Thousands of US Dollars)

	Units issued	Treasury units	General reserves	Retained earnings	Members' funds
December 31, 2001	$ 9,273	$ (9,487)	$ 1,391	$ 36,458	$ 37,635
Capital contributions	4,094	–	–	–	4,094
Transfers	–	–	36	(36)	–
Net income	–	–	–	6,533	6,533
Sale of treasury units	–	9,487	–	(8,212)	1,275
Distribution to members	–	–	–	(6,584)	(6,584)
December 31, 2002	13,367	–	1,427	28,159	42,953
Transfers	–	–	**121**	**(121)**	**–**
Net income	–	–	–	**7,349**	**7,349**
Distribution to members	–	–	–	**(3,495)**	**(3,495)**
December 31, 2003	**$ 13,367**	**$ –**	**$ 1,548**	**$ 31,892**	**$ 46,807**

The accompanying notes on pages 5 through 28 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2003 and 2002

(Thousands of US Dollars)

	Notes	2003	2002
Cash flows from operating activities			
Interest, fees and commissions received		**$ 21,631**	$ 11,010
Interest, fees and commissions paid		**(10,237)**	(9,462)
Dealing profits		**5,958**	10,547
Foreign exchange gains		**1,626**	533
Other operating income		**4,066**	1,024
Other operating expenses		**(4,393)**	(233)
Salaries and benefits		**(6,561)**	(4,072)
Administrative expenses		**(1,126)**	(1,338)
Cash flows from operating profits before changes in operating assets and liabilities		**10,964**	8,009
(Increase) decrease in operating assets			
Obligatory reserve with Central Bank		**(6,605)**	(3,627)
Loans to customers		**6,835**	1,751
Trading securities		**(3,311)**	(6,002)
Trade receivables and other advances		**2,229**	(9,028)
Other assets		**54**	44
Increase (decrease) in operating liabilities			
Amounts owed to credit institutions		**(8)**	(184)
Amounts owed to customers		**63,088**	1,641
Certificated debts		**(3,779)**	7,645
Trade payables and advances received		**3,871**	5,490
Other liabilities		**280**	686
Net cash flows from operating activities before income taxes		**73,618**	6,425
Income taxes paid		**(729)**	(457)
Net cash flows from operating activities		**72,889**	5,968
Cash flows from investing activities			
Tangible fixed assets purchased		**(644)**	(581)
Available-for-sale securities purchased		**(12,944)**	–
Tangible fixed assets sold		–	3,146
Net cash flows from investing activities		**(13,588)**	2,565
Cash flows from financing activities			
Distribution to members		**(3,495)**	(6,584)
Capital contributions		–	4,094
Proceeds from sale of treasury shares		–	1,275
Net cash flows from financing activities		**(3,495)**	(1,215)
Effects of exchange rate changes on cash and cash equivalents		**1,238**	(374)
Change in cash and cash equivalents		**57,044**	6,944
Cash and cash equivalents, beginning		**48,620**	41,676
Cash and cash equivalents, ending	4	**$ 105,664**	$ 48,620

The accompanying notes on pages 5 through 28 are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2003

(in thousands of US Dollars)

1. Principal Activities

The accompanying financial statements contain the accounts of Aljba Alliance Bank and its seven subsidiaries (the “Company”). Aljba Alliance Bank (the “Bank”) is the lead entity in the Company. The Bank was established in 1992 as a limited liability partnership under the laws of the Russian Federation. At present the Bank possesses a general banking license from the Central Bank of the Russian Federation (the “CBR”) last extended in March 2000. Furthermore, the Bank also possesses licenses for securities operations and custody services from the Federal Stock Market Commission - granted in December 2000, and licenses for trust operations and operations with derivative instruments (futures and options) - granted in December and November 2000, respectively. The Bank accepts deposits from the public and makes loans, transfers payments in Russia and abroad, exchanges currencies and provides banking services for its commercial and retail customers.

Its main office is in Moscow and at present the Bank is not operating any branches.

As at December 31, 2003, the following members owned more than 5% of the members’ capital.

Member	**%**
ZAO “CFC “Aljba” “	23.99
OOO “Stella-Market”	16.68
OOO “Mark Capital”	16.67
OOO “Nova-Invest”	16.67
OOO “Granados”	16.24
OOO “Osram”	8.75
Other	1.00
Total	**100.00**

The Company had an average of 229 employees during 2003 (2002 –198).

2. Basis of Preparation

General

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (US GAAP) and are presented in thousands of United States Dollars (USD or $), unless otherwise indicated.

December 31, 2003

(in thousands of US Dollars)

2. Basis of Preparation (continued)

General (continued)

The Bank and its subsidiaries maintain their books of account and prepare statements for regulatory purposes in accordance with statutory accounting and banking legislation and instructions. The accompanying consolidated financial statements are based on the statutory records, which are maintained under the historical cost convention as modified by the revaluation of tangible fixed assets and revaluation of trading portfolio of state securities. The statutory data was then adjusted and appropriately reclassified for the purpose of fair presentation in accordance with the standards prescribed by the Financial Accounting Standards Board (FASB).

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Consolidated Subsidiaries

The consolidated financial statements include, the accounts of the Bank and the following wholly controlled subsidiaries:

Subsidiary	Country	Principal activities	Ownership interest
Sovlink LLC	Russia	Brokerage, dealing, corporate finance and financial advisory services	100%
SL Capital Services Ltd.	Cyprus	Investments, brokerage, agency, nominee and other services for clients participating in Russian debt and equity markets	100%
Sovlink - Trust	Russia	Real Estate Development	74%
Tansamara Co ltd	Cyprus	Investments	100%
Aljba Vehicle	Russia	Transportation services to the Company	100%
Arand	Russia	Domestic investments	100%
Aljba Alliance Pensions	Russia	Pension administration	100%
Centre for Strategic Development	Russia	Economic research and analysis	100%

(in thousands of US Dollars)

2. Basis of Preparation (continued)

Changes in Company's Organization

In September 2003, the Bank's subsidiary, SL Capital Services Ltd., acquired 100% of Tansamara Co Ltd. Net assets acquired totaled $ 5. Tansamara Co Ltd. was acquired exclusively for holding investments in shares of Russian chemical plant – ZAO Kaustik. The shares of ZAO Kaustik are classified as available-for-sale securities in the accompanying consolidated financial statements.

Reconciliation of Equity and Net Income Between Statutory and US GAAP

Members' funds (equity) and net income are reconciled between statutory accounting (the Bank as parent company stand alone) and US GAAP consolidated as follows:

	2003		**2002**	
	Equity	**Net income**	**Equity**	**Net income**
Statutory Accounting Legislation	**$ 30,621**	**$ 1,933**	$ 31,754	$ 2,669
Foreign exchange and translation	**25,551**	**957**	24,594	663
Statutory fixed asset revaluation	**(17,119)**	–	(17,119)	–
Retained earnings of subsidiaries	**6,297**	**3,633**	2,664	2,664
Depreciation	**2,602**	**1,515**	1,087	993
Effect of accrued interest	**(506)**	**(112)**	(394)	(394)
Deferred taxes	**(325)**	**(575)**	250	250
Fair value adjustment of securities	**196**	**(15)**	211	211
Loss provisions	**(10)**	**(19)**	9	(94)
Current taxes	**(429)**	–	–	(429)
Other	**(71)**	**32**	(103)	–
Generally Accepted Accounting Principles in the United States	**$ 46,807**	**$ 7,349**	$ 42,953	$ 6,533

3. Principal Accounting Policies

Principles of Consolidation

The consolidated financial statements of the Company include the Bank and the companies that it controls (subsidiaries). Companies acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or to the date of disposal.

Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

December 31, 2003

(in thousands of US Dollars)

3. Principal Accounting Policies (continued)

CBR Obligatory Reserves

The CBR requires credit institutions to maintain non-interest earning cash deposit (obligatory reserve), the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposit from the CBR is significantly restricted by the statutory legislation.

Due from Credit Institutions

In the normal course of business, the Company lends or deposits funds for various periods with other credit institutions. Such amounts are carried at amortized cost. As these placements of funds are typically unsecured extensions of credit, some of the assets may be impaired. The principles used to create provision for loan impairment on amounts due from credit institutions are the same as for loans to customers (see below).

Trading and Investment Securities

The Bank classifies its securities into the following three categories:

- Securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or included in a portfolio in which a pattern of short-term profit-taking exists are classified as trading securities.
- Securities with fixed maturity where Management has both the intent and the ability to hold to maturity are classified as held-to-maturity.
- Securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale.

The classification of investments is determined by Management generally at the time of the purchase. Securities are initially recognized on the trade date at cost (including transaction costs), which is the fair value of the consideration given for them. Subsequently, the securities are measured as follows:

- Trading securities are subsequently measured at fair value based on quoted bid prices. The related realized and unrealized gains and losses are included in dealing profit (loss).
- Available-for-sale investment securities are subsequently measured at fair value based on quoted bid prices or present value of future cash flows. Unrealized gains and losses arising from changes in the fair value of available-for-sale securities are recognized as part of other comprehensive income.
- Held to maturity investments are carried at amortized cost using the effective yield method, less any allowance for impairment. The amount of impairment loss is calculated as the difference between the asset's carrying amount and the present value of the expected future cash flows discounted at the instruments original effective interest rate.

Interest earned while holding trading and investment securities is reported as interest income. Dividends receivable are included in dividend income when a dividend is declared.

December 31, 2003

(in thousands of US Dollars)

3. Principal Accounting Policies (continued)

Derivatives

The Company enters into derivative financial instruments for trading and hedging purposes. In the normal course of business, the Company enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are primarily held for trading and are initially recognized in accordance with the recognition of financial instruments policy and subsequently are measured at their fair value. Their fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when fair value is positive and as liabilities when it is negative. Changes in the fair value of derivatives held for trading are included in Dealing profit (loss).

Loans to Customers

Loans are stated at the unpaid principal balance less allowance for loan losses as presented in Note 8. Each period the provision for losses in the statement of income results from the combination of a) an estimate by management of loan losses that occurred during the current period and b) the ongoing adjustment of prior estimates of losses occurring in prior periods.

To serve as a basis for making this provision, the Bank maintains a credit risk monitoring process that considers several factors including: current economic conditions affecting the Bank’s customers, the payment performance of individual large loans and pools of homogeneous small loans, portfolio seasoning, changes in collateral values, and detailed reviews of specific large loan relationships. The Bank considers a loan to be impaired when it is probable that it will be unable to collect all amounts due according to the contractual terms of the loan agreement. The measurement of impairment may be based on (1) the present value of the expected future cash flows of the impaired loan discounted at the loan's original effective interest rate, (2) the observable market price of the impaired loan or (3) the fair value of the collateral of a collateral-dependent loan. When the measurement of the impaired loan is less than the recorded amount of the loan, the impairment is recognized by either creating a valuation allowance or by adjusting an existing allowance, with a corresponding charge to the allowance for loan losses. The Bank's policy is to record cash receipts received on impaired loans first as reductions to principal and then to interest income.

The provision for loan losses increases the allowance for loan losses, a valuation account that is netted against loans on the balance sheet. As the specific customer and amount of a loan loss is confirmed by gathering additional information, taking collateral in full or partial settlement of the loan, bankruptcy of the borrower, etc., the loan is written down, reducing the allowance for loan losses.

December 31, 2003

(in thousands of US Dollars)

3. Principal Accounting Policies (continued)

Loans to Customers (continued)

The Bank's allowance for loan losses is that amount considered adequate to absorb inherent losses in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio. Such evaluations consider the balance of problem loans and prior loan loss experience as well as the impact of current economic conditions and other risk factors. In determining its allowance, the Bank first reviews all loans to determine whether any specific allowance should be applied to individual loans. For other loans and advances, the Bank then classifies these amounts into four categories by reference to debt service capability and repayment history and bases the allowance on the Bank's own loan loss experience and management's judgments as to the level of losses that will most likely be recognized from assets in each category.

The accrual of interest income on loans generally is discontinued when a loan becomes 90 days past due as to principal or interest. When interest accruals are discontinued, interest accrued in a prior year is charged against the allowance for loan losses while interest accrued in the current year but unpaid is reversed and charged against interest income. Loans are returned to accrual status when, in management's judgment, the borrower's ability to make periodic interest and principal payments has improved and payments are made timely over an approximate six month period. Until the loan is returned to accrual status, payments by borrowers are applied to loan principal.

Property and Equipment

Property and equipment are recorded at historical cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful economic life of the asset, as follows:

	Years
Buildings	50
All other categories	5

Assets under construction are not depreciated. Depreciation of these assets will begin when the related assets are placed in service. Repairs and maintenance are charged to expense as incurred.

Amounts Due to Credit Institutions and to Customers

Amounts owed to credit institutions and to customers are initially recognized at cost, which amounts to the initiation/issue proceeds less transaction costs incurred. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of income over the period of the borrowings using the effective yield method.

December 31, 2003

(in thousands of US Dollars)

3. Principal Accounting Policies (continued)

Certificated Debts

Certificated debts represent promissory notes issued by the Company to customers. They are accounted according to the same principles used for amounts owed to credit institutions and to customers.

Provisions

In the normal course of business, the Company enters into credit related financial commitments (guarantees, letters of credit). As these instruments are typically unsecured or partly secured by customer funds, some of the claims may be impaired. The principles used to create provisions for impairment of financial commitments are the same as for loans to customers (see above).

Other provisions are recognized when the Company 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.

Foreign Currency Translation

Translation of the Company's Ruble (RUB) denominated financial statements for Russian registered entities into USD has been performed in accordance with the provisions of SFAS No.52. See Note 19 for a summary of assets and liabilities denominated in freely convertible currencies. Since the Bank conducts significant amounts of business in US Dollars, management determined that US Dollar is the functional currency of the Company.

Monetary assets and liabilities have been translated at the rate prevailing at the balance sheet date. Non-monetary assets and liabilities have been translated at historical rates. Income, expenses and cash flows have been translated at rates on the date of transaction. Translation differences resulting from the use of these rates have been accounted for as translation gains and losses in the accompanying income statement.

The exchange rate for 1 USD ranged from 29.25 to 31.88 Rubles during 2003. The year-end exchange rates equaled 29.4545 for 2003 and 31.7844 for 2002.

Income and Expense Recognition

Interest income and expense are recognized on an accrual basis. Commissions and other income are credited to income when the related transactions are completed. Non-interest expenses are recognized at the time the transaction occurs.

December 31, 2003

(in thousands of US Dollars)

3. Principal Accounting Policies (continued)

Taxation

The current taxation charge is calculated in accordance with the regulations of the Russian Federation and Cyprus and is based on the results reported in the income statement of the Company and its subsidiaries prepared under Russian and Cypriot tax rules after adjustments for tax purposes. Deferred taxes are provided on temporary differences between the tax basis of an asset or liability and its carrying amount in the accompanying balance sheet. The tax basis of an asset or liability is the amount attributed to that asset or liability for tax purposes.

Russia also has various operating taxes, which are assessed on the Company's activities. These taxes are included as a component of non-interest expense.

Cash Flows

The Company considers cash, current account with the CBR and amounts due from credit institutions with maturities of three months or less when originated to be cash equivalents.

4. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	2003	**2002**
Cash and current account with the CBR	**$ 20,580**	$ 7,728
Due from credit institutions:		
– Current accounts	**85,034**	40,842
– Time deposits with a maturity of three months or less when originated	**50**	50
Cash and cash equivalents	**$ 105,664**	$ 48,620

5. Trading and Available-For-Sale Securities

Trading securities comprise:

	Carrying value	
	2003	**2002**
Bonds		
Corporate bonds	**$ 5,706**	$ 3,320
State bonds	**2,558**	489
	8,264	3,809
Corporate shares	**3,464**	4,365
Trading securities	**$ 11,728**	$ 8,174

December 31, 2003

(in thousands of US Dollars)

5. Trading Securities and Available-for sale-sale securities (continued)

State bonds are comprised of Russian Government bonds ($ 495) maturing in 2006, bonds of the Government of Brazil ($ 1,336) maturing in 2009 and bonds of the Government of Venezuela ($ 727) maturing in 2008.

Corporate bonds comprise bonds ($ 3,395) and eurobonds ($ 2,311) of top Russian corporations, with maturities from 2006 to 2013. Corporate shares comprise preferred and common shares of top Russian companies.

Available-for-sale securities represent private equity investments in non-listed shares of Russian chemical enterprises, which are stated at cost at December 31, 2003. Based on Management's analysis the cost of these securities approximates fair value.

6. Derivative Financial Instruments

The fair value of the Company's derivative foreign exchange position was calculated based on the RUB / USD exchange rate effective as of December 31, 2003 and 2002. The outstanding deals with derivative financial instruments were as follows:

	2003		**2002**	
	Notional principal	**Fair value**	**Notional principal**	**Fair value**
Foreign exchange contracts				
Forwards				
Assets foreign	**$ 20,219**	**$ 183**	$ –	$ –
Liabilities foreign	**4,500**	**(183)**	1,000	3
Total	**$ 24,719**	**$ –**	$ 1,000	$ 3

The fair value of these transactions reflects the credit and other types of economic risk for the Company. The maturities of the derivative financial instruments as of December 31, 2003 and 2002, are within two months. Such amounts are included in other assets and liabilities.

7. Loans to Customers

Loans to customers are made principally within the Russian Federation and comprise:

	2003	**2002**
Manufacturing	**$ 1,590**	$ 9,921
Trading enterprises	**1,703**	357
Individuals	**556**	63
Local authorities	**–**	346
	3,849	10,687
Allowances for loan impairment	**(43)**	(186)
Loans to customers	**$ 3,806**	$ 10,501

December 31, 2003

(in thousands of US Dollars)

7. Loans to Customers (continued)

The Company's loan portfolio has been extended to the following types of enterprises:

	2003	2002
Private companies	**$ 3,293**	$ 10,278
Local authorities	**–**	346
Individuals	**556**	63
	$ 3,849	$ 10,687

8. Allowances and Provisions

The movement in allowances for impairment of interest earning assets:

	Loans to banks	Loans to customers	Total allowances
December 31, 2001	$ 34,017	$ 249	$ 34,266
Write-offs	(34,017)	–	(34,017)
Impairment reversal	–	(63)	(63)
December 31, 2002	**–**	**186**	**186**
Write-offs	–	**(3)**	**(3)**
Impairment reversal	–	**(140)**	**(140)**
December 31, 2003	**$ –**	**$ 43**	**$ 43**

The movement in the provisions for other assets was:

	Provisions for other assets
December 31, 2001	$ 48
Provisions charged	65
December 31, 2002	**113**
Provisions reversed	**(64)**
December 31, 2003	**$ 49**

Allowances for impairments are deducted from the related asset. Provisions for other assets are recorded in liabilities. In accordance with the statutory legislation, loans may only be written off with the approval of the Members' Council and, in certain cases, with the respective decision of the Court.

December 31, 2003

(in thousands of US Dollars)

9. Taxation

The corporate income tax expense comprises:

	2003	2002
Current tax charge	**849**	556
Deferred tax charge	**575**	(250)
Income tax expense	**1,424**	306

Russian legal entities must file individual tax declarations. The tax rate for banks for profits other than on state securities was 24%. The tax rate for interest income on state securities was 15% for Federal taxes. The tax rate for companies other than banks was also 24%. In accordance with the provisions of Cyprus Income Tax law with respect to International Business Companies the Company's Cyprus subsidiaries' taxable income is subject to Cyprus income tax of 4.25%.

Tax assets and liabilities consist of the following:

	2003	2002
Current tax assets	**195**	41
Deferred tax assets	**–**	250
Tax assets	**195**	291
Current tax liabilities	**615**	341
Deferred tax liabilities	**325**	–
Tax liabilities	**940**	341

The effective income tax rate differs from the statutory income tax rates. A reconciliation of income tax based on statutory rates with actual income tax expense follows:

	2003		
	Russia	**Cyprus**	**Total**
Income before taxation	**$ 3,428**	**$ 5,345**	**$ 8,773**
Statutory tax rate	24%	4.25%	
Theoretical tax charge	823	227	1,050
Tax exempt income:			
Translation effect in accumulated depreciation	474	–	474
Translation gain	(220)	–	(220)
Non-deductible expenses			
Intra group income adjustments	28	45	73
Non-deductible staff cost	115	–	115
Sale of securities below market	34	–	34
Income taxed at other rates			
Dividend income	(18)	–	(18)
State securities income	(5)	–	(5)
Other permanent differences	(79)	–	(79)
Income tax expense	**$ 1,152**	**$ 272**	**$ 1,424**

December 31, 2003

(in thousands of US Dollars)

9. Taxation (continued)

	2002		
	Russia	**Cyprus**	**Total**
Income before taxation	$ 5,810	$ 1,029	$ 6,839
Statutory tax rate	24%	4.25%	
Theoretical tax charge	1,394	44	1,438
Change in valuation allowance	(729)	–	(729)
Tax exempt income	(278)	–	(278)
Tax loss carry forwards utilized	(163)	–	(163)
Non-deductible expenses:		–	
Change in valuation allowance	271	–	271
Negative goodwill	(146)	–	(146)
Social	9	–	9
Other	–	–	–
Securities mark-to-market	(20)	–	(20)
Reporting translation loss	8	–	8
Income taxed at other rates			
State securities income	(8)	–	(8)
Dividend income	(1)	–	(1)
Other permanent differences	(75)	–	(75)
Income tax expense	$ 262	$ 44	$ 306

The Bank also has available $1,913 of tax loss carry forwards, which expire in 2008, if not utilized. Tax loss carry forwards may not reduce taxable income by more than 30% of current year taxable income.

	2003	**2002**
Tax effect of deductible temporary differences		
Loss carry forward	**$ 459**	$ 157
Allowance for impairment	**–**	287
Accrued interest	**–**	247
Property and equipment	**3**	4
Gross deferred tax asset	**462**	695
Valuation allowance	**–**	(271)
	462	424
Tax effect of taxable temporary differences		
Allowances for impairment	**7**	–
Property and equipment	**758**	–
Trading securities	**22**	174
Deferred tax liability	**787**	174
Net deferred tax asset (liability)	**$ (325)**	$ 250

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9. Taxation (continued)

Russia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, income tax, a number of turnover-based taxes, social taxes, and others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations (like the Ministry of Taxes and Levies and its various inspectorates); thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Russia substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Company is in substantial compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

10. Property and Equipment

Property and equipment consist of the following:

	2003	2002
Land and buildings	**$ 29,083**	$ 29,083
Fixtures and equipment	**3,778**	3,597
Vehicles	**433**	248
	33,294	32,928
Accumulated depreciation	**(4,796)**	(3,798)
Property and equipment	**$ 28,498**	$ 29,130

11. Amounts Owed to Customers

Amounts owed to customers comprise:

	2003	2002
Current accounts	**$ 61,492**	$ 33,750
Time deposits	**43,056**	7,626
Amounts owed to customers	**$ 104,548**	$ 41,376

At December 31, 2003, amounts owed to customers include time deposit of $ 1,590 as security against outstanding loans granted in the same amount.

12. Certificated Debts

Certificated debts of $ 17,183 as of December 31, 2003 ($ 20,850 as of December 31, 2002) represent non-interest bearing promissory notes issued by the Company to customers.

(in thousands of US Dollars)

13. Members' Funds

The Bank, the lead entity in the Company, is formed as a limited liability company under the laws and regulations of the Russian Federation. Members' capital comprises (RUB) 159,100,000 ($ 13,367). The par value per unit was amended in conjunction with the 2002 increase of members' capital and the redistribution of units between members. The Bank has one class of units, which have equal rights.

At year-end 2001, the Bank held five treasury units acquired from members with cumulative cost of $9,487. The Bank sold these treasury units during 2002 for $1,275.

The members' funds of the Bank have been contributed by members in Rubles. In accordance with the local law on limited liability companies, members of the Bank have the right to withdraw their share in the Bank's funds at any time regardless of other members' consent or the opinion of the Bank itself. Upon the member's share withdrawal, the Bank would become the owner of the share from the date when the member submitted their application to withdraw.

14. Reserves

The Company's distributable reserves are determined its reserves as disclosed in the accounts of the Bank and its subsidiaries prepared in accordance with Russian Accounting Legislation. As of December 31, 2003, the statutory accounts of the Company disclosed distributable reserves of RUB 249,462,000 and non-distributable reserves of RUB 548,563,000 ($ 8,469 and $ 18,624, respectively, based on the December 31, 2003 exchange rate). As of December 31, 2002, the statutory accounts of the Company disclosed distributable reserves of RUB 305,205,000 and non-distributable reserves of RUB 545,002,000 ($ 9,602 and $ 17,147, respectively, based on the December 31, 2002 exchange rate).

The general reserves represent amounts set aside, as required by the regulations of the Russian Federation, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The fund has been created in accordance with the Bank's statutes, which provide for the creation of a fund for these purposes.

15. Commitments and Contingencies

Operating environment

The Russian economy, while deemed to be of market status beginning in 2002, continues to display certain characteristics consistent with that of a market in transition. These attributes have in the past included higher than normal historic inflation, lack of liquidity in capital markets, and the existence of currency controls that cause the national currency to be illiquid outside of Russia. The continued success and stability of the Russian economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

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15. Commitments and Contingencies (continued)

Legal

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

Credit related financial commitments

The credit related financial commitments comprise:

	2003	2002
Guarantees	**$ 85**	$ 225
Undrawn loan commitments	**700**	300
	$ 785	$ 525

16. Net Interest Income

Net interest income comprises:

	2003	2002
Interest income		
Due from credit institutions	**$ 988**	$ 524
Loans to customers	**375**	1,887
Debt securities	**1,175**	309
	2,538	2,720
Interest expense		
Amounts due to customers	**1,267**	2,397
Due to credit institutions	**1,266**	149
Certificated debts	**3**	112
	2,536	2,658
Net interest income	**$ 2**	$ 62

December 31, 2003

(in thousands of US Dollars)

17. Salaries and Benefits

Salaries and administrative expenses comprise:

	2003	2002
Salaries and other staff costs	**$ 10,046**	$ 3,820
Social security costs	**618**	442
Other	**25**	12
Salaries and benefits	**$ 10,689**	$ 4,274

During 2003 and 2002, no remuneration or any other benefits were paid to members of the Members' Council for conducting they duties. As of December 31, 2003 and 2002, members of the Members' Council and Management Boards did not directly own or control any of the Company's outstanding units.

Also, as of December 31, 2003 and 2002, members of the Members' Council and Management Boards had no loans due to the Company.

The Company does not have pension arrangements separate from the State pension system of the Russian Federation. The Russian Federation system requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related compensation is earned by the employee.

18. Fees and Commissions

Fees and commissions income comprise:

	2003	2002
Consulting fees	**$ 15,759**	$ 4,007
Securities operations	**4,788**	1,992
Currency control operations	**494**	1,140
Settlements and conversion operations	**245**	838
Cash operations	**13**	10
Other	**74**	–
Fee and commission income	**$ 21,373**	$ 7,987

Fees and commissions expense comprise:

	2003	2002
Consultancy and other professional fees paid	**$ 7,624**	$ 263
Securities operations	**65**	368
Foreign exchange operations	**26**	251
Settlements operations	**232**	15
Other	**77**	229
Fees and commissions expense	**$ 8,024**	$ 1,126

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19. Fiduciary Assets

At December 31, 2003, the Company held securities in a fiduciary capacity for its customers with cost of $ 210,608 (2002: $ 62,287). These assets are not included in the accompanying financial statements.

20. Risk Management Policies

Management of risk is fundamental to the banking business and is an essential element of the Company's operations. The main risks inherent to the Company's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Company's risk management policies in relation to those risks follows.

Credit Risk

The Company is exposed to credit risk which is the risk that a counterpart will be unable to pay amounts in full when due. The Company 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 industry segments. Such risks are monitored on a revolving basis and subject to annual or more frequent reviews. Limits on the level of credit risk by borrower and product are approved by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily. The maximum credit risk exposure, ignoring the fair value of any collateral, in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of financial assets as presented in the accompanying financial statements.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital 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 credit risk exposure on derivatives is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments.

Credit-related commitments ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Company 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 Company on behalf of a customer authorizing a third party to draw drafts on the Company up to a stipulated amount under specific terms and conditions, are frequently fully or partially covered by the funds deposited by customers and therefore bear no credit risk.

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20. Risk Management Policies (continued)

Credit Risk (continued)

With respect to undrawn loan commitments the Company is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

The geographical concentration of monetary assets and liabilities follows.

	2003				**2002**			
	Russia	**OECD**	**Other non-OECD**	**Total**	**Russia**	**OECD**	**Other non-OECD**	**Total**
Assets								
Cash and cash equivalents	**$ 24,189**	**$ 81,181**	**$ 294**	**$ 105,664**	$ 8,035	$ 40,585	$ –	$ 48,620
Obligatory reserve	**11,920**	–	–	**11,920**	5,800	–	–	5,800
Trading securities	**9,665**	–	**2,063**	**11,728**	8,174	–	–	8,174
Available-for-sale securities	**12,939**	–	**5**	**12,944**	–	–	–	–
Loans to customers, net	**2,103**	–	**1,703**	**3,806**	9,203	–	1,298	10,501
Trade receivables	**5,311**	–	**4,577**	**9,888**	267	–	8,761	9,028
	66,127	**81,181**	**8,642**	**155,950**	31,479	40,585	10,059	82,123
Liabilities								
Due to credit institutions	–	–	–	–	8	–	–	8
Amounts due to customers	**24,961**	–	**79,587**	**104,548**	10,695	–	30,681	41,376
Certificated debts	**9,648**	–	**7,535**	**17,183**	4,904	–	15,946	20,850
Trade payables and advances received	**6,020**	–	**3,341**	**9,361**	314	–	5,176	5,490
	40,629	–	**90,463**	**131,092**	15,921	–	51,803	67,724
Net position	**$ 25,498**	**$ 81,181**	**$ (81,821)**	**$ 24,858**	$ 15,558	$ 40,585	$ (41,744)	$ 14,399

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(in thousands of US Dollars)

20. Risk Management Policies (continued)

Currency Risk

The Company is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currencies (primarily US Dollar). These limits also comply with the minimum requirements of the Central Bank of Russia. The Company's exposure to foreign currency exchange rate risk follows.

	2003			2002		
	Rubles	Foreign currencies	Total	Rubles	Foreign currencies	Total
Assets						
Cash and cash equivalents	**$ 23,511**	**$ 82,153**	**$ 105,664**	$ 7,817	$ 40,803	$ 48,620
Obligatory reserve	**11,920**	**–**	**11,920**	5,800	–	5,800
Trading securities	**7,354**	**4,374**	**11,728**	8,174	–	8,174
Available-for-sale securities	**12,939**	**5**	**12,944**	–	–	–
Loans to customers, net	**–**	**3,806**	**3,806**	5,224	5,277	10,501
Trade receivables	**5,311**	**4,577**	**9,888**	267	8,761	9,028
	61,035	**94,915**	**155,950**	27,282	54,841	82,123
Liabilities						
Due to credit institutions	**–**	**–**	**–**	–	8	8
Amounts due to customers	**6,351**	**98,197**	**104,548**	4,343	37,033	41,376
Certificated debts	**9,648**	**7,535**	**17,183**	2,904	17,946	20,850
Trade payables and advances received	**3,020**	**6,341**	**9,361**	314	5,176	5,490
	19,019	**112,073**	**131,092**	7,561	60,163	67,724
Net balance sheet position	**$ 42,016**	**$ (17,158)**	**$ 24,858**	$ 19,721	$ (5,322)	$ 14,399
Net off-balance sheet position	**$ –**	**$ 15,719**	**$ 15,719**	**$ 1,003**	**$ (1,000)**	**$ 3**

The off-balance sheet currency position represents the difference between the notional amounts of foreign currency derivative instruments, which are principally used to reduce the Company's exposure to currency movements, and their fair values reported on the balance sheet.

Liquidity Risk

The Company is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs, guarantees and from margin and other calls on derivatives settled by cash. The Company maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Company's Assets and Liabilities Management Committee sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

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(in thousands of US Dollars)

20. Risk Management Policies (continued)

The contractual maturities of monetary assets and liabilities follow:

2003	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Total
Assets						
Cash and cash equivalents	**$ 105,614**	**$ –**	**$ 50**	**$ –**	**$ –**	**$ 105,664**
Obligatory reserve	**11,920**	**–**	**–**	**–**	**–**	**11,920**
Trading securities	**11,692**	**–**	**–**	**36**	**–**	**11,728**
Available-for-sale securities	**12,944**	**–**	**–**	**–**	**–**	**12,944**
Derivatives	**–**	**–**	**–**	**–**	**–**	**–**
Loans to customers, net	**691**	**–**	**1,109**	**1,853**	**153**	**3,806**
Trade receivables	**4,757**	**–**	**1,058**	**4,061**	**12**	**9,888**
	147,618	**–**	**2,217**	**5,950**	**165**	**155,950**
Liabilities						
Due to credit institutions	**–**	**–**	**–**	**–**	**–**	**–**
Amounts due to customers	**72,060**	**1,400**	**1,019**	**10,037**	**20,032**	**104,548**
Certificated debts	**9,648**	**7,535**	**–**	**–**	**–**	**17,183**
Trade payables and advances received	**3,351**	**2,801**	**–**	**209**	**3,000**	**9,361**
	85,059	**11,736**	**1,019**	**10,246**	**23,032**	**131,092**
Net position	**$ 62,559**	**$ (11,736)**	**$ 1,198**	**$ (4,296)**	**$ (22,867)**	**$ 24,858**
Accumulated gap	**$ 62,559**	**$ 50,823**	**$ 52,021**	**$ 47,725**	**$ 24,858**	

2002	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Total
Assets						
Cash and cash equivalents	$ 48,620	$ –	$ –	$ –	$ –	$ 48,620
Obligatory reserve	5,800	–	–	–	–	5,800
Trading securities	8,174	–	–	–	–	8,174
Loans to customers, net	–	977	1,363	8,161	–	10,501
Trade receivables	9,028	–	–	–	–	9,028
	71,622	977	1,363	8,161	–	82,123
Liabilities						
Due to credit institutions	8	–	–	–	–	8
Amounts due to customers	29,211	1,179	1,375	9,040	571	41,376
Certificated debts	20,850	–	–	–	–	20,850
Trade payables and advances received	5,490	–	–	–	–	5,490
	55,559	1,179	1,375	9,040	571	67,724
Net position	$ 16,063	$ (202)	$ (12)	$ (879)	$ (571)	$ 14,399
Accumulated gap	$ 16,063	$ 15,861	$ 15,849	$ 14,970	$ 14,399	

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20. Risk Management Policies (continued)

The maturity gap analysis does not reflect the historical stability of current accounts, whose liquidation has historically taken place over a longer period than that indicated in the table above. The table is based upon these accounts' entitlement to withdraw on demand.

Interest Rate Risk

The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. The Company's expected repricing and maturity dates do not differ significantly from the contract dates, which are disclosed in the liquidity risk table above.

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

The Company's interest rate policy is reviewed and approved by the Company's Assets and Liabilities Management Committee. The Company's average effective interest rates as of December 31, 2003, for monetary financial instruments follow.

	2003		**2002**	
	Rubles	**US Dollars**	**Rubles**	**US Dollars**
Interest earning assets				
Credit institutions	**–%**	**1%**	n/a	1%
Trading securities	**16%**	**7%**	17%	n/a
Loans to customers	n/a	**6%**	18%	14%
Interest bearing liabilities				
Credit institutions	**–%**	**–%**	–%	–%
Customers	**1%**	**6%**	11%	1%
Certificated debts	**–%**	**–%**	–%	–%

21. Fair Value of Financial Instruments

Due to the lack of relevant and reliable information available from the financial markets in Russia, the fair value of the financial instruments of the Bank can only be estimated. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange.

At December 31, 2003, the following methods and assumptions were used by the Company to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and Due from Central Bank

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

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21. Fair Value of Financial Instruments (continued)

Due from Credit Institutions and Amounts Owed to Credit Institutions

For the assets and liabilities maturing within one month, the carrying amount is a reasonable estimate of fair value.

Trading Securities

For the quoted instruments, the carrying amount, based on MICEX or RTS closing bid prices, is a reasonable estimate of fair value.

Loans to Customers

The fair value of the loan portfolio is based on the credit and interest rate characteristics of the individual loans within each sector of the portfolio. The fair values of loans were estimated by discounting scheduled cash flows through the estimated maturity using prevailing market rates as of December 31, 2003, and is implemented as follows:

- The estimation of the allowance for possible loan losses based on factors such as the current situation of the economic sector in which each borrower operates, the economic situation of each borrower and guarantees obtained. Accordingly, the allowance for possible loan losses is considered a reasonable estimate of the discount required to reflect the impact of credit risk.
- For the remaining loans which the Company determined were at rates different than average market, the fair value of these loans has been estimated and presented taken the present value of future cash flows discounted at the average 2003 year-end market interest rates.

Amounts Owed to Customers

- For liabilities maturing within one month, the carrying amount is a reasonable estimate of fair value.
- For liabilities maturing in over one month the fair value represents the present value of estimated future cash flows discounted at the average year end market rates for each type of instrument.

Certificated Debts

- The fair value is estimated on the basis of the present value of the cash flows over the remaining term of such debt. As all the certified debts issued by the Companies are on demand terms, the carrying amount is reasonable estimate of fair value. The discount rates were determined based on market rates available at December 31, 2003 on borrowings with similar credit and maturity characteristics of the Company.

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(in thousands of US Dollars)

21. Fair Value of Financial Instruments (continued)

The estimated fair values of the Bank's financial instruments are as follows:

	2003		2002	
	Carrying value	**Estimated fair value**	**Carrying value**	**Estimated fair value**
Assets:				
Cash and cash equivalents	**$ 105,664**	**$ 105,664**	$ 48,620	$ 48,620
Obligatory reserve	**11,920**	**11,920**	5,800	5,800
Trading securities	**11,728**	**11,728**	8,174	8,174
Available-for-sale securities	**12,944**	**12,944**	–	
Loans to customers	**3,806**	**3,806**	10,501	10,014
Liabilities:				
Due to credit institutions	**–**	**–**	8	8
Amounts due to customers	**104,548**	**104,548**	41,376	41,236
Certificated debts	**17,183**	**17,183**	20,850	20,850
Trade payables and advances received	**9,361**	**9,361**	5,490	5,490

22. Related Parties

Related parties are defined as those individuals or entities that are in a position to significantly influence the management or operating policies such that one or more of the transacting parties might be prevented from fully pursuing its own separate interests. This ability to influence the transacting parties may arise through direct ownership interest, or through relationship to owners or management. Accordingly related parties include:

(a) PRINCIPAL OWNERS. Owners of record or known beneficial owners of more than 10 percent of the voting interests of the enterprise.

(b) MANAGEMENT. Persons who are responsible for achieving the objectives of the enterprise and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management normally includes members of the board of directors, the chief executive officer, chief operating officer, vice presidents in charge of principal business functions, and other persons who perform similar policymaking functions. Persons without formal titles also may be members of management.

(c) IMMEDIATE FAMILY. Family members whom a principal owner or a member of management might control or influence or by whom they might be controlled or influenced because of the family relationship.

(d) AFFILIATE. A party that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with an enterprise.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

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22. Related Parties (continued)

The Company had $ 45,412 of deposits from related parties as of December 31, 2003 (2002: $ 7,137). These deposits were received on normal market conditions.

The Company had $ 2,822 of trade receivables from related parties as of December 31, 2003.

The Company earned $ 1,591 and $ 5,479 of fees and commissions from related parties in 2003 and 2002, respectively.

23. Capital Adequacy

The Central Bank of Russia requires banks to maintain a capital adequacy ratio of 10% of risk weighted assets, computed based on RAL with capital more than five million EUR. As of December 31, 2003 and 2002, the Bank's capital adequacy ratio (excluding subsidiaries) on this basis exceeded the statutory minimum.

The Company's international risk based capital adequacy ratio as of December 31, 2003 and 2002 was 69% and 74% respectively, which exceed the minimum ratio of 8% recommended by the Basle Accord.