

REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors of Bank SEVERNAYA KAZNA –

We have audited the accompanying balance sheet of Bank SEVERNAYA KAZNA as of December 31, 2003, and the related statements of income, changes in shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these 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 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 financial position of the Bank as of December 31, 2003, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

We draw attention to Note 23 to the accompanying financial statements that includes analysis of the liquidity position of the Bank and discussion of the significant negative liquidity gap for a period of up to one year.

June 4, 2004

BALANCE SHEETS*(Thousands of Russian Rubles)*

		<i>December 31,</i>	
	<i>Notes</i>	<i>2003</i>	<i>2002</i>
Assets			
Cash and cash equivalents	4	1,025,686	1,232,978
Obligatory reserve with the Central Bank		539,684	241,734
Trading securities	5	656,334	994,477
Amounts due from credit institutions	6	241,332	–
Derivative financial assets	7	6,279	–
Available-for-sale investment securities	8	29,119	–
Loans to customers	9	5,048,156	2,446,344
Investment loans	10	145,178	55,928
Tax assets	11	26,372	744
Property and equipment	13	611,713	413,076
Intangible assets	14	30,361	26,439
Other assets	15	7,318	4,773
Total assets		8,367,532	5,416,493
Liabilities			
Amounts due to credit institutions	16	737,669	878,715
Amounts due to customers	17	6,154,794	3,597,134
Derivative financial liabilities	7	26,816	–
Debt securities issued	18	696,396	367,055
Tax liabilities	11	24,849	34,276
Other liabilities	15	20,683	28,962
Total liabilities		7,661,207	4,906,142
Shareholders' equity			
Share capital	19	553,133	528,133
Retained earnings (accumulated deficit)		153,192	(17,782)
Total shareholders' equity		706,325	510,351
Total liabilities and shareholders' equity		8,367,532	5,416,493
Financial commitments and contingencies	20		

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

Volchik A.V.

Chairman of the Board

Glebova L.I.

Chief Accountant

June 4, 2004

STATEMENTS OF INCOME

(Thousands of Russian Rubles)

		<i>Years ended December 31,</i>	
	<i>Notes</i>	<i>2003</i>	<i>2002</i>
Interest income			
Loans		710,766	489,307
Securities		120,936	139,591
Interbank		29,882	18,867
		861,584	647,765
Interest expense			
Deposits		352,213	234,496
Interbank		44,933	63,448
Certificated debts		35,155	28,428
		432,301	326,372
Net interest income		429,283	321,393
Impairment of interest-earning assets	12	26,231	35,393
Net interest income after impairment		403,052	286,000
Fee and commission income		110,745	88,110
Fee and commission expense		2,568	2,300
Fees and commissions		108,177	85,810
Net dealing profits	21	258,718	206,189
Gains less losses from foreign currencies:			
- dealing		42,245	6,834
- translation differences		8,075	(1,568)
Other operating income		5,156	13,792
Non interest income		314,194	225,247
Salaries and benefits	22	308,107	241,384
Administrative and operating expenses	22	154,217	132,693
Depreciation and amortisation	13, 14	62,909	44,447
Reversal of other impairment and provisions	12	(196)	(1,338)
Non interest expense		525,037	417,186
Initial recognition of loans to customers and other financial instruments at fair value, net		20,540	18,055
Loss on net monetary position		-	47,372
Income before income tax expense		279,846	114,444
Income tax expense	11	77,247	43,176
Net income		202,599	71,268

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2003 and 2002

(Thousands of Russian Rubles)

	<i>Share Capital (Nominal)</i>	<i>Inflation impact on share capital</i>	<i>General reserve</i>	<i>Retained earnings (Accumulated deficit)</i>	<i>Total shareholders' equity</i>
December 31, 2001	127,000	247,133	32,974	(99,164)	307,943
Shares issued	148,000	6,000	–	–	154,000
Dividends paid	–	–	–	(22,860)	(22,860)
Net income	–	–	–	71,268	71,268
December 31, 2002	275,000	253,133	32,974	(50,756)	510,351
Shares issued	25,000	–	–	–	25,000
Dividends paid	–	–	–	(31,625)	(31,625)
Net income	–	–	–	202,599	202,599
December 31, 2003	300,000	253,133	32,974	120,218	706,325

STATEMENTS OF CASH FLOWS

(Thousands of Russian Rubles)

	<i>Years ended December 31,</i>		
	<i>Notes</i>	<i>2003</i>	<i>2002</i>
Cash flows from operating activities			
Interest, fees and commission received		956,208	685,033
Interest, fees and commission paid		(377,742)	(248,081)
Net dealing profits		241,727	195,941
Realised gains less losses in foreign currencies		42,245	6,834
Other operating income		5,156	13,792
Salaries and benefits		(293,167)	(209,207)
Other administrative and operating expenses		(172,724)	(113,920)
Cash flow from operating activities before changes in operating assets and liabilities		401,703	330,392
<i>Net (increase)/ decrease in operating assets</i>			
Obligatory reserve with the Central Bank		(297,950)	(90,263)
Trading securities		330,015	(421,648)
Amounts due from credit institutions		(241,332)	–
Loans to customers and investment loans		(2,817,308)	(714,018)
Other assets		18,007	25,842
<i>Net increase / (decrease) in operating liabilities</i>			
Amounts due to credit institutions		(139,567)	627,576
Amounts due to customers		2,679,014	1,047,965
Other liabilities		(13,450)	16,267
Net cash flow from operating activities before income taxes		(80,868)	822,113
Corporate income tax paid		(112,302)	(52,984)
Net cash flow from operating activities		(193,170)	769,129
Cash flows from investing activities			
Purchases of available-for-sale investment securities		(27,901)	–
Purchases of property and equipment and intangible assets		(279,333)	(157,902)
Proceeds from sale of property and equipment and intangible assets		30,872	12,832
Net cash flow from investing activities		(276,362)	(145,070)
Cash flows from financing activities			
Share capital issue		25,000	148,000
Proceeds from debt securities issued and redemption		324,720	(53,950)
Dividends paid		(31,625)	(22,860)
Net cash outflow from financing activities		318,095	71,190
Exchange rates changes effect on cash and cash equivalents		(55,855)	16,454
Inflation effect on cash and cash equivalents		–	(91,990)
Net change in cash and cash equivalents		(207,292)	619,713
Cash and cash equivalents, beginning		1,232,978	613,265
Cash and cash equivalents, ending	4	1,025,686	1,232,978