



In 2003, an eleventh successive year of its operation, Credit Bank of Moscow (CBM) focused primarily on corporate and retail banking.

Throughout the year the Bank was strengthening its presence in these business areas. Increased assets and hence higher credit limits, access to international markets, superior customer services, and the significantly expanded branch network – all these contributed to an impressive set of results in our operations with corporate clients and private individuals.

Our customer base grew by a considerable number of new corporate and personal accounts. Combined with stable growth in the key performance figures, this is a clear indication of CBM's strong potential primarily supported by its staff, the strongest team since the Bank's inception, consisting of high quality professionals united by the common goal to maintain and consolidate our top-tier positions in various market segments, provide innovative solutions, and offer excellent banking services to various customer groups.

**Joint Address
of the Chairman
of the Board – President
and the Chairman
of the Supervisory Board**

Dear stockholders, clients and partners,

The Russian economy finished the year 2003 on a positive note. GDP climbed by 7%, gold and currency reserves exceeded USD 75 billion, and households' real incomes showed a tangible increase. 2003 saw a stable trend of accelerated development of the Russian banking system, with an outstripping growth in its assets, as compared to overall economic growth in the country.

As in previous years, the Bank performed well in 2003: assets improved by 77%, equity increased from USD 214.7 million to USD 380.1 million. It is a pleasure to note that the Bank's growth was high not only from the local perspective, but also in European terms: according to *The Banker*, CBM entered the 2003 Top-10 Ranking of the most dynamically developing European banks in 7th place.

In the year under review our retail business included consumer loans and micro- and small credits to SMEs. In retail lending business, we concentrated on car and mortgage loans. According to experts' estimates, CBM is No. 1 by car loan portfolio growth and No. 2 by car loan portfolio size in Russia.



*Roman I. Avdeev,
Chairman of the Supervisory Board*

Within the Bank's retail expansion strategy, its territorial network was broadened by adding another 4 full service branches in Moscow. Besides, we were dynamic about further developing our merchant service system and increased the number of Moscow-based cash advance outlets to 24, as the result of which we had 35 point-of-service outlets for private individuals in Moscow at the end of the year.

It is in the Bank's plans for the near future to transcend its home region, the Moscow Metropolitan Area, by opening four regional branches in the North-Western, Privolzhsky, and Southern Federal Districts.

During the year we were active in lending to small businesses. Since its inception CBM has positioned itself as a bank oriented towards delivering high calibre services to SMEs. In 2003 we focused special attention on micro-credits (from USD 5,000 to

USD 150,000). It should be noted that micro-lending is quite new for the Russian market. Having launched our micro-lending programme in the latter half of 2003, we have already achieved solid credit portfolio growth and good financial results.

We plan to further develop lending schemes for small enterprises, through participation in public activities in particular. Andrey Donskikh, Chairman of the Bank's Board, chairs the Public Committee on Lending to Small Businesses within the Association of Russian Regional Banks. CBM has taken an active part in designing new financing mechanisms to facilitate the progress of this economic sector, while government support still leaves much to be desired. It is enough to say that CBM



*Andrey M. Donskikh,
Chairman of the Board – President*

has provided a larger amount in loans to small businesses than that allocated for this purpose from the 2003 federal budget.

In international business, the area which we can take pride in, Credit Bank of Moscow is now one of the leaders in financing import-export operations and long-term investment projects of its corporate clients representing a variety of diverse industries. The amount of uncovered credit lines opened in the Bank's favour across the spectrum of international interbank relations is more than USD 50 million.

In September 2003, Moody's Investors Service assigned to Credit Bank of Moscow an E+ Financial Strength Rating (FSR), and ratings of B1/NP for long- and short-term foreign currency deposits.

A significant event in our international banking relationships was the provision of a syndicated loan to CBM by foreign creditors. We received this loan in the amount of USD 14 million for a period of 6 month, extendable up to 1 year. In April 2004, the Bank prolonged the syndicated loan with the permission of the foreign creditors, which is an evidence not only of a new level of trust between CBM and its foreign counterparties and partners, but also a clear sign of international financial institutions' growing confidence in Russian banks, and is the first step that has opened a wide opportunity window for cheaper borrowings from abroad.

We are looking into the future with confidence and believe we have enough potential for maintaining and reinforcing our leadership positions in the market segments in which we operate.

Chairman
of the Supervisory Board



Roman I. Avdeev

Chairman of the Board – President



Andrey M. Donskikh

Main Lines of Business in 2003

Global and Local Economic Trends in 2003

With interest rates remaining low in the USA and further declining in the most developed European countries, their economic growth reported in 2003 was mainly due to the "soft" credit and monetary policy and larger government expenditures. At the same time, the increased government spending led to growing budget deficits. Foreign trade turnover between the USA and the Asia-Pacific Region went up, while that of the European Economic and Currency Union decreased. US external trade deficit continued to widen, leading to a weakening of the exchange rate of the US dollar to other major foreign currencies.

According to the RF Ministry of Economic Development, both Russia's GDP and industrial production rose by 7%.

In 2003, price increases in the majority of industrialized countries accelerated in comparison with 2002, but the inflation rate remained relatively low. In Russia, consumer prices grew 12% (2002: 15.1%). Of note is the fact that inflation was slowing in spite of the growing purchasing power of mass consumers.

2003 Business and Operations Review

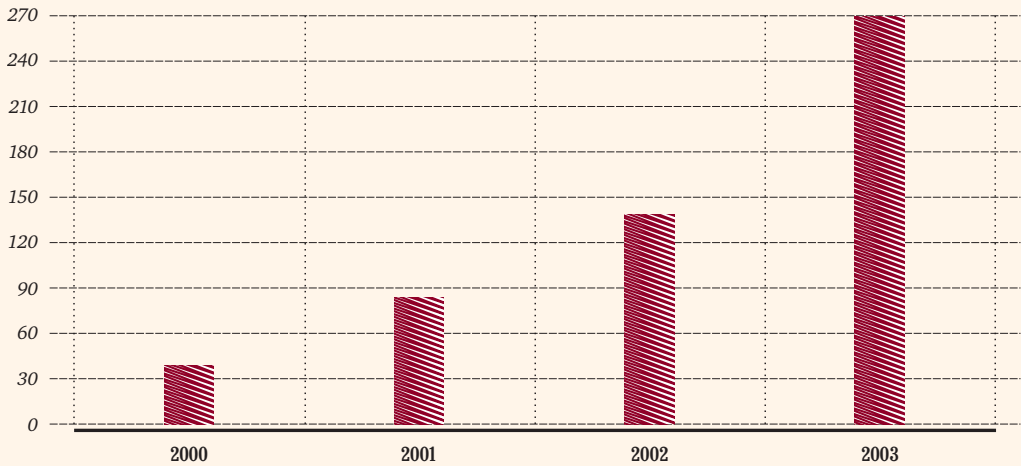
In 2003 CBM was in line with major trends in the Russian banking market or outperformed the industry average in a number of business areas.

The RF banking system and CBM: Comparative growth figures

Description	Russian banking system	Credit Bank of Moscow
Total balance sheet	35.1%	64.7%
Equity	40.3%	23.2%
Customer accounts	36.7%	50.4%
Private deposits	47.1%	108.3%
Debt instruments issued	40.8%	67.6%
Loans to customers and banks	44.2%	76.7%
Income before income taxes	38.8%	75.7%

Lending to customers and banks, net of allowance totaled USD 257.4 mn at end-2003, or 90.5% up on 2002. In the reported year the quality of the Bank's credit portfolio remained invariably high due to the efficient quality assurance system in place to minimize possible credit risks. Throughout the year the share of overdue debt did not exceed 0.35% of all the loans granted, standing at 0.23% at 31 December 2003.

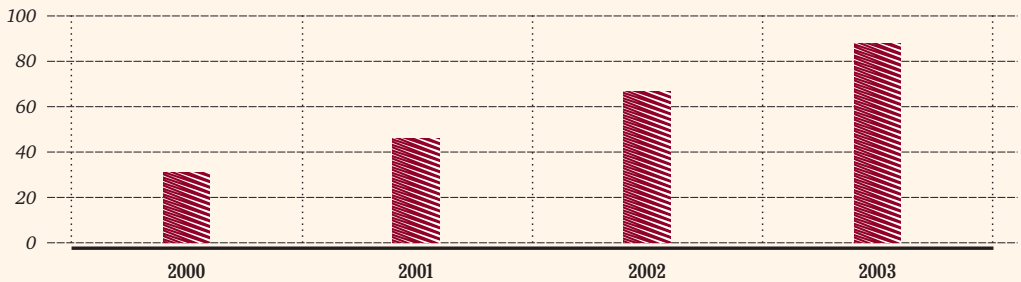
Loans to customers (USD mn)



In 2003 Credit Bank of Moscow entered the TOP-20 retail banks in Russia. Consumer loans (mostly car loans and mortgage loans) continued to grow fast, showing a 9.7-fold rise to RR 1.5 billion at the year-end. CBM is in 15th place in the ranking of Russian banks in terms of consumer loans.

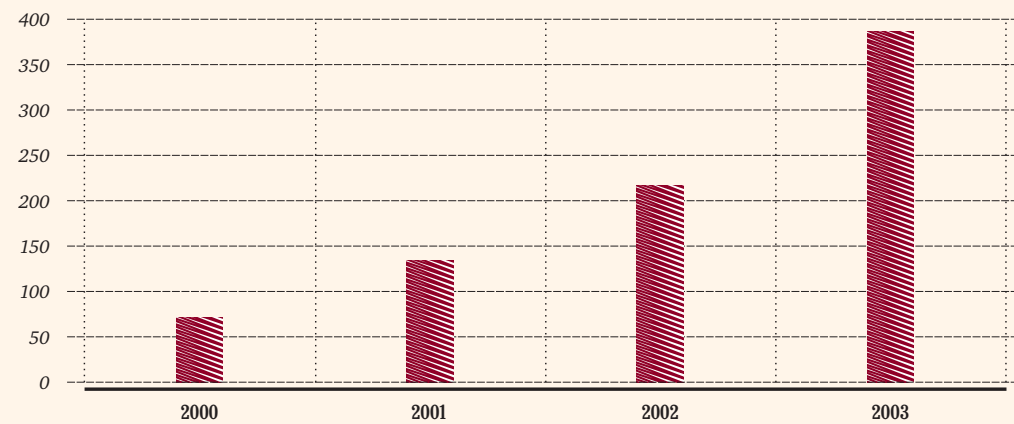
Given the strong asset growth, the level of capitalization plays an increasingly important role. The Bank's capitalization remained relatively high in the year of this annual report. At 31 December 2003 and 2002, the capital adequacy ratio calculated in accordance with the Bank of Russia's basic regulatory requirements and under Basel was well above the required minimum, standing at 25% and 28%, respectively. Stockholders' equity made up a total of USD 84.5 mn, or a 1.3-fold increase over the preceding year.

Stockholders' equity (USD mn)



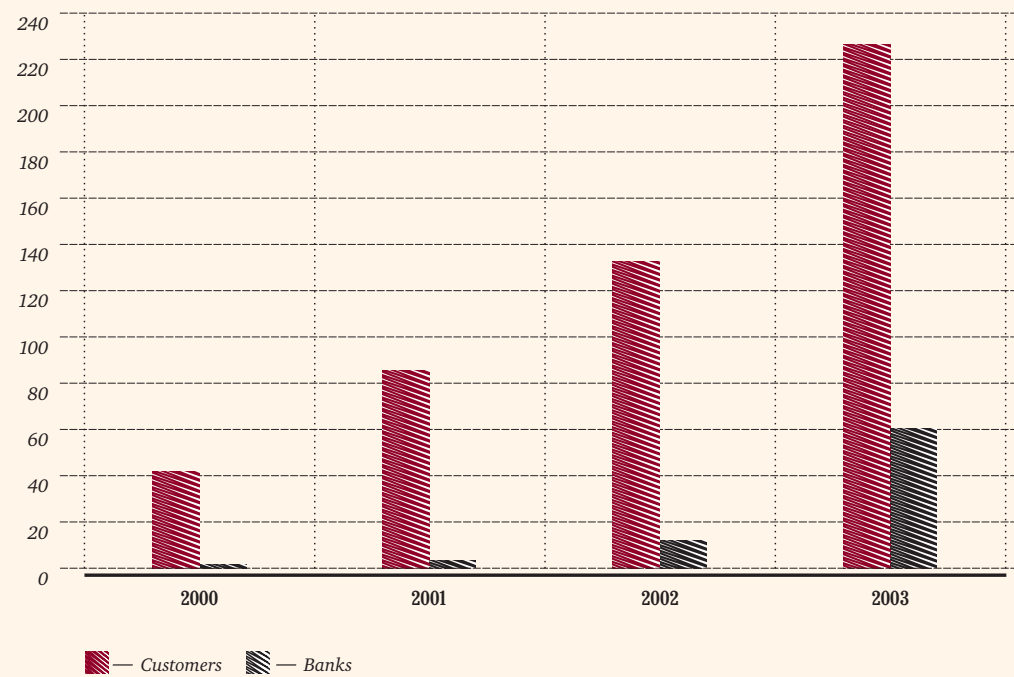
Stable growth was also registered in transaction volumes. At 31 December 2003, total assets came to more than USD 380 mn, which is a year-on-year increase of USD 165.4 mn in absolute terms, or a 59.5% YoY increase.

Assets (USD mn)



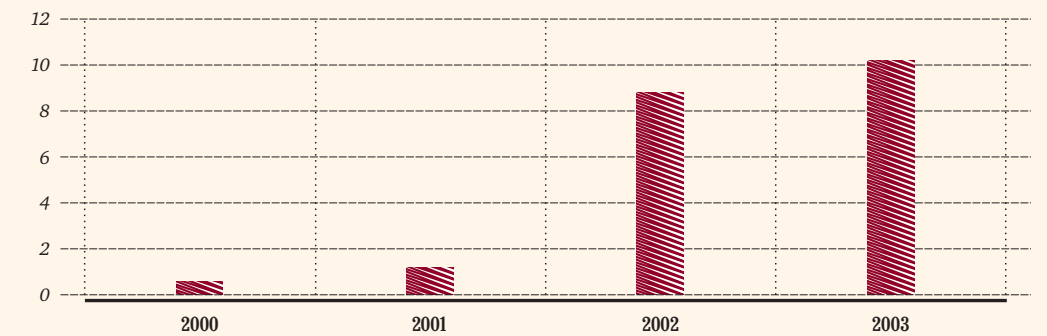
As in previous years, CBM, based on the selected customer policy, was at the forefront of creating advanced banking products and setting up delivery channels to meet the constantly changing customer demands. As a result, we registered a substantially increased amount of funds entrusted to the Bank. Borrowed funds, including corporate, personal and banks' deposits, surged by 2 times to reach USD 286.8 mn at the end of the reported year.

Borrowed Funds (USD mn)



Comprehensive income registered a 15.9 % increase over the prior year, making up USD 10.2 mn in total.

Income (USD mn)



In 2003 Moody's Investors Service assigned to Credit Bank of Moscow ratings of B1/NP for long- and short-term foreign currency deposits and an E+ Financial Strength Rating (FSR). Moody's related press release noted the Bank's strengths, in particular the development of its activities around a well thought-out banking strategy, good asset quality and strong capitalization. The press release stressed the high growth registered in our major lines of business and compliance with risk minimization requirements. It is worth mentioning that CBM employs a comprehensive risk management and assessment system for the mitigation of risks and maximization of revenues.

Mission and Strategy up to 2006

Our Mission

CBM's mission is to build one of the most efficient and reliable universal-style banks in Russia, a leader in providing financial products and services to SMEs and private individuals.

Strategic Tasks and Objectives

Our principal strategic tasks and objectives for 2002–2005 are to:

- Become one of the largest Russian banks in terms of assets, equity, customer funds and lending volume
- Enhance the efficiency of the Bank's operation
- Increase the value of the Bank to its stockholders

Financial Targets

We seek to ensure constant growth in our business volume figures at better rates than those delivered by our competitors. We plan to increase the amount of our total assets and equity up to USD 500 million and USD 100 million, respectively, through retaining the Bank's earnings, additional contributions provided by its existing stockholders, as well as by attracting new stock owners including international financial organizations. We will continue to pursue our asset and liability management policy that is focused on maintaining a highly liquid balance sheet, expanding the Bank's loan portfolio, restricting the share of capital market transactions in the Bank's total business volumes, lengthening the time of borrowings and reducing their costs.

We are putting effort to enter international financial markets, which is impossible without high international ratings and information transparency to our counterparties and partners, including those from abroad.

We also attach particular significance to further improvement of our financial and management accounting systems on the basis of internationally accepted standards.

Marketing and Customer Relationship Management

In this area, we seek to increase our share in selected market segments. We have developed a *business sector policy* that lists target economic sectors. In particular, we prioritize our business with SMEs and retail banking activities. We seek to strengthen our market share in:

- Small loans (from RR 150 thousand to RR 15 million) for up to 6 months for the purchase of equipment, plants and other fixed assets
- Loans, which are backed by collection of cash and merchants' receipts, granted at a fixed interest rate in rubles for a period of up to 3 months, this product currently being unique in the Russian market
- Overdraft facilities at favourable interest rates
- Financing of import-export operations with European and Southeast Asian countries, the USA and Japan
- Long-term credits to industrial and trading companies for a period from 2 to 8.5 years for purchases and modernization of equipment
- Loans to major retail trading chains, collection of cash and merchants' receipts in the Moscow region

For individual customers, we will focus on car loans for up to 3 years, consumer loans of up to 1 year, and mortgage lending.

CBM has made significant steps to cover new market segments, considerably diversifying its activity through carrying out industry-focused projects. We consider the

Customer Relationship Management (CRM) system as the main tool for increasing sales to our existing and potential clients.

Within this context, a prerequisite for successful operation is an effective quality assurance system.

Under the selected strategy, we are developing new delivery channels, including the delivery of banking products through full service branches, offices offering a limited number of products (cash advance outlets for corporates and individuals, exchange offices, ATMs), and remote banking through the use of Bank-Client and Internet Banking systems.

CBM's *territorial policy* clearly defines its target regions. In this area, we plan to expand our presence in the Moscow Metropolitan Area and to open new branches in the most dynamically growing regions of the Russian Federation. Under our territorial policy, we intend to increase the volumes of business transacted within the Moscow Metropolitan Area and – after accumulating required resources and gaining the targeted market share in this region – to expand our geographical coverage by establishing new branches across Russia.

Our *tariff policy* reflects the specifics of our operations with the main customer groups. To provide efficient complex transactions pricing, we will take into account the efficiency has of the bank-client relationships and the overall amount of business that the customer has brought to the Bank.

IT Strategy

In the IT area, our main tasks are to select the optimal solutions for automation of all of the Bank's activities and to re-engineer its business processes. We plan to reduce the costs and time of processing business transactions by enhancing our IT capabilities. This would improve the Bank's competitive position, the attractiveness of its products and services and the quality of customer service.

Human Resources Strategy

In human resources management, our top priority is to staff the Bank with highly qualified specialists capable of fulfilling the tasks and achieving the objectives set. We put much effort into setting up specialized project implementation units responsible for developing new lines of business and key performance indicators for all management levels as well as for designing staff selection, training and appraisal systems to provide maximum efficiency in reaching the targeted results. Our work in this area also includes efforts to build a performance-based remuneration system. Much significance is attached to establishing common corporate values across all structural units of the Bank. Further development of its corporate culture, creation of a team of like-minded persons oriented towards reaching the set tasks, and maintenance of team spirit is crucial to achieving our strategic objectives.

Stockholders of Credit Bank of Moscow

The Bank's stockholders are the companies merged into the Rossium Concern, an investment and industrial group well-known in the Russian business community.

Rossium was established in 2000 when several related companies and company groups decided to set up an integrated structure in order to increase their investment potential. The "core" of the newly-established company was made up of the companies with many years of experience and leadership positions in their business segments.

The Rossium groups have been improving their business capabilities, focusing on the enhancement of the most profitable lines of business, while at the same time expanding into new business areas, which led to changes in Rossium's organizational structure.

THE ROSSIUM CONCERN		
THE BANKING GROUP	THE AGRO-INDUSTRIAL GROUP	THE INVESTMENT AND INDUSTRIAL GROUP
CREDIT BANK OF MOSCOW	AIG Chernozemye	The Investment Division
		The Production and Construction Division
		The Trade Industrial Division

Today, Rossium comprises Credit Bank of Moscow, the Agro-Industrial Group, and the Investment and Industrial Group.

The Investment and Industrial Group consists of the Investment Division, the Production and Construction Division, and the Trade Industrial Division.

The Agro-Industrial Group (AIG Chernozemye) was organized in 1997. It comprises several agricultural firms, two sugar refineries, suppliers and sellers. The total daily processing capacity of the sugar refineries is more than 8,000 tonnes of sugar beet and 1,400 tonnes of raw sugar.

Under the adopted development strategy, AIG Chernozemye significantly increased the sown area to 5,500 ha at end-2003 and was expanding processing volumes during the year, e.g. Eletsy Sugar Refinery produced over 59,000 tonnes of beet sugar in 2003, which is the record result in Russia. In 2003 the share of AIG Chernozemye in Russian sugar production exceeded 5%.

Since its inception, the successful development of AIG Chernozemye has been based on constantly improving the quality of its material and technical resources. In 2003 alone, USD 5 million was spent on the purchases of modern equipment from international suppliers.

The Investment and Industrial Group emphasizes efforts aimed at mobilizing financial and production resources in order to strengthen Rossium's presence in the most rapidly growing market segments. To meet this objective in the most effective and efficient manner, the Investment and Industrial Group comprises the Investment Division, the Production and Construction Division, and the Trade Industrial Division.

The Investment Division remains the centre of control and distribution of financial resources. Its aim is to effectively support the development of Rossium's non-financial groups under adopted strategies and in line with economic trends in the selected sectors.

The Production and Construction Division was created after the expansion of Rossium's operation into the area of production of building materials, concrete and reinforced concrete products. Today, the Division comprises several large reinforced

concrete production companies, collectively carrying out the entire production and selling cycle. Further development will be based on a long-term technology improvement programme. A number of promising projects that envision the use of advanced technologies for reinforced concrete production are now in the implementation phase.

The Trade Industrial Division has been operating successfully, selling construction materials and providing repair and construction services. It consists of several enterprises specializing in various business areas, primarily in construction projects, repair and construction works, transportation and trading (including two large trading sites where over 700 firms and private entrepreneurs sell construction materials).

The scope of operation is planned to be increased not only through expansion, but also by intended implementation of projects for improving the existing infrastructure and widening the range of services provided within the Division's core activity.

Overall, Rossium demonstrated significant progress in developing its non-financial areas of business in 2003. This success became possible due to the availability of an adequate performance assessment system and the concentration of human and investment resources to effectively support the development of the most prospective lines of business. The strong performance results and redistributions of the equity of Rossium's companies and company groups allowed it to increase its capital and the market value of its shares, thus increasing the already impressive financial strength that supports the sufficient level of capitalization of Credit Bank of Moscow.

The Bank's Management Bodies

We employ an effective management system to support stable performance growth and to bring a competitive edge to the products and services we deliver. The efficiency of our management system and structure is assessed on a regular basis so as to identify and optimize those components that need to be adjusted as the Bank develops.

At present, the Bank's management bodies are as follows:

- General Meeting of Stockholders
- Supervisory Board
- Chairman of the Board – President
- Managing Board

The General Meeting of Stockholders has the highest authority. Within its exclusive competence are decisions relating to the determination of development targets and strategy, composition and membership of the Supervisory Board and the Audit Committee, etc.

The Supervisory Board is responsible for overall management, determination of prioritized lines of activity and making decisions on the formation of executive bodies.

Chairman of the Board – President of the Bank, and *the Managing Board*, as CBM's executive organs, organize and perform the management function and guidance over all units conducting day-to-day operations and ensure that the decisions adopted by the General Meeting of Stockholders and the Supervisory Board as well as recommendations of the Audit Committee are implemented.

In order to provide the most effective solutions to the problems that may arise in the course of business, the Managing Board sets up committees (collective decision-making organs), that are in charge of various business areas, and delegates part of its authorities to them.

Presently, there are five such committees in the Bank:

The Committee for Banking Products which is responsible for reviewing the issues and making the decisions related to the Bank's tariff policy and the development and promotion of innovative products and services.

The Credit Committee which concentrates on the loan origination/prolongation process and coordinates our lending activities in order to enhance profitability through the minimization of risks associated with lending and financing operations and to fully meet customer needs and requirements.

The Asset and Liability Committee which is responsible for development of policies for optimizing the balance sheet structure by matching the terms of borrowings and lending transactions and to oversee all liquidity management activities through ensuring strategic and day-to-day management of equity, liquidity, currency and interest rate risks.

The Technology Committee which is established for the purpose of shaping the Bank's IT development policy and ensuring the smooth functioning of the data processing systems run by the Bank.

The Human Resources Management Committee which considers relevant documents and prepares proposals aimed to optimize the CBM personnel management strategy and organizational structure as well as to improve performance-based remuneration schemes and the staff motivation system.

Risk Management

We employ a comprehensive system for monitoring, managing and controlling all risks arising from our activities. This system is one of the pillars of our successful operation, helping us to protect the Bank from possible losses on our day-to-day business and to minimize losses from the occurrence of a systemic crisis and/or force-majeure circumstances. This system enables CBM to monitor current situation in Russia's economy and track the developments in the Bank's business in order to forecast the probability of occurrence of a risk event and to estimate its impact on the Bank's results. The following risks are analyzed on a continuous basis:

- Solvency risk
- Liquidity risk
- Credit risks (risks of possible losses on commercial and consumer loans)
- Risks arising from interbank business
- Currency risk

- Interest rate risk
- Operational risk

To control *solvency risk*, we have developed a methodology for determining the Bank's solvency position on a daily basis. According to this methodology, the Bank's assets are measured on their market values by applying discounts to the book value of assets, thus enabling the Bank to calculate its "net conventional capital" under the extremely strict conditions. The Bank's objective is to maintain its solvency at a very high level. The requirement to maintain solvency within the pre-defined levels protects the Bank from making additional investments in the risk assets and allows it to reduce the risk of losses on impairment of the already existing assets by timely selling them on the market.

Management of *liquidity risk* includes monitoring of the asset and liability structure and making forecasts of its future movements. Risk analysis is conducted in several phases:

- The relevant units produce the charts of inflow/outflow of funds by asset/liability group, based on the projected data
- Quick and current liquidity ratios are calculated based on the Value-at-Risk (VAR) method and modelling stress scenarios
- Highly liquid and liquid assets required to meet customer requirements even in stress situations are calculated on the basis of the liability projections
- The final phase includes identification of surpluses/shortages of highly liquid and liquid assets for the entire projection period and determination of possible placements in case of surplus funds or funding sources in the event of shortages. The final decision rests with the Asset and Liability Committee which ensures comprehensive liquidity risk control.

This methodology enables the Bank to eliminate "liquidity gaps", provide seamless execution of customers' payments, minimize the costs of borrowing of additional funds and enhance profitability thanks to the right decisions on funds placement.

Credit risk is one of the principal risks the Bank takes. The identification and adequate measurement of credit risk is one of the key factors contributing to increased efficiency of the Bank's operation. We have developed methodologies for measuring credit risks inherent in each of our loan products. In particular, in providing working capital loans, the following risks are analyzed at the transaction level:

- Business risk
- Financial risk
- Debt servicing risk
- Legal and criminal risks

In extending loans backed by collection of cash and merchants' receipts, small-balance loans, and overdrafts as well as in delivering factoring services, the Bank performs the statistical analysis of information on a particular customer and its counterparties and also reviews the legal and criminal risks associated with the transaction.

In 2003 we were active in implementing consumer lending programmes, using the credit scoring systems specially designed for selecting consumer loan applications. To provide additional loan security, goods to be purchased on credit are accepted as collateral.

The system for controlling and limiting *risks arising from our interbank business* (loans, deposits, forex transactions, etc.) has two levels. At the first level the Finance & Economics Department performs the comprehensive analysis of counterparty banks in order to establish and/or confirm limits. This analysis is based on the financial data supplied by each counterparty as well as on the information extracted from the Internet, newspapers, magazines, other mass media sources and specialized databases. Counterparty limits are established in compliance with the Bank's Limit policy. This policy provides for the diversification of risks among counterparty banks and the establishment of a series of limits for different types of interbank transactions within the total limit on operations conducted with any single counterparty. To restrict our aggregate exposure in the interbank business area, we establish the total limit on all transactions with all counterparty banks in the amount not exceeding the sum of the limits approved for separate banks. The final decision on limits for interbank transactions rests with CBM's Limit Committee.

Currency risk is associated with the possibility of a reduction in the value of a particular asset denominated in a foreign currency in relation to liabilities in another foreign currency. To minimize this risk, the Bank conducts constant monitoring of the macroeconomic situation in Russia and developments in the international financial markets and makes forecasts of movements in the open currency position by each of the foreign currencies in use and for the entire foreign currency portfolio. The above data serves as a basis for taking decisions on the size of the open currency position, taking into account Central Bank regulatory requirements. Foreign currency exposures are hedged by conducting forex deals in the open market.

Interest rate risk arises from movements in the market prices on different financial instruments. Interest rate risk can show in various ways, including changes in the amounts of interest earned/paid by the bank and increase/decrease in the market values of its assets and liabilities. To minimize the impact of interest rate risk on the Bank's financial results, we analyze the statistical characteristics of changes in the prices on asset and liability-related instruments and prepare forecasts for observable periods. Based on the results of the analyses and reviews conducted, our executive bodies make the decision on the optimal allocation of the Bank's assets and the composition of its liabilities, thus enabling the Bank to minimize losses that may result from our interest risk-related exposures.

Operational risk is associated with the Bank's operation as a company and the management of its business. Operational risk management is provided by using an internal control structure that complies with Central Bank requirements and recommendations published by the Basel Committee on Banking Supervision. The bank officer responsible for anti-money laundering internal control reports directly to Chairman of the Board – President .

Our internal control structure has been built on the principle of distribution and segregation of authorities and prevention of conflicts of interest between the Bank and its customers. The internal control procedures we apply are carried out throughout the entire transaction cycle from the initial check before the transaction starts; through the subsequent check during the performance of the transaction; to the final check after the completion of the transaction and its recording in the accounting book.

The efficiency of internal controls is monitored by the Bank's Internal Audit Department on a regular basis in order to meet the set objectives and the scope of operations conducted by the Bank. Internal Audit prepares relevant proposals and ensures that the solutions for the improvement of the existing internal control structure are implemented.

Corporate Lending

Corporate lending is the Bank's main business. It accounts for 70% of the Bank's assets and 80% of its income.

The distinctive feature of the Bank's corporate lending business is its "open" credit policy that encompasses well-defined standards for assessing a borrower's standing on the basis of the professional risk management models and loan terms and conditions specially designed for representatives of differing economic sectors.

The principal requirements we apply to our borrowers are:

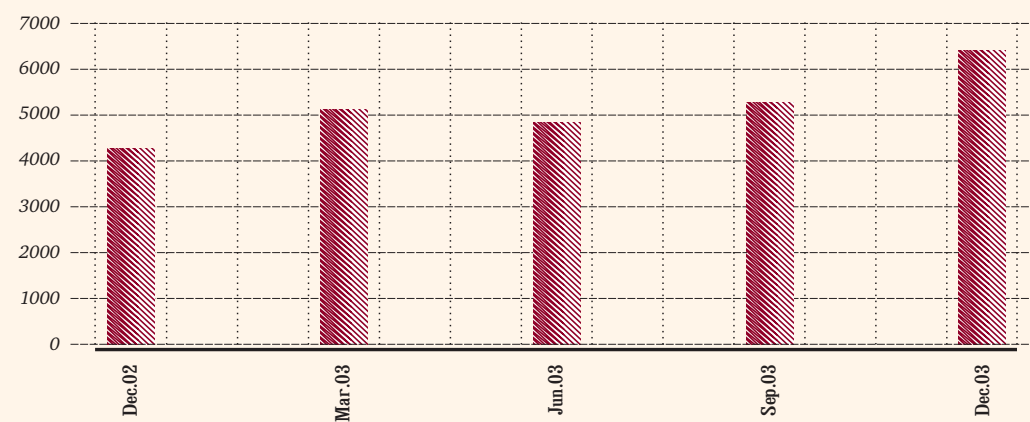
- Information transparency, i.e. the ability to provide data sufficient to assess the borrower's financial position
- Personal responsibility of business owners for loans extended by the Bank
- Ability to provide collateral support for the loans granted

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Corporate loan portfolio (RR mn)



Lending to Small Businesses

Lending to small businesses is the Bank's main business. It accounts for 30% of the Bank's assets and 20% of its income.

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Maintaining mutually rewarding relationships with small enterprises (SEs) is one of our top priorities.

Today, the main barriers to growth of Russian SEs are:

- Bureaucratic hold-ups and delays in the course of their state registration
- Increased "attention" of the regulatory authorities to SEs
- High taxes
- Insufficient government support for start-ups and lack of development incentives
- Inefficient legislation and the introduction of frequent changes to the regulatory documents
- Low business culture and unwholesome competition

In the year under review, Credit Bank of Moscow launched a programme tailored to the needs of small-sized businesses. It provides for delivering a full range of banking products and services to representatives of this economic sector, primarily loan facilities.

In 2003, CBM began to work actively in a number of not-for-profit associations of domestic banks in order to lobby the interests of SEs in the legislative bodies. The Bank was one of the initiators of the establishment of the Public Committee on Lending to Small Businesses within the Association of Russian Regional Banks. The Committee's principal function is to render assistance in creating a financing mechanism for developing the small business sector in Russia. The Committee participated actively in the preparation of a World Bank-supported project for the provision of a loan of USD 300 million to be used for financing regional SMEs by local banking institutions.

Our loan offering to small enterprises includes:

- **Micro-credits** from RR 150,000 to RR 1,500,000 for up to 1 year, with annuity repayments (for the purchase of goods, raw materials, small investments, purchase and repair of equipment, transport vehicles, and premises)
- **Small credits** from USD 50,000 to USD 300,000, or equivalent amounts in Russian rubles, for up to 2 years (for replenishing working assets and investment purposes)

It is in our plans for 2004 to further increase the volume of loans to SEs. We plan to achieve this by attracting new customers, developing and improving credit scoring models and broadening the span of credit products, which would allow us to strengthen our presence in this market segment.

Retail Banking

2003 was another year of development of our retail business. Credit Bank of Moscow has been an active player on the market for retail banking services since 2002 and is now one of the most dynamically developing retail banks.

According to the 2003 survey conducted by *Profil* magazine, CBM ranks among the leading banks by deposits from private individuals. Besides, the Bank managed to position itself among the major domestic financial institutions by loans to private individuals.

In 2003 CBM was also one of the leaders in terms of credit portfolio growth. Today, CBM offers individuals a variety of loan products: car, mortgage, consumer and credit card loans. Our car loan programme was announced as the best in the rating survey conducted by *Avtomobilniye Izvestia* newspaper.

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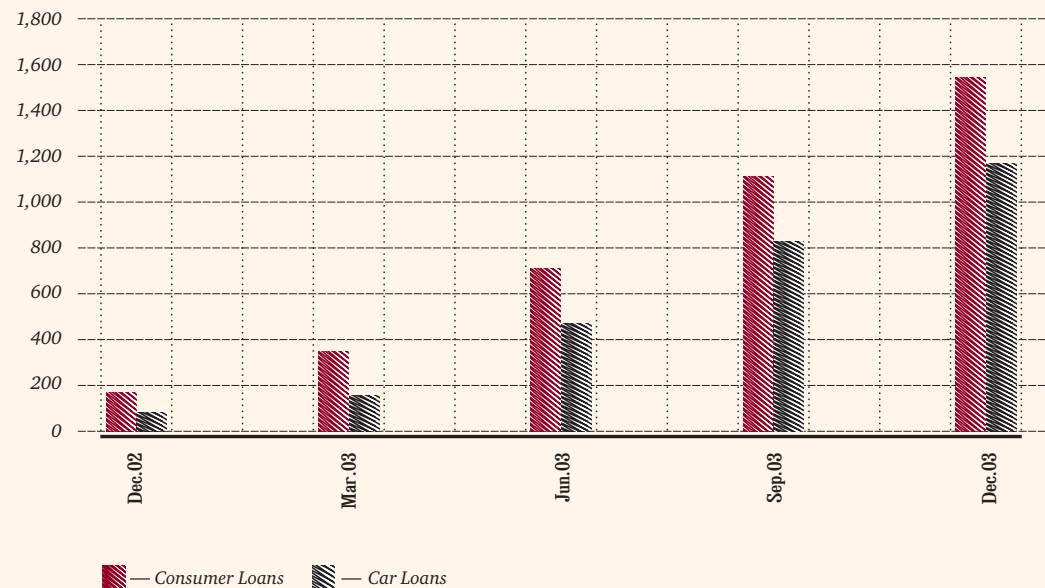
In 2003 CBM was also one of the leaders in terms of credit portfolio growth. Today, CBM offers individuals a variety of loan products: car, mortgage, consumer and credit card loans. Our car loan programme was announced as the best in the rating survey conducted by *Avtomobilniye Izvestia* newspaper.

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Consumer loans (RR mn)



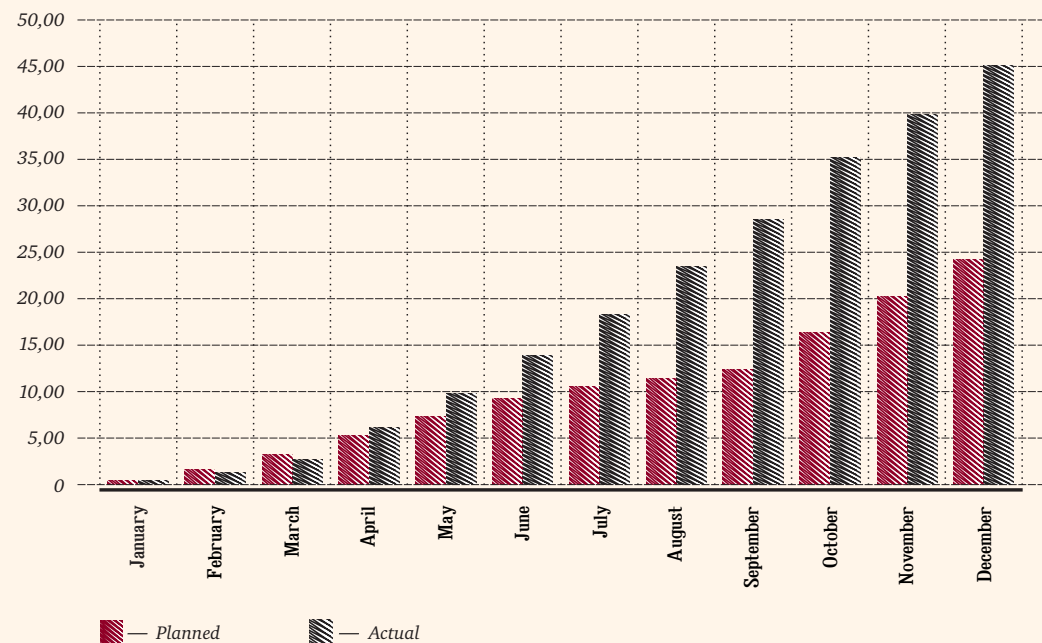
We have successfully built a number of new technologies into the Bank's multi-branch environment, I-banking in particular. This makes CBM more attractive for private individuals interested in receiving remote banking services including the receipt of card account statements. For owners of mobile telephones, there is one more service on offer – the delivery of information on their deposit and card account balances.

In 2003 we also set up a Call Centre that enables intelligent data flow management. The Call Centre processes incoming and outgoing phone calls as well as requests received electronically, thus providing maximum convenience to those who prefer to receive required information without leaving their homes or offices.

Car Loans

Credit Bank of Moscow is one of the major operators on the Russian car loan market. We offer private individuals car loans for up to 3 years of the total loan amount at 12.5–16% p.a. In 2003 our car loan portfolio jumped by 7.68 times from USD 5.3 million to USD 40.7 million.

Car loans, extended for the period on a cumulative basis (USD mn)



We plan to sustain this growth in 2004.

Mortgage Lending

At present, we grant mortgage loans to finance purchase of apartments in Moscow Metropolitan Area in both the primary and secondary real estate market. Mortgage loans are extended for a period from 5 to 15 years at 12–16% p.a.

In the year of this annual report, the Bank gave a go-ahead to the mortgage lending programme that incorporates a number of Moscow developers, such as Krost, Edem-Invest, Slaviane, and Stroimontazh, which are implementing construction projects for mass development areas. We intend to further expand our collaboration with large developers operating in the Moscow region.

In 2003 the amount of mortgage loans totalled USD 1.79 mn. Our plan for 2004 envisages at least a triple increase over this figure.

International Business

2003 Highlights

- Credit Bank of Moscow entered international capital markets
- The trade financing portfolio increased significantly
- High ratings were assigned to CBM by international rating agencies

International Syndicated Loan

Internationally, one of the most important events for Credit Bank of Moscow in 2003 was the receipt of a syndicated loan granted by foreign creditors. It had taken several months to prepare this lending project which implementation would have been impossible without the strong confidence of the Syndicate Participants in CBM.

In October 2003, the Term Loan Facility Agreement between Credit Bank of Moscow and the syndicate of foreign banks was signed. It provides for a syndicated loan of USD 14 million. Bankgesellschaft Berlin AG acted as Mandated Arranger and Agent, and Union Bank of California and Kazkommerzbank as Lead Managers. Other lenders were: Caixa Geral de Depositos S.A., ZAO Commerzbank (Eurasija), Ost-West Handelsbank AG, Raiffeisen Zentralbank Osterreich AG, The Export-Import Bank of the Republic of China and Wachovia Bank, N.A. Denton Wilde Sapte acted as Legal Counsel under the project.

The receipt of this syndicated loan, our first ever deal of such an amount and scope, marked the beginning of CBM's international credit history, thereby creating opportunities of larger and longer-term borrowings in the international loan market.

International Credit Ratings

The above-mentioned syndicated loan was granted largely due to the assignment by Moody's Investors Service of international credit ratings to the Bank: B1/NP for foreign currency deposits and an E+ Financial Strength Rating (FSR). Having high international credit ratings allows significant expansion of CBM's international business in the future.

Trade Finance

In 2003, we charged a maximum interest rate of 9–10% p.a. for such products as L/Cs with post-financing and 7–8% p.a. for guarantee instruments, thus enabling client companies from the Moscow region to set competitive prices thanks to the cheapness – in Russian terms – of borrowings available to our clients.

International Business: Development Prospects

In international business, Credit Bank of Moscow will seek to capitalize on existing opportunities in several major areas.

First, we will continue our work aimed at attracting funding from foreign financial intermediaries, in an attempt both to increase the volume of borrowings and to use new financial instruments and financing schemes. Within this context, we will focus special attention on developing our business relationships with IFIs.

Second, we will endeavour to further increase the number and volume of documentary credits opened by international banks.

Besides, we will put efforts into steadily expanding the geography of long-term international financing, including payments under the credit lines backed by export credit agencies' guarantees.

**Human Resources
Management**

The successful performance of CBM in 2003 would have been impossible without the team of highly qualified, like-minded and goal-driven professionals.

During the year, Human Resources emphasized the efforts aimed at forming the Bank's optimal organizational structure under the adopted development strategy, increasing material incentives, which would lead to stronger staff motivation bank-wide, creating a favourable social and psychological climate, staff training and raising professional levels so as to provide a solid basis for meeting our strategic and current objectives.

Within this area of activity, a staff appraisal system based on a set of appraisal criteria was established. Not only does this system enable promotion of talented employees from the rank and file into top management – it also makes it possible to create the conditions required for the "horizontal" development of each employee.

**Information
Technologies**

We have traditionally attached particular significance to developing advanced IT solutions to support banking transactions. In 2003, the Technological Committee initiated a project for the implementation of duplicate hardware systems for all critical hardware platform components. Within this project, which was successfully completed in the same year, a remote standby server system was set up to deliver high resilience in the event of failure at the central office.

To increase the level of reliability of our automated banking system and to speed up transactions processing, we also completed the migration to using the Oracle 9.2 DBMS that enables better database management and speeds up the applications used by the Bank.

Financial Statements

Independent Auditors' Report

To the Council of JSC «Credit Bank of Moscow»

We have audited the accompanying balance sheets of JSC "Credit Bank of Moscow" ("the Bank") as of December 31, 2003 and 2002, and the related statements of income and other comprehensive income, stockholders' equity and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



KPMG Limited
Moscow, Russian Federation
March 16, 2004

Balance Sheets

December 31, 2003 and 2002

(thousands of US Dollars)

	Notes	December 31, 2003	December 31, 2002
Assets			
Cash and due from Central Bank	4	52,061	41,549
Due from credit institutions, net	5	42,903	18,124
Trading securities	6	22,354	16,475
Loans to customers, net	7	257,356	135,104
Property and equipment	8	2,907	2,045
Other assets	9	2,474	1,383
Total assets		380,055	214,680
Liabilities			
Deposits by credit institutions	10	60,279	12,089
Deposits by customers	11	133,168	81,160
Promissory notes and certificates of deposit	12	93,330	51,218
Deferred tax liability	20	5,655	5,013
Provisions, accruals and other liabilities		3,150	994
Total liabilities		295,582	150,474
Stockholders' equity			
Common stock	13	23,340	21,898
Additional paid-in capital		47,212	38,558
Retained earnings	14	8,287	3,750
Other comprehensive income – cumulative translation adjustment		5,634	–
Total stockholders' equity		84,473	64,206
Total liabilities and stockholders' equity		380,055	214,680
Commitments and contingencies	21		

Signed on behalf of the Board

Chairman of the Board – President

Andrey M. Donskikh

Chief Accountant

Olga I. Melnikova

The accompanying notes are an integral part of these financial statements.

Statements of Income and Other Comprehensive Income

For the years ended December 31, 2003 and 2002

(thousands of US Dollars, except per share data)

	Notes	2003	2002
Interest income	15	29,411	22,268
Interest expense	15	(7,371)	(2,756)
Net interest income		22,040	19,512
Provisions for credit impairment	16	(8,891)	(157)
Net interest income after provision for credit impairment		13,149	19,355
Fees and commissions received	17	8,438	6,396
Securities trading profits, net	18	417	237
Other operating income		508	219
Foreign exchange gains, net		927	–
Non interest income		10,290	6,852
Salaries and employment benefits	19	8,972	6,466
Administrative expenses	19	7,451	4,362
Foreign exchange losses, net		–	1,642
Depreciation and amortization		853	545
Other operating expenses		581	375
Non interest expense		17,857	13,390
Income before income taxes		5,582	12,817
Income taxes	20	(1,045)	(4,003)
Net income		4,537	8,814
Foreign currency translation adjustments		5,634	–
Other comprehensive income		5,634	–
Comprehensive income		10,171	8,814

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Stockholders' Equity and Other Comprehensive Income

For the years ended December 31, 2003 and 2002

(thousands of US Dollars)

	Common stock	Additional paid-in capital	Unpaid common stock and additional paid-in capital	(Accumulated losses)/ Retained earnings	Other comprehensive income — cumulative translation adjustment	Total stockholders' equity
December 31, 2001	21,898	38,558	(11,021)	(5,064)	—	44,371
Stock paid	—	—	11,021	—	—	11,021
Net income	—	—	—	8,814	—	8,814
December 31, 2002	21,898	38,558	—	3,750	—	64,206
Shares issued	1,442	8,654	—	—	—	10,096
Net income	—	—	—	4,537	—	4,537
Translation adjustment	—	—	—	—	5,634	5,634
December 31, 2003	23,340	47,212	—	8,287	5,634	84,473

Translation adjustment has been shown net of deferred tax of USD 150 thousand at 31 December, 2003.

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flow

For the years ended December 31, 2003 and 2002

(thousands of US Dollars)

	Notes	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		4,537	8,814
Adjustments to reconcile net income to net cash provided by operating activities:			
Provisions for loan impairment		8,891	157
Depreciation and amortization		853	545
Deferred taxes		492	3,626
Accrued interest income		(270)	(184)
Accrued interest expense		866	230
Other non cash items		—	328
Operating cash flow before changes in operating assets and liabilities		15,369	13,516
(Increase)/decrease in operating assets			
Reserve deposits with the Central Bank of the Russian Federation		(4,962)	(1,081)
Trading securities		(5,879)	(13,000)
Loans to customers		(129,205)	(53,344)
Other assets		(821)	(211)
Increase/(decrease) in operating liabilities			
Deposits by credit institutions		48,190	8,882
Deposits by customers		52,008	15,022
Promissory notes and certificates of deposit		41,677	31,983
Provisions, accruals and other liabilities		(211)	248
Unrealised translation adjustment		5,784	—
Net cash from operations		21,950	1,927
CASH FLOWS FROM INVESTING ACTIVITIES			
Net purchase of property and equipment and intangible assets		(1,715)	(505)
Net cash from investing activities		(1,715)	(505)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue/payment of common stock		10,096	11,021
Net cash from financing activities		10,096	11,021
Change in cash and cash equivalents		30,331	12,443
Cash and cash equivalents, beginning of the year		52,996	40,553
Cash and cash equivalents, end of the year	22	83,327	52,996
Supplemental information:			
Interest paid during the period		(6,505)	(2,526)
Income taxes paid during the period		(553)	(264)

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

December 31, 2003

(All amounts in thousands of US Dollars)

Note 1 – Background

a) Organization and Operations

Credit Bank of Moscow ("the Bank") was formed on August 5, 1992 as an open joint stock company, then re-registered as a closed joint stock company under the laws of the Russian Federation. On August 18, 1999 the Bank was reorganized as an open joint stock company. The Bank's registered legal address is 4, Marshala Rybalko St., Moscow, Russia. The Bank possesses a general banking license from the Central Bank of Russia ("the CBR"), granted on January 20, 2001. The Bank is among the 60 largest banks in Russia. The Bank's main office is in Moscow and it has 12 full-service branches in Moscow.

At December 31, 2003 the stockholders of the Bank were as follows:

	2003 (voting and ownership rights)
<i>Inform Personal</i>	26%
<i>Centre Servicestroy</i>	15%
<i>Yuridicheskoye agentstvo</i>	15%
<i>Capital MKB</i>	13%
<i>MKB – Holding</i>	13%
<i>Rossinform</i>	11%
<i>Balansovoye planirovanie</i>	6%
<i>Concern Rossium</i>	1%
Total	100%

b) Operating Environment

The Russian Federation has been experiencing political and economic instability change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks which do not typically exist in other markets. The accompanying financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

Note 2 – Basis of Preparation

a) Statement of Compliance

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

b) Reporting Currency and Translation into US Dollars

Prior to December 31, 2002 Russian economy was considered to be hyperinflationary and the Bank used US dollar as its functional and reporting currency. Starting January 1, 2003 the Russian economy is no longer considered to be hyperinflationary under Statement of Financial Accounting Standard 52 *Foreign Currency Translation*. Accordingly the Bank has conducted an assessment of its operations and determined the Russian ruble to be its functional currency. Management of the Bank have elected to use US dollar as the reporting currency in these financial statements.

The carrying values of all non-monetary assets, liabilities and equity items were translated and fixed in Russian rubles at the rates effective at the date of transition to the Russian ruble as the functional currency, January 1, 2003. For the year ended December 31, 2003 translation from functional to reporting currency was conducted as follows:

- all assets and liabilities are translated from the functional to the reporting currency at the exchange rate, effective at the reporting date;
- equity items are translated from functional to reporting currency at the historical exchange rates. Translation adjustments arising from translation of equity are included in Other Comprehensive Income in accordance with SFAS 52;
- income statement transactions are translated from functional to reporting currency at the approximate rates ruling at the dates of the transactions. Translation adjustments arising from translation of income and expenses are included in Other Comprehensive Income in accordance with SFAS 52.

The closing rate of exchange effective at December 31, 2003 and December 31, 2002 was 1 USD to 29.45 Rubles and 1 USD to 31.78 Rubles, respectively.

c) Convertibility of the Ruble

The Russian ruble is not a convertible currency outside the Russian Federation and, accordingly, any conversion of Russian ruble amounts to US dollars should not be construed as a representation that Russian ruble amounts have been, could be, or will be in the future, convertible into US dollars at the exchange rate shown, or at any other exchange rate.

d) Going Concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The accompanying financial statements do not include any adjustments should the Bank be unable to continue as a going concern.

Note 3 – Summary of Significant Accounting Policies

The following significant accounting policies have been applied in the preparation of the financial statements. These accounting policies have been consistently applied.

a) Use of Estimates

Management of the Bank has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

b) Loans to Customers

The carrying amounts of the Bank's loans are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the loans' recoverable amounts are estimated.

An impairment loss is recognized whenever the carrying amount of a loan exceeds its recoverable amount.

The recoverable amount of loans is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the loan.

c) Due from Credit Institutions

In the normal course of business, the Bank lends or deposits funds for various periods with other credit institutions. Impairment losses for placements with banks and other credit institutions are calculated in accordance with the policy similar to the one applied to loans to customers (refer 3(b) above).

d) Trading Securities

Trading securities are carried at market value with the gains and losses recognized in the statement of income.

Included in securities trading profits are realized gains and losses from recording the results of sales and unrealized gains and losses resulting from market value adjustments of trading equity securities.

Included in interest income is coupon income, amortization of premiums and discounts and realized and unrealized gains and losses related to trading debt securities.

e) Repurchase and Reverse Repurchase Agreements

Repurchase and reverse repurchase agreements are utilized by the Bank as an element of its treasury management and trading business. Repurchase agreements are accounted for as financing transactions. As financing transactions, the related securities are recorded in the Bank's accounts and the related payable is included as an amount due to credit institutions or customers, respectively. Any related expense arising from the pricing spreads for the underlying securities is recognized as interest expense.

Reverse repurchase agreements are accounted for as loans and advances to banks or customers, respectively. Any related income arising from the pricing spreads for the underlying securities is recognized as interest income.

f) Property and Equipment

Property and equipment are recorded at historical cost less accumulated depreciation (refer below) and impairment losses (refer accounting policy (h)). Depreciation is provided to write off the cost on a straight-line basis over the estimated useful economic life of the asset. The economic lives are as follows:

	Years
Buildings	50
Furniture and equipment	6
Computers	4
Vehicles	5
Other	5

g) Intangible Assets

Intangible assets are recorded at historical cost less accumulated amortization and impairment losses (refer accounting policy (h)). Amortization is provided to write off the cost on a straight-line basis over the estimated useful economic life of the asset. The majority of intangible assets is represented by accounting software.

h) Impairment of Property and Equipment

The Bank accounts for long-lived assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*.

Under this standard the carrying value of the asset is considered to be impaired when the anticipated undiscounted future cash flow from such asset is separately identifiable and is less than the carrying value.

In that event, an impairment loss is recognized based on the amount by which the carrying value exceeds the fair market value of the asset. Impairment losses are recognized in the income statement. Fair market value is determined primarily using anticipated cash flows discounted at a rate commensurate with the risk involved.

i) Interest-Bearing Liabilities

Interest-bearing liabilities are recognized initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, interest-bearing liabilities are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings.

j) Income and Expense Recognition

Income and expenses are recognized on an accrual basis.

k) Dividends

Dividends are recognized as a liability in the period in which they are declared.

l) Taxes

Income taxes are accounted for under the asset and liability method in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109 *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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

m) Statement of Cash Flows

The Bank considers cash on hand, correspondent account with CBR and due from credit institutions with original maturities of three months or less to be cash equivalents.

Note 4 – Cash and Due from Central Bank

Cash and due from Central Bank comprise:

	December 31, 2003	December 31, 2002
<i>Correspondent account with CBR</i>	29,489	22,042
<i>Obligatory reserve deposits with CBR</i>	11,639	6,677
<i>Cash on hand</i>	10,933	12,830
<i>Cash and due from Central Bank</i>	52,061	41,549

The obligatory reserve deposits are mandatory non-interest bearing deposits calculated in accordance with regulations issued by the CBR, the withdrawal of which is restricted, based on either a reduction in the Bank's deposit base or a reduction in the required level of reserves. The correspondent account with CBR represents balances held with the CBR related to settlement activity and was available for withdrawal at period end.

Information about the currency breakdown and maturity profile of cash and due from Central Bank is presented in note 26 to these financial statements.

Note 5 – Due from Credit Institutions, Net

Due from credit institutions comprise:

	December 31, 2003	December 31, 2002
<i>Current accounts</i>	42,830	17,811
<i>Time deposits</i>	75	316
<i>Less-provision for losses</i>	(2)	(3)
<i>Due from credit institutions</i>	42,903	18,124

Information about the currency breakdown, maturity profile and effective interest rates on amounts due from credit institutions is presented in note 26 to these financial statements.

Concentration of Balances Due from Credit Institutions

As at 31 December 2003 the Bank maintained current accounts with 3 banks (31 December 2002: 2 banks) whose balances exceeded 10% of Bank's equity. The gross value of these balances as of 31 December 2003 and 2002 was USD 28,585 thousand and USD 7,849 thousand, respectively.

Note 6 – Trading Securities

Trading securities, at fair value, consist of the following:

	December 31, 2003	December 31, 2002
<i>Debt instruments</i>		
<i>Corporate promissory notes and bonds</i>	15,655	10,219
<i>Fixed income state debt securities (OFZ)</i>	1,710	4,014
<i>Municipal state bonds</i>	3,619	1,725
<i>Marketable equity securities</i>	1,370	517
<i>Trading securities</i>	22,354	16,475

Information about the currency breakdown, maturity profile and effective interest rates on Bank's trading securities is presented in note 26 to these financial statements.

Note 7 – Loans to Customers, Net

The Bank's loan portfolio has been extended to private enterprises and individuals only. Loans to customers are made principally within the Russian Federation to the entities, which operate in the following economic sectors:

	December 31, 2003	December 31, 2002
Corporate banking		
Consumer electronics and computers	44,771	28,601
Food products	42,039	22,546
Hygiene products and consumer chemicals	18,304	8,662
Sporting goods	16,699	5,539
Construction materials	15,025	15,257
Paper and stationery	11,948	9,529
Light industry	10,155	7,226
Furniture	8,753	8,273
Machinery	7,289	2,727
Metal products	4,670	3,279
Medical goods	3,806	3,642
Oil products	3,404	3,296
Other customer goods	5,086	1,058
Other corporate	25,262	15,739
	217,211	135,374
Retail banking		
Consumer loans	52,458	5,089
	269,669	140,463
Less – Provision for loan impairment	(12,313)	(5,359)
Loans to customers, net	257,356	135,104

Information about the currency breakdown, maturity profile and effective interest rates on Bank's loan portfolio is presented in note 26 to these financial statements.

Information about the breakdown of the provision for loan impairment by corporate and retail lending is presented in Note 16 to these financial statements.

Significant Credit Exposures

As at December 31, 2003 the Bank had two groups of borrowers (December 31, 2002: one) whose loans balances exceeded 10% of equity. The gross value of these loans as of December 31, 2003 was USD 30,023 thousand (December 31, 2002: USD 8,130 thousand).

Note 8 – Property and Equipment

Property and equipment comprise:

	December 31, 2003	December 31, 2002
Land and buildings	867	758
Fixtures and fittings	4,693	3,218
	5,560	3,976
Less – accumulated depreciation	(2,653)	(1,931)
Property and equipment	2,907	2,045

Note 9 – Other Assets

Other assets comprise:

	December 31, 2003	December 31, 2002
Accrued interest receivable	874	604
Trade debtors and prepayments	643	218
Prepaid expenses	381	76
Intangibles	241	182
Other	335	303
Other assets	2,474	1,383

Note 10 – Deposits by Credit Institutions

Deposits by credit institutions comprise:

	December 31, 2003	December 31, 2002
<i>Demand deposits</i>	20,345	2,621
<i>Time deposits</i>	39,934	9,468
<i>Deposits by credit institutions</i>	60,279	12,089

Information about the currency breakdown, maturity profile and effective interest rates on deposits by credit institutions is presented in note 26 to these financial statements.

Concentration of Deposits from Credit Institutions

As at December 31, 2003 the Bank had balances of 3 banks (December 31, 2002: 2 banks) whose deposits' balances exceeded 10% of equity. The gross value of these balances as of December 31, 2003 was USD 13,582 thousand in respect of demand deposits and USD 15,002 thousand in respect of time deposits (December 31, 2002: USD 7,849 thousand – all demand deposits).

Note 11 – Deposits by Customers

Deposits by customers comprise:

	December 31, 2003	December 31, 2002
<i>Demand deposits</i>	79,705	52,580
<i>Time deposits</i>	53,463	28,580
<i>Deposits by customers</i>	133,168	81,160

Concentrations of Current Accounts and Customer Deposits

As at December 31, 2003 and 2002, there were no demand or time deposits from customers, which individually exceeded 10% of equity.

Information about the currency breakdown, maturity profile and effective interest rates on deposits by customers is presented in note 26 to these financial statements.

Note 12 – Promissory Notes and Certificates of Deposit

	December 31, 2003	December 31, 2002
<i>Promissory notes issued – nominal value</i>	59,883	47,532
<i>Unamortized discount on promissory notes</i>	(622)	(719)
	59,261	46,813
<i>Certificates of deposit</i>	34,069	4,405
	93,330	51,218

Information about the currency breakdown, maturity profile and effective interest rates on promissory notes and certificates of deposit is presented in note 26 to these financial statements.

Note 13 – Common Stock

The stockholders' equity of the Bank has been contributed by stockholders in rubles. Stockholders are entitled to dividends and capital distributions in the currency in which their contribution was made.

Issued, outstanding and paid stock comprised 393,289,502 shares (December 31, 2002: 350,289,502 shares) with par value of 1 RR per share. For the purposes of these financial statements stockholders' equity was translated into US dollars using the exchange rates ruling at the dates of its contribution.

Note 14 – Retained Earnings

The Bank's distributable reserves are determined according to legislation in the Russian Federation. In accordance with the legislation of the Russian Federation, as of the balance sheet date, net income and retained earnings available for distribution amount to USD 5,145 thousand (December 31, 2002: USD 2,430 thousand).

Note 15 – Net Interest Income

Net interest income comprises:

	December 31, 2003	December 31, 2002
Interest income		
<i>Loans to customers</i>	25,569	19,707
<i>Debt securities</i>	3,571	2,123
<i>Due from credit institutions</i>	271	438
	29,411	22,268
Interest expense		
<i>Deposits by customers</i>	(3,447)	(1,439)
<i>Promissory notes and certificates of deposit</i>	(3,517)	(1,096)
<i>Deposits by credit institutions</i>	(407)	(221)
	(7,371)	(2,756)
Net interest income	22,040	19,512

Note 16 – Provisions for Credit Impairment

Provisions for impairment in the income statement represent the charge required in the current year to establish the total provision for impairment.

In 2003 the Bank has significantly expanded its retail banking operations (See Note 7), and further growth of these operations is expected in 2004. Also in 2004 the Bank plans to run various SME lending programs. The Bank has introduced a credit-scoring system to manage credit risks associated with this business. The retail loan portfolio is mostly represented by car loans. These loans are fully covered by collateral of cars and additionally secured by car insurance and life insurance of borrowers. Although 99% of these loans were classified as "standard" as of December 31, 2003, given the vast expansion of retail customer base and the absence of reliable credit history for this base, management considers retail lending business more risky and thus decided to increase the level of provisioning rate on "standard" retail loan portfolio as compared to "standard" provisioning rate on loans to corporate customers.

The breakdown of the loan loss provisions by type is presented in the following table:

	Loans to customers, corporate	Loans to customers, retail	Due from credit institutions	Off balance sheet items	Total allowance
December 31, 2002	5,191	168	3	183	5,545
<i>Provisions charged/ recovered</i>	3,893	3,061	(1)	1,938	8,891
December 31, 2003	9,084	3,229	2	2,121	14,436

The estimate of loan losses includes consideration of specific loss exposures identified with respect to individual credits as well as judgmental consideration of risk factors unique to the Bank's loan portfolio and the economy in which the borrowers operate.

Note 17 – Fees and Commissions Received

Fees and commissions received comprise:

	2003	2002
<i>Settlements and wire transfers</i>	3,608	3,360
<i>Cash operations</i>	1,957	1,052
<i>Guarantees issued</i>	512	850
<i>Other</i>	2,361	1,134
Fees and commissions received	8,438	6,396

Note 18 – Securities Trading Profits, Net

Securities trading profits comprise:

	2003	2002
<i>Gains from operations with equity securities</i>	481	325
<i>Losses from operations with equity securities</i>	(64)	(88)
Securities trading profits, net	417	237

Note 19 – Salaries, Employment Benefits and Administrative Expenses

Salaries, employment benefits and administrative expenses comprise:

	2003	2002
<i>Salaries</i>	8,659	6,201
<i>Social security costs</i>	313	265
<i>Salaries and employment benefits</i>	8,972	6,466
<i>Occupancy</i>	2,761	1,881
<i>Business development</i>	1,643	443
<i>Operating taxes</i>	1,617	1,110
<i>Communications</i>	581	467
<i>Other</i>	849	461
<i>Administrative expenses</i>	7,451	4,362

The Bank 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 to the income statement in the period the related compensation is earned by the employee. The Bank does not have any stock option plans.

Note 20 – Income Taxes

The provision for income taxes comprises:

	2003	2002
<i>Current tax charge</i>	553	377
<i>Deferred taxation</i>	492	3,626
<i>Taxation</i>	1,045	4,003

Russian legal entities must report taxable income and remit income taxes thereon to the appropriate authorities. The current year income tax rate for the Bank is 24%.

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

	2003	2002
<i>Income before tax</i>	5,582	12,817
<i>Applicable statutory tax rate</i>	24%	24%
<i>Income tax using the applicable tax rate</i>	1,340	3,076
<i>Non-deductible costs/(non-taxable income)</i>	(295)	927
	1,045	4,003

Accumulated temporary differences between the carrying amounts of assets and liabilities reflected in these financial statements and their bases for local taxation purposes give rise to a net deferred tax liability of USD 5,655 thousand as of December 31, 2003 (2002: USD 5,013 thousand). This deferred tax liability is attributable to the following items, listed below at their tax effected values:

	December 31, 2003	December 31, 2002
<i>Property and equipment</i>	(51)	(128)
<i>Deferred tax assets</i>	(51)	(128)
<i>Provisions</i>	5,581	5,116
<i>Other</i>	125	25
<i>Deferred tax liabilities</i>	5,706	5,141
<i>Net deferred tax liability</i>	5,655	5,013

The USD 150 thousand increase in the deferred tax liability resultant from the change in the functional currency at January 1, 2003 was included directly in other comprehensive income in stockholders' equity. The remaining net change in the deferred tax liability has been recognised in the income statement.

The applicable deferred tax rate for the Bank is 24% (2002: 24%).

Note 21 – Commitments and Contingencies

a) Financial Commitments

Undrawn loan commitments and guarantees at December 31, 2003 and 2002 comprise:

	December 31, 2003	December 31, 2002
Commitments given		
<i>Undrawn loan commitments</i>	11,073	39,925
<i>Guarantees</i>	34,127	8,303
	45,200	48,228

At December 31, 2003 the Bank provided for potential losses on guarantees in the amount of USD 2,121 thousand (December 31, 2002: USD 183 thousand).

b) Legal

Bank management is unaware of any significant actual, pending or threatened claims against the Bank.

c) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

d) Tax

The taxation system in the Russian Federation is relatively new and is characterized by numerous taxes and frequently changing legislation which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in the Russian Federation substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

Note 22 – Cash and Cash Equivalents

Cash and due from Central Bank comprise:

	December 31, 2003	December 31, 2002
<i>Cash on hand</i>	10,933	12,830
<i>Correspondent account with the CBR</i>	29,489	22,042
<i>Due from credit institutions with the original maturity of less than 3 months</i>	42,905	18,124
Cash and cash equivalents	83,327	52,996

Note 23 – Related Parties

The outstanding balances and related average interest rates as of December 31, 2003 and 2002 with related parties are as follows:

	December 31, 2003		December 31, 2002	
	Amount	Average effective interest rate	Amount	Average effective interest rate
Assets				
<i>Loans to customers, gross</i>	18,764	12.9%	7,032	21.1%
<i>Due from credit institutions</i>	–	–	40	0.0%
Liabilities				
<i>Deposits by customers</i>	820	2.1%	639	10.0%
<i>Deposits by credit institutions</i>	–	–	401	1.0%

Material amounts included in the income statements for years ended December 31, 2003 and 2002 in relation to transactions with related parties are as follows:

	Year ended December 31, 2003	Year ended December 31, 2002
<i>Interest income on loans to customers</i>	1,661	1,037

Note 24 – Capital Adequacy

The Bank's risk based capital adequacy ratio as at December 31, 2003 and 2002 was 28% and 33%, respectively, which exceeds the minimum ratio of 8% recommended by the Basel Accord.

Note 25 – Fair Value of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS No.107. The Bank has performed an assessment of its financial instruments to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability.

The Bank has concluded that due to the lack of liquidity and published "indicator interest rates" in the Russian markets, and the fact that some of its transactions are with related parties and of a specialized nature, it is not possible to determine the fair value of the obligatory reserve deposits with CBR, loans to customers, deposits by customers, promissory notes and certificates of deposit.

The financial assets and financial liabilities that the Bank does believe it is able to estimate fair values for are as follows:

	December 31, 2003		December 31, 2002	
	Carrying value	Fair value	Carrying value	Fair value
Financial Assets				
Cash and correspondent account with CBR	40,422	40,422	34,872	34,872
Due from credit institutions, net	42,903	42,903	18,124	18,124
Trading securities	22,354	22,354	16,475	16,475
Financial Liabilities				
Deposits by credit institutions	60,279	60,279	12,089	12,089

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and correspondent account with CBR, due from credit institutions and deposits by credit institutions: the carrying amounts approximate fair value because of the short maturity of these instruments.

Trading securities: the fair values are based on quoted market prices for these or similar instruments.

This estimate of fair value is intended to approximate the amount at which the above listed assets could be exchanged in a current transaction between willing parties. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate settlement of the instruments.

Note 26 – Risk Management Policies

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

Credit Risk

The Bank is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank 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 and geographical segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank 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 Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are frequently fully or partially covered by the funds deposited by customers and therefore usually bear limited credit risk.

With respect to undrawn loan commitments the Bank 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:

	December 31, 2003				December 31, 2002			
	Russia	OECD	Other non-OECD	Total	Russia	OECD	Other non-OECD	Total
Assets								
<i>Cash and due from CBR</i>	49,482	2,579	–	52,061	36,357	5,186	6	41,549
<i>Due from credit institutions, gross</i>	35,210	7,690	5	42,905	9,007	9,107	13	18,127
<i>Trading securities</i>	22,354	–	–	22,354	16,475	–	–	16,475
<i>Loans to customers, gross</i>	269,639	–	30	269,669	140,463	–	–	140,463
	376,685	10,269	35	386,989	202,302	14,293	19	216,614
Liabilities								
<i>Deposits by credit institutions</i>	38,862	17,411	4,006	60,279	8,931	2,157	1,001	12,089
<i>Deposits by customers</i>	131,955	106	1,107	133,168	80,415	5	740	81,160
<i>Promissory notes and certificates of deposit</i>	93,330	–	–	93,330	51,218	–	–	51,218
	264,147	17,517	5,113	286,777	140,564	2,162	1,741	144,467
Net position	112,538	(7,248)	(5,078)	100,212	61,738	12,131	(1,722)	72,147

Currency Risk

The Bank 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. These limits also comply with the minimum requirements of the Central Bank of Russia. The Bank's exposure to foreign currency exchange rate risk is as follows:

	December 31, 2003				December 31, 2002			
	USD	Rubles	Other currencies	Total	USD	Rubles	Other currencies	Total
Assets								
<i>Cash and due from CBR</i>	1,886	49,482	693	52,061	4,736	36,358	455	41,549
<i>Due from credit institutions, gross</i>	7,274	34,967	664	42,905	8,722	8,619	786	18,127
<i>Trading securities</i>	48	22,306	–	22,354	41	16,434	–	16,475
<i>Loans to customers, gross</i>	96,054	165,200	8,415	269,669	47,575	85,314	7,574	140,463
	105,262	271,955	9,772	386,989	61,074	146,725	8,815	216,614
Liabilities								
<i>Deposits by credit institutions</i>	30,520	22,299	7,460	60,279	8,636	395	3,058	12,089
<i>Deposits by customers</i>	36,329	89,703	7,136	133,168	24,894	54,402	1,864	81,160
<i>Promissory notes and certificates of deposit</i>	14,284	70,812	8,234	93,330	19,630	29,569	2,019	51,218
	81,133	182,814	22,830	286,777	53,160	84,366	6,941	144,467
Net position	24,129	89,141	(13,058)	100,212	7,914	62,359	1,874	72,147

Liquidity Risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs and guarantees. The Bank 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 Bank's Asset and Liability 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.

The contractual maturities of monetary assets and liabilities as of December 31, 2003 and 2002 are as follows:

	December 31, 2003						
	Less than 1 month	1–6 months	6 months to 1 year	Over 1 year	No maturity	Overdue	Total
Assets							
Cash and due from CBR	40,422	–	–	–	11,639	–	52,061
Due from credit institutions, gross	42,905	–	–	–	–	–	42,905
Trading securities	1,235	6,624	3,981	9,139	1,375	–	22,354
Loans to customers, gross	58,146	118,954	36,740	55,180	–	649	269,669
	142,708	125,578	40,721	64,319	13,014	649	386,989
Liabilities							
Deposits by credit institutions	38,867	17,504	–	3,908	–	–	60,279
Deposits by customers	85,640	37,659	9,776	93	–	–	133,168
Promissory notes and certificates of deposit	37,046	50,476	5,808	–	–	–	93,330
	161,553	105,639	15,584	4,001	–	–	286,777
Net position	(18,845)	19,939	25,137	60,317	13,014	649	100,212
Accumulated gap	(18,845)	1,094	26,231	86,548	99,562	100,211	

	December 31, 2002						
Assets							
Cash and due from CBR	34,872	–	–	–	6,677	–	41,549
Due from credit institutions, gross	18,127	–	–	–	–	–	18,127
Trading securities	908	6,093	7,807	1,150	517	–	16,475
Loans to customers, gross	46,730	52,672	30,900	9,663	–	498	140,463
	100,637	58,765	38,707	10,813	7,194	498	216,614
Liabilities							
Deposits by credit institutions	10,603	–	328	1,158	–	–	12,089
Deposits by customers	61,770	13,231	6,043	116	–	–	81,160
Promissory notes and certificates of deposit	29,604	16,984	4,630	–	–	–	51,218
	101,977	30,215	11,001	1,274	–	–	144,467
Net position	(1,340)	28,550	27,706	9,539	7,194	498	72,147
Accumulated gap	(1,340)	27,210	54,916	64,455	71,649	72,147	

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 Bank 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 Bank'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 Bank'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 Bank's interest rate policy is reviewed and approved by the Bank's Assets and Liabilities Management Committee. The Bank's average effective interest rates as at December 31, 2003 and 2002 for interest bearing financial instruments follow.

	December 31, 2003			December 31, 2002		
	US Dollars	Rubles	Other foreign currencies	US Dollars	Rubles	Other foreign currencies
Interest earning assets						
Due from credit institutions	0.1%	0.0%	0.0%	0.2%	0.3%	1.3%
Trading securities – government bonds	7.3%	4.3%	–	6.7%	12.9%	–
Trading securities – corporate notes and municipal bonds	–	9.8%	–	–	15.9%	–
Loans to customers	12.9%	10.7%	8.6%	16.5%	13.5%	14.3%
Interest bearing liabilities						
Deposits by credit institutions	3.0%	0.1%	3.2%	0.4%	1.0%	4.2%
Deposits by customers	5.6%	3.0%	6.9%	5.7%	1.0%	7.0%
Promissory notes and certificates of deposit	6.3%	10.8%	4.6%	8.0%	14.5%	3.3%

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«CREDIT BANK OF MOSCOW»

The Central Bank of the Russian Federation general license
for banking transactions both in rubles and foreign currencies

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