

SBERBANK
(SAVINGS BANK OF THE RUSSIAN FEDERATION)
Financial Statements and Independent Auditors' Report
For the year ended 31 December 2002

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Supervisory Board of Sberbank (Savings Bank of the Russian Federation) –

We have audited the accompanying balance sheet of Sberbank (Savings Bank of the Russian Federation) (the "Bank") as of 31 December 2002, 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. The financial statements for the year ended 31 December 2001, were audited by other auditors whose report dated 14 June 2002, expressed an unqualified opinion on those financial statements.

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 31 December 2002, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as published by the International Accounting Standards Board.

24 June 2003

Sberbank (Savings Bank of the Russian Federation)**Balance Sheet as at 31 December 2002***(thousands of Russian Roubles - purchasing power as at 31 December 2002, unless otherwise indicated)*

	Note	2002	2001	Pro-forma	
				Restated	
		2002	2001	2002	2001
Assets					
Cash and cash equivalents	7	67 608 513	40 070 873	67 608 513	40 070 873
Mandatory cash balances with the Central Bank of the Russian Federation		74 808 687	61 600 025	74 808 687	61 600 025
Trading securities	8	125 854 436	78 264 745	125 854 436	78 264 745
Due from banks	9	40 024 779	1 067 793	40 024 779	1 067 793
Securities available for sale	10	93 025 286	93 012 939	93 025 286	93 012 939
Loans and advances to customers	11	516 671 183	441 348 823	516 671 183	441 348 823
Securities acquired at original issuance	12	102 027 415	108 018 415	102 027 415	108 018 415
Tax asset	28	217 330	-	217 330	2 150 228
Premises and equipment	13	61 675 642	58 490 679	61 675 642	58 490 679
Other assets	14	5 100 097	6 395 724	5 100 097	6 395 724
Total assets		1 087 013 368	888 270 016	1 087 013 368	890 420 244
Liabilities					
Due to banks	15	4 053 218	17 816 971	4 053 218	17 816 971
Deposits from individuals	16	708 015 138	577 809 139	708 015 138	577 809 139
Customer accounts	16	187 745 057	150 232 658	187 745 057	150 232 658
Own securities issued	17	54 160 970	33 082 136	54 160 970	33 082 136
Other borrowed funds	18	1 467 509	1 792 291	1 467 509	1 792 291
Tax liability	28	-	8 112 809	-	-
Other liabilities	19	8 451 980	5 718 648	8 451 980	5 718 648
Total liabilities		963 893 872	794 564 652	963 893 872	786 451 843
Shareholders' equity					
Share capital	20	20 980 583	20 980 583	20 980 583	20 980 583
Share premium		10 016 190	10 016 190	10 016 190	10 016 190
Treasury shares	20	(411)	(1 211)	(411)	(1 211)
Revaluation reserve for premises	13	497 605	521 300	497 605	521 300
Accumulated retained earnings and other reserves		91 625 529	62 188 502	91 625 529	72 451 539
Total shareholders' equity	21	123 119 496	93 705 364	123 119 496	103 968 401
Total liabilities and shareholders' equity		1 087 013 368	888 270 016	1 087 013 368	890 420 244

Signed on behalf of the Board on 24 June 2003.

Kazmin A.I.
Chairman of the Board and CEO

Kruzhalov A.V.
Chief Accountant

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

Sberbank (Savings Bank of the Russian Federation)
Statement of Income for the Year Ended 31 December 2002
(thousands of Russian Roubles - purchasing power as at 31 December 2002, unless otherwise indicated)

	Note	2002	2001	Pro-forma	
				Restated	Restated
		2002	2001	2002	2001
Interest income on loans	22	94 794 887	77 355 423	94 794 887	77 355 423
Interest income on securities	22	36 785 503	38 108 603	36 785 503	38 108 603
Interest expense	22	(58 729 018)	(53 012 628)	(58 729 018)	(53 012 628)
Net interest income		72 851 372	62 451 398	72 851 372	62 451 398
Impairment of interest earning assets	9, 11	(13 651 554)	(10 375 136)	(13 651 554)	(10 375 136)
Net interest income after impairment for interest earning assets		59 199 818	52 076 262	59 199 818	52 076 262
Gains less losses arising from securities and derivatives	23, 33	19 344 898	26 704 625	19 344 898	26 704 625
Gains less losses arising from dealing in foreign currencies		2 886 561	3 005 166	2 886 561	3 005 166
Foreign exchange translation gains less losses		3 579 901	7 150 314	3 579 901	7 150 314
Fee and commission income	24	16 929 637	14 319 373	16 929 637	14 319 373
Fee and commission expense	24	(480 229)	(580 831)	(480 229)	(580 831)
Other operating income	25	2 220 310	2 316 569	2 220 310	2 316 569
Net operating income		103 680 896	104 991 478	103 680 896	104 991 478
Payroll and other staff costs	26	(43 462 154)	(40 731 105)	(43 462 154)	(40 731 105)
Operating expenses	27	(24 380 268)	(21 964 587)	(24 380 268)	(21 964 587)
Reversal of allowance for impairment of securities (Additional charge)/reversal of provisions for credit related commitments		-	4 960 304	-	4 960 304
Monetary loss		(16 659)	47 286	(16 659)	47 286
		(7 922 164)	(3 400 889)	(7 922 164)	(3 400 889)
Profit before taxation		27 899 651	43 902 487	27 899 651	43 902 487
Income tax benefit/(expense)	28	2 621 664	(12 305 611)	(7 641 373)	(2 042 574)
Net profit		30 521 315	31 596 876	20 258 278	41 859 913
Earnings per share (expressed in Russian Roubles per share)	29	1 603	1 820	1 063	2 412

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

Sberbank (Savings Bank of the Russian Federation)
Statement of Cash Flows for the Year Ended 31 December 2002
(thousands of Russian Roubles - purchasing power as at 31 December 2002, unless otherwise indicated)

	Notes	2002	2001
Cash flows from operating activities			
Interest received on loans		94 743 781	75 188 543
Interest received on securities		32 767 528	35 136 418
Interest paid		(56 817 683)	(48 236 572)
Income received from dealing in securities and derivatives		11 713 336	6 252 553
Income received from dealing in foreign currencies		2 886 561	3 088 085
Fees and commissions received		16 929 637	14 319 373
Fees and commissions paid		(480 229)	(580 831)
Other operating income received		2 190 166	2 488 099
Staff costs paid		(40 731 100)	(38 434 989)
Operating expenses		(24 000 002)	(15 366 883)
Income tax paid		(6 267 197)	(4 744 266)
Operating profits before changes in operating assets and liabilities		32 934 798	29 109 530
Cash flows from operating assets and liabilities			
Net (increase)/decrease in:			
Mandatory cash balances with the Central Bank of the Russian Federation		(22 852 002)	(15 130 986)
Trading securities		(55 783 548)	(37 009 926)
Due from banks		(41 378 278)	25 990 294
Loans and advances to customers		(153 640 094)	(174 695 101)
Securities available for sale		(8 141 134)	(7 120 202)
Securities acquired at original issuance		4 985 996	(1 091 418)
Other assets		1 584 261	(2 070 845)
Net increase/(decrease) in:			
Due to banks		(12 367 011)	13 232 351
Deposits from individuals		212 790 671	173 199 097
Customer accounts		60 015 812	16 553 896
Own securities issued		26 469 692	(7 804 122)
Other liabilities		1 007 387	1 191 205
Net cash from operating activities		45 626 550	14 353 773
Cash flows from investing activities			
Purchase of premises and equipment	13	(9 661 646)	(5 345 239)
Proceeds from sale of premises and equipment		448 660	387 246
Sales of other investments		-	130 135
Dividend income received	25	30 144	15 139
Net cash used in investing activities		(9 182 842)	(4 812 719)
Cash flows from financing activities			
Issue of ordinary shares		-	6 210 999
Sale of treasury shares		800	837
Other borrowed funds (repaid)/received		(95 897)	1 063 595
Dividends paid	30	(1 115 484)	(925 617)
Net cash (used in) provided by financing activities		(1 210 581)	6 349 814
Effect of exchange rate changes on cash and cash equivalents		370 723	608 673
Effect of inflation on cash and cash equivalents		(8 066 210)	(7 890 076)
Net increase in cash and cash equivalents		27 537 640	8 609 465
Cash and cash equivalents at beginning of the year		40 070 873	31 461 408
Cash and cash equivalents at the end of the year	7	67 608 513	40 070 873

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

Sberbank (Savings Bank of the Russian Federation)
Statement of Changes in Shareholders' Equity for the Year Ended 31 December 2002
(thousands of Russian Roubles - purchasing power as at 31 December 2002, unless otherwise indicated)

	Share capital	Treasury shares	Share premium	Revaluation reserve for premises	Retained earnings and other reserves	Total shareholders' equity
Balance at 1 January 2001	20 670 033	(2 048)	4 115 741	409 593	31 482 013	56 675 332
Net profit	-	-	-	-	31 596 876	31 596 876
Share issue						
- Nominal value	310 550	-	-	-	-	310 550
- Share premium	-	-	5 900 449	-	-	5 900 449
Sale of treasury shares, net	-	837	-	-	-	837
Reduction of deferred tax in respect of revaluation of premises	-	-	-	144 370	-	144 370
Reclassification of depreciation charged in respect of revaluation reserve for premises	-	-	-	(32 663)	32 663	-
Dividends declared						
- Ordinary shares	-	-	-	-	(874 031)	(874 031)
- Preference shares	-	-	-	-	(49 019)	(49 019)
Balance at 31 December 2001	20 980 583	(1 211)	10 016 190	521 300	62 188 502	93 705 364
Net profit	-	-	-	-	30 521 315	30 521 315
Sale of treasury shares, net	-	800	-	-	-	800
Reduction of deferred tax in respect of revaluation of premises	-	-	-	7 483	-	7 483
Reclassification of depreciation charged in respect of premises revaluation	-	-	-	(31 178)	31 178	-
Dividends declared						
- Ordinary shares	-	-	-	-	(1 055 688)	(1 055 688)
- Preference shares	-	-	-	-	(59 778)	(59 778)
Balance at 31 December 2002	20 980 583	(411)	10 016 190	497 605	91 625 529	123 119 496

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

Sberbank (Savings Bank of the Russian Federation)
Statement of Changes in Shareholders' Equity for the Year Ended 31 December 2002
(thousands of Russian Roubles - purchasing power as at 31 December 2002, unless otherwise indicated)

Pro-forma (Restated)

	Share capital	Treasury shares	Share premium	Revaluation reserve for premises	Retained earnings and other reserves	Total shareholders' equity
Balance at 1 January 2001	20 670 033	(2 048)	4 115 741	409 593	31 482 013	56 675 332
Net profit	-	-	-	-	31 596 876	31 596 876
Share issue						
- Nominal value	310 550	-	-	-	-	310 550
- Share premium	-	-	5 900 449	-	-	5 900 449
Sale of treasury shares, net	-	837	-	-	-	837
Reduction of deferred tax in respect of revaluation of premises	-	-	-	144 370	-	144 370
Reclassification of depreciation charged in respect of premises revaluation	-	-	-	(32 663)	32 663	-
Dividends declared						
- Ordinary shares	-	-	-	-	(874 031)	(874 031)
- Preference shares	-	-	-	-	(49 019)	(49 019)
Balance at 31 December 2001 as previously reported	20 980 583	(1 211)	10 016 190	521 300	62 188 502	93 705 364
Restatement of deferred tax liability (Note 4)	-	-	-	-	10 263 037	10 263 037
Balance at 31 December 2001 as restated	20 980 583	(1 211)	10 016 190	521 300	72 451 539	103 968 401
Net profit	-	-	-	-	20 258 278	20 258 278
Sale of treasury shares, net	-	800	-	-	-	800
Reduction of deferred tax in respect of revaluation of premises	-	-	-	7 483	-	7 483
Reclassification of depreciation charged in respect of premises revaluation	-	-	-	(31 178)	31 178	-
Dividends declared						
- Ordinary shares	-	-	-	-	(1 055 688)	(1 055 688)
- Preference shares	-	-	-	-	(59 778)	(59 778)
Balance at 31 December 2002	20 980 583	(411)	10 016 190	497 605	91 625 529	123 119 496

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

1 Principal Activities

Sberbank (Savings Bank of the Russian Federation) (the “Bank”) is a joint stock commercial bank, which was established in 1841 and operated in various forms since then. The Bank’s principal shareholder, the Central Bank of the Russian Federation, owns 60.57% of the issued and outstanding shares at 31 December 2002. The Bank is registered in the Russian Federation to carry out banking activities and has operated under a full banking license issued by the Central Bank of the Russian Federation (the “Bank of Russia” or CBR) since 1991. The Bank’s principal business activity is retail and commercial banking operations within the Russian Federation. Deposits of individuals placed with the Bank are guaranteed by the State.

The Supervisory Board of the Bank is headed by the Chairman of the Bank of Russia and co-chaired by the Minister of Finance of the Russian Federation and the Deputy Chairman of the Bank of Russia. The Supervisory Board also includes representatives of the Bank’s other shareholders.

The Bank has 17 regional head offices, 1 145 branches and 18 980 sub-branches within the Russian Federation. The main office of the Bank is located at 19 Vavilova St., 117 997 Moscow. The average number of the Bank’s employees in 2002 was 205 477 (2001: 197 076).

2 Operating Environment

The Bank’s financial position and results of operations are significantly influenced by the economic and social policies of the Russian Federation. The Bank has a significant level of lending operations with companies that are controlled by the state or where the state holds more than 25% of the voting shares. As at 31 December 2002, loans granted to such companies with individual exposure over 1% of the Bank’s loan portfolio represented 10.4% of the total loan portfolio (2001: 16.4%).

During 2002, Russia was officially recognised as a market economy (in June 2002 by the USA Department of Commerce and in November 2002 by the EU Eurocommission). Nevertheless, the Russian economy continues to display certain features consistent with that of a transitional economy. These attributes have in the past included higher than normal inflation rates, lack of liquidity in capital markets, and the existence of currency controls that cause the national currency to be illiquid outside of Russia. The continued success and stability of the Russian economy will be significantly impacted by the Government’s continued actions with regard to supervisory, legal, and economic reforms.

Those uncertainties including potential changes in these areas, may affect the ability of the banking sector to conduct operations. The Bank could be affected, in the foreseeable future, by these risks and their consequences. As a result, these uncertainties may affect the Bank’s future operations, the recoverability of its assets, and the ability to maintain or pay its obligations as they mature. The Bank’s risk management processes give consideration to these uncertainties (please refer to Note 32).

3 Basis of Presentation

The financial statements of the Bank are prepared in accordance with International Financial Reporting Standards (“IFRS”) published by International Accounting Standards Board. The Bank maintains its accounting records in accordance with Russian banking regulations. These financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with IFRS in all material aspects.

The financial statements are prepared under the historical cost convention modified for the measurement at fair value of available for sale securities, financial assets and financial liabilities held for trading and derivative contracts, as well as the required hyperinflation adjustments and revaluation of premises.

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. These estimates are based on information available as at the date of the financial statements. Actual results, therefore, could differ from these estimates.

The financial statements are presented in the national currency of the Russian Federation, the Russian Rouble (“RR”), expressed in terms of the purchasing power of thousands of Russian Roubles as at 31 December 2002, unless otherwise indicated.

4 Restatement and Presentation of Pro-forma Amounts

The deferred tax liability as at 31 December 2001 was calculated without considering the effect of the Bank's premises revaluation for statutory tax purposes as at 1 January 2001. The correction of this fundamental error totals RR 10 263 037 and affects the deferred tax liability, income tax expense, net profit, and retained earnings as at 31 December 2001. The 2001 statement of income impact has been reflected in income tax expense for 2002 as allowed under the alternative treatment in accordance with IAS 8. The accompanying pro-forma financial information for 2001 has been presented as if the correction was made in 2001.

Financial statement caption	2002	2001	Pro-forma	
			Restated	
	2002	2001	2002	2001
Statement of income				
Income tax benefit/(expense)	2 621 664	(12 305 611)	(7 641 373)	(2 042 574)
Net profit	30 521 315	31 596 876	20 258 278	41 859 913
Balance sheet				
Tax asset	217 330	-	217 330	2 150 228
Tax liability	-	8 112 809	-	-
Accumulated retained earnings and other reserves	123 119 496	93 705 364	123 119 496	103 968 401

5 Significant Accounting Policies

Cash and cash equivalents. Cash and cash equivalents are items, which can be converted into cash within a day. They include correspondent accounts (including accounts in precious metals) with the CBR, banks and non-banking institutions, as well as deposits, that mature not later than the first working day after the reporting date, and cash balances. All other interbank placements are included in due from banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Mandatory balances with the Central Bank of the Russian Federation. Mandatory balances with the Bank of Russia represent mandatory reserve deposits, which are not available to finance the Bank's day-to-day operations.

Precious metals. Gold and other precious metals are recorded at the balance sheet date at the current bid price of the Bank of Russia. Precious metals are included in cash and cash equivalents.

Trading securities. Trading securities are securities, which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or securities included in a portfolio in which a pattern of short-term profit taking exists. The Bank classifies securities into trading securities if it has an intention to sell them within 180 days after purchase.

Trading securities are initially recognised at cost (which includes transaction costs) and are subsequently re-measured at fair value based on their market value or after the application of various valuation methodologies, including assumptions as to the future ability to realize these securities. In determining market value, all trading securities are valued at the last bid price if quoted on an exchange or, if traded over-the-counter, at the last bid price.

Changes in fair values are recorded within gains less losses arising from securities in the statement of income in the period in which the change occurs. Coupon and interest earned on trading securities are reflected in the statement of income as interest income on securities. Dividends received are included in other operating income.

Sale and repurchase agreements. Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included into trading securities, securities available for sale or securities acquired at original issuance as appropriate. The corresponding liability is presented within due to banks.

Securities purchased under agreements to resell ("reverse repo") are recorded as loans and advances to banks or customers as appropriate. The difference between the sale and repurchase price is treated as interest income or expense and accrued over the life of the agreements using the effective interest rate method.

5 Significant Accounting Policies (continued)

Securities purchased by the Bank under reverse repo agreements are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses arising from securities and derivatives in the statement of income. The obligation to return them is recorded at fair value as a trading liability.

Originated loans and advances and allowance for loan impairment. Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent at draw down are categorised as loans originated by the Bank and are carried at amortised cost in accordance with IAS 39 less allowance for loan impairment.

All loans and advances are recognised when cash is advanced to borrowers.

The allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect the amounts due. The amount of the allowance is the difference between the carrying amount and estimated recoverable amount.

The allowance for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings assigned to the borrowers, and reflecting the current economic environment in which the borrowers operate.

When a loan cannot be collected, it is written off against the related allowance for loan impairment. Such loans are written off after all necessary legal procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are credited to the allowance account in the statement of income.

The Bank does not enter into transactions for purchases of loans from third parties.

Other credit related commitments. In the normal course of business, the Bank enters into other credit related commitments including loan commitments, letters of credit, and guarantees. The accounting policy and allowance methodology is similar to that for originated loans noted above. Specific allowances are raised against other credit related commitments when losses are considered probable.

Securities available for sale. This classification includes securities, which the Bank intends to hold for an indefinite period of time but may be sold in response to needs for liquidity or changes in interest rates, exchange rates, or equity prices. The Bank determines the appropriate classification of its securities at the time of purchase.

Securities available for sale include other investments, which are represented by equity investments in non-consolidated subsidiary companies, associated companies and investments held for resale.

Securities available for sale are initially recognised at cost (which includes transaction costs) and subsequently re-measured to fair value based on quoted bid prices. Certain securities available for sale, for which there is no available external independent quotation have been fair valued by the Bank. Fair value has been determined after the application of various valuation methodologies, including assumptions as to amounts to be realised on settlement. Realised and unrealised gains and losses arising from changes in the fair value of securities available for sale are included in the statement of income under gains less losses from securities in the period, in which they arise. Coupon and interest earned on securities available for sale are reflected in the statement of income as interest income on securities. Dividends received are included in other operating income.

Securities acquired at original issuance. At 1 January 2001, the Bank adopted IAS 39 and classified its investment securities acquired at original issuance directly from a debtor, other than those that are purchased with the intent to be sold in the short-term, as “securities acquired at original issuance.” Such securities fall under the definition of “originated loans” in accordance with IAS 39 and are carried at amortized cost. Gains arising from the amortization of cost of these securities are recognized in the statement of income as interest income from securities using the effective interest rate method.

Premises and equipment. Premises and equipment are stated at revalued amounts, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002, less accumulated depreciation and allowance for impairment, where required. Where the carrying amount of an asset is greater than its estimated recoverable amount, an allowance is provided to reduce it to the recoverable amount and the related provision is charged to the statement of income. The estimated recoverable amount is the higher of an asset’s net selling price and its value in use.

5 Significant Accounting Policies (continued)

Revaluation reserve represents the difference between the restated net book amount of premises and their market value. The proportion of revaluation reserve, representing the amount depreciated, is transferred annually to retained earnings based on the estimated average useful life of the underlying premises.

Construction in progress is carried at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002. Upon completion, assets are transferred to premises at their carrying value. Construction in progress is not depreciated until the asset is available for use.

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and are taken into account in determining net profit. Repairs and maintenance are charged to the statement of income when the expenditure is incurred.

Depreciation and amortisation. Depreciation and amortisation are applied on a straight-line basis over the estimated useful lives of the assets using the following rates:

Premises 2.5% -4.5% per annum;
Equipment 18-25% per annum,
Intangible assets 25% per annum.

Depreciation and amortisation for the reporting period are recorded in the statement of income under operating expenses.

Due to banks and customers. Amounts due to banks and to customers are initially recognized at cost, which amounts to the issue proceeds less transaction costs incurred. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of income over the maturity period of the borrowings using the effective interest rate method.

Bills of exchange. Bills of exchange are issued by the Bank to its customers and carry a fixed date of repayment. These may be issued against cash deposits or as a payment instrument, which the customer can discount in the over-the-counter secondary market. Bills of exchange issued by the Bank are recognised initially at cost, being their issue proceeds, net of transaction costs incurred. Subsequently, bills of exchange issued are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the statement of income over the period of the security issue using the effective interest rate method.

The Bank also purchases bills of exchange from its customers or on the market. These bills of exchange are included in trading securities, securities available for sale, loans and advances to customers, or in due from banks, depending on their substance and subsequently re-measured and accounted in accordance with the accounting policies described above for those categories of assets.

Share capital. Share capital is recognized at restated hyperinflated cost. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution.

Share premium. Share premium represents the excess of contributions over the nominal value of the shares issued.

Preference shares. Preference shares are not redeemable, they guarantee payment of annual dividends of not less than 15% of their nominal value. Dividend payments in excess of that minimum are determined at the Bank's Annual General Meeting. Preference shares are classified as a part of equity.

Treasury shares. Shares of the Bank owned by the Bank and held at the balance sheet date, are defined as treasury shares. The cost of such shares is shown as a reduction in shareholders' equity. Gains and losses arising on disposal of such shares are shown as adjustments to share premium.

Dividends. Dividends payable are not accounted for until they have been ratified at the Bank's Annual General Meeting. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit determined in accordance with statutory requirements.

5 Significant Accounting Policies (continued)

Taxes. Taxation has been provided for in the financial statements in accordance with Russian legislation currently in force. The charge for taxation in the statement of income for the year comprises current tax and changes in deferred tax liability/asset. Current tax is calculated on the basis of the expected taxable profit for the year, using the tax rates enacted at the balance sheet date.

Deferred income tax is provided, using the balance sheet liability method, for temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

The deferred tax liability arising on the revaluation of premises is charged directly to the revaluation reserve. Any tax effect of subsequent impairment of the revaluation reserve is taken through the statement of changes in shareholders equity; any deferred tax credit beyond the revaluation reserve is reflected through the statement of income.

Taxes, other than on income, are recorded within operating expenses.

Income and expense recognition. Interest income and expense are recognised in the statement of income on an accrual basis. Interest income on loans is accrued only if delays of interest and principal payments are less than 90 days. Interest income is not recognised where the Bank believes it is not collectible. Interest income on securities includes coupons earned on fixed income securities and accreted discount on government securities.

Commissions and other income are credited to income when the related transactions are completed. Non-interest expenses are recognised at the time the products are received or the service is provided.

Foreign currency translation. Transactions denominated in foreign currency are recorded at the CBR exchange rate ruling on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the statement of income using the CBR official exchange rate prevailing on that date.

Monetary assets and liabilities denominated in foreign currency are translated into Russian Roubles at the official exchange rate of the Bank of Russia at the balance sheet date. Foreign currency gains and losses arising from the translation of assets and liabilities are reflected in the statement of income as foreign exchange translation gains less losses. As at 31 December 2002, the CBR exchange rate used for translating foreign currency balances was USD 1 = RR 31.7844 (2001: USD 1 = RR 30.1400). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a convertible currency outside of the Russian Federation.

Derivative financial instruments. Derivative financial instruments including forward foreign exchange contracts, currency swaps, currency options, forwards with securities and precious metals and other derivative financial instruments are initially recognized in the balance sheet at cost (including transaction costs) and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models, or using the spot rate at the year-end, as appropriate. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives are included in gains less losses arising from securities and derivatives.

The Bank does not enter into derivative instruments for hedging purposes.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

5 Significant Accounting Policies (continued)

Accounting for the effects of hyperinflation. Russia continues to experience relatively high levels of inflation and is considered to be hyperinflationary as defined by International Accounting Standard (IAS) 29 “Financial Reporting in Hyperinflationary Economies”. Accordingly, adjustments and reclassifications made for the purposes of IFRS presentation include the restatement, in accordance with IAS 29, for changes in the general purchasing power of the Russian Rouble. IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy should be stated in terms of the measuring unit current at the balance sheet date.

The application of IAS 29 results in an adjustment to the statement of income for the loss of purchasing power of the Russian Rouble. This loss on net monetary position is calculated as the difference resulting from the restatement of non-monetary assets, shareholders’ equity and profit and loss account items. Corresponding figures for the year ended 31 December 2001 have also been restated for the changes in the general purchasing power of the Russian Rouble at 31 December 2002.

The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index, published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992. The indices used to restate the financial statements are based on 1988 prices using 100 as the base index.

The inflation indices for the five years ended 31 December 2002 and the respective conversion factors are the following:

<u>Year</u>	<u>Index</u>	<u>Conversion Factor</u>
1998	84.4%	2,240
1999	36.5%	1,641
2000	20.2%	1,365
2001	18.6%	1,151
2002	15.1%	1,000

Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at 31 December 2002. Non-monetary assets and liabilities (items which are not expressed in terms of the monetary unit current at 31 December 2002) are restated by applying the relevant conversion factor. The effect of inflation on the Bank’s net monetary position is included in the statement of income as a monetary gain or loss.

Premises and equipment are carried at their restated cost which is equal to their historical carrying value indexed by the change in the general price index from the date of purchase or from the date of the last revaluation. Where indexation is applied, an assessment has been made of the potential impairment and diminution in the carrying value of these assets and, where applicable, such assets have been reduced to their recoverable amounts.

Components of equity have been indexed by the change in the general price index from the date of transactions resulting in the movement in equity. This restated cost is the carrying value in the accompanying balance sheet.

Amounts included in the statement of income have been indexed by the change in the general price index based on following assumptions:

- Inflation has occurred evenly over the year; and
- Income and expenditures have accrued evenly over the year except for charges against profit for aggregate movements in:
 - allowance for loan impairment;
 - provision for credit related commitments;
 - allowance for impairment in value of non-monetary assets.

Such movements have been treated, for the purposes of this calculation, as occurring at the end of the reporting year.

5 Significant Accounting Policies (continued)

Effective 1 January 2003, international accounting and financial reporting bodies have determined that the Russian Federation no longer meets the criteria of IAS 29 for hyperinflation. Beginning in 2003 and for future periods, the Bank will cease applying IAS 29 to current periods and only recognize the cumulative impact of hyperinflation indexing through 31 December 2002, on non-monetary elements of the financial statements. Monetary items and results of operations will be reported at actual, nominal amounts in future periods.

Provisions. Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Social funds costs. The Bank contributes to the Russian Federation state pension, social insurance and obligatory medical insurance funds in respect of its employees. The Bank's funds contributions are expensed as incurred. The contributions are included in staff costs.

Operating leases. Payments made under operating leases are charged against income in equal instalments over the period of the lease.

Segment reporting. A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank determined that the primary segments for its activities are business segments (corporate and retail), the secondary segments are the geographical areas of Russia.

6 Reclassification of Comparative Data

Amount	Previously reported	As Reclassified	Comments
550 959	Income Statement: Net financial result from term foreign exchange contracts.	Income Statement: Gains less losses arising from securities and derivatives	Change in presentation format
1 927 820	Income statement: Operating expenses - Other expenses related to premises and equipment	Income statement: Operating expenses - Administrative expenses	Change in presentation format
256 123	Income statement: Operating expenses - Other expenses related to premises and equipment	Income statement: Operating expenses - Other expenses	Change in presentation format

7 Cash and Cash Equivalents

	2002	2001
Cash on hand	17 970 344	17 323 517
Cash balances with the Bank of Russia (other than mandatory reserve deposits)	40 515 431	11 285 371
Correspondent accounts and overnight deposits with other banks		
- Russian Federation	1 446 874	195 980
- Other countries	6 068 419	9 919 429
Balances with non-banking settlement organisations	1	1 071 628
Precious metals	1 607 444	274 948
Total cash and cash equivalents	67 608 513	40 070 873

8 Trading Securities

	2002	2001
RR denominated securities		
Federal loan bonds (OFZ) and federal short term bonds (GKO)	55 300 224	45 626 115
Municipal bonds	6 688 279	62 936
Corporate shares	1 151 668	380 163
Foreign currency denominated securities		
Russian Federation Eurobonds	54 179 583	17 189 268
Federal currency bonds (OVGVZ)	8 534 682	3 438 651
Foreign currency denominated securities sold under repo		
Russian Federation Eurobonds	-	2 703 242
Federal currency bonds (OVGVZ)	-	8 864 370
Total trading securities	125 854 436	78 264 745

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds are issued at a discount to face value and have a medium to long-term maturity period. Coupon rate on these securities ranged from 10.00% to 15.00% in 2002. As at 31 December 2002, the yield to maturity ranged from 12.41% to 14.76%, depending on the type of a bond issue (2001: from 14.42% to 17.12%).

GKO bonds are short-term zero coupon government securities issued by the Ministry of Finance of the Russian Federation and denominated in Russian Roubles. As at 31 December 2002, yield to maturity ranged from 13.54% to 18.98% depending on the type of bond issue.

Corporate shares are shares of Russian companies, which are reflected at market value as at the year-end.

Municipal bonds are mainly represented by the municipal bonds of the city of St. Petersburg and Moscow, which are reflected at market value as at the year-end. As at 31 December 2002, yield to maturity ranged from 5.95% to 31.30% depending on the type of bond issue.

Russian Federation Eurobonds are securities issued by the Ministry of Finance of the Russian Federation and are freely tradable internationally. As at 31 December 2002, yield to maturity on these bonds varied from 4.28% to 9.60% (2001: from 6.89% to 12.52%). The annual coupon on these bonds ranged from 5.00% to 12.75% payable semi-annually for bonds denominated in US dollars, and annually for bonds denominated in Euro.

OVGVZ bonds are US dollar denominated state securities payable to the bearer, which are issued by the Ministry of Finance of the Russian Federation. The bonds are purchased at a discount to nominal value and carry an annual coupon of 3.00%. As at 31 December 2002, the yield to maturity ranged from 4.99% to 8.26% depending on the type of bond issue (2001: from 10.58% to 14.02%).

9 Due from Banks

	2002	2001
Current loans to banks	40 024 779	1 067 793
Overdue loans to banks	81 537	324 158
Less: allowance for loan impairment	(81 537)	(324 158)
Total due from banks	40 024 779	1 067 793

Movement in the allowances for loan impairment are as follows:

	2002	2001
Allowance for loan impairment at 1 January	324 158	1 448 486
Adjustment on adoption of IAS 39	-	(535 515)
Recovery of allowance for loan impairment	(85 261)	(420 290)
Due from banks written off as uncollectable	(114 785)	(23 915)
Effect of inflation	(42 575)	(144 608)
Allowance for loan impairment at 31 December	81 537	324 158

A further breakdown of loans and advances to banks is set out as follows:

	2002	2001
Russian Federation, except for loans to the Bank of Russia	3 455 098	474 555
The Bank of Russia	15 276 822	-
Other countries	21 374 396	917 396
Total loans and advances to banks, gross	40 106 316	1 391 951

10 Securities Available for Sale

	2002	2001
Debt securities		
Federal loan bonds (OFZ)	64 556 098	55 731 155
Federal currency bonds (OVLGVZ)	13 895 779	30 921 702
Russian Federation Eurobonds	13 657 697	3 124 120
Municipal bonds	406 654	2 414 366
Equity securities		
Investments in non-consolidated subsidiary companies	270 051	272 284
Investments in associated companies	32 913	45 535
Investments held for sale	206 094	503 777
Total securities available for sale	93 025 286	93 012 939

10 Securities Available for Sale (continued)

For a description of federal government securities in the Bank's portfolio, please refer to Note 8.

For the year ended 31 December 2002, the majority of the subsidiary and associated companies have not prepared financial statements in accordance with IFRS. These investments have not been consolidated with the results of the Bank nor accounted for under equity method, as the effect of consolidation or equity accounting would not materially alter the financial position of the Bank at 31 December 2002 or the results of its operations or cash flows for the year then ended.

11 Loans and Advances to Customers

	2002	2001
Current loans	557 917 456	477 865 738
Overdue loans	10 622 627	8 311 239
Less: allowance for loan impairment	(51 868 900)	(44 828 154)
Total loans and advances to customers	516 671 183	441 348 823

Movements in the allowances for loan impairment are as follows:

	2002	2001
Allowance for loan impairment at 1 January	44 828 154	45 003 167
Adjustment on adoption of IAS 39	-	(1 045 750)
Charge for provision for loan impairment	13 736 815	10 795 426
Loans and advances to customers written off as uncollectable	(808 285)	(2 962 237)
Effect of inflation	(5 887 784)	(6 962 452)
Allowance for loan impairment at 31 December	51 868 900	44 828 154

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

	2002		2001	
	Amount	%	Amount	%
Trade	114 095 187	20.07%	73 533 069	15.12%
Oil, gas and chemical	104 467 924	18.37%	105 502 927	21.70%
Individuals	65 919 396	11.59%	35 187 222	7.24%
Machine-building	61 463 368	10.81%	79 257 632	16.30%
Food and agriculture	57 392 389	10.09%	42 024 359	8.64%
Metallurgy	42 962 791	7.56%	33 782 693	6.95%
Energy	24 181 779	4.25%	34 225 422	7.04%
Construction	23 932 443	4.21%	24 023 860	4.94%
Telecommunications	21 251 692	3.74%	11 284 875	2.32%
Transport, aviation, space	17 877 327	3.14%	15 019 652	3.09%
Timber industry	11 573 543	2.04%	8 296 527	1.71%
Government and municipal bodies	11 421 453	2.01%	5 589 451	1.15%
Services	5 529 958	0.97%	3 335 987	0.69%
Other	6 470 833	1.15%	15 113 301	3.11%
Total loans and advances to customers, gross	568 540 083	100.00%	486 176 977	100.00%

11 Loans and Advances to Customers (continued)

The Bank's loan portfolio has been extended to the following types of borrowers:

	2002	2001
Limited liability and joint-stock companies	444 427 027	402 729 473
State-owned companies	33 676 402	26 064 419
Entities of the subjects of the RF	11 420 816	4 992 798
Municipal bodies	2 465 545	2 262 466
Others	76 550 293	50 127 821
Total loans and advances to customers, gross	568 540 083	486 176 977

The Bank's largest ten borrowers constitute RR 117 743 803 or 20.7% of the total loan portfolio (2001: RR 128 968 744 or 26.5%). Loans to the two largest borrowers, represented by major Russian industrial companies, amount to RR 61 509 722 or 10.8% of the total loan portfolio (2001: RR 79 661 113 or 16.4%).

12 Securities Acquired at Original Issuance

	2002		2001	
	Nominal value	Carrying value	Nominal value (non-inflated)	Carrying value
Russian Federation Eurobonds	107 666 794	92 077 087	102 096 537	98 057 146
Federal loan bonds (OFZ)	10 407 025	9 950 328	10 407 025	9 961 269
Total securities acquired at original issuance	118 073 819	102 027 415	112 503 562	108 018 415

Securities acquired at original issuance include securities obtained directly from the issuer – the Ministry of Finance of the Russian Federation, and not designated for immediate or short-term sale.

The Bank's portfolio of Russian Federation Eurobonds consists of two issues with maturity dates of 24 July 2005 and 24 July 2018 and effective yield to maturity 15.45% and 15.76%, correspondingly. The annual coupon rate on these bonds ranges from 8.75% to 11.00%, and interest is payable semi-annually. Market value of these Eurobonds as at 31 December 2002 was RR 122 766 243 (2001: RR 115 235 118). These Eurobonds have been obtained by the Bank from the Ministry of Finance in July 1998 in exchange for part of the Bank's Russian Rouble denominated state securities portfolio.

OFZ are medium to long-term maturity bonds with quarterly coupon, which ranges from 10.00% to 15.00%. Yield to maturity varies from 16.58% to 42.69%, depending on the type of the bond issue. The bonds mature in 2003 through 2005. Market value of these OFZ bonds as at 31 December 2002, was RR 10 267 791 (2001: RR 11 411 398).

13 Premises and Equipment

	Premises	Office and computer equipment	Vehicles and other equipment	Intangible assets	Construction in progress	Total
Net book amount at 1 January 2002	46 107 169	5 543 286	3 459 631	691 871	2 688 722	58 490 679
Carrying amount at cost or revaluation						
Balance at 31 December 2001	48 249 602	9 723 807	6 026 137	1 265 169	2 688 722	67 953 437
Additions	-	5 721 273	828 687	413 633	2 698 053	9 661 646
Transfers	2 261 587	-	-	-	(2 261 587)	-
Disposals	(557 861)	(100 448)	(305 078)	(57 763)	(128 510)	(1 149 660)
Balance at 31 December 2002	49 953 328	15 344 632	6 549 746	1 621 039	2 996 678	76 465 423
Accumulated depreciation and amortisation						
Balance at 31 December 2001	(2 142 433)	(4 180 521)	(2 566 506)	(573 298)	-	(9 462 758)
Depreciation and amortisation charge	(2 176 648)	(1 888 034)	(1 141 286)	(368 942)	-	(5 574 910)
Disposals	37 509	56 743	121 058	32 577	-	247 887
Balance at 31 December 2002	(4 281 572)	(6 011 812)	(3 586 734)	(909 663)	-	(14 789 781)
Net book amount at 31 December 2002	45 671 756	9 332 820	2 963 012	711 376	2 996 678	61 675 642

Construction in progress consists mainly of construction and refurbishment of Bank premises. Upon completion, assets will be transferred to premises.

Premises were independently appraised at 31 December 2000. The valuation was performed by an internationally recognised independent appraisal firm. The basis used for the appraisal was the sales comparison approach. Included in the net book value of premises at 31 December 2002 is RR 497 605 representing revaluation reserve relating to premises of the Bank, net of deferred tax (2001: RR 521 300). The deferred tax liability with respect to this fair value adjustment was recorded directly to equity in accordance with the applicable accounting standards.

14 Other Assets

	2002	2001
Prepaid income tax	1 426 277	469 317
Banking cards debtors	1 152 080	874 537
Deferred charges	856 295	1 086 438
Prepaid operating taxes	793 439	539 165
Trade debtors and prepayments	655 730	1 051 023
Balances arising from derivative financial instruments	65 026	29 023
Settlements on operations with securities and conversion operations	1 994	2 323 612
Other	149 256	22 609
Total other assets	5 100 097	6 395 724

15 Due to Banks

	2002	2001
Amounts on “LORO” accounts of other banks		
- Russian Federation	2 373 542	3 512 294
- Other countries	1 149 900	676 365
Short term deposits due to banks		
- Russian Federation	529 776	11 542 087
- Other countries	-	2 086 225
Total due to banks	4 053 218	17 816 971

16 Deposits from Individuals and Customer Accounts

	2002	2001
Individuals		
- Current/demand accounts	104 035 718	113 713 292
- Term deposits	603 979 420	464 095 847
Total deposits from individuals	708 015 138	577 809 139
State and public organisations		
- Current/settlement accounts	36 159 495	27 669 323
- Term deposits	1 670 111	1 248 851
Other legal entities		
- Current/settlement accounts	119 369 794	100 113 086
- Term deposits	30 545 657	21 201 398
Total customer accounts	187 745 057	150 232 658
Total deposits from individuals and customer accounts	895 760 195	728 041 797

16 Deposits from Individuals and Customer Accounts (continued)

Economic sector concentrations within customer accounts are as follows:

	2002		2001	
	Amount	%	Amount	%
Individuals	708 015 138	79.04%	577 809 139	79.36%
Oil and gas	36 726 001	4.10%	9 569 279	1.31%
Trade	28 401 492	3.17%	27 104 600	3.72%
Municipal bodies and state organisations	27 656 439	3.09%	13 623 387	1.87%
Construction	13 284 822	1.48%	12 820 030	1.76%
Food and agriculture	12 158 487	1.36%	7 076 711	0.97%
Telecommunications	8 280 146	0.92%	11 120 656	1.53%
Equipment manufacturing	6 142 167	0.69%	5 514 681	0.76%
Metallurgy	5 164 900	0.58%	1 450 159	0.20%
Transport, aviation and space	5 041 506	0.56%	3 909 536	0.54%
Energy	3 007 185	0.33%	2 493 011	0.34%
Other	41 881 912	4.68%	55 550 608	7.64%
Total deposits from individuals and customer accounts	895 760 195	100.00%	728 041 797	100.00%

Included in customer accounts are deposits of RR 4 139 811 (2001: RR 2 721 174) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 33.

17 Own Securities Issued

	2002	2001
Bills of exchange	46 782 791	29 263 988
Deposit certificates	6 244 271	3 248 409
Savings certificates	1 133 908	569 739
Total own securities issued	54 160 970	33 082 136

18 Other Borrowed Funds

As at 31 December 2002, the Bank had borrowings of USD 45 000 thousand carried at amortised cost of USD 46 171 thousand which is equivalent to RR 1 467 509 (2001: borrowings of USD 50 000 thousand carried at amortised cost of USD 51 655 thousand or RR 1 792 291). The borrowings are attracted in the form of a special purpose line of credit from an international banking institution. The contractual maturity of the borrowings varies from 1 to 38 months (2001: from 10 to 54 months), the annual interest rate is LIBOR + 1.95% (2001: LIBOR + 1.95%).

19 Other Liabilities

	2002	2001
Accrued compensation expenses	4 461 367	2 601 687
Operating taxes payable	2 719 216	1 261 623
Trade creditors	196 260	709 632
Settlements on conversion operations and operations with securities	168 404	817 785
Banking card creditors	58 623	28 690
Provision for credit related commitments	26 239	11 028
Dividends payable	14 420	16 622
Other accruals and deferred income	7 633	174 698
Balances arising from derivative financial instruments	1 618	85 227
Other	798 200	11 656
Total other liabilities	8 451 980	5 718 648

20 Share Capital

As at 31 December 2002, authorised share capital of the Bank amounted to RR 1 000 000, which included 19 000 000 ordinary shares and 50 000 000 preference shares. Share capital issued and fully paid comprised:

	2002				2001			
	Number of shares	Nominal amount	Nominal value	Inflation adjusted amount	Number of share	Nominal amount	Nominal value	Inflation adjusted amount
Ordinary shares	19 000 000	0,05	950 000	19 525 646	19 000 000	0,05	950 000	19 525 646
Preference shares	50 000 000	0,001	50 000	1 454 937	50 000 000	0,001	50 000	1 454 937
Less: Treasury shares								
Ordinary shares	(1 772)	0,05	(89)	(275)	(2 797)	0,05	(140)	(1 189)
Preference shares	(3 145)	0,001	(3)	(136)	(1 069)	0,001	(1)	(22)
Total share capital	68 995 083		999 908	20 980 172	68 996 134		999 859	20 979 372

All ordinary shares have a nominal value of 50 Russian Roubles per share, rank equally and carry one vote.

The preference shares have a nominal value of 1 Russian Rouble and carry no voting rights but rank ahead of the ordinary shares in event of liquidation of the Bank. Preference shares are not subject to obligatory redemption. They carry a minimum annual dividend equal to 15% of their nominal value. The minimum preference dividend relating to 2002 is RR 7 500. The Bank will recognize this amount following ratification of 2002 dividends at the annual general shareholders' meeting.

As at 31 December 2002, 1 772 ordinary shares (2001: 2 797 shares) and 3 145 preference shares (2001: 1 069 shares) at restated cost of RR 411 (2001: RR 1 211) are held by the Bank as treasury shares and, accordingly, have been reflected as a reduction of share capital in the accompanying balance sheet.

21 Shareholders' Equity

Shareholders' funds (equity) and profit are reconciled between Russian statutory books and IFRS as follows:

	2002		2001	
	Shareholders' equity	Profit	Shareholders' equity	Profit
Russian statutory books	127 314 512	36 015 985	100 412 163	21 743 744
Inflation impact on:				
- share capital	-	(4 070 841)	-	(4 070 841)
- other non-monetary items	39 576 676	(1 405 248)	44 924 068	8 294 065
Premises revaluation reserve	(36 693 322)	-	(36 624 854)	-
Accrued interest income and expense, net	12 376 228	2 244 802	10 131 426	1 978 003
Accrued staff costs and administrative expenses	(5 652 094)	(3 072 762)	(2 579 332)	(2 313 784)
Depreciation and amortisation	(6 295 952)	(2 984 264)	(3 311 688)	(2 763 804)
Additional allowance for impairment	(20 915 384)	(5 108 306)	(15 807 078)	(221 007)
Fair value adjustment for securities	11 765 225	7 631 562	4 133 663	21 242 036
Deferred tax	217 330	8 322 656	(8 112 809)	(8 112 809)
Current tax	1 426 277	872 816	553 461	888 156
Expenses booked directly to shareholders' funds	-	(7 934 039)	-	(5 063 546)
Other	-	8 954	(13 656)	(3 337)
International Financial Reporting Standards	123 119 496	30 521 315	93 705 364	31 596 876

	Pro-forma (Restated)			
	2002		2001	
	Shareholders' equity	Profit	Shareholders' equity	Profit
Russian statutory books	127 314 512	36 015 985	100 412 163	21 743 744
Inflation impact on:				
- share capital	-	(4 070 841)	-	(4 070 841)
- other non-monetary items	39 576 676	(1 405 248)	44 924 068	8 294 065
Premises revaluation reserve	(36 693 322)	-	(36 624 854)	-
Accrued interest income and expense, net	12 376 228	2 244 802	10 131 426	1 978 003
Accrued staff costs and administrative expenses	(5 652 094)	(3 072 762)	(2 579 332)	(2 313 784)
Depreciation and amortisation	(6 295 952)	(2 984 264)	(3 311 688)	(2 763 804)
Additional allowance for impairment	(20 915 384)	(5 108 306)	(15 807 078)	(221 007)
Fair value adjustment for securities	11 765 225	7 631 562	4 133 663	21 242 036
Deferred tax	217 330	(1 940 381)	2 150 228	2 150 228
Current tax	1 426 277	872 816	553 461	888 156
Expenses booked directly to shareholders' funds	-	(7 934 039)	-	(5 063 546)
Other	-	8 954	(13 656)	(3 337)
International Financial Reporting Standards	123 119 496	20 258 278	103 968 401	41 859 913

In accordance with Russian banking regulations, the Bank must distribute all profits as dividends or transfer them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules as at 31 December 2002 are RR 81 504 412 (2001: RR 56 399 938) (non-inflated).

22 Interest Income and Expense

	2002	2001
Interest income		
Loans and advances to customers	88 939 592	72 248 544
Interbank loans	5 855 295	5 106 879
Securities	36 785 503	38 108 603
Total interest income	131 580 390	115 464 026
Interest expense		
Term deposits from individuals	(53 560 404)	(48 716 825)
Current/settlement accounts	(1 614 553)	(1 675 721)
Term deposits of legal entities	(2 098 599)	(1 386 653)
Own securities issued	(1 238 057)	(920 712)
Term placements of banks and other borrowed funds	(217 405)	(307 940)
Other	-	(4 777)
Total interest expense	(58 729 018)	(53 012 628)
Net interest income	72 851 372	62 451 398

As at 31 December 2002, the Bank had RR 14 323 686 of loans that have been placed on non-accruing status as to contractual interest in accordance with the Bank's accounting policy.

23 Gains Less Losses from Securities and Derivatives

	2002			2001		
	Adjusting to fair value	Realized revaluation income and income from redemption	Total	Adjusting to fair value	Realized revaluation income and income from redemption	Total
Derivative financial instruments	112 229	(19 819)	92 410	548 377	2 582	550 959
Trading securities and securities available for sale	4 286 525	14 965 963	19 252 488	24 972 651	1 181 015	26 153 666
Total gains less losses arising from securities and derivatives	4 398 754	14 946 144	19 344 898	25 521 028	1 183 597	26 704 625

24 Fee and Commission Income and Expense

	2002	2001
Commission on cash transactions	8 100 141	6 484 887
Commission on settlement transactions	3 764 356	3 659 939
Commission for lending operations	1 917 839	1 191 279
Commission related to operations with foreign currency	1 906 204	1 807 942
Commission on cash collection	766 098	706 422
Commission on transactions with securities	277 631	316 050
Commission on guarantees issued	28 252	19 126
Other	169 116	133 728
Total fee and commission income	16 929 637	14 319 373
Commission related to operations with foreign currency	(251 832)	(322 892)
Commission on transactions with securities	(90 527)	(147 539)
Commission on cash collection	(55 003)	(61 877)
Commission on settlement transactions	(66 666)	(35 647)
Commission on cash transactions	(599)	(619)
Other	(15 602)	(12 257)
Total fee and commission expense	(480 229)	(580 831)
Net fee and commission income	16 449 408	13 738 542

25 Other Operating Income

	2002	2001
Late charges on loans and other penalties	811 114	897 220
Leasing and other income on premises and equipment	495 079	433 667
Gains less losses arising from dealing in precious metals	239 671	228 327
Dividends received	30 144	15 139
Recoveries of amounts previously written off	11 085	401 087
Other	633 217	341 129
Total other operating income	2 220 310	2 316 569

26 Payroll and Other Staff Expenses

	2002	2001
Payroll expenses	(33 997 979)	(31 522 581)
Unified social tax expenses	(9 464 175)	(9 208 524)
Total payroll and other staff expenses	(43 462 154)	(40 731 105)

27 Operating Expenses

	2002	2001
Taxes other than income tax	(7 159 688)	(3 829 827)
Depreciation and amortisation	(5 574 910)	(5 568 860)
Administrative expenses	(4 726 085)	(5 551 989)
Other expenses related to premises and equipment	(2 968 070)	(3 075 508)
Advertising and marketing	(503 194)	(594 057)
Professional services	(97 076)	(37 427)
Expenses related to clients claims and court expenses	(87 417)	(785 133)
Other	(3 263 828)	(2 521 786)
Total operating expenses	(24 380 268)	(21 964 587)

28 Income Taxes

Income tax expense was comprised of the following:

	2002	2001	Pro-forma	
			Restated	
	2002	2001	2002	2001
Current tax charge	(5 700 992)	(4 529 162)	(5 700 992)	(4 529 162)
Deferred taxation	8 322 656	(14 213 533)	(1 940 381)	3 708 120
Effect of change in tax rates	-	5 956 352	-	(1 702 264)
Adjustment of amortised cost of securities acquired at original issuance due to implementation of IAS 39	-	480 732	-	480 732
Income tax benefit/(expense)	2 621 664	(12 305 611)	(7 641 373)	(2 042 574)

Russian legal entities must individually report taxable income and remit profit taxes thereon to the appropriate tax authorities. The income tax rate for banks other than on state securities was 7.5% for Federal taxes and 16.5% for Regional and Local taxes. The tax rate for interest income on state securities was 15% for Federal taxes.

28 Income Taxes (continued)

The effective profit tax rate differs from the statutory profit tax rates. A reconciliation of the profit tax expenses based on statutory rates with the actual profit tax provision follows.

	2002	2001	Pro-forma	
			Restated 2002	Restated 2001
IFRS profit before taxation	27 899 651	43 902 487	27 899 651	43 902 487
Statutory income tax rate	24%	43%	24%	43%
Theoretical tax charge at the applicable statutory rate	(6 695 916)	(18 878 069)	(6 695 916)	(18 878 069)
Income exempt from taxation	270 177	2 892 699	270 177	2 892 699
Income on government securities taxed at different rates	2 381 692	1 972 147	2 381 692	1 972 147
Non-taxable decreases in allowance for impairment of securities available for sale	-	2 132 931	-	2 132 931
Non temporary elements of monetary gains and losses	(2 886 061)	(4 247 975)	(2 886 061)	(4 247 975)
Other non-temporary differences	(294 632)	(470 707)	(294 632)	(470 707)
Non-deductible expenses	(416 633)	(5 967 781)	(416 633)	(5 967 781)
Effect of the change in tax rate	-	6 422 640	-	(1 702 264)
Correction of fundamental error	10 263 037	-	-	-
Revaluation of property, plant and equipment for tax purposes	-	-	-	18 387 941
Change in non-recognised deferred tax asset	-	3 838 504	-	3 838 504
Income tax benefit/(expense)	2 621 664	(12 305 611)	(7 641 373)	(2 042 574)

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24%, except for income on state securities that is taxed at 15%.

	2001	Change	2002	Pro-forma		
				Restated 2001	Change	Restated 2002
Tax effect of deductible temporary differences						
Impairment of interest earning assets	3 622 740	1 463 146	5 085 886	3 622 740	1 463 146	5 085 886
Premises and equipment	2 912 093	(2 724 410)	187 683	2 992 677	(2 804 994)	187 683
Accruals	261 103	2 617 964	2 879 067	261 103	2 617 964	2 879 067
Other	734 517	(631 147)	103 370	734 517	(631 147)	103 370
Deferred tax asset	7 530 453	725 553	8 256 006	7 611 037	644 969	8 256 006
Tax effect of taxable temporary differences						
State securities income	(557 747)	(157 645)	(715 392)	(557 747)	(157 645)	(715 392)
Fair valuation of securities	(4 764 643)	(2 550 839)	(7 315 482)	(4 764 643)	(2 550 839)	(7 315 482)
Premises and equipment revaluation	(10 182 453)	10 182 453	-	-	-	-
Other	(138 419)	130 617	(7 802)	(138 419)	130 617	(7 802)
Deferred tax liability	(15 643 262)	7 604 586	(8 038 676)	(5 460 809)	(2 577 867)	(8 038 676)
Net deferred tax asset/(liability)	(8 112 809)	8 330 139	217 330	2 150 228	(1 932 898)	217 330

The tax effect of the movement in temporary differences for premises and equipment includes deferred tax reductions in respect of the revaluation of premises of RR 7 483 (2001: RR 144 370). These amounts are recorded directly to shareholders' equity.

29 Earnings per Share

Basic earnings per share are calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares.

The Bank has no potentially diluted ordinary shares; therefore, the diluted earnings per share equal basic earnings per share.

	2002	2001	Pro-forma	
			Restated	
	2002	2001	2002	2001
Net profit attributable to shareholders	30 521 315	31 596 876	20 258 278	41 859 913
Less: dividends on preference shares	(59 778)	(49 019)	(59 778)	(49 019)
Net profit attributable to ordinary shareholders	30 461 537	31 547 857	20 198 500	41 810 894
Weighted average number of ordinary shares outstanding (thousands)	18 998	17 331	18 998	17 331
Basic and diluted earnings per share (expressed in Russian Roubles per share)	1 603	1 820	1 063	2 412

30 Dividends

	2002		2001	
	Ordinary	Preference	Ordinary	Preference
Dividends payable at 1 January	15 749	873	20 950	1 849
Dividends declared during the year	1 055 688	59 778	874 031	49 019
Dividends paid during the year	(1 055 721)	(59 763)	(875 914)	(49 703)
Effect of inflation	(2 069)	(115)	(3 318)	(292)
Dividends payable at 31 December	13 647	773	15 749	873
Dividends per share declared during the year (expressed in Russian Roubles per share)	55,56	1,20	50,43	0,98

All dividends are declared and paid in Russian Roubles.

31 Analysis by Segment, Geography and Currency

Geographical analysis. The geographical analysis of the Bank's assets and liabilities as at 31 December 2002 is presented below:

	Russia	Other countries	Total
Assets			
Cash and cash equivalents	61 540 094	6 068 419	67 608 513
Mandatory cash balances with the Central Bank of the Russian Federation	74 808 687	-	74 808 687
Trading securities	125 854 436	-	125 854 436
Due from banks, net	18 650 383	21 374 396	40 024 779
Loans and advances to customers, net	516 212 132	459 051	516 671 183
Securities available for sale	93 025 286	-	93 025 286
Securities acquired at original issuance	102 027 415	-	102 027 415
Tax asset	217 330	-	217 330
Premises and equipment	61 675 642	-	61 675 642
Other assets	5 100 097	-	5 100 097
Total assets	1 059 111 502	27 901 866	1 087 013 368
Liabilities			
Due to banks	2 903 318	1 149 900	4 053 218
Deposits from individuals	706 311 977	1 703 161	708 015 138
Customer accounts	187 002 286	742 771	187 745 057
Own securities issued	54 160 970	-	54 160 970
Other borrowed funds	-	1 467 509	1 467 509
Other liabilities	8 451 980	-	8 451 980
Total liabilities	958 830 531	5 063 341	963 893 872
Net balance sheet position at 31 December 2002	100 280 971	22 838 525	123 119 496
Net balance sheet position at 31 December 2001	88 508 413	5 196 951	93 705 364
<u>Pro-forma (Restated)</u>			
Net balance sheet position at 31 December 2001	98 771 450	5 196 951	103 968 401

Other countries consist primarily of OECD member countries.

31 Analysis by Segment, Geography and Currency (continued)

Segment reporting. In accordance with requirements of IAS 14 “Segment reporting”, the Bank defined that its primary segments are business (corporate and retailing). The secondary segments are geographical based on Russia regions where the Bank operates. Segment reporting per business segments as at 31 December 2002 follows:

	Corporate Sector	Retail Sector	Unallocated	Total
Assets				
Trading securities	125 854 436	-	-	125 854 436
Due from banks, net	40 024 779	-	-	40 024 779
Loans and advances to customers, net	452 755 399	63 915 784	-	516 671 183
Securities available for sale	93 025 286	-	-	93 025 286
Securities acquired at original issuance	102 027 415	-	-	102 027 415
Unallocated assets	-	-	209 410 269	209 410 269
Total Assets	813 687 315	63 915 784	209 410 269	1 087 013 368
Liabilities				
Due to banks	4 053 218	-	-	4 053 218
Deposits from individuals	-	708 015 138	-	708 015 138
Customer accounts	187 745 057	-	-	87 745 057
Own securities issued	52 117 479	2 043 491	-	54 160 970
Other borrowed funds	1 467 509	-	-	1 467 509
Unallocated liabilities	-	-	8 451 980	8 451 980
Total Liabilities	245 383 263	710 058 629	8 451 980	963 893 872
Interest income on loans	83 493 809	11 301 078	-	94 794 887
Interest income on securities	36 785 503	-	-	36 785 503
Fees and commission income	16 183 357	746 280	-	16 929 637
Fees and commission expense	(480 229)	-	-	(480 229)

31 Analysis by Segment, Geography and Currency (continued)

Geographical segment reporting is based on the Bank's activity among its central head office and 17 regional head offices. The Bank has defined five geographical segments:

Geographical segment	Name of territorial bank	Location of the regional head offices
Moscow	Central head office	Moscow
European Russia	Severny	Yaroslavl
	Severo-Zapadny	Saint-Petersburg
	Tsentralno-Chernozemny	Voronezh
	Volgo-Vyatsky	Nizhniy Novgorod
	Povolzhsky	Samara
	Srednerussky	Moscow
	Severo-Kavkazsky	Stavropol
Ural	Yugo-Zapadny	Rostov-on-Don
	Zapadno-Uralsky	Perm
Western Siberia	Uralsky	Ekaterinburg
	Sibirsky	Novosibirsk
	Altaisky	Barnaul
Eastern Siberia and Far East	Zapadno-Sibirsky	Tumen
	Severo-Vostochny	Magadan
	Dalnevostochny	Khabarovsk
	Vostochno-Sibirsky	Krasnoyarsk
	Baikalsky	Irkutsk

31 Analysis by Segment, Geography and Currency (continued)

The Bank's reporting by geographical segments as at 31 December 2002 follows:

	Moscow	European Russia	Ural	Western Siberia	Eastern Siberia and Far East	Unallocated	Total
Assets:							
Cash and cash equivalents	49 898 571	12 939 223	1 657 823	1 283 261	1 829 635	-	67 608 513
Trading securities	44 875 368	54 966 206	10 650 047	8 364 268	6 998 547	-	125 854 436
Due from banks, net	39 996 805	-	8 910	8 700	10 364	-	40 024 779
Loans and advances to customers, net	208 018 951	186 944 215	45 638 157	42 817 964	33 251 896	-	516 671 183
Securities available for sale	17 985 934	57 771 665	5 694 630	7 366 193	4 206 864	-	93 025 286
Securities acquired at original issuance	36 057 651	47 244 292	7 615 042	4 407 926	6 702 504	-	102 027 415
Premises and equipment	18 406 080	28 615 299	4 234 606	5 687 313	4 732 344	-	61 675 642
Unallocated assets	-	-	-	-	-	80 126 114	80 126 114
Total assets	415 239 360	388 480 900	75 499 215	69 935 625	57 732 154	80 126 114	1 087 013 368
Liabilities:							
Due to banks	2 466 557	569 504	599 537	291 704	125 916	-	4 053 218
Deposits from individuals	176 218 624	350 957 363	65 402 880	56 865 437	58 570 834	-	708 015 138
Customer accounts	81 521 431	69 485 133	13 622 120	9 909 296	13 207 077	-	187 745 057
Own securities issued	18 552 766	18 604 856	9 543 091	5 176 988	2 283 269	-	54 160 970
Other borrowed funds	1 467 509	-	-	-	-	-	1 467 509
Unallocated liabilities	-	-	-	-	-	8 451 980	8 451 980
Total liabilities	280 226 887	439 616 856	89 167 628	72 243 425	74 187 096	8 451 980	963 893 872
Income Statement							
	Moscow	European Russia	Ural	Western Siberia	Eastern Siberia and Far East		Total
Interest income on loans	38 620 918	34 305 155	7 959 380	7 947 483	5 961 951		94 794 887
Interest income on securities	13 141 451	16 312 662	2 929 191	2 071 327	2 330 872		36 785 503
Interest expenses	(16 038 187)	(28 309 414)	(5 584 494)	(4 520 494)	(4 276 429)		(58 729 018)
Gains less losses arising from securities and derivatives	14 141 172	3 610 013	712 808	470 507	410 398		19 344 898
Gains less losses arising from dealing in foreign currency	798 752	1 355 322	209 680	185 612	337 195		2 886 561
Foreign exchange translation gains less losses	512 623	2 036 402	451 914	338 292	240 670		3 579 901
Fees and commission income	2 732 395	8 161 976	1 821 282	1 954 225	2 259 759		16 929 637
Fees and commission expense	(264 276)	(97 491)	(24 111)	(39 942)	(54 409)		(480 229)
Other operating income	539 861	983 617	345 248	113 909	237 675		2 220 310
Additionally acquired property, plant and equipment	2 883 359	4 482 659	663 362	890 932	741 334		9 661 646

31 Analysis by Segment, Geography and Currency (continued)

The Bank did not prepare segment reporting as at 31 December 2001 as it was impracticable to do so.

Currency analysis. Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. At year end the Bank had balances in RR and other currencies. Other currencies represent mainly amounts in US dollars and Euro.

At 31 December 2002, the Bank has the following positions in currencies:

	RR	USD	Other currencies	Total
Assets				
Cash and cash equivalents	53 327 538	6 242 934	8 038 041	67 608 513
Mandatory cash balances with the Central Bank of the Russian Federation	74 808 687	-	-	74 808 687
Trading securities	63 140 172	60 068 043	2 646 221	125 854 436
Due from banks, net	17 822 823	21 678 058	523 898	40 024 779
Loans and advances to customers, net	422 424 590	89 495 596	4 750 997	516 671 183
Securities available for sale	65 471 810	27 553 476	-	93 025 286
Securities acquired at original issuance	9 950 329	92 077 086	-	102 027 415
Tax asset	217 330	-	-	217 330
Premises and equipment	61 675 642	-	-	61 675 642
Other assets	4 944 579	155 518	-	5 100 097
Total assets	773 783 500	297 270 711	15 959 157	1 087 013 368
Liabilities				
Due to banks	2 981 841	816 796	254 581	4 053 218
Deposits from individuals	515 269 150	182 294 173	10 451 815	708 015 138
Customer accounts	136 418 675	47 203 481	4 122 901	187 745 057
Own securities issued	47 365 989	6 707 240	87 741	54 160 970
Other borrowed funds	-	1 467 509	-	1 467 509
Other liabilities	7 866 859	585 121	-	8 451 980
Total liabilities	709 902 514	239 074 320	14 917 038	963 893 872
Net balance sheet position	63 880 986	58 196 391	1 042 119	123 119 496
Credit related commitments	62 489 557	21 067 600	4 456 232	88 013 389

At 31 December 2001, the Bank had the following positions in currency:

	RR	USD	Other currencies	Total
Net balance sheet position (restated)	41 809 918	49 619 341	2 276 105	93 705 364
Pro-forma (Restated)				
Net balance sheet position	52 072 955	49 619 341	2 276 105	103 968 401
Credit related commitments	41 169 099	18 255 090	1 951 149	61 375 338

32 Interest Rate, Liquidity, Market and Credit Risks

The Bank's risk management processes give consideration to various uncertainties. The evaluation of these risks is based on balance sheet modelling and analysis of various scenarios. The results of such testing are measured by the exposure of the Bank's equity capital to loss based upon the scenarios modelled.

Interest rate risk. The Bank is exposed to interest rate pricing risk, principally as a result of lending to customers and other banks, at fixed interest rates in amounts and for periods, which differ from those of term deposits and other borrowed funds at fixed interest rates.

In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are often renegotiated to reflect current market conditions.

The table below summarises the effective average year-end interest rate, by major currencies, for monetary financial instruments outstanding as at 31 December 2002. The analysis has been prepared on the basis of weighted average interest rates for the various financial instruments using year-end effective rates.

	2002		2001	
	RR	Other currencies	RR	Other currencies
Assets				
Cash and cash equivalents	0.50%	0.90%	0.00%	1.64%
Due from banks	12.10%	1.80%	20.30%	1.42%
Trading securities	13.52%	8.24%	15.75%	11.04%
Loans and advances to customers	19.05%	9.56%	22.10%	13.30%
Securities available for sale	13.64%	8.47%	15.87%	13.01%
Securities acquired at original issuance	31.67%	15.60%	31.36%	15.60%
Liabilities				
Due to banks	2.90%	5.50%	11.45%	3.31%
Customer accounts and deposits of legal entities	2.28%	3.04%	2.92%	4.15%
Term deposits from individuals	9.80%	4.50%	10.84%	5.00%
Own securities issued	5.33%	5.70%	1.80%	1.71%
Other borrowed funds	-	5.27%	-	6.82%

The sign “-“ in the table above means, that the Bank does not have the respective assets or liabilities in the corresponding currency.

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. Liquidity risk management at the Bank is performed on the basis of measuring liquidity surplus/deficit and liquidity ratios that are calculated using scenario analysis. Liquidity ratios limits are approved by the Committee on Interest Rates and Limits of the Bank at least once a year. The Bank has also developed an action plan to deal with liquidity issues in the event of an economic crisis. The table below shows assets and liabilities as at 31 December 2002 by their remaining contractual maturity. Some of the assets, however, may be of a longer-term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer-term duration.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transactions are often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

32 Interest Rate, Liquidity, Market and Credit Risks (continued)

The liquidity position of the Bank as at 31 December 2002 is set out below.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 3 years	More than 3 years	Overdue / no stated maturity	Total
Assets							
Cash and cash equivalents	67 608 513	-	-	-	-	-	67 608 513
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	-	74 808 687	74 808 687
Trading securities	125 854 436	-	-	-	-	-	125 854 436
Due from banks, net	24 675 151	15 349 628	-	-	-	-	40 024 779
Loans and advances to customers, net	43 943 354	166 959 425	139 100 756	117 105 971	49 561 677	-	516 671 183
Securities available for sale	317 874	161 979	19 842 570	44 587 748	27 923 930	191 185	93 025 286
Securities acquired at original issuance	1 043 336	5 933 953	1 967 269	49 871 843	43 211 014	-	102 027 415
Tax asset	-	-	-	-	-	217 330	217 330
Premises and equipment	-	-	-	-	-	61 675 642	61 675 642
Other assets	2 024 086	3 076 011	-	-	-	-	5 100 097
Total assets	265 466 750	191 480 996	160 910 595	211 565 562	120 696 621	136 892 844	1 087 013 368
Liabilities							
Due to banks	4 053 218	-	-	-	-	-	4 053 218
Deposits from individuals	217 830 575	231 096 837	69 057 457	179 751 004	10 279 265	-	708 015 138
Customer accounts	172 001 136	11 657 302	1 774 439	1 987 733	324 447	-	187 745 057
Own securities issued	32 388 260	12 451 607	7 902 086	1 413 601	5 416	-	54 160 970
Other borrowed funds	37 211	476 766	-	-	953 532	-	1 467 509
Other liabilities	479 014	4 483 308	2 717 902	2 113	-	769 643	8 451 980
Total liabilities	426 789 414	260 165 820	81 451 884	183 154 451	11 562 660	769 643	963 893 872
Net liquidity gap	(161 322 664)	(68 684 824)	79 458 711	28 411 111	109 133 961	136 123 201	123 119 496
Cumulative liquidity gap at 31 December 2002	(161 322 664)	(230 007 488)	(150 548 777)	(122 137 666)	(13 003 705)	123 119 496	
Cumulative liquidity gap at 31 December 2001	(217 306 956)	(307 500 562)	(215 120 252)	(6 292 373)	42 368 377	103 968 401	
Pro-forma (Restated)							
Cumulative liquidity gap at 31 December 2001	(217 306 956)	(307 500 562)	(215 120 252)	(6 292 373)	42 368 377	93 705 364	

The entire portfolio of trading securities is classified within demand and less than one month as the portfolio is of a dealing nature and the Bank believes this is the proper presentation of its liquidity position.

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Bank's interest rate sensitivity analysis based on the re-pricing of the Bank's assets and liabilities does not differ significantly from the maturity analysis disclosed in the table above. For certain interest sensitive instruments the Bank establishes limits of their respective maturities. The Bank evaluates its risk exposure under negative market conditions and considers these results in interest rate risk and asset and liability management. Interest rate limits and decisions in respect of interest rate policy are made by the Bank's Committee on Interest Rates and Limits.

32 Interest Rate, Liquidity, Market and Credit Risks (continued)

The Bank believes that in spite of a substantial portion of deposits from individuals being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these deposits provide a long-term and stable source of funding for the Bank.

Market risk. The Bank takes an exposure to market risk due to price fluctuations in financial, currency and precious metals markets. The Bank sets limits on the value at risk that may be accepted in respect of the open positions in various financial products, which is monitored on a daily basis. Market risk limits are approved by the Committee on Interest Rates and Limits of the Bank. However, the use of this approach does not fully prevent losses outside of these limits in the event of more significant market movements. The stop-loss limits are set by the Bank to prevent excessive losses when market conditions change significantly.

Credit risk. The Bank takes on exposure to credit risk, which is the risk that a counterpart will be unable to pay amounts in full when due. The Bank has implemented an internal risk rating system in respect of its largest borrowers that is used to assess probability of default on loans to these borrowers. The Bank manages 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 geographical and industry segments. Credit risk limits are approved by the Credit Committee of the Bank. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

The Bank's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

33 Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank are received. The Bank is of the opinion that no material losses will be incurred and accordingly no provision has been made in these financial statements.

Tax legislation. Due to the presence in Russian tax legislation of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgement of business activities, the Bank's judgement of its business activities may not coincide with the interpretation of the same activities by tax authorities.

Transfer pricing legislation, which was introduced from 1 January 1999, provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect to all controlled transactions, provided that the transaction price differs from the market price by more than 20%. Controlled transactions include transactions with related parties, and transactions with unrelated parties if the price differs on similar transactions with different counterparts by more than 20%. There is no formal guidance as to how these rules should be applied in practice.

If a particular treatment was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest, which can be significant. Tax years remain open to review by the tax authorities for three years.

33 Contingencies, Commitments and Derivative Financial Instruments (continued)

Capital commitments. As at 31 December 2002, the Bank had capital commitments in respect of construction and computer equipment totalling RR 1 347 947 (2001: RR 1 486 126). The Bank has already allocated the necessary resources in respect of this commitment. The Bank believes that future net revenues and funding will be sufficient to cover this and any similar commitments.

Operating lease commitments. In the course of its business the Bank enters into a number of lease agreements. The majority of these lease agreements are cancellable. Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2002	2001
Not later than 1 year	10 164	48 712
Later than 1 year and not later than 5 years	4 218	74 739
Later than 5 years	23 425	49 930
Total operating lease commitments	37 807	173 381

Credit related commitments. The credit related commitments comprise loan commitments, letters of credit and guarantees. The contractual amount of these commitments represents the value at risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless. In general, most of the Bank's import letters of credit are collateralised with cash deposits or collateral pledged to the Bank and accordingly the Bank normally assumes minimal risk. Outstanding credit related commitments are as follows:

	2002	2001
Undrawn credit lines and commitments to extend credit	76 671 021	55 044 138
Import letters of credit	5 178 953	3 222 152
Export letters of credit	4 119 624	2 068 696
Guarantees issued	1 311 960	519 583
Letters of credit for domestic settlements	758 070	531 797
Less: provision for losses on credit related commitments	(26 239)	(11 028)
Total credit related commitments	88 013 389	61 375 338

The Bank evaluated the likelihood of possible losses arising from other credit related commitments and concluded that a provision of RR 26 239 was necessary as at 31 December 2002 (2001: RR 11 028). This provision is accounted under other liabilities. The total outstanding contractual amount of guarantees, letters of credit, and undrawn credit lines does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Derivatives. The Bank enters into derivative agreements that include forward, option and swap agreements with foreign currency, forward agreements with securities and precious metals and other derivatives. Currency-based and other derivatives are usually traded on the over-the-counter market on the basis of the standard contracts.

33 Contingencies, Commitments and Derivative Financial Instruments (continued)

The table below summarises the change in the Bank's obligations with respect to the forward contracts during 2002.

	2002	2001
Obligations on unsettled contracts at 1 January	85 227	654 649
Settlements during the year	(74 033)	(30 503)
Write off of 1998 contracts	-	(520 455)
Accrued losses on contracts entered into during the year	1 618	85 227
Effect of inflation	(11 194)	(103 691)
Obligations on unsettled contracts at 31 December	1 618	85 227

The table below includes contracts with a maturity date subsequent to 31 December 2002. These contracts were entered into in 2002 and are short term in nature.

	Domestic				Foreign			
	Principal or agreed amount of currency purchased	Principal or agreed amount of currency sold	Unrealised Loss	Unrealised Gain	Principal or agreed amount of currency purchased	Principal or agreed amount of currency sold	Unrealised Loss	Unrealised Gain
Spot transactions								
Foreign currency								
- purchase currency	3 178	3 184	(6)	-	443 671	444 671	(1 000)	-
- sale of currency	-	-	-	-	3 598 858	3 595 713	-	3 145
Term deals								
Foreign currency								
- purchase of currency	-	-	-	-	3 807 627	3 808 239	(612)	-
- sale of currency	-	-	-	-	-	-	-	-
Precious metals								
- purchase of precious metals	6 498 891	6 458 873	-	40 018	-	-	-	-
- sale of precious metals	-	-	-	-	1 712 607	1 690 744	-	21 863
Total	6 502 069	6 462 057	(6)	40 018	9 562 763	9 539 367	(1 612)	25 008

Unrealised gains or losses in the table above reflect the fair value adjustment of outstanding derivatives as at the year end. The Bank has recorded a net gain of RR 63 408, which is included in gains less losses arising from securities and derivatives.

33 Contingencies, Commitments and Derivative Financial Instruments (continued)

Fiduciary assets. These assets are not included in the Bank's balance sheet as they are not assets of the Bank. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets fall into the following categories:

	2002 Nominal value	2001 Nominal value
Shares in companies held in other custodies	4 458 183	134 239
OVGVZ	2 484 173	10 145 847
GKO and OFZ	2 147 232	2 932 872
Debt securities of municipal authorities of RF	1 569 918	932 895
Bills of exchange	1 467 555	999 278
RF Eurobonds	3 178	180 840
OGSZ	-	1
Other securities	115 904	46 309

Assets pledged. As at 31 December 2002, the Bank has pledged securities with fair value of RR 4 965 348 as collateral against overnight interbank borrowings, which the Bank takes on a regular basis from the Bank of Russia (2001: RR 2 683 799). As at 31 December 2002, the Bank had no overnight borrowings from the Bank of Russia (2001: nil).

34 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances taking into account the existing volume of operations on the Russian financial markets.

The Bank has estimated that the fair value of certain balance sheet instruments is not materially different than their recorded values. These balance sheet instruments include cash, nostros and term deposits, placements with banks and other financial institutions, securities held for trading or available for sale purposes, loans and advances to customers, deposits from banks and other financial institutions, current accounts and deposits from customers, certificates of deposit and bills of exchange and other short-term assets and liabilities which are of a contractual nature. The Bank believes that the carrying amount of these particular financial assets and liabilities approximates their fair value, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions (refer to Note 32). Fair values of securities acquired at original issuance have been disclosed in Note 12.

As set out in Note 5, external independent market quotations were not available for certain securities available for sale. These were fair valued by the Bank using relevant factors such as discounted cash flows and financial information of the underlying investments.

The fair values of equity securities in associated and subsidiary companies, share capital, premises and equipment, and other assets and liabilities which are not of a contractual nature are not calculated as they are not considered financial instruments under IAS 32, "Financial Instruments: Disclosure and Presentation".

35 Related Party Transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 “Related Party Disclosures”. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Banking transactions are entered into in the normal course of business with significant shareholders, directors, subsidiaries and companies with which the Bank has significant shareholders in common. These transactions include settlements, loans, deposit taking, trade finance and foreign currency transactions. These transactions are priced predominantly at market rates.

The outstanding balances at the year-end and interest expense and income as well as other transactions for the year with related parties other than the Central Bank of the Russian Federation are as follows:

	2002	2001
Correspondent accounts and overnight deposits with other banks	46 937	44 771
Due from banks		
Placements with the banks	776 766	-
Interest income	17 600	32 495
Loans and advances to customers		
Loans outstanding	3 293 258	4 901 403
Allowance for loan impairment	(1 668 463)	(1 525 411)
Interest income	109 672	255 403
Due to banks		
Correspondent accounts and overnight deposits of other banks	23 251	57 423
Short-term placements outstanding	-	2 810 471
Interest expense	4 272	37 668
Customer deposits		
Current/settlement accounts	178 990	330 935
Interest expense	16 767	17 488

The Bank of Russia is the majority shareholder of the Bank. As noted in the financial statements, the Bank maintains a number of balances, and carries out a range of transactions with the Bank of Russia, which are not included in the above analysis. These transactions included settlements, deposit placement and deposit taking, transfer of funds to the mandatory cash balances in accordance with the Russian banking regulations. These transactions were priced predominantly at market rates, where applicable.

The outstanding balances at the year-end and interest income and expense as well as other transactions for the year with the Bank of Russia are stated in the table below:

	2002	2001
Mandatory cash balances with the Bank of Russia as at year end	74 808 687	61 600 025
Account with the Bank of Russia as at year end (other than mandatory cash balances)	40 515 431	11 285 371
Loans and advances to the Bank of Russia as at year end	15 276 822	-
Interest income	4 627 708	3 511 186
Interest expense	(5 503)	(5 276)

36 Capital Adequacy

The Central Bank of the Russian Federation requires banks to maintain a capital adequacy ratio of 10% (2001: 11%) of risk weighted assets, computed based on statutory rules for Banks with equity capital more than five million EUR. As at 31 December 2002 and 2001, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

As at 31 December 2002 and 2001 the Bank's international risk based capital adequacy ratio exceeded the minimum ratio of 8% recommended by the Basle Accord:

	2002	2001	Pro-forma	
			Restated 2002	Restated 2001
Core capital adequacy ratio (Tier 1)	14.7%	12.9%	14.7%	14.3%
Total capital adequacy ratio (Tier 1 and Tier 2)	16.0%	14.3%	16.0%	15.6%
