

JSB ROSBANK AND SUBSIDIARIES

Independent Auditors' Report

**Consolidated Financial Statements
Year Ended 31 December 2002**

JSB ROSBANK AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Joint Stock Bank ROSBANK:

We have audited the accompanying consolidated balance sheet of Joint Stock Bank ROSBANK and subsidiaries (the "Bank") as at 31 December 2002 and the related consolidated profit and loss account, consolidated statement of cash flows and consolidated statement of shareholders' equity for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2002, and the results of its operations and its cash flows for the year then ended, in accordance with International Accounting Standards.

7 March 2003

JSB ROSBANK AND SUBSIDIARIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2002 (in Russian Roubles and in thousands)

	Notes	2002	2001
Interest income	3,25	4,645,521	4,051,467
Interest expense	3,25	<u>(3,172,326)</u>	<u>(2,304,981)</u>
NET INTEREST INCOME BEFORE RECOVERY OF PROVISION FOR POSSIBLE LOAN LOSSES		1,473,195	1,746,486
(Provision)/recovery of provision for possible loan losses	4,25	<u>(9,198)</u>	<u>572,601</u>
NET INTEREST INCOME		<u>1,463,997</u>	<u>2,319,087</u>
Net gain on foreign exchange operations		603,734	532,499
Net gain on operations with trading securities		874,030	663,366
Fee and commission income	5,25	831,184	1,112,780
Fee and commission expense	5	(202,572)	(176,155)
Fair value adjustment on securities available-for-sale		(33,284)	79,896
Dividend income		44,117	3,212
Other income	6	<u>128,678</u>	<u>256,639</u>
NET NON-INTEREST INCOME		<u>2,245,887</u>	<u>2,472,237</u>
OPERATING INCOME		3,709,884	4,791,324
OPERATING EXPENSES	7	<u>(2,238,930)</u>	<u>(2,448,109)</u>
PROFIT BEFORE OTHER PROVISIONS, INCOME TAX, EXTRAORDINARY LOSSES AND LOSS ON NET MONETARY POSITION		1,470,954	2,343,215
Provision for possible investment losses	15	(15,515)	(15,193)
(Provision)/recovery of provision for possible losses on other operations	4,25	<u>(176,220)</u>	<u>6,342</u>
PROFIT BEFORE INCOME TAX, EXTRAORDINARY LOSSES AND LOSS ON NET MONETARY POSITION		1,279,219	2,334,364
Income tax expense	8	<u>(47,211)</u>	<u>(112,257)</u>
PROFIT FROM ORDINARY ACTIVITIES BEFORE EXTRA-ORDINARY LOSSES AND LOSS ON NET MONETARY POSITION		1,232,008	2,222,107
Extraordinary losses	9	<u>-</u>	<u>(1,240,132)</u>
PROFIT BEFORE LOSS ON NET MONETARY POSITION		1,232,008	981,975
Loss on net monetary position due to inflation effect	2	<u>(1,037,764)</u>	<u>(1,597,771)</u>
NET PROFIT/(LOSS)		<u>194,244</u>	<u>(615,796)</u>

On behalf of the Management Board

Chairman

Chief Financial Officer

The notes on pages 6 to 31 form an integral part of these financial statements. Independent Auditors' Report is presented on page 1.

JSB ROSBANK AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

31 DECEMBER 2002

(in Russian Roubles and in thousands)

	Notes	2002	2001
ASSETS:			
Cash and balances with the Central Bank of the Russian Federation and National Bank of Switzerland	10	6,064,192	6,212,116
Loans and advances to banks, less allowance for possible loan losses	11	8,589,104	9,565,931
Trading securities	12	6,700,852	4,134,042
Loans and advances to customers, less allowance for possible loan losses	13,25	33,671,340	28,001,653
Securities purchased under agreement to resell	14	62,832	-
Investment securities	15,25	897,428	4,410,993
Fixed and intangible assets, less accumulated depreciation	16	133,371	131,953
Other assets, less allowance for possible losses	17	722,844	1,116,121
TOTAL ASSETS		56,841,963	53,572,809
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES:			
Deposits from the Central Bank of the Russian Federation		-	3,122,203
Deposits from banks	18	4,737,460	2,552,068
Customer accounts	19,25	33,676,310	32,109,019
Debt securities issued	20	9,998,776	7,442,365
Other liabilities	21,25	477,130	433,495
Total liabilities		48,889,676	45,659,150
SHAREHOLDERS' EQUITY:			
Share capital	22	5,478,179	5,478,179
Reserves		2,474,108	2,435,480
Total shareholders' equity		7,952,287	7,913,659
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		56,841,963	53,572,809

On behalf of the Management Board

Chairman

Chief Financial Officer

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JSB ROSBANK AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2002 (in Russian Roubles and in thousands)

	Notes	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax, extraordinary losses and loss on net monetary position		1,279,219	2,334,364
Adjustments for:			
Provision/(recovery of provision) for possible loan losses		9,198	(572,601)
Provision for possible investment losses		15,515	15,193
Provision/(recovery of provision) for possible losses on other operations		176,220	(6,342)
Fair value adjustment on securities available-for-sale		33,284	(79,896)
Depreciation charge on fixed and intangible assets		39,297	35,615
Change in accrued commission income		15,585	(15,585)
Net change in net replacement value of derivatives and spot deals		(111,531)	96,240
Net change in interest accruals		(192,824)	54,839
Change in translation reserve		(155,616)	(57,884)
Operating profit before changes in operating assets and liabilities		<u>1,108,347</u>	<u>1,803,943</u>
Changes in operating assets and liabilities:			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the Central Bank of the Russian Federation and National Bank of Switzerland		(302,609)	(717,606)
Loans and advances to banks		(683,359)	2,042,093
Trading securities		(2,825,563)	(1,450,667)
Loans and advances to customers		(1,538,520)	(213,376)
Securities purchased under agreement to resell		(62,832)	-
Other assets		(255,929)	335,957
Increase/(decrease) in operating liabilities:			
Deposit from the Central Bank of the Russian Federation		(3,122,203)	3,122,203
Deposits from banks		2,231,439	(1,494,130)
Deposits from customers		1,515,123	4,959,270
Other liabilities		(79,525)	(62,410)
Cash inflow from operating activities before income taxes		<u>(4,015,631)</u>	<u>8,325,277</u>
Income taxes paid		<u>(50,572)</u>	<u>(131,278)</u>
Net cash (outflow)/inflow from operating activities		<u>(4,066,203)</u>	<u>8,193,999</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed and intangible assets		(48,027)	(84,128)
Proceeds on sale of fixed and intangible assets		7,312	11,558
Proceeds on (purchase)/sale of investments		<u>(147,763)</u>	<u>584,224</u>
Net cash (outflow)/inflow from investing activities		<u>(188,478)</u>	<u>511,654</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds on sale/(redemption) of debt securities issued		<u>2,556,171</u>	<u>(3,809,522)</u>
Net cash inflow/(outflow) from financing activities		<u>2,556,171</u>	<u>(3,809,522)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(1,698,510)	4,896,131
INFLATION EFFECT ON CASH (INCLUDING CHANGE IN VALUATION ALLOWANCES)		(1,430,963)	(2,223,068)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	10	<u>11,283,719</u>	<u>8,610,656</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	10	<u>8,154,246</u>	<u>11,283,719</u>

Interest paid and received by the Bank in cash during the year ended 31 December 2002 amounted to RUR 3,165,965 thousand and RUR 4,446,336 thousand, respectively.

Interest paid and received by the Bank in cash during the year ended 31 December 2001 amounted to RUR 2,373,163 thousand and RUR 4,124,451 thousand, respectively.

On behalf of the Management Board

Chairman

Chief Financial Officer

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JSB ROSBANK AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2002 (in Russian Roubles and in thousands)

	Share capital	Share premium	Translation reserve	Accumulated deficit	Total shareholders' equity
Balance 1 January 2001	5,478,179	3,672,190	-	(563,030)	8,587,339
Changes in translation reserves	-	-	(57,884)	-	(57,884)
Net loss	-	-	-	(615,796)	(615,796)
Balance 31 December 2001	<u>5,478,179</u>	<u>3,672,190</u>	<u>(57,884)</u>	<u>(1,178,826)</u>	<u>7,913,659</u>
Changes in translation reserves	-	-	(155,616)	-	(155,616)
Net profit	-	-	-	194,244	194,244
Balance 31 December 2002	<u>5,478,179</u>	<u>3,672,190</u>	<u>(213,500)</u>	<u>(984,582)</u>	<u>7,952,287</u>

On behalf of the Management Board

Chairman

Chief Financial Officer

The notes on pages 6 to 31 form an integral part of these financial statements. The Independent Auditors' Report is presented on page 1.

JSB ROSBANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002 (in Russian Roubles and in thousands)

1. ORGANISATION

ROSBANK is a joint stock bank which was incorporated in the Russian Federation in 1993. ROSBANK is regulated by the Central Bank of the Russian Federation (the “CBR”) and conducts its business under license number 2272. ROSBANK’s primary business consists of commercial banking activities, securities dealings, foreign currency transactions and retail banking. On 7 June 1999 ROSBANK re-registered its legal status from a Limited liability bank to a Joint-stock bank. On 14 September 2000, at a joint shareholders meeting, it was approved to merge UNEXIM Bank into ROSBANK. UNEXIM Bank was a joint stock bank incorporated in the Russian Federation. On 21 November 2000, the CBR approved the merger and de-registered UNEXIM Bank with ROSBANK as the successor bank.

ROSBANK has 13 branches in the Russian Federation and a representative office in Beijing (China). ROSBANK is registered at: 11, Ul. Mashi Poryvaevoy, Moscow, 107078, Russia.

ROSBANK is a parent company of the Banking Group (the “Bank”) which consists of the following enterprises which are consolidated in the financial statements:

Name	Country of incorporation	Proportion of ROSBANK’s ownership interest and voting power
Rosbank (Switzerland) SA	Switzerland	100%
Rosbank International Finance BV	The Netherlands	100%
RosInvest SA	Luxembourg	100%

Total number of employees of the Bank at 31 December 2002 and 2001 was 2,183 and 2,023, respectively.

These financial statements were authorized for issue by the Management Board of the Bank on 28 February 2003.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting basis - The financial statements have been prepared on the accrual basis of accounting, under the historical cost convention and restated in terms of measuring unit (i.e. Russian Rouble) current at 31 December 2002.

The Bank maintains its accounting records in accordance with Russian and other applicable regulations. These financial statements have been prepared from the Russian statutory accounting records and have been adjusted to conform to International Accounting Standards (“IAS”).

The Russian Federation is currently experiencing high levels of inflation. Under IAS 29, “Financial Reporting in Hyperinflationary Economies,” the accompanying financial statements have been adjusted to reflect the effects of the diminution of the purchasing power of the Russian Rouble. The rates of inflation were 15.1% in 2002, 18.8% in 2001, 20.1% in 2000 and 36.7% in 1999.

All amounts in these financial statements, including corresponding figures, are stated in terms of the measuring unit (i.e. Russian Rouble) current at 31 December 2002. Monetary assets and liabilities

as at 31 December 2002 are not restated because they are already expressed in terms of the monetary unit current at 31 December 2002. Non-monetary assets and liabilities and shareholders' equity, including share capital as at 31 December 2002 and all amounts as at 31 December 2001 are restated by applying a relevant conversion factor. The effect of inflation on the Bank's net monetary position is reflected in the profit and loss accounts as a loss on net monetary position.

It is expected that starting from 1 January 2003 the Russian economy will no longer be considered to be a hyperinflationary economy for IAS purposes. Therefore, effective 1 January 2003 the Bank will discontinue application of the provisions of IAS 29 "Financial Reporting in Hyperinflationary Economies". The value of non-monetary assets, liabilities and shareholders' equity expressed in terms of the measuring unit current at 31 December 2002 will be a basis for carrying values during the subsequent periods effective 1 January 2003.

The preparation of financial statements in conformity with IAS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for losses on loans, investments and other operations, and the fair value of financial instruments.

Reporting currency - The currency used in these financial statements is the Russian Rouble (RUR).

Principles of consolidation - The consolidated financial statements include the accounts of majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated. The ownership interest of the Bank and proportion of voting power of the Bank in the significant subsidiaries as at 31 December 2002 and 2001 is presented in Note 1.

In translating the financial statements of a foreign subsidiary into reporting currency for incorporation in the financial statements, the Bank follows a translation policy in accordance with International Accounting Standard No. 21 (IAS 21), "The Effects of Changes in Foreign Interest Rates" and the following procedures are done:

- assets and liabilities, both monetary and non-monetary, of the foreign entity are translated at closing rate;
- income and expense items of the foreign entity are translated at exchange rates at the dates of transactions;
- all resulting exchange differences are classified as equity until the disposal of the investment;
- on disposal of investment in the foreign entity related exchange differences are recognized in the profit and loss statement.

Investments in other subsidiaries and associated companies - Investments in corporate shares where the Bank owns more than 20% of share capital, but does not have ability or intent to control or exercise significant influence over operating and financial policies, or non-consolidation of such companies does not have a significant effect on the financial statements taken as a whole, or the Bank intends to resell such investments in the nearest future, as well as investments in corporate shares where the Bank owns less than 20% of share capital, are accounted for at fair value of at cost, or at cost of acquisition, if the fair value of investments cannot be determined. Management periodically assesses the carrying values of such investments and provides valuation allowances, if required.

Cash and cash equivalents - Cash and cash equivalents include cash, unrestricted balances on correspondent and deposit accounts with the Central Bank of the Russian Federation and the National Bank of Switzerland and loans and advances to banks in countries included in the Organization for Economic Co-operation and Development ("OECD") with remaining maturity within 90 days, precious metals in vault and placed at nostro accounts with OECD banks, as well as

government debt securities included into trading portfolio which may be converted to cash within a short period of time. For purposes of determining cash flows, the minimum reserve deposit required by the Central Bank of the Russian Federation and the National Bank of Switzerland is not included as a cash equivalent due to restrictions on its availability (Note 10).

Trading securities - Trading securities represent debt and equity securities held for trading that are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Trading securities are initially recorded at cost which approximates fair value of the consideration given and subsequently measured at fair value. The Bank uses quoted market prices to determine fair value for the Bank's trading securities. Fair value adjustment on trading securities is recognised in profit and loss for the period.

Securities available-for-sale - Securities available-for-sale represent equity and debt investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at cost which approximates the fair value of the consideration given. Subsequently the securities are measured at fair value, with such remeasurement included in the profit and loss account. The Bank uses quoted market prices to determine fair value for its securities available-for-sale. If such quotes do not exist, independent professional estimation or management estimation is used.

Originated loans - Loans originated by the Bank are financial assets that are created by the Bank by providing money directly to a borrower or by participating in a loan facility, other than those that are originated with the intent to be sold immediately or in the short term, which are classified as held-for-trading. Originated loans are carried at the amount of principal debt, less any provision for possible loan losses.

Purchased loans and receivables - Loans and receivables acquired in the market subsequently to the original date are either classified as loans held-to-maturity or available-for-sale. Fair value of purchased loans classified as available-for-sale, is based on an active market or on a discounted cash flow ("DCF") model. If market price is not available and DCF model is not practicable, the price for similar assets is used.

Allowance for possible loan losses - The determination of the allowance for possible loan losses is based on an analysis of the loan portfolio and reflects the amount which, in the judgment of management, is adequate to provide for losses inherent in the loan portfolio. Specific provisions are made as a result of a detailed appraisal of risk assets. In addition, provisions are carried to cover potential risks, which although not specifically identified, are present in the loan portfolio judging by the previous experience.

The total increase in the allowance for possible loan losses is charged to profit and loss account and the total of the allowance for possible loan losses is deducted in arriving at loans and advances to customers and banks. Management's evaluation of the allowance is based on the Bank's past loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and current economic conditions.

It should be understood that estimates of possible loan losses involve an exercise of judgment. While it is possible that in particular periods the Bank may sustain losses, which are substantial relative to the allowance for possible loan losses, it is the judgment of management that the allowance for possible loan losses is adequate to absorb losses inherent in the loan portfolio.

Write off of loans and receivables - Loans and receivables are written off against allowance for possible loan losses and losses on other assets in case of uncollectibility of loans and receivables, including through repossession of collateral. Loans and receivables are written off after 3 years overdue according to the legislation or under arbitrage decision.

Non-accrual loans - Loans are placed on non-accrual status when interest or principal is delinquent for a period in excess of 90 days, except when all amounts due are fully secured by cash or marketable securities and collection proceedings are in process. Interest income is not recognised where recovery is doubtful.

Derivative financial instruments - The Bank enters into derivative financial instruments to manage currency and liquidity risks. Although, such instruments are not qualified for hedging purposes. Derivatives entered into by the Bank for trading purposes include forward, swaps as well as combinations of such instruments on foreign currency, precious metals and securities.

Derivative financial instruments are initially recorded at cost with their subsequent remeasurement to fair value. Fair values are obtained from discounted cash flow model. Most of derivatives the Bank enters in are of short-term and speculative nature. The results of the valuation of derivatives are reported in assets (aggregate of positive market values) or liabilities (aggregate of negative market values), respectively. Both positive and negative valuation results are recognised in the profit and loss account for the year in which they arise under net gain on foreign exchange operations for foreign currency, net gain on operations with trading securities for securities and under other income for precious metals derivatives.

Reverse repurchase agreements - The Bank enters into purchase and sale back agreements (“reverse repos”) in the normal course of its business. A reverse repo is an agreement to purchase assets and resell them at a future date with accrued interest received. Assets purchased under reverse repos are recorded in the financial statements as cash received on deposit which is collateralized by securities or other assets.

Impairment loss - If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable value. The difference being an impairment loss is recognized as an expense in the profit and loss account for the year in which it arises.

Depreciation - Depreciation of fixed assets is designed to write off assets over their useful economic lives and is calculated on a straight-line basis at the following annual prescribed rates:

Buildings and leasehold improvements	2 %
Furniture and equipment	20 %
Intangible assets	Over useful life of 3-10 years

After the recognition of an impairment loss the depreciation charge for fixed assets is adjusted in future periods to allocate the assets’ revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Offset of financial assets and liabilities - A financial asset and financial liability are offset and the balanced amount is recorded in the balance sheet, if the Bank has a legally enforceable right to set off the amounts recognized in the balance sheet and it has an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Foreign currency transactions - Assets and liabilities denominated in foreign currencies are translated at the appropriate spot rates of exchange ruling at the balance sheet date. Profits and losses arising from these translations are included in net profit on foreign exchange operations.

Rates of exchange - The exchange rates at year-end used by the Bank in the preparation of the financial statements are as follows:

	31 Dec 2002	31 Dec 2001
RUR/USD	31.7844	30.14
RUR/EUR	33.1098	26.49
RUR/CHF	22.778	17.86

RUR/gold (1 ounce)	10,894.73	8,333.71
RUR/palladium (1 ounce)	7,406.19	13,261.60
RUR/platinum (1 ounce)	19,008.17	14,376.78

Income taxes - Taxes on income are computed in accordance with the laws of the Russian Federation and countries of domicile of the members of the Bank. Deferred taxes, if any, are provided on items recognised in different periods for financial reporting purposes and income tax purposes, using the liability method at the statutory tax rate. Deferred tax liabilities, if any, which result from temporary differences, are provided for in full. Deferred tax assets are recorded to the extent that there is a reasonable expectation that these assets will be realised. Deferred income tax assets and liabilities are offset when:

- the Bank has a legally enforceable right to set off the recognised amounts of current tax assets and current tax liabilities;
- the Bank has an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously;
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority in the each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

Fiduciary activities - The Bank provides trustee services to its customers. Assets accepted and liabilities incurred under the trustee activities are not included in the Bank's financial statements. The Bank provides depositary services to its customers, that include transactions with securities on their depo accounts.

Reclassifications - Certain reclassifications and restatements have been made to the financial statement as at 31 December 2001 to conform to the presentation as at 31 December 2002 and in accordance with IAS 29.

3. NET INTEREST INCOME BEFORE PROVISION FOR POSSIBLE LOAN LOSSES

	2002	2001
Interest income		
Interest on loans and advances to customers	3,189,950	3,166,748
Interest on loans and advances to banks	537,999	463,299
Interest income on debt securities	909,585	421,420
Interest income on securities purchased under agreement to resell	7,987	-
Total interest income	<u><u>4,645,521</u></u>	<u><u>4,051,467</u></u>
Interest expense		
Interest on deposits from customers	1,738,399	1,204,939
Interest on deposits from banks	390,056	239,379
Interest on debt securities issued	1,043,871	840,307
Interest expense on swap operations	-	20,356
Total interest expense	<u><u>3,172,326</u></u>	<u><u>2,304,981</u></u>
Net interest income before provision for possible loan losses	<u><u>1,473,195</u></u>	<u><u>1,746,486</u></u>

4. (PROVISION)/RECOVERY OF PROVISION

	2002	2001
(Provision)/recovery of provision for possible loan losses		
(Provision)/recovery of provision for loans and advances to banks	(15,064)	10,833
Recovery of provision for loans and advances to customers	5,866	561,768
	<u><u>(9,198)</u></u>	<u><u>572,601</u></u>

	2002	2001
(Provision)/recovery of provision for possible losses on other operations		
(Provision)/recovery of provision on other assets	(15,644)	71,370
Provision for possible losses on guarantees issued	(160,576)	(65,028)
	<u>(176,220)</u>	<u>6,342</u>

5. FEES AND COMMISSIONS

	2002	2001
Fees and commissions income:		
Settlements	421,863	579,999
Cash operations	203,228	209,782
Guarantees	71,352	52,109
Foreign exchange operations	55,214	229,496
Securities operations	46,605	2,976
Documentary operations	5,263	16,914
Other operations	27,659	21,504
	<u>831,184</u>	<u>1,112,780</u>

	2002	2001
Fees and commissions expense:		
Settlements	146,531	121,413
Cash operations	26,945	21,339
Securities operations	20,681	6,106
Foreign exchange operations	8,374	27,256
Guarantees	41	41
	<u>202,572</u>	<u>176,155</u>

6. OTHER INCOME

Other income includes net gain on precious metals operations amounting to RUR 86,977 thousand and RUR 228,995 thousand for the years ended 31 December 2002 and 2001, respectively.

7. OPERATING EXPENSES

	2002	2001
Staff costs	1,157,292	1,386,786
Operating lease expense	406,134	402,847
Taxes, other than income tax	214,683	192,992
Repairs and maintenance expense	71,527	58,481
Customs duties paid	57,262	61,005
Professional services fees	48,969	78,803
Depreciation and amortization	39,297	35,615
Expenses on stationery and other office expenses	31,605	21,390
Advertising and marketing expenses	28,622	29,380
Security costs	26,504	26,864
Telecommunication service expenses	22,915	31,941
Charity expenses	20,577	16,357
Penalties paid	18,187	1,171
Insurance	16,328	-
Business trip expenses	15,364	14,318
Representation expenses	12,559	16,868
Other	51,105	73,291
	<u>2,238,930</u>	<u>2,448,109</u>

8. INCOME TAXES

The Bank provides for taxes based on the statutory financial statements maintained and prepared in local currency and in accordance with Russian laws and accounting regulations that may differ from International Accounting Standards.

Future tax investigations or inquiries may result in material assessments. The Bank believes now that it has already complied with them, and therefore has not provided for in the financial statements.

The Bank is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and tax-free regime for certain income under Russian tax regulations.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Temporary differences as at 31 December 2002 and 2001 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as at 31 December 2002 and 2001 were:

	2002	2001
Deferred assets:		
Loans to banks and customers	1,274,057	1,014,466
Loans and advances from banks	77	58,455
Securities available-for-sale	51,154	-
Other assets	-	15,557
Customer deposits	-	170,765
Debt securities issued	-	47,195
Other liabilities	-	3,024
Loss carry forward	-	203,537
Total deferred assets	<u>1,325,288</u>	<u>1,512,999</u>
Deferred liabilities:		
Customer deposits	(32,272)	-
Other liabilities	(26,181)	-
Securities purchased under agreement to resell	(1,474)	-
Trading securities	(1,329)	(32,943)
Securities available-for-sale	-	(95,578)
Other assets	(82,222)	-
Fixed and intangible assets	(33,770)	(4,703)
Total deferred liabilities	<u>(177,248)</u>	<u>(133,224)</u>
Net deferred asset	<u>1,148,040</u>	<u>1,379,775</u>
Deferred income tax asset at the statutory tax rate (24%)	263,572	331,146
Deferred income tax asset at the statutory tax rate (15%)	7,474	-
Total deferred income tax asset	<u>271,045</u>	<u>331,146</u>
Less valuation allowance	(271,045)	(331,146)
Net deferred income tax	<u>-</u>	<u>-</u>

Relationships between tax expenses and accounting profit for the year ended 31 December 2002 and 2001 are explained as follows:

	2002	2001
Profit before income tax, extraordinary losses and after loss on net monetary position	<u>241,455</u>	<u>736,593</u>
Income tax at the statutory tax rate (24% for 2002, 43% for 2001)	57,949	316,735
Tax effect of permanent differences (24% for 2002, 43% for 2001)	49,363	(236,887)
Change in valuation allowance	<u>(60,101)</u>	<u>32,409</u>
Income tax expense	<u>47,211</u>	<u>112,257</u>
Current income tax expense	47,211	112,257
Deferred income tax expense	-	-
Income tax expense	<u>47,211</u>	<u>112,257</u>

9. EXTRAORDINARY LOSSES

Extraordinary losses for the year ended 31 December 2001 are represented by the loss from selling of loans to customers. During 2001 the Bank exchanged part of its loan portfolio for cash, new loans and corporate shares. The exchange transaction losses reconciliation is as follows:

	2001
Carrying value of loans exchanged out	8,596,489
Promissory notes received	(1,479,392)
Corporate shares received	(4,006,079)
Provision used to write off part of the exchanged loans	(347,820)
Cash received	(1,502,607)
Foreign exchange difference	<u>(20,459)</u>
	<u>1,240,132</u>

10. CASH AND CASH EQUIVALENTS

The balances of RUR 6,064,192 thousand and RUR 6,212,116 thousand as at 31 December 2002 and 2001 include RUR 4,542,614 thousand and RUR 4,240,005 thousand, respectively, which represents the minimum reserve deposit required by the Central Bank of the Russian Federation and National Bank of Switzerland. The Bank is required to maintain the reserve balance at the Central Bank of the Russian Federation and National Bank of Switzerland at all times.

Cash and cash equivalents for the purposes of the statement of cash flows are comprised of the following:

	2002	2001
Cash and balances with the Central Bank of the Russian Federation and National Bank of Switzerland	6,064,192	6,212,116
Loans and advances to banks in OECD countries	5,094,882	6,757,076
Trading securities	1,288,594	1,586,706
Precious metals in vault	245,403	657,617
Nostro in gold bullion	3,789	310,209
	<u>12,696,860</u>	<u>15,523,724</u>
Less minimum reserve deposit with the Central Bank of the Russian Federation and National Bank of Switzerland	<u>(4,542,614)</u>	<u>(4,240,005)</u>
Cash and cash equivalents	<u>8,154,246</u>	<u>11,283,719</u>

11. LOANS AND ADVANCES TO BANKS

	2002	2001
Advances to banks	7,148,984	2,979,548
Loans to banks	1,520,253	6,668,524
Accrued interest	9,137	4,446
	<u>8,678,374</u>	<u>9,652,518</u>
Less allowance for possible loan losses	<u>(89,270)</u>	<u>(86,587)</u>
	<u>8,589,104</u>	<u>9,565,931</u>
Allowance for possible loan losses:		
At beginning of the period	86,587	114,629
Provision/(recovery) for the period	15,064	(10,833)
Gain on net monetary position	<u>(12,381)</u>	<u>(17,209)</u>
At end of the period	<u>89,270</u>	<u>86,587</u>

At 31 December 2001 included in loans and advances to banks are assets pledged to guarantee forward security transactions amounting to RUR 42,223 thousand.

At 31 December 2002 and 2001 the Bank had loans and advances to two and four counterparties totalling RUR 6,141,866 thousand and RUR 5,944,483 thousand, respectively, which individually exceeded 10% of Bank's equity capital.

Included in loans and advances to banks is a non-accrual loan of RUR 200 thousand and RUR 230 thousand as at 31 December 2002 and 2001, respectively.

As at 31 December 2002 and 2001 included in loans and advances to banks are guarantee deposits for plastic cards of RUR 56,988 thousand and RUR 156,831 thousand, respectively. Those guarantee deposits were subsequently repaid within 90 day period and were treated as cash equivalents at the above dates.

12. TRADING SECURITIES

	Interest rates to nominal	2002	Interest rates to nominal	2001
Shares				
Ordinary shares of JSC UES	-	208,480	-	278,197
Ordinary shares of JSC Krasnoyarskenergo	-	105,325	-	-
Ordinary shares of JSC Surgutneftegaz	-	80,047	-	147,152
Ordinary shares of JSC Rostelecom	-	64,898	-	39,180
Ordinary shares of JSC Gazprom	-	47,477	-	-
Privileged shares of JSC Transneft	-	38,225	-	87,694
Ordinary shares of JSC NK Lukoil	-	24,488	-	145,135
Ordinary shares of JSC Mosenergo	-	24,224	-	65,401
ADR shares of JSC Mosenergo	-	19,824	-	-
ADR shares of JSC UES	-	8,560	-	-
Privileged shares of JSC Krasnoyarskenergo	-	6,651	-	-
Other shares	-	17,329	-	10,628
Bonds				
OFZ bonds	10-15%	1,107,183	10-15%	170,053
Bonds of Moscow region authority	17%	918,918	17%	-
Bonds of JSC Severnaya Neft	23%	523,635	23%	-
Bonds of LLC Russky Aluminy Finance	18%	318,552	18%	-
OVVZ Bonds	3%	264,675	3%	1,523,448
Bonds of JSC RTK leasing	18%	244,026	18%	-
Bonds of TD Prodimex	21%	138,639	21%	-
Bonds of IAPO	19%	122,858	19%	-
Bonds of JSC UES	15%	111,434	15%	-
Bonds of Moscow authority	15%	103,826	15%	243,453
Bonds of JSC LOMO	20%	103,510	20%	-
Bonds of Ufa authority	14%	90,355	14%	-
Bonds of JSC Alrosa	16-20%	91,765	16-20%	-
Bonds of Vyksunsky Metallurgical Plant	19%	75,006	19%	-
Bonds of St-Peterburg authority	14-17%	73,299	14-17%	-
Bonds of RITEK	19%	55,567	19%	-
Bonds of Impexbank	18%	50,375	18%	-
Bonds of VBRR	10%	47,543	10%	-
Bonds of Nizhny Novgorod authority	19%	40,908	19%	-
Bonds of JSC Uralsvyasinform	18%	38,260	18%	-
Bonds of Volzhsky Trubny Zavod	18%	24,653	18%	-
Eurobonds of the Russian Federation	5-8%	17,374	5-13%	63,258
Bonds of JSC Aeroflot	21%	10,533	18%	260,085
Bonds of Magnitogorsky Metallurgy Combinat	-	-	18%	414,160
Bonds of Bashkortstan Republic	-	-	15%	113,195
Other corporate bonds	20%	4,345	20%	-
Promissory notes				
Promissory notes of JSC Gazprom	-	581,326	-	303,733
Promissory notes of JSC Vneshtorgbank	-	517,891	-	-
Promissory notes of JSC Sberbank	-	241,199	-	-
Promissory notes of JSC TNK	-	80,645	-	-
Promissory notes of JSC Alrosa	-	53,053	-	-
Promissory notes of CB Gazprombank	-	3,971	-	-
Promissory notes of JSC Norilsky Nickel	-	-	-	269,270
		6,700,852		4,134,042

At 31 December 2002 included in trading securities are OFZ bonds amounting to RUR 100,638 thousand that are pledged under general agreements on money market transactions. At 31 December 2002 the Bank had no funds received under the above mentioned agreements.

At 31 December 2001 included in trading securities are OFZ bonds amounting to RUR 170,053 thousand that were pledged under deposit agreement (Note 18). Those securities were not included in calculation of cash equivalents.

Included in trading securities is accrued interest income on debt securities amounting to RUR 103,951 thousand and RUR 64,592 thousand as at 31 December 2002 and 2001, respectively.

13. LOANS AND ADVANCES TO CUSTOMERS

	2002	2001
Loans collateralized by corporate guarantees	5,389,667	6,715,877
Loans collateralized by securities	5,001,623	250,604
Loans collateralized by goods in turnover	3,471,149	3,632,020
Loans collateralized by inventory	1,515,480	578,276
Loans collateralized by cash	997,724	-
Loans collateralized by property and equipment	255,642	767,464
Loans collateralized by real estate	243,615	-
Unsecured loans	18,756,348	18,494,361
Accrued interest	<u>220,867</u>	<u>96,444</u>
	35,852,115	30,535,046
Less allowance for possible loan losses	<u>(2,180,775)</u>	<u>(2,946,673)</u>
	33,671,340	27,588,373
Purchased unsecured loans	<u>-</u>	<u>413,280</u>
	<u>33,671,340</u>	<u>28,001,653</u>
Allowance for possible loan losses:	2002	2001
At beginning of the period	2,946,673	4,433,554
Loans written off	(955,805)	(353,519)
Recovery of loans previously written off	540,794	-
Recovery of provision for the period	(5,866)	(561,768)
Gain on net monetary position	<u>(345,021)</u>	<u>(571,594)</u>
At end of the period	<u>2,180,775</u>	<u>2,946,673</u>

Included in loans and advances to customers are non-accrual loans of RUR 540,916 thousand and RUR 385,399 thousand at 31 December 2002 and 2001, respectively.

The Bank had loans to seven customers, amounting to RUR 12,570,174 thousand and RUR 11,840,869 thousand, which individually exceed 10% of the Bank's equity capital at 31 December 2002 and 2001, respectively.

Analysis by sector	2002	2001
Originated loans		
Finance	7,886,029	8,114,789
Trading	5,331,249	4,937,646
Aircraft engineering	5,254,509	-
Government	3,190,289	340,696
Oil and gas	3,131,163	4,523,383
Food	2,234,668	330,771
Precious metals and diamond extraction and manufacturing	1,253,341	420,435
Hotel business	1,217,860	-
Agriculture	985,126	-
Energy	830,918	283,667
Ferrous metals manufacturing	758,146	586,799
Manufacturing	734,482	346,911
Non-ferrous metals manufacturing	690,320	7,460,812
Chemical	548,580	-
Heavy industry	467,587	-
Construction	417,488	799,363
Individuals	363,520	203,117
Engineering	40,214	-
Real estate	-	1,170,148
Other	295,759	920,065
Accrued interest	220,867	96,444
	<u>35,852,115</u>	<u>30,535,046</u>
Less allowance for possible loan losses	<u>(2,180,775)</u>	<u>(2,946,673)</u>
	<u>33,671,340</u>	<u>27,588,373</u>
Purchased loans		
Food	-	239,825
Finance	-	173,455
	<u>-</u>	<u>413,280</u>
	<u>33,671,340</u>	<u>28,001,653</u>

14. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

As at 31 December 2002 securities purchased under agreements to resell comprised of shares of JSC "Aeroflot" of RUR 58,109 thousand and OVVZ (4th and 5th tranches) of RUR 4,723 thousand. The reverse repurchase agreements mature within one month.

15. INVESTMENT SECURITIES

	2002	2001
Securities available-for-sale	842,513	4,326,860
Equity investments	145,081	171,400
	<u>987,594</u>	<u>4,498,260</u>
Less allowance for possible investment losses	<u>(90,166)</u>	<u>(87,267)</u>
	<u>897,428</u>	<u>4,410,993</u>

	2002	2001
Securities available-for-sale		
MMK Finance bonds	417,720	-
OFZ Bonds	195,236	323,346
Ordinary shares of JSC Kamaz	90,224	-
Promissory notes of Uralo-Sibirsky Bank	55,186	-
Ordinary shares of JSC Sibirtelecom	35,963	-
OVVZ Bonds	19,791	13,322
Other shares	28,393	-
Privileged shares of JSC Transneft	-	3,990,192
	<u>842,513</u>	<u>4,326,860</u>
Less allowance for possible investment losses	(39,105)	-
	<u>803,408</u>	<u>4,326,860</u>

At 31 December 2001 included in securities available-for-sale are OFZ bonds amounting to RUR 62,688 thousand which were pledged under deposit agreement (Note 18).

Included in securities available-for-sale is accrued interest income on debt securities amounting to RUR 36,933 thousand and RUR 6,221 thousand as at 31 December 2002 and 2001, respectively.

Interest is paid on MMK Finance bonds and OFZ Bonds at a rate of 10% and 10-15% per annum to nominal, respectively.

	2002	2001
Equity investments		
Subsidiaries	550	289
Associates	22,066	26,805
Other	122,465	144,306
	<u>145,081</u>	<u>171,400</u>
Less allowance for possible investment losses	(51,061)	(87,267)
	<u>94,020</u>	<u>84,133</u>

Subsidiaries	Share of ownership	2002		2001	
		Share of ownership		Share of ownership	
Security Agency Shield Plus	100%	300	-	-	-
LLC "OP Regional detective agency"	100%	110	100%	127	127
LLC "PMD-Shield"	100%	80	100%	92	92
LLC "Trapeznaya"	100%	50	100%	58	58
Processing company "Nickel"	100%	10	100%	12	12
		<u>550</u>		<u>289</u>	

Associates					
JSC "National Registration Company"	20%	9,394	20%	10,812	10,812
LLC "Interbank Loan Union"	31%	8,466	31%	9,744	9,744
JSC "DCC"	27%	3,692	27%	4,249	4,249
NPF "Interros Dostoinstvo"	38%	500	50%	576	576
JSC Rosinspektorat	28%	14	-	-	-
JSC "Belstrakhinvest"	-	-	49%	1,424	1,424
		<u>22,066</u>		<u>26,805</u>	

	2002	2001
Allowance for possible investment losses:		
At beginning of the period	87,267	86,852
Provision for the period	15,515	15,193
Gain on net monetary position	(12,616)	(14,778)
At end of the period	<u>90,166</u>	<u>87,267</u>

In 2002 JSC “Belstrakhinvest” increased its share capital. As a result the Bank’s share in the share capital of JSC “Belstrakhinvest” decreased to 0.4% as at 31 December 2002.

In 2002 NPF “Interros Dostoinstvo” increased its share capital. As a result the Bank’s share in the share capital of NPF “Interros Dostoinstvo” decreased to 38.46% as at 31 December 2002.

Subsidiaries and associates were not consolidated and/or accounted for under equity method in these financial statements because this would not have had a significant effect on the Bank’s financial statements taken as a whole.

16. FIXED AND INTANGIBLE ASSETS

	Building and leasehold improvements	Furniture and equipment	Intangible assets	Total
At cost				
As at 31 December 2001	70,371	91,681	100,777	262,829
Additions	6,098	24,832	17,097	48,027
Disposals	<u>(1,693)</u>	<u>(7,754)</u>	<u>(3,727)</u>	<u>(13,174)</u>
As at 31 December 2002	<u>74,776</u>	<u>108,759</u>	<u>114,147</u>	<u>297,682</u>
Accumulated depreciation				
As at 31 December 2001	27,507	58,236	45,133	130,876
Charge for the period	4,148	21,707	13,442	39,297
Disposals	<u>(84)</u>	<u>(4,109)</u>	<u>(1,669)</u>	<u>(5,862)</u>
As at 31 December 2002	<u>31,571</u>	<u>75,834</u>	<u>56,906</u>	<u>164,311</u>
Net book value				
As at 31 December 2002	<u>43,205</u>	<u>32,925</u>	<u>57,241</u>	<u>133,371</u>
Net book value				
As at 31 December 2001	<u>42,864</u>	<u>33,445</u>	<u>55,644</u>	<u>131,953</u>

17. OTHER ASSETS

	2002	2001
Penalties on VAT recoverable	169,865	-
Platinum bullion in vault	120,428	-
Gold bullion in vault	100,404	657,617
Positive replacement value of derivatives and spot deals	99,945	922
Debtors on plastic cards	91,668	-
Prepaid expense	30,612	48,129
Palladium bullion in vault	24,571	-
Taxes, other than income tax, recoverable	16,451	9,004
Nostro in gold bullion	3,789	310,209
Due on restructuring	-	35,752
Accrued commission income	-	15,585
Other	<u>83,483</u>	<u>74,655</u>
	741,216	1,151,873
Less allowance for losses on other assets	<u>(18,372)</u>	<u>(35,752)</u>
	<u>722,844</u>	<u>1,116,121</u>

Allowance for losses on other assets:	2002	2001
At beginning of the period	35,752	119,976
Assets written off	(31,390)	-
Provision /(recovery of provision) for the period	15,644	(71,370)
Gain on net monetary position	(1,634)	(12,854)
At end of the period	<u>18,372</u>	<u>35,752</u>

18. DEPOSITS FROM BANKS

	2002	2001
Repayable on demand	2,301,481	1,455,085
Time deposits	2,423,571	1,038,528
Accrued interest	12,408	58,455
	<u>4,737,460</u>	<u>2,552,068</u>

Included in deposits from banks are demand deposits denominated in gold bullion of RUR 6,646 thousand and RUR 20,068 thousand as at 31 December 2002 and 2001, respectively.

As at 31 December 2001 included in deposits from banks are demand deposits amounting to RUR 338,049 thousand that are collateralised by OFZ bonds reported as trading securities and securities available-for-sale at fair value totalling RUR 232,741 thousand (Notes 12, 15).

19. CUSTOMER ACCOUNTS

	2002	2001
Repayable on demand	8,176,147	14,634,432
Time deposits	25,324,924	17,351,516
Accrued interest	175,239	123,071
	<u>33,676,310</u>	<u>32,109,019</u>

Included in customer accounts are time and demand deposits denominated in precious metals of RUR 297,952 thousand and RUR 931,410 thousand as at 31 December 2002 and 2001, respectively.

20. DEBT SECURITIES ISSUED

	2002	2001
Discount bearing promissory notes	5,170,832	1,806,597
Adjustable Rate Guaranteed Bonds due in 2012	4,131,972	4,509,848
Interest-free promissory notes	694,524	1,035,659
Interest bearing promissory notes	568	89,621
Accrued interest	880	640
	<u>9,998,776</u>	<u>7,442,365</u>

As at 31 December 2002 and 2001 interests rates on promissory notes denominated in foreign currency range from 0% to 6.2% per annum and from 0% to 9.2% per annum, respectively, interest rates on the promissory notes denominated in Roubles range from 0% to 30% per annum and from 0% to 37.5% per annum, respectively. The discount on respective bearing promissory notes is amortized over the life of the note using effective interest rate method and is recorded in interest expense on debt securities issued.

Adjustable Rate Guaranteed Bonds due in 2012 bear interest rate at 7% which is subject to subsequent scheduled correction.

21. OTHER LIABILITIES

	2002	2001
Allowance for possible losses on guarantees issued	218,255	79,226
Creditors on operations with securities	128,579	141,892
Creditors on operations with plastic cards	28,390	21,663
Taxes, other than income tax, payable	28,366	25,560
Negative replacement value of derivatives and spot deals	26,181	38,689
Current income tax payable	2,790	6,151
Suspense amounts subsequently paid back	-	101,839
Other	44,569	18,475
	<u>477,130</u>	<u>433,495</u>
Allowance for possible losses on guarantees issued:	2002	2001
At beginning of the period	79,226	23,060
Provision for the period	160,576	65,028
Gain on net monetary position	(21,547)	(8,862)
At end of the period	<u>218,255</u>	<u>79,226</u>

22. SHARE CAPITAL AND SHARE PREMIUM

As at 31 December 2002 and 2001 share capital authorized, issued and fully paid comprised of 340,528,420 ordinary shares with par value of RUR 10 each. All shares are ranked equally and carry one vote.

Share premium of RUR 3,672,190 thousand represents the excess of contributions received in share capital over the nominal value of shares issued.

23. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In the normal course of business the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

The Bank's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance sheet lending.

The risk-weighted amount is obtained by applying credit conversion factors and counterparty risk weightings according to the principles employed by the Basle Committee on Banking Supervision.

As at 31 December 2002 and 2001 the nominal or contract amounts and the risk weighted credit equivalents of instruments with off-balance sheet risks were:

	31 Dec 2002		31 Dec 2001	
	Nominal Amount	Risk Weighted Amount	Nominal Amount	Risk Weighted Amount
Contingent liabilities and credit commitments:				
Guarantees issued and similar commitments	2,565,587	2,565,587	2,100,515	2,100,515
Letters of credit and other transaction related contingent obligations	370,701	143,066	442,151	1,553
Commitments on loans and unused lines of credits	10,342,266	1,690,935	4,800,409	350,745
Exchange rate contracts (amount payable):				
Forward foreign exchange contracts	739,612	29,584	609,869	24,394
Swap foreign exchange contracts	1,493,042	59,722	1,470,894	58,836
Forward contracts on precious metals	467,500	18,700	14,013	561
Forward contracts on securities	207,078	8,283	-	-

As at 31 December 2002 the Bank has entered into spot contracts to purchase and sell currency amounting to RUR 105,888 thousand and RUR 105,949 thousand, respectively.

As at 31 December 2001 the Bank had entered into spot contracts to purchase OVVZ bonds and sell Eurobonds amounting to RUR 307,171 thousand and RUR 53,301 thousand, respectively, with fair value of RUR 308,000 thousand and RUR 53,290 thousand, respectively.

24. COMMITMENTS AND CONTINGENCIES

Capital commitments - The Bank had no material commitments for capital expenditures outstanding as at 31 December 2002.

Operating Leases - The Bank's future minimum rental payments under non-cancelable operating leases of buildings and equipment in effect at 31 December 2002 are presented in the table below:

	RUR thousand
2003	431,609
2004	44,577
2005	35,964
2006	35,964
2007	32,032

Operating Environment - The Bank's principal business activities are within the Russian Federation. Laws and regulations affecting business environment in the Russian Federation are subject to rapid changes and the Bank's assets and operations could be at risk due to negative changes in the political and business environment.

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

Taxes - Due to the presence in Russian commercial legislation, and tax legislation in particular, 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 judgment of business activities, if a particular treatment based on Management's judgment of the Bank's business activities was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest. Tax years remain open to review by the tax authorities for three years.

Fiduciary deposits - As at 31 December 2002 and 2001 the Bank received funds for administration in the fiduciary deposits amounting to RUR 558,096 thousand and RUR 1,096,222 thousand, respectively. The Bank also provides depositary services to its customers. As at 31 December 2002 and 2001 the Bank held the clients' securities on its accounts for nominal holding in the amount of 2,536,448,671 and 2,198,035,128 securities, respectively.

25. TRANSACTIONS WITH RELATED PARTY

Related parties are considered to include shareholders of the Bank and entities under common ownership and control with the Bank.

As at 31 December 2002 and 2001 the Bank had loans and advances to customers - related parties totaling RUR 2,971,782 thousand and RUR 1,275,001 thousand, respectively, for which the Bank had an allowance for possible loan losses of RUR 58,821 thousand and RUR 29,752 thousand, respectively.

During the years ended 31 December 2002 and 2001 the Bank originated loans and advances to customers - related parties amounting to RUR 4,186,071 thousand and RUR 1,381,868 thousand, respectively, and received loans and advances repaid of RUR 2,489,290 thousand and RUR 1,256,627 thousand, respectively.

As at 31 December 2002 and 2001 the Bank's investments into the equity of non-consolidated subsidiaries and affiliated companies - related parties amounted to RUR 22,616 thousand and RUR 27,094 thousand, respectively.

The Bank also held deposits from customers - related parties of RUR 1,089,117 thousand and RUR 5,762,857 thousand as at 31 December 2002 and 2001, respectively.

During the years ended 31 December 2002 and 2001 the Bank received deposits from customers - related parties of RUR 94,730,456 thousand and RUR 120,900,903 thousand, respectively, and repaid deposits totaling RUR 99,404,196 thousand and RUR 118,367,483 thousand, respectively.

The Bank had guarantees issued on behalf of related parties and outstanding as at 31 December 2002 and 2001 amounting to RUR 186,165 thousand and RUR 122,342 thousand, respectively, for which the Bank had an allowance for possible losses of RUR 34,006 thousand and RUR 2,354 thousand, respectively.

As at 31 December 2001 the commitments to issue loans to related parties were RUR 387,395 thousand.

Included in the profit and loss account for the years ended 31 December 2002 and 2001 are the following amounts which arose due to transactions with related parties:

	2002	2001
Interest income	99,499	25,864
Interest expense	(11,224)	(301,542)
Commission income	16,142	27,196

Transactions with related parties entered by the Bank during the years ended 31 December 2002 and 2001 and outstanding as at these dates were made in the normal course of business and mostly on an arm-length basis.

26. PENSIONS AND RETIREMENT PLANS

Employees receive pension benefits from the Russian Federation in accordance with the laws and regulations of the country. As at 31 December 2002 and 2001 the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". As no readily available market exists for a large part of the Bank's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

As at 31 December 2002 and 2001 the following methods and assumptions were used by the Bank to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and balances with the Central Bank of the Russian Federation and National Bank of Switzerland - For these instruments the carrying amount is a reasonable estimate of fair value.

Loans and advances to banks - For these assets, the carrying amount is a reasonable estimate of fair value.

Trading securities - As at 31 December 2002 and 2001 trading securities are stated at fair value. Fair value of trading securities was determined by reference to active markets plus accrued coupon on debt securities.

Loans and advances to customers - The fair value of originated loans in the loan portfolio is based on the credit and interest rate characteristics of the individual loans within each sector of the portfolio. The estimation of the provision for loan losses includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation of the economic sector in which each borrower operates, the economic situation of each borrower, collateral and guarantees obtained. Accordingly, the provision for loan losses reflects a reasonable estimate of the carrying value adjustment required to reflect the impact of credit risk.

Fair value of purchased loans included in the loan portfolio is determined based on subsequent reimbursement price.

Securities purchased under agreements to resell - The fair value of securities purchased under agreements to resell with carrying value of RUR 62,832 thousand amounted to RUR 93,477 thousand as at 31 December 2002 that is determined based on market value of backed securities with reference to an active market.

Investment securities - As at 31 December 2002 and 2001 securities available-for-sale are stated at fair value. Fair value of securities available-for-sale was determined by reference to active markets plus accrued coupon on debt securities, for unquoted securities the base was the value of share in estimated equity capital of investee and/or management estimation.

Deposits from banks - As at 31 December 2002 and 2001 the carrying amount of deposits from banks is a reasonable estimate of their fair value.

Customer accounts - As at 31 December 2002 and 2001 the carrying amount of deposits and current accounts of the Bank's customers is a reasonable estimate of their fair value.

Debt securities issued - Promissory notes issued by the Bank as at 31 December 2002 and 2001, mature mainly within one year and are stated at cost, adjusted for amortization of premium and discounts, which approximates their fair value of RUR 5,866,804 thousand and RUR 2,932,517 thousand, respectively. Fair value of Adjustable Rate Guaranteed Bonds issued by the Bank and due in 2012 was determined using DCF model and at 31 December 2002 and 2001 amounted to RUR 3,539,265 thousand and RUR 3,772,148 thousand, respectively.

Derivative financial instruments - As at 31 December 2002 and 2001 derivative financial instruments are stated at fair value.

28. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (as set forth in the table below) of total and tier 1 capital to risk weighted assets.

The capital is calculated as the amount of restricted and unrestricted elements of the shareholders' equity plus the Bank's provisions for the principal risks, provided that the total provision for possible loan losses does not exceed 1.25% of the risk weighted assets.

The ratio was calculated in accordance with rules established by the Basle Agreement by applying the following risk estimates:

Estimate	Description of position
0%	Cash and balances with the Central Bank of the Russian Federation
0%	Government debt securities nominated in Russian Roubles
20%	Loans and advances to banks maturing within 1 year
100%	Loans and advances to customers
100%	Other assets
0%	Standby letters of credit secured by customer funds
	Other standby letters of credit and other transaction related contingent obligations and commitments on unused loans with the initial maturity of over 1 year
50%	
100%	Guarantees issued and similar commitments

The Bank's actual capital amounts and ratios are presented in the following table:

Capital amounts and ratios	Actual	For Capital Adequacy purposes	Ratio For Capital Adequacy purposes	Minimum Required Ratio
As at 31 December 2002				
Total capital	7,952,287	8,416,455	18.2%	8%
Tier 1 capital	7,952,287	7,952,287	17.2%	4%
As at 31 December 2001				
Total capital	7,913,659	8,294,472	19.6%	8 %
Tier 1 capital	7,913,659	7,913,659	18.7%	4 %

As at 31 December 2002 the Bank decreased its Total capital for Capital adequacy purposes by the subordinated loans of RUR 115,000 thousand issued to companies and banks the Bank has investment in that are reported in other investments.

29. RISK MANAGEMENT POLICIES

The Bank manages the following main types of risks:

Credit Risk - The Credit Committee approves each new loan and any changes and amendments to loan agreements. The Credit and Guarantees Department performs current monitoring.

Liquidity and cash flow risks - The Resources Department performs management of these risks through analysis of asset and liability maturity and performance of money market transactions for current liquidity support and cash flow optimization.

Currency risk - The Currency Department performs currency risk management through management of open currency position, which enables the Bank to minimize losses from significant fluctuations of exchange rates of national and foreign currencies.

Interest rate and market risks - The Resources Department performs management of interest rate and market risks through interest position hedges, which enables the Bank to avoid negative interest margin.

Country risk - The Budgeting and Analytical Department performs risk optimization related to changes in legislation and regulative documents, and its impact on the Bank. This approach allows the Bank to minimize possible losses from the impairment of the investment climate in the Russian Federation.

30. MATURITY ANALYSIS

The following table presents an analysis of interest rate risk and liquidity risk on a contractual basis. Interest bearing assets and liabilities generally have relatively short maturities and interest rates are reprised only at maturity.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined (incl. allowance for losses)	31 Dec 2002 RUR thousand Total
ASSETS							
Loans and advances to banks, less allowance for possible loan losses	4,858,420	512,696	55,240	877,944	-	(48,147)	6,256,153
Trading securities	6,055,324	-	-	-	-	-	6,055,324
Loans and advances to customers, less allowance for possible loan losses	2,983,911	6,892,894	20,480,447	4,551,438	402,509	(1,746,383)	33,564,816
Securities purchased under agreement to resell	62,832	-	-	-	-	-	62,832
Investment securities	34,507	57,611	593,142	2,614	59	(2,614)	685,319
Total interest bearing assets	13,994,994	7,463,201	21,128,829	5,431,996	402,568	(1,797,144)	46,624,444
Cash and balances with the Central Bank of the Russian Federation and National Bank of Switzerland	1,521,578	-	-	-	-	4,542,614	6,064,192
Loans and advances to banks, less allowance for possible loan losses	2,374,074	-	-	-	-	(41,123)	2,332,951
Trading securities	645,528	-	-	-	-	-	645,528
Loans and advances to customers, less allowance for possible loan losses	540,916	-	-	-	-	(434,392)	106,524
Investment securities	-	-	154,580	145,081	-	(87,552)	212,109
Fixed and intangible assets, less accumulated depreciation	-	-	-	90,166	43,205	-	133,371
Other assets, less allowance for possible losses	598,386	126,806	16,024	-	-	(18,372)	722,844
TOTAL ASSETS	19,675,476	7,590,007	21,299,433	5,667,243	445,773	2,164,031	56,841,963
LIABILITIES							
Deposits from banks	299,650	22,810	65,369	-	-	-	387,829
Deposits from customers	5,930,794	12,381,070	8,361,497	162,739	-	-	26,836,100
Debt securities issued	848,978	1,049,460	2,705,906	4,699,908	-	-	9,304,252
Total interest bearing liabilities	7,079,422	13,453,340	11,132,772	4,862,647	-	-	36,528,181
Deposits from banks	2,521,132	139,615	816,289	872,595	-	-	4,349,631
Deposits from customers	6,840,210	-	-	-	-	-	6,840,210
Debt securities issued	432,344	92,118	96,368	73,694	-	-	694,524
Other liabilities	67,603	164,731	26,541	-	-	218,255	477,130
TOTAL LIABILITIES	16,940,711	13,849,804	12,071,970	5,808,936	-	218,255	48,889,676
Liquidity gap	2,734,765	(6,259,797)	9,227,463	(141,693)	445,773		
Interest sensitivity gap	6,915,572	(5,990,139)	9,996,057	569,349	402,568		
Cumulative interest sensitivity gap	6,915,572	925,433	10,921,490	11,490,839	11,893,407		
Cumulative interest sensitivity gap as a percentage of total assets	12.2%	1.6%	19.2%	20.2%	20.9%		

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined (incl. allowance for losses)	31 Dec 2002 RUR thousand Total
OFF-BALANCE SHEET COMMITMENTS							
Payable under forward, swap and spot contracts	(2,846,215)	(166,966)	-	-	-	-	(3,013,181)
Receivable under forward, swap and spot contracts	2,910,980	175,965	-	-	-	-	3,086,945
OFF-BALANCE SHEET COMMITMENTS, NET	64,765	8,999	-	-	-	-	73,764

Substantially all of the Bank's interest bearing assets and interest bearing liabilities are at fixed rates of interest.

Asset and liability maturity periods and the ability to replace interest liabilities at an acceptable cost when they mature are crucial in determining the Bank's liquidity and its susceptibility to fluctuation of interest rates and exchange rate.

31. EFFECTIVE INTEREST RATE ANALYSIS

The following table presents an analysis of interest rate risk and thus the potential of the Bank for gain or loss. Interest rates effective in 2002 are analyzed by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Bank.

	RUR	USD	EUR	CHF	Precious metals
ASSETS					
Loans and advances to banks	11.3%	3.0%	3.2%	5.6%	-
Trading securities	20.8%	18.4%	18.0%	-	-
Loans and advances to customers	16.7%	12.8%	8.3%	-	-
Securities purchased under agreement to resell	17.0%	5.4%	-	-	-
Investment securities	14.7%	7.0%	12.1%	-	-
LIABILITIES					
Deposits from banks	5.4%	5.4%	7.5%	4.4%	-
Customer accounts	11.3%	5.8%	3.1%	2.0%	4.0%
Debt securities issued	16.7%	6.3%	-	-	-

32. CURRENCY ANALYSIS

								31 Dec 2002
	Roubles	USD 1 USD= 31.7844 RUR	EUR 1 EUR= 33.1098 RUR	CHF 1 CHF= 22.778 RUR	Precious metals	Other currency	Currency undefined (incl. allowance for losses)	RUR thousand Total
ASSETS								
Cash and balances with the Central Bank of Russian Federation and National Bank of Switzerland	5,728,672	288,586	35,479	6,478	-	4,977	-	6,064,192
Loans and advances to banks, less allowance for possible loan losses	630,923	7,505,087	315,676	127,156	-	99,532	(89,270)	8,589,104
Trading securities	6,410,183	289,781	888	-	-	-	-	6,700,852
Loans and advances to customers, less allowance for possible loan losses	10,605,347	25,199,504	47,264	-	-	-	(2,180,775)	33,671,340
Securities purchased under agreement to resell	58,109	4,723	-	-	-	-	-	62,832
Investment securities	550,083	19,791	417,720	-	-	-	(90,166)	897,428
Fixed and intangible assets, less accumulated depreciation	124,347	-	-	9,024	-	-	-	133,371
Other assets, less allowance for possible losses	367,858	44,730	380	79,056	249,192	-	(18,372)	722,844
TOTAL ASSETS	<u>24,475,522</u>	<u>33,352,202</u>	<u>817,407</u>	<u>221,714</u>	<u>249,192</u>	<u>104,509</u>	<u>(2,378,583)</u>	<u>56,841,963</u>
LIABILITIES								
Deposits from banks	1,262,638	3,353,309	113,098	1,769	6,646	-	-	4,737,460
Deposits from customers	9,210,717	23,538,456	614,067	9,204	297,952	5,914	-	33,676,310
Debt securities issued	4,803,884	5,194,892	-	-	-	-	-	9,998,776
Other liabilities	236,346	11,637	1,860	8,943	-	89	218,255	477,130
TOTAL LIABILITIES	<u>15,513,585</u>	<u>32,098,294</u>	<u>729,025</u>	<u>19,916</u>	<u>304,598</u>	<u>6,003</u>	<u>218,255</u>	<u>48,889,676</u>
OPEN BALANCE SHEET POSITION	<u>8,961,937</u>	<u>1,253,908</u>	<u>88,382</u>	<u>201,798</u>	<u>(55,406)</u>	<u>98,506</u>	<u>-</u>	<u>-</u>
OFF-BALANCE SHEET COMMITMENTS								
Payable under forward, swap and spot contracts	(286,528)	(1,908,446)	(318,929)	(31,778)	(467,500)	-	-	(3,013,181)
Receivable under forward, swap and spot contracts	204,815	833,990	252,700	1,569,138	226,302	-	-	3,086,945
OFF-BALANCE SHEET COMMITMENTS, NET	<u>(81,713)</u>	<u>(1,074,456)</u>	<u>(66,229)</u>	<u>1,537,360</u>	<u>(241,198)</u>	<u>-</u>	<u>-</u>	<u>73,764</u>
NET POSITION	<u>8,880,224</u>	<u>179,452</u>	<u>22,153</u>	<u>1,739,158</u>	<u>(296,604)</u>	<u>98,506</u>	<u>-</u>	<u>-</u>

33. GEOGRAPHICAL ANALYSIS

	OECD countries	Non-OECD countries	Undefined (incl. allowance for losses)	31 Dec 2002 RUR thousand Total
ASSETS				
Cash and balances with the Central Bank of Russian Federation and National Bank of Switzerland	5,616	6,058,576	-	6,064,192
Loans and advances to banks, less allowance for possible loan losses	5,173,986	3,504,388	(89,270)	8,589,104
Trading securities	888	6,699,964	-	6,700,852
Loans and advances to customers, less allowance for possible loan losses	1,119,686	34,732,429	(2,180,775)	33,671,340
Securities purchased under agreement to resell	-	62,832	-	62,832
Investment securities	-	987,594	(90,166)	897,428
Fixed and intangible assets, less accumulated depreciation	9,024	124,347	-	133,371
Other assets, less allowance for possible losses	77,828	663,388	(18,372)	722,844
TOTAL ASSETS	6,387,028	52,833,518	(2,378,583)	56,841,963
LIABILITIES				
Deposits from banks	139,102	4,598,358	-	4,737,460
Customer accounts	317,880	33,358,430	-	33,676,310
Debt securities issued	-	9,998,776	-	9,998,776
Other liabilities	10,803	248,072	218,255	477,130
TOTAL LIABILITIES	467,785	48,203,636	218,255	48,889,676
NET POSITION	5,919,243	4,629,882		
OFF-BALANCE SHEET COMMITMENTS				
Payable under forward, swap and spot contracts	(1,493,052)	(1,520,129)	-	(3,013,181)
Receivable under forward, swap and spot contracts	1,570,778	1,516,167	-	3,086,945
OFF-BALANCE SHEET COMMITMENTS, NET	77,726	(3,962)	-	73,764