VOZROZHDENIYE BANK

Financial Statements and Auditors’ Report

31 December 2002

Contents

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AUDITORS' REPORT

To the Supervisory Council of Vozrozhdeniye Bank:

1 We have audited the accompanying balance sheet of Vozrozhdeniye Bank (the "Bank") as at 31 December 2002, and the related statements of income, of cash flows and of changes in 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.

2 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.

3 In our opinion, the accompanying 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 Financial Reporting Standards.

Moscow, Russia
28 April 2003

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Balance Sheet as at 31 December 2002

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

	Note	2002	2001
Assets			
Cash and cash equivalents	5	1 452	1 565
Mandatory cash balances with the Central Bank of the Russian Federation		987	861
Trading securities	6	1 298	1 192
Due from other banks	7	1 324	610
Loans and advances to customers	8	8 694	7 428
Investment securities available for sale	9	184	406
Investment securities held to maturity	10	983	-
Accrued interest income and other assets	11	262	354
Premises and equipment	12	1 398	1 403
Total assets		**16 582**	**13 819**
Liabilities			
Due to other banks	13	1 078	474
Customer accounts	14	10 882	9 147
Other borrowed funds	15	2 722	2 994
Accrued interest expense and other liabilities	17	384	340
		15 066	**12 955**
Long-term subordinated loans	16	492	420
Exchangeable convertible preference shares recorded as liabilities	18	112	102
Total liabilities		**15 670**	**13 477**
Shareholders' equity			
Share capital	18	4 316	4 316
Share premium	18	675	675
Accumulated deficit	19	(4 079)	(4 649)
Total shareholders' equity		**912**	**342**
Total liabilities and shareholders' equity		**16 582**	**13 819**

Signed on behalf of the Board of Directors on 28 April 2003.

D.L. Orlov
President

A.A. Novikova
Chief Accountant

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

	Note	2002	2001
Interest income	20	1 567	1 301
Interest expense	20	(1 036)	(1 056)
Net interest income		**531**	**245**
Release of provision/(provision) for loan impairment	7, 8	454	(16)
Net interest income after provision for loan impairment		**985**	**229**
Gains less losses arising from trading securities		175	634
Gains less losses/(losses less gains) arising from investment securities available for sale		45	(101)
Gains less losses arising from dealing in foreign currencies		87	82
Foreign exchange translation gains less losses		24	79
Fee and commission income	21	490	373
Fee and commission expense	21	(29)	(22)
Recovery of provision for losses on credit related commitments	27	3	708
Other operating income		55	44
Operating income		**1 835**	**2 026**
Operating expenses	22	(1 589)	(1 392)
Monetary gain		166	282
Gains resulting from restructuring of other borrowed funds	15	162	-
Profit before taxation		**574**	**916**
Taxation	23	(1)	(1)
Net profit		**573**	**915**
Earnings per share (expressed in RR per share)			
Basic	24	51	81
Diluted	24	43	69

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2001 unless otherwise stated)

	Note	2002	2001
Cash flows from operating activities			
Interest received		1 617	1 475
Interest paid		(942)	(793)
Income received from dealing in trading securities		266	936
Income received from dealing in foreign currencies		87	82
Fees and commissions received		490	373
Fees and commissions paid		(29)	(22)
Other operating income received		55	42
Operating expenses paid		(1 491)	(1 162)
Income tax paid		(1)	(1)
Operating profit before changes in operating assets and liabilities		**52**	**930**
Net cash (increase)/decrease from operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(254)	(420)
Net increase in due from other banks		(302)	(244)
Net increase in loans and advances to customers		(1 726)	(1 268)
Net increase in trading securities		(330)	(395)
Net decrease/(increase) in other assets		19	(145)
Net increase/(decrease) in due to other banks		160	(78)
Net increase in customer accounts		3 106	3 073
Net increase in debt securities in issue		594	390
Net increase in other liabilities		49	83
Net cash provided from operating activities		**1 368**	**1 926**
Cash flows from investing activities			
Acquisition of premises and equipment	12	(134)	(205)
Proceeds from disposal of premises and equipment		6	-
Acquisition of investment securities available for sale		(755)	(411)
Dividends received		3	3
Net cash used in investing activities		**(880)**	**(613)**
Cash flows from financing activities			
Repayments of other borrowed funds	15	(418)	(532)
Dividends paid	25	(3)	(4)
Net cash used in financing activities		**(421)**	**(536)**
Effect of exchange rate changes on cash and cash equivalents		**28**	**16**
Effect of inflation on cash and cash equivalents		**(208)**	**(238)**
Net (decrease)/increase in cash and cash equivalents		**(113)**	**555**
Cash and cash equivalents at beginning of the year		1 565	1 010
Cash and cash equivalents at the end of the year	5	**1 452**	**1 565**

Note: The effect of the revaluation of foreign currency balances was eliminated from the above statement of cash flows.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

	Share capital	Share premium	Accumulated deficit	Total shareholders' equity/(deficit)
Balance at 1 January 2001	**4 316**	**675**	**(5 560)**	**(569)**
Net profit for the year	-	-	915	915
Dividends declared and paid				
- Preference shares (Note 25)	-	-	(4)	(4)
Balance at 31 December 2001	**4 316**	**675**	**(4 649)**	**342**
Net profit for the year	-	-	573	573
Dividends declared and paid				
- Preference shares (Note 25)	-	-	(3)	(3)
Balance at 31 December 2002	**4 316**	**675**	**(4 079)**	**912**

1 Principal Activities

Vozrozhdeniye Bank (the "Bank") is an open joint stock commercial bank owned by shareholders whose liability is limited. It has operated under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 1991. The Bank's principal business activity is commercial and retail banking operations within the Russian Federation.

The Bank has 59 branches within the Russian Federation, primarily in Moscow and the Moscow region. The Bank's Head office is registered in the Russian Federation, 101999, Moscow, Luchnikov pereulok, 7/4. The number of the Bank's employees as at 31 December 2002 was 3 856 (2001: 3 635).

2 Operating Environment of the Bank

Whilst there have been improvements in recent years in the economic situation in the Russian Federation, the economy of the Russian Federation continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, and relatively high inflation.

In addition, the banking sector in the Russian Federation is particularly sensitive to adverse currency fluctuations and economic conditions. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in the Russian Federation. The ongoing political stabilisation has been a positive contributing factor for the further development of the political and legal environment.

The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory and political developments, which are beyond the Bank's control.

In addition, economic conditions continue to limit the volume of activity in the financial markets. Market quotations may not be reflective of the values for financial instruments which would be determined in an efficient, active market involving willing buyers and willing sellers. Management has therefore used the best available information to adjust market quotations to reflect their best estimate of fair values, where considered necessary.

3 Basis of Presentation and Changes in the Financial Position of the Bank

Basis of Presentation. The financial statements of the Bank are prepared in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standards ("IAS") and Interpretations issued by the International Accounting Standards Board. The Bank maintains its accounting records in accordance with Russian banking and accounting regulations. These financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with IFRS.

These financial statements have been measured in the national currency of the Russian Federation, Russian Roubles ("RR"), and adjusted for inflation in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies" so that all Russian Rouble amounts, including corresponding information, are expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2002.

The preparation of the financial statements requires the use of estimates and assumptions that effect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The Bank adopted IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") in 2001. The financial effects of adopting IAS 39 were reported in the previous year's financial statements.

Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current year.

3 Basis of Presentation and Changes in the Financial Position of the Bank (Continued)

Changes in the Financial Position of the Bank. The improvements in economic conditions in the Russian Federation during 2002 have enabled Management of the Bank to continue their efforts, commenced in 1999-2001 to strengthen the Bank's financial position. As a result of these efforts the Bank has gained profit for the year ended 31 December 2002 RR 573 million (2001: RR 915 million) and the Bank has reflected a positive net equity position of RR 912 million (2001: RR 342 million) in this financial statements. During 2002, the most important actions of Management included:

- The Bank repaid a portion of the CBR stabilization loan in the total amount of RR 373 million and subsequently to 31 December 2002 repaid the remaining portion of the stabilization loan in the amount of RR 447 million in January and February 2003. Refer to Notes 15 and 30.

- The Bank restructured credit facilities received from the Ministry of Finance of the Russian Federation (hereinafter referred to as "MinFin") in the total amount of USD 36 million. Based on the terms of restructuring the Bank gained RR 162 million income recorded in the line "Gains resulting from restructuring of other borrowed funds" of income statement (refer to Note 15).

- The Management of the Bank has undertaken measures aimed at diversifying Bank's loan portfolio. There has been an improvement in the quality of the loan portfolio, resulting in a reduction in the overall level of provision for loan impairment (Note 8).

- Furthermore, efforts have been reinforced in order to improve the overall profitability of the Bank, and a series of initiatives aimed at attracting deposits to the Bank through its branch network have resulted in an increase in deposits and commission income during the year. (Refer to Notes 14 and 21).

- In addition, as further discussed in Note 16, the Bank has obtained long-term subordinated loans from its customers. These loans mature in 2006-2010. As further discussed in Note 18, during 2000 the Bank issued exchangeable convertible preference shares, which are recorded in these financial statements as liabilities in accordance with IAS. Management is of the opinion that above mentioned long-term subordinated loans and exchangeable convertible preference shares in the total amount RR 604 million represent equity of the Bank, but have been treated in these financial statements as liabilities under IAS.

- As discussed in Note 30, in February 2003 General Shareholders' Meeting approved of the new share issue of the 5.5 million ordinary shares with the nominal value of RR 10 per share. The total amount of the share capital increase is RR 55 million. The capital injection is planned to be made in cash before 1 July 2003.

During 2003 Management of the Bank will continue its program of measures aimed at further improving the financial position and profitability of the Bank. In the context of the economic environment, in which the Bank operates (Note 2), Management is of the opinion that the Bank will be able to continue its operations and activities, and meet its obligations as they fall due in the foreseeable future.

4 Significant Accounting Policies

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash within a day. All short term interbank placements, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Mandatory balances with the CBRF. Mandatory balances with the CBRF represent mandatory reserve deposits which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the cash flow statement.

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Bank classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within 1 to 6 months.

4 Significant Accounting Policies (Continued)

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

All related realized and unrealised gains and losses are recorded within gains less losses arising from trading securities in the statement of income in the period in which the change occurs. Interest earned on trading securities is reflected in the statement of income as interest income. Dividends received are included in other operating income.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised at trade date, which is the date that the Bank commits to purchase or sell the asset. Otherwise such transactions are treated as derivatives until settlement occurs.

Originated loans and advances and provisions for loan impairment. Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent at draw down, other than those that are originated with the intent of being sold immediately or in the short-term which are recorded as trading assets, are categorised as originated loans.

Originated loans and advances are recognised when cash is advanced to borrowers. Initially, originated loans and advances are recorded at cost, which is the fair value of the consideration given, and subsequently are carried at amortised cost less provision for loan impairment. Amortised cost is based on the fair value of cash consideration given to originate those loans determinable by reference to market prices at origination date.

Loans originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar loans. The difference between the fair value and the nominal value at origination is credited or charged to the statement of income as gains on origination of assets at rates above market or losses on origination of assets at rates below market. Subsequently, the carrying amount of such loans is adjusted for amortization of the gains/losses on origination and the related income is recorded as interest income within the statement of income using the effective yield method.

A credit risk provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect the amounts due according to original contractual terms. The amount of the provision is the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the instrument's original effective interest rate.

The provision 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 reflect the current economic environment in which the borrowers operate.

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the statement of income.

If the amount of the provision for loan impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for loan impairment in the statement of income.

The Bank does not enter into transactions for purchases of loans with 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. Specific provisions are raised against other credit related commitments when losses are considered probable.

Promissory notes purchased. Promissory notes purchased are included in trading securities, or in due from other banks or in loans and advances to customers, depending on their substance and are recognised and subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

4 Significant Accounting Policies (Continued)

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

Investment securities available for sale are initially recognised at cost (which includes transaction costs) and subsequently remeasured to fair value based on quoted bid prices. Certain investments available for sale for which there is no available external independent quotation have been fair valued by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies. Realised and unrealised gains and losses arising from changes in the fair value of investment securities available for sale are included in the statement of income in the period in which they arise. Interest earned on investment securities available for sale are reflected in the statement of income as interest income. Dividends received are included in other operating income.

All regular way purchases and sales of investment securities available for sale are recognised at trade date, which is the date that the Bank commits to purchase or sell the asset. All other purchases and sales are recognised as derivative forward transactions until settlement.

Investment securities held to maturity. This classification includes investment securities with a fixed maturity which Management has both the intent and the ability to hold to maturity. Management determines the appropriate classification of its investment securities at the time of the purchase.

Investment securities held to maturity are initially recognised at cost (which includes transaction costs) and subsequently are carried at amortised cost using the effective yield method, less any provision for impairment, calculated as the difference between the carrying amount and the present value of expected future cash flows discounted at the instrument's original effective interest rate.

Interest earned whilst holding investment securities held to maturity is recorded in the statement of income as interest income.

All regular way purchases and sales of investment securities held to maturity are recognised at trade date, which is the date that the Bank commits to purchase or sell the asset. All other purchases and sales are recognised as derivative forward transactions until settlement.

Premises and equipment. Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 less accumulated depreciation and provision for impairment (when required). Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference 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.

Construction in progress is carried at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002, less provision for any impairment in value (when required). Upon completion, assets are transferred to premises and equipment 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 profit/(loss). Repairs and maintenance are charged to the statement of income when the expenditure is incurred.

Depreciation. Depreciation is applied on a straight line basis over the estimated useful lives of the assets using the following rates:

Premises 2% per annum;

Equipment 15-20% per annum; and

Leasehold improvements - over the term of the underlying lease.

4 Significant Accounting Policies (Continued)

Borrowings. Borrowings are recognised initially at 'cost', being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently borrowings 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 borrowings using the effective yield method.

Borrowings originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar borrowings. The difference between the fair value and the nominal value at origination is credited or charged to the statement of income as gains on origination of liabilities at rates below market or losses on origination of liabilities at rates above market. Subsequently, the carrying amount of such borrowings is adjusted for amortization of the gains/losses on origination and the related expense is recorded as interest expense within the statement of income using the effective yield method.

If the Bank purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount of a liability and the consideration paid is included in gains arising from retirement of debt.

Debt securities in issue. Debt securities in issue include promissory notes and certificates of deposit issued by the Bank. Debt securities in issue are recognised initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, debt securities in issue 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 yield method.

If the Bank purchases its own debt securities in issue, they are removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

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

Preference shares. Preference shares that are not redeemable and upon which dividends are declared as stated in the Charter, are classified as equity. Convertible preference shares that may be exchanged with the Bank for debt are classified as financial liabilities. Dividends on these preference shares are recognised in the statement of income as interest expense on an amortised cost basis using the effective yield method.

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends declared after the balance sheet date are disclosed in the subsequent events note. 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.

Income taxes. Taxation has been provided for in the financial statements in accordance with Russian legislation currently in force. Income tax charge in the statement of income for the year comprises current tax and changes in deferred tax. 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. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided, using the balance sheet asset and liability method, for all 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 to 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.

Income and expense recognition. Interest income and expense are recognised in the statement of income for all interest bearing instruments on an accruals basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income securities and accrued discount and premium on promissory notes and other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

4 Significant Accounting Policies (Continued)

Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recorded as an adjustment to the effective yield on the loan. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recorded on completion of the underlying transaction.

Foreign currency translation. Transactions denominated in foreign currency are recorded at the 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 exchange rate ruling on that date.

Monetary assets and liabilities denominated in foreign currency are translated into Russian Roubles at the official exchange rate of the CBRF at the balance sheet date. Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange translation gains and losses. Translation differences on non-monetary items such as equities held for trading or available for sale are recorded as part of the fair value gain or loss.

As at 31 December 2002 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 31.7844 (2001: USD 1 = RR 30.14). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a freely convertible currency in most countries outside of the Russian Federation.

Derivative financial instruments. Derivative financial instruments including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options and other derivative financial instruments are initially recognized in the balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models, options pricing models or using the spot rate at the year end as the basis as appropriate. All 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 dealing in foreign currency and gains less losses arising from trading securities depending on the related contracts.

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

Fiduciary assets. Assets and liabilities held by the Bank in its own name, but for the account of third parties, are not reported on the balance sheet. Commissions received from such business are shown in fee and commission income within the statement of income.

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.

Accounting for the effects of hyperinflation. Russia continued to experience relatively high levels of inflation in 2002 and is considered to be hyperinflationary as defined by IAS 29 “Financial Reporting in Hyperinflationary Economies” (“IAS 29”). 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 be stated in terms of the measuring unit current at the balance sheet date. IFRS indicates that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

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 gain or 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.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

4 Significant Accounting Policies (Continued)

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

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

	CPI	Conversion Factor
1998	1 216 400	2.24
1999	1 661 481	1.64
2000	1 995 937	1.37
2001	2 371 572	1.15
2002	2 730 154	1.00

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 already 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 have been indexed by the change in the CPI from the date of purchase. Where indexation is applied, an assessment has been made of the potential impairment in 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 CPI from the approximate date of transactions resulting in movement in equity.

Amounts included in the statement of income have been indexed by the change in the CPI 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:
  - Provisions for loan impairment; and
  - Provision for losses on credit related commitments.

All such movements have been treated, for the purposes of this calculation, as occurring at the period end.

As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Bank no longer applies the provisions of IAS 29.

Provisions. Provisions are recorded 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.

Salary related costs. The Bank contributes to the Russian Federation state pension schemes and social insurance fund, in respect of its employees. The Bank's pension scheme contributions are expensed as incurred. The contributions are included into staff costs.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

5 Cash and Cash Equivalents

	2002	2001
Cash on hand	559	414
Cash balances with the CBRF (other than mandatory reserve deposits)	677	509
Correspondent accounts and overnight deposits with other banks		
- Russian Federation	7	25
- Other countries	209	617
Total cash and cash equivalents	**1 452**	**1 565**

6 Trading Securities

	2002	2001
RR denominated securities		
Corporate shares	66	54
Federal loan bonds (OFZ)	-	36
Promissory notes	-	42
US dollar denominated securities		
Russian Federation Eurobonds	1 184	959
VneshEconomBank 3% coupon bonds (VEB)	48	101
Total trading securities	**1 298**	**1 192**

Corporate shares are represented by the shares of Russian companies.

Federal loan bonds (OFZ) 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, have a medium to long-term maturity period with a coupon rate of approximately 5-15% in 2002 and yield to maturity from 15% to 17%, depending on the type of bond issue.

Promissory notes denominated in Roubles represented debt securities issued by a publicly traded Russian company, and debt securities of a Russian commercial bank. Promissory notes were issued at discount to nominal value, beared interest at 6-24%, and matured in 2002.

Russian Federation Eurobonds are interest bearing securities denominated in USD issued by the Ministry of Finance of the Russian Federation and are freely tradable internationally and are stated at market value. These bonds have maturity date in March 2030 and yield to maturity of 9.05% pa. The annual coupon rates on these bond is 5%, and interest is payable semi-annually. As at 31 December 2002 Russian Federation Eurobonds with market value of RR 610 million (2001: nil) and nominal value of USD 23.7 million have been pledged to the CBRF as collateral against stabilisation loans obtained from the CBRF in the amount of RR 447 million as at 31 December 2002 (Refer to Note 15).

VEB bonds are interest bearing securities denominated in USD, which carry the guarantee of the Ministry of Finance of the Russian Federation. The bonds have maturity dates from May 2008 to May 2011, coupon rate of 3% and yield to maturity from 7.96% to 8.28%. VEB bonds are stated at market value.

The Bank is licensed by the Federal Commission on Securities Market for performing transactions with securities.

Geographical, currency, maturity and interest rate analyses of trading securities are disclosed in Note 26.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

7 Due from Other Banks

	2002	2001
Current loans	1 324	610
Overdue loans	8	9
Less: Provision for loan impairment	(8)	(9)
Total due from other banks	**1 324**	**610**

Movements in the provision for loan impairment are as follows:

	2002	2001
Provision for loan impairment at 1 January	**9**	**131**
Recovery of provision for loan impairment during the year	-	(101)
Effect of inflation	(1)	(21)
Provision for loan impairment at 31 December	**8**	**9**

Included in due from other banks as at 31 December 2002 are current loans in the amount of RR 498 million with several Russian resident banks. At the same time, the Bank has attracted loans from these Russian resident banks in the amount of RR 498 million (Refer to Note 13).

As at 31 December 2002 the estimated fair value of due from other banks was RR 1 324 million (2001: RR 610 million). Refer to Note 28.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 26.

8 Loans and Advances to Customers

	2002	2001
Current loans	9 406	8 952
Overdue loans	33	6
Less: Provision for loan impairment	(745)	(1 530)
Total loans and advances to customers	**8 694**	**7 428**

Movements in the provision for loan impairment are as follows:

	2002	2001
Provision for loan impairment at 1 January	**1 530**	**1 942**
Adjustment on adoption of IAS 39	-	14
(Release of)/charge for provision for loan impairment during the year	(454)	117
Loans and advances to customers written off during the year as uncollectable	(118)	(236)
Effect of inflation	(213)	(307)
Provision for loan impairment at 31 December	**745**	**1 530**

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

8 Loans and Advances to Customers (Continued)

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

	2002		2001	
	Amount	**%**	**Amount**	**%**
Manufacturing	3 707	39	3 436	38
Trade	1 646	18	706	8
Agricultural	732	8	224	3
Construction	704	8	1 316	15
Individuals	587	6	633	7
Government bodies and municipal authorities	504	5	918	10
Loans issued under a staff compensation plan	390	4	1 066	12
Finance	315	3	23	-
Transport	164	2	240	3
Other	690	7	396	4
Total loans and advances to customers (aggregate amount)	**9 439**	**100**	**8 958**	**100**

The Bank has 7 borrowers with total loan amounts above RR 150 million (2001: 7 borrowers with total loan amounts above RR 149 million). The aggregate amount of these loans is RR 2 441 million or 26% of the loan portfolio (2001: RR 2 830 million or 32% of the loan portfolio).

Included in loans and advances to customers as at 31 December 2002 are loans in the amount of RR 390 million (2001: RR 1 066 million) granted to employees of the Bank under a staff compensation plan. Refer to Note 14.

As at 31 December 2002 the estimated fair value of loans and advances to customers was RR 8 694 million (2001: RR 7 428 million). Refer to Note 28.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 26. The Bank has several loans issued to related parties. The relevant information on related party loans is disclosed in Note 29.

9 Investment Securities Available for Sale

At 31 December 2002 the principal equity investment securities available for sale are:

	2002	2001
Investments securities available for sale	184	406
Total investment securities available for sale	**184**	**406**

As at 31 December 2001 investments held for sale included RR 309 million of promissory notes issued by the Agency for Restructuring of Credit Organisations (ARCO). In 2000 the Bank had received these promissory notes from ARCO in exchange of loans issued to OAO “Cherkizovskiy Meat Processing Plant” (OAO “ChMPZ”). In 2000 the Bank had entered into an option agreement with ARCO, under which the Bank had the right to exchange the ARCO promissory notes for 10% of the ordinary shares of OAO “ChMPZ”. ChMPZ has been the borrower of the Bank since 1995. The total amount of the loans issued by the Bank to ChMPZ as at 31 December 2001 was RR 218 million.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

9 Investment Securities Available for Sale (Continued)

During 2002 the Bank exchanged ARCO promissory notes for 10% of the ordinary shares of OAO "ChMPZ" and subsequently sold 7.6% of the shares with a carrying value of RR 210 million to a third party for RR 263 million. The resulting gain in the amount of RR 53 million was recorded within the line "Gains less losses arising from investment securities available for sale" in the statement of income. The remaining 2.4% of the shares of OAO "ChMPZ" are recorded at their estimated market value on the basis recent sales transactions with these shares. All other available for sale investment securities have been fair valued and recorded by Management based on their best estimate of the market value of the investments.

Geographical, currency and maturity analyses of investment securities available for sale are disclosed in Note 26.

10 Investment Securities Held to Maturity

	2002	2001
VneshEconomBank 3% coupon bonds (VEB)	983	-
Total investment securities held to maturity	**983**	**-**

Investment securities held to maturity represent VEB bonds with the market value of RR 983 million (USD 30.9 million) and nominal value of USD 44.5 million maturing in 2011, carrying 3% annual coupon rate, and are pledged as a collateral against the credit facilities obtained by the Bank from MinFin (Refer to Note 15).

During 2002 the Bank had initially classified VEB bonds as trading securities and carried them at fair value. However, as at 31 December 2002 the Bank pledged these VEB bonds as collateral as described in the paragraph above and reclassified them as investment securities held to maturity. Under the terms of collateral agreement, the Bank does not have right to sell these bonds before maturity or repayment of the credit facility.

As at 31 December 2002 the estimated fair value of investment securities held to maturity was RR 983 million (2001: nil). Refer to Note 28.

Geographical, currency and maturity analyses of investment securities held to maturity are disclosed in Note 26.

11 Accrued Interest Income and Other Assets

	2002	2001
Accrued interest income	111	190
Trade debtors and prepayments	94	120
Settlements on conversion operations	19	14
Deferred charges	17	18
Prepaid taxes	13	10
Other	8	2
Total accrued interest income and other assets	**262**	**354**

Geographical, currency and maturity analyses of accrued interest income and other assets are disclosed in Note 26.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

12 Premises and Equipment

	Premises and leasehold improvements	Office and computer equipment	Construction in progress	Total
Net book amount at 31 December 2001	**1 160**	**96**	**147**	**1 403**
Book amount at cost				
Opening balance	1 322	1 241	147	2 710
Additions	47	87	-	134
Transfers	16	-	(16)	-
Disposals	(20)	(12)	-	(32)
Closing balance	**1 365**	**1 316**	**131**	**2 812**
Accumulated depreciation				
Opening balance	162	1 145	-	1 307
Depreciation charge (Note 22)	27	89	-	116
Disposals	(1)	(8)	-	(9)
Closing balance	**188**	**1 226**	**-**	**1 414**
Net book amount at 31 December 2002	**1 177**	**90**	**131**	**1 398**

Construction in progress consists mainly of construction and refurbishment of branch premises. Upon completion, assets are transferred to the corresponding category of fixed assets of the Bank.

13 Due to Other Banks

	2002	**2001**
Current loans	975	281
Correspondent accounts and overnight deposits of other banks	103	193
Total due to other banks	**1 078**	**474**

Included in due to other banks as at 31 December 2002 are current loans in the amount of RR 498 million attracted from several Russian resident banks. At the same time, the Bank placed deposits with these Russian resident banks in the amount of RR 498 million (Refer to Note 7).

As at 31 December 2002 the estimated fair value of due to other banks was RR 1 078 million (2001: RR 474 million). Refer to Note 28.

Geographical, currency, maturity and interest rates analyses of due to other banks are disclosed in Note 26.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

14 Customer Accounts

	2002	2001
State and public organisations		
- Current/settlement accounts	1 432	1 293
- Term deposits	437	498
Other legal entities		
- Current/settlement accounts	2 594	2 292
- Term deposits	1 054	1 743
Individuals		
- Current/demand accounts	2 217	1 268
- Term deposits	3 148	2 053
Total customer accounts	**10 882**	**9 147**

Included in term deposits of other legal entities are RR 390 million (2001: RR 1 066 million) placed with the Bank on behalf of the employees of the Bank under a staff compensation plan (Refer to Note 8).

Economic sector concentrations within customer accounts are as follows:

	2002		2001	
	Amount	**%**	**Amount**	**%**
Individuals	5 365	49	3 321	36
Government bodies and municipal authorities	1 869	17	1 791	20
Trade	1 082	10	589	6
Agriculture	1 071	10	720	8
Manufacturing	577	6	995	11
Finance	437	4	1 369	15
Construction	324	3	195	2
Other	157	1	167	2
Total customer accounts	**10 882**	**100**	**9 147**	**100**

As at 31 December 2002 the estimated fair value of customer accounts was RR 10 882 million (2001: RR 9 147 million). Geographical, currency, maturity and interest rates analyses of customer accounts are disclosed in Note 26. The Bank has several outstanding balances with related parties. The relevant information on related party transactions is disclosed in Note 29.

15 Other Borrowed Funds

	2002	2001
Stabilisation loans obtain from CBRF	447	860
Credit facilities from MinFin	983	1 299
Debt securities in issue	1 292	835
Total other borrowed funds	**2 722**	**2 994**

15 Other Borrowed Funds (Continued)

CBRF stabilisation loans. The Bank received two stabilisation loans totalling RR 1 250 million (non-inflated) from the CBRF during 1998-1999 for the purpose of improving the financial and liquidity position of the Bank in post 1998 crisis period. The loan in the amount of RR 380 million (non-inflated) and a portion of the second loan in the amount of RR 50 million (non-inflated) were repaid by the Bank during 2001. The next portion of the second loan was repaid by the Bank during 2002 in the total amount of RR 373 million. The remaining portion of the second stabilization loan in the amount of RR 447 million was repaid by the Bank subsequently to 31 December 2002, in January and February 2003 (Refer to Note 30). In July 2002, the stabilization loans were secured by the pledge of collateral with a market value of RR 610 million (Refer to Note 6).

The remaining portion of the loan bears contractual interest of one third of the CBRF refinancing rate, which as at 31 December 2002 was 7% (2001: 8.33%).

As at 31 December 2002 the estimated fair value of the remainder of CBRF stabilisation loans was RR 449 million (2001: RR 860 million).

Credit facilities from MinFin. As at 31 December 2001 the Bank had 2 outstanding credit line facilities granted by the International and European Banks for Reconstruction and Development (IBRD and EBRD) in the amounts of USD 50 million and USD 12.5 million respectively. The financing was used in accordance with the terms of the Housing Construction Project and the Financial Institutions Development Program (FIDP). During 2002 the interest rates on these facilities ranged from 4% to 6% (2001: from 6% to 8%), with interest payable semi-annually. The Bank received these funds from the Ministry of Finance of the Russian Federation, which acted as an agent in providing these loan facilities.

During 2002 the Ministry of Finance of the Russian Federation has restructured the terms of repayment and the amount of these credit line facilities. According to the terms of the restructuring agreement the maturity date of the total amount of agreed credit facilities of RR 1 396 million (equivalent of USD 43.9 million) is 31 December 2011, and annual interest rate is 3%.

Under the terms of the restructuring agreement the Bank pledged as a collateral VEB bonds maturing in 2011, carrying an annual coupon of 3%, with the total nominal amount of RR 1 414 million, the equivalent of USD 44.5 million, and the fair value of RR 983 million (USD 30.9 million). (Refer to Note 10).

Movements in the amount of credit line facilities granted under the terms of the Housing Construction Project and FIDP during 2001 and 2002 are as follows (all amounts expressed in millions of USD):

	2002 USD, mln	2001 USD, mln
Credit line facilities at 1 January	**37.4**	**39.7**
Repayment during the year	(1.4)	(2.3)
Gains on restructuring of other borrowed funds	(5.1)	-
Credit line facilities at 31 December	**30.9**	**37.4**

As at 31 December 2001 the nominal value of these credit facilities were equal to their carrying value since no collateral has been placed against these facilities by the Bank. As at 31 December 2002, the carrying value of these credit facilities became equal to the fair value of the collateral (refer to Note 10). Gains on restructuring of other borrowed funds represent the difference between the carrying amount of liabilities on the date of restructuring and the fair value of the collateral.

Debt securities in issue. Debt securities in issue include promissory notes and certificates of deposits, which generally mature within 2-3 months from 31 December 2002. The average interest rates on bills of exchange issued by the Bank and certificates of deposits outstanding at 31 December 2002 was 11% p.a. for Rouble denominated securities, and 6% p.a. for foreign currency denominated securities.

As at 31 December 2002 the estimated fair value of debt securities in issue was RR 1 292 million (2001: RR 835 million).

Geographical, currency, maturity and interest rates analyses of other borrowed funds are disclosed in Note 26.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

16 Long-Term Subordinated Loans

Long-term subordinated loans represent long-term deposits of customers of the Bank, which mature in 2006-2010 and bear contractual interest rates ranging from 2.25% to 8%.

Under the terms of the subordinated loans, in the event of liquidation of the Bank, the repayment of these loans is subordinated to all other creditors of the Bank.

As at 31 December 2002 the estimated fair value of long-term subordinated loans was RR 500 million (2001: RR 430 million).

Geographical, currency, maturity and interest rates analyses of long-term liabilities are disclosed in Note 26.

17 Accrued Interest Expense and Other Liabilities

	2002	**2001**
Accrued interest expense	198	191
Settlements on conversion operations	107	45
Provision for credit related commitments (Note 27)	47	58
Taxation payable	12	10
Other accruals and deferred income	3	33
Other	17	3
Total accrued interest expense and other liabilities	**384**	**340**

Geographical, currency and maturity analyses of accrued interest expense and other liabilities are disclosed in Note 26.

18 Share Capital

Statutory capital authorised, issued and fully paid comprises:

	2002			**2001**		
	Number of shares	**Nominal amount**	**Inflation adjusted amount**	**Number of shares**	**Nominal amount**	**Inflation adjusted amount**
Ordinary shares	11 248 753	112	4 242	11 248 753	112	4 242
Preference shares	1 294 505	13	60	12 945 050	13	60
Convertible preference shares	1 999 941	20	33	1 999 941	20	33
Less: exchangeable convertible preference shares recorded as liabilities	(1 176 470)	(12)	(19)	(1 176 470)	(12)	(19)
Total share capital		**133**	**4 316**		**133**	**4 316**

All ordinary shares have a nominal value of RR 10 per share, rank equally and carry one vote.

Preference shares with fixed dividend and convertible preference shares have nominal value of RR 10 and do not carry voting rights at the General Shareholders' Meeting (GSM), except for the cases stipulated by the Charter of the Bank. As at 31 December 2001 preference shares with fixed dividend had nominal value of RR 1 per share. During 2002 the Bank performed consolidation of the nominal value of its' preference shares with fixed dividend, whereby 10 preference shares with a nominal value of RR 1 per share were converted into 1 preference share with a nominal value of RR 10 per share. Preference shares with fixed dividend give the holder the right to receive an annual fixed dividend of 20% p.a. of its nominal value. The actual amount of the dividend is to be approved by the GSM. The GSM can decide on non-payment of dividends or on partial payment of dividends. If dividends are not declared, the preference shareholders obtain the right to vote as common shareholders until such time that the dividend is paid.

In accordance with the Bank's Charter, the convertible preference shares must be converted into ordinary shares in 2005 on the basis of 1 convertible preference share to 1 ordinary share.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

18 Share Capital (Continued)

Included in convertible preference shares are 1 176 470 of exchangeable convertible preference shares issued to Canadian Imperial Bank of Commerce ("CIBC"). In accordance with an agreement between the Bank and CIBC dated March 2002, the Bank has agreed to exchange these preference shares into long-term (six year) debt instruments in 2005 at a price of USD 5.10 per share. These will be repaid by the Bank in equal instalments during the six years following the date of exchange. CIBC has the right to sell the exchangeable convertible preferred shares to third parties. In the event of such sale, the exchange agreement with the Bank expires. In accordance with IFRS these exchangeable convertible preference shares are recorded in the balance sheet as a liability and are carried at amortized cost.

As at 31 December 2002 the carrying value of exchangeable convertible preference shares recorded as liabilities was RR 112 million (2001: RR 102 million), while the estimated fair value of exchangeable convertible preference shares recorded as liabilities was RR 118 million (2001: RR 109 million).

As at 31 December 2002, 550 000 ordinary shares of the Bank were circulating at the international exchange markets through Level One American Depository Receipts (ADR). One ADR corresponds to one ordinary share of the Bank with nominal value RR 10. The Bank of New York, which is registered as the nominal holder of the 550 000 ordinary shares, is the issuer of the ADRs.

19 Accumulated Deficit

In accordance with Russian Law on Banks and Banking Activity, the Bank allocates its profits as dividends or transfer them to reserves (fund accounts) on the basis of accounting reports prepared in accordance with Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules as at 31 December 2002 are RR 424 million (2001: RR 126 million (non-inflated)).

20 Interest Income and Expense

	2002	2001
Interest income on		
Loans and advances to customers	1 385	1 048
Securities	143	181
Due from other banks	39	72
Total interest income	**1 567**	**1 301**
Interest expense on		
Term deposits of individuals	(450)	(244)
Other borrowed funds	(220)	(327)
Term deposits of legal entities	(141)	(155)
Debt securities issued	(91)	(62)
Current/settlement accounts	(51)	(77)
Subordinated loans	(45)	(41)
Term placements of banks	(38)	(150)
Total interest expense	**(1 036)**	**(1 056)**
Net interest income	**531**	**245**

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21 Fee and Commission Income and Expense

	2002	2001
Commission on cash transactions	212	139
Commission on settlement transactions	104	123
Commission on plastic cards operations	100	46
Commission on cash collection	24	21
Other	50	44
Total fee and commission income	**490**	**373**
Total fee and commission expense	**(29)**	**(22)**
Net fee and commission income	**461**	**351**

22 Operating Expenses

	2002	2001
Staff costs	850	607
Maintenance, repairs and transport	161	127
Taxes other than on income	156	125
Depreciation of premises and equipment (Note 12)	116	204
Other expenses related to premises and equipment	110	108
Administrative expenses	63	46
Stationery and communication expenses	59	76
Other	74	99
Total operating expenses	**1 589**	**1 392**

23 Income Taxes

Income tax expense was comprised of the following:

	2002	2001
Current tax charge	1	1
Income tax expense for the year	**1**	**1**

The income tax rate applicable to the majority of the Bank's income is 24 percent (2001: 43 percent). Effective 1 January 2001, the statutory tax rate was increased from 38 percent to 43 percent. A 24 percent statutory income tax rate was enacted in August 2001 and became effective starting from 1 January 2002. A reconciliation between the expected and the actual taxation charge is provided below.

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23 Income Taxes (Continued)

	2002	2001
IFRS profit before taxation	**574**	**916**
Theoretical tax charge at the applicable statutory rate	138	394
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income on government securities taxed at different rates	1	1
- Non deductible provisions for credit related commitments	(1)	(304)
- Non deductible provisions for loans and advances to customers	(15)	(36)
- Non temporary elements of monetary gains and losses	11	(39)
- Other non temporary differences	12	76
Tax loss carry forward not recognised	18	40
Effect of the change in tax rate	-	153
Inflation effect on deferred tax balance at the beginning of the year	26	90
Non-recognised net deferred tax asset movement	(189)	(374)
Income tax expense for the year	**1**	**1**

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 profits tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24 percent, except for income on state securities that is taxed at 15 percent.

	2001	Movement	2002
Tax effect of deductible temporary differences			
Loan impairment provision	279	(170)	109
Fair valuation of trading securities	-	102	102
Fair valuation of investment securities available for sale	18	(12)	6
Other	11	(9)	2
Gross deferred tax asset	**308**	**(89)**	**219**
Less: non-recognised deferred tax asset	(195)	189	(6)
Net deferred tax asset	**113**	**100**	**213**
Tax effect of taxable temporary differences			
Value of premises and equipment	(93)	(21)	(114)
Restructuring credit facilities from MinFin	-	(99)	(99)
Fair valuation of trading securities	(20)	20	-
Gross deferred tax liability	**(113)**	**(100)**	**(213)**
Total net deferred tax asset	**-**	**-**	**-**

As at 31 December 2002, a net deferred tax asset in the amount of RR 6 million (2001: RR 195 million) has not been recorded as it is not probable that sufficient taxable profit will be available to allow the benefit of that deferred tax asset to be utilised.

The Bank also has available RR 40 million of tax loss carry forwards, which may be utilised during 10 years, starting from 2002. The tax loss carry forwards have not been recognised as deferred tax assets, due to the absence of certainty of the ability of the Bank to fully utilize them in the future.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

24 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.

	2002	2001
Net profit attributable to shareholders	573	915
Less: dividends on preference shares	(3)	(4)
Net profit attributable to ordinary shareholders	**570**	**911**
Weighted average number of ordinary shares in issue (millions)	11.2	11.2
Basic earnings per share (expressed in RR per share)	**51**	**81**

For calculation of the diluted earnings per share the weighted number of shares outstanding is adjusted to assume conversion of all potential dilutive shares. The Bank's convertible preference shares with a nominal value of 10 RR per share (Note 18) should be converted into ordinary shares in 2005. The basis of conversion is 1 preference share to 1 ordinary share. In the diluted EPS calculation all convertible preference shares are assumed to have been converted into ordinary shares.

	2002	2001
Net profit attributable to shareholders	573	915
Less: dividends on preference shares	(3)	(4)
Net profit attributable to ordinary shareholders	**570**	**911**
Weighted average number of ordinary shares in issue (millions)	11.2	11.2
Adjustment for assumed conversion of convertible preference shares (millions)	2.0	2.0
Weighted average number of ordinary shares for diluted earnings per share (millions)	**13.2**	**13.2**
Diluted earnings per share (expressed in RR per share)	**43**	**69**

25 Dividends

	2002	2001
Dividends on preference shares		
Declared and paid during the year	3	4
Total dividends	**3**	**4**

Dividends have been declared and paid only in relation to the preference shares. No dividends have been declared or paid in relation to the ordinary shares. All dividends are declared and paid in Russian Roubles.

26 Financial Risk Management

The risk management function in the Bank is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. Risk assessment also forms the basis for optimal risk-adjusted capital allocation, transaction pricing and performance assessment. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimize operational and legal risks.

Credit risk. The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to a quarterly or more frequent review. Limits on the level of credit risk by product, borrower and industry sector are approved quarterly by the Board of Directors and the Assets and Liabilities Management Committee.

The exposure to any one borrower including banks is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items. Actual exposures against limits are monitored daily.

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

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Board of Directors and the Assets and Liabilities Management Committee set limits on the value of risk that may be accepted, which is monitored on a regular basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

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26 Financial Risk Management (Continued)

Geographical risk. The geographical concentration of the Bank's assets and liabilities as at 31 December 2002 is set out below:

	Russia	OECD Countries	Non OECD Countries	Total
Assets				
Cash and cash equivalents	1 243	203	6	1 452
Mandatory cash balances with the Central Bank of the Russian Federation	987	-	-	987
Trading securities	1 298	-	-	1 298
Due from other banks	1 038	22	264	1 324
Loans and advances to customers	8 694	-	-	8 694
Investment securities available for sale	184	-	-	184
Investment securities held to maturity	983	-	-	983
Accrued interest income and other assets	258	4	-	262
Premises and equipment	1 398	-	-	1 398
Total assets	**16 083**	**229**	**270**	**16 582**
Liabilities				
Due to other banks	900	45	133	1 078
Customer accounts	10 846	1	35	10 882
Other borrowed funds	2 722	-	-	2 722
Accrued interest expense and other liabilities	384	-	-	384
Long term subordinated loans	397	-	95	492
Exchangeable convertible preference shares recorded as liabilities	-	112	-	112
Total liabilities	**15 249**	**158**	**263**	**15 670**
Net balance sheet position at 31 December 2002	**834**	**71**	**7**	**912**
Credit related commitments at 31 December 2002	**1 736**	**-**	**-**	**1 736**

The geographical concentration of the Bank's assets and liabilities as at 31 December 2001 is set out below:

	Russia	OECD Countries	Non OECD Countries	Total
Net balance sheet position at 31 December 2001	**(8)**	**427**	**(77)**	**342**
Credit related commitments at 31 December 2001	**1 418**	**-**	**-**	**1 418**

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

26 Financial Risk Management (Continued)

Currency risk. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors and the Assets and Liabilities Management Committee set limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored on a daily basis. The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2002. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency. At 31 December 2002, the Bank has the following positions in currencies:

	RR	USD	Euro	Other currencies	Total
Assets					
Cash and cash equivalents	1 028	334	75	15	1 452
Mandatory cash balances with the Central Bank of the Russian Federation	987	-	-	-	987
Trading securities	66	1 232	-	-	1 298
Due from other banks	1 043	281	-	-	1 324
Loans and advances to customers	5 793	2 886	15	-	8 694
Investment securities available for sale	168	16	-	-	184
Investment securities held to maturity	-	983	-	-	983
Accrued interest income and other assets	215	47	-	-	262
Premises and equipment	1 398	-	-	-	1 398
Total assets	**10 698**	**5 779**	**90**	**15**	**16 582**
Liabilities					
Due to other banks	568	510	-	-	1 078
Customer accounts	7 231	3 568	80	3	10 882
Other borrowed funds	1 467	1 255	-	-	2 722
Accrued interest expense and other liabilities	231	146	7	-	384
Long term subordinated loans	-	492	-	-	492
Exchangeable convertible preference shares recorded as liabilities	-	112	-	-	112
Total liabilities	**9 497**	**6 083**	**87**	**3**	**15 670**
Net balance sheet position at 31 December 2002	**1 201**	**(304)**	**3**	**12**	**912**
Credit commitments at 31 December 2002	**1 246**	**378**	**112**	**-**	**1 736**

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

	RR	USD	Euro	Other currencies	Total
Net balance sheet position at 31 December 2001	**(283)**	**610**	**15**	**-**	**342**
Credit commitments at 31 December 2001	**810**	**450**	**158**	**-**	**1 418**

The Bank has extended loans and advances denominated in foreign currencies. Depending on the revenue stream of the borrower, the appreciation of the currencies against the Russian Rouble may adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

26 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The liquidity risk is managed by the Liquidity Division of the Bank.

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.

	Demand and less than 1 month	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**No stated maturity**	**Total**
Assets						
Cash and cash equivalents	1 452	-	-	-	-	1 452
Mandatory cash balances with the Central Bank of the Russian Federation	987	-	-	-	-	987
Trading securities	1 298	-	-	-	-	1 298
Due from other banks	901	423	-	-	-	1 324
Loans and advances to customers	2 335	2 572	1 873	901	1 013	8 694
Investment securities available for sale	-	-	-	-	184	184
Investment securities held to maturity	-	-	-	983	-	983
Accrued interest income and other assets	149	73	27	13	-	262
Premises and equipment	-	-	-	-	1 398	1 398
Total assets	**7 122**	**3 068**	**1 900**	**1 897**	**2 595**	**16 582**
Liabilities						
Due to other banks	763	277	38	-	-	1 078
Customer accounts	7 430	1 904	792	756	-	10 882
Other borrowed funds	470	1 113	38	1 101	-	2 722
Accrued interest expense and other liabilities	275	60	15	34	-	384
Long term subordinated loans	-	-	-	492	-	492
Exchangeable convertible preference shares recorded as liabilities	-	-	-	112	-	112
Total liabilities	**8 938**	**3 354**	**883**	**2 495**	**-**	**15 670**
Net liquidity gap	**(1 816)**	**(286)**	**1 017**	**(598)**	**2 595**	**912**
Cumulative liquidity gap at 31 December 2002	**(1 816)**	**(2 102)**	**(1 085)**	**(1 683)**	**912**	**-**
Cumulative liquidity gap at 31 December 2001	**(2 715)**	**(1 269)**	**(919)**	**(1 468)**	**342**	**-**

26 Financial Risk Management (Continued)

Overdue assets are fully provided against, and thus, have no impact on the above table. The entire portfolio of trading securities is classified within demand and less than one month as the portfolio is of a dealing nature and Management believe this is a fairer portrayal of its liquidity position. Mandatory cash balances with the CBRF are included within demand and less than one month as the majority of liabilities to which this balance relates to are also included within this category.

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 transacted is 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.

Management believes that in spite of a substantial portion of deposits from customers 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.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings 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 usually renegotiated to reflect current market conditions.

The Board of Directors and the Assets and Liabilities Management Committee set limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored on a regular basis. In the absence of any available hedging instruments, the Bank normally seeks to match its interest rate positions.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

26 Financial Risk Management (Continued)

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing	Total
Assets						
Cash and cash equivalents	1 452	-	-	-	-	1 452
Mandatory cash balances with the Central Bank of the Russian Federation	987	-	-	-	-	987
Trading securities	1 232	-	-	-	66	1 298
Due from other banks	901	423	-	-	-	1 324
Loans and advances to customers	2 335	2 572	1 873	901	1 013	8 694
Investment securities available for sale	-	-	-	-	184	184
Investment securities held to maturity	-	-	-	983	-	983
Accrued interest income and other assets	-	-	-	-	262	262
Premises and equipment	-	-	-	-	1 398	1 398
Total assets	**6 907**	**2 995**	**1 873**	**1 884**	**2 923**	**16 582**
Liabilities						
Due to other banks	763	277	38	-	-	1 078
Customer accounts	7 430	1 904	792	756	-	10 882
Other borrowed funds	470	1 113	38	1 101	-	2 722
Accrued interest expense and other liabilities	-	-	-	-	384	384
Long term subordinated loans	-	-	-	492	-	492
Exchangeable convertible preference shares recorded as liabilities	-	-	-	112	-	112
Total liabilities	**8 663**	**3 294**	**868**	**2 461**	**384**	**15 670**
Net gap	**(1 756)**	**(299)**	**1 005**	**(577)**	**2 539**	**912**
Cumulative gap at 31 December 2002	**(1 756)**	**(2 055)**	**(1 050)**	**(1 627)**	**912**	**-**

As at 31 December 2001 the Bank's interest rate sensitivity analysis based on the repricing of the Bank's assets and liabilities did not differ significantly from the maturity analysis.

The table below summarises the effective interest rates by major currencies for major monetary financial instruments. The analysis has been prepared using period-end effective contractual rates.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

26 Financial Risk Management (Continued)

	2002		2001	
	USD	**RR**	**USD**	**RR**
Assets				
Cash and cash equivalents	1%	1%	1%	2%
Trading securities	9%	-	12%	20%
Due from other banks	9%	8%	8%	14%
Loans and advances to customers	12%	21%	14%	27%
Liabilities				
Due to other banks	6%	5%	8%	1%
Customer accounts				
- Current and settlement accounts	1%	2%	0%	1%
- Term deposits	6%	16%	6%	14%
Promissory notes and certificates of deposit	4%	11%	6%	11%
Other borrowed funds	15%	21%	7%	25%
Long-term subordinated loans	9%	-	10%	-
Exchangeable convertible preference shares recorded as liabilities	9%	-	9%	-

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

27 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. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

Tax legislation. 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 judgement of business activities, Management's judgement of the Bank's 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 two different counterparties by more than 20%. There is no formal guidance as to how these rules should be applied in practice.

Current Russian tax legislation is principally based on the formal manner in which transactions are documented and the underlying accounting treatment as prescribed by Russian Accounting Rules. Accordingly, there are opportunities for banks to structure transactions to take advantage of opportunities in the Russian tax legislation to restructure income and expenses in order to reduce the overall effective tax rate. The statement of income as presented in these financial statements includes reclassifications to reflect the underlying economic substance of those transactions. The effect of these reclassifications does not have an effect on the Bank's profit before taxation or the tax charge recognised in these financial statements.

The Bank's Management is confident that this ongoing restructuring of taxable income and deductible expenses is unlikely to result in additional tax liabilities. Accordingly, no provision for a potential tax liability, with regard to these transactions, has been recognised in the financial statements.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

27 Contingencies, Commitments and Derivative Financial Instruments (Continued)

Capital commitments. As at 31 December 2002 the Bank has capital commitments in respect of reconstruction of premises of the Head Office and branches totalling RR 20 million (2001: RR 6 million). The Bank's Management has already allocated the necessary resources in respect of this commitment. The Bank's Management believes that future net revenues and funding will be sufficient to cover this and any similar such commitments.

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. Outstanding credit related commitments are as follows:

	Note	2002	2001
Guarantees issued		1 099	850
Unused limits on granting of overdraft loans		555	378
Export letters of credit		80	35
Undrawn credit lines		49	213
Less: provision for losses on credit related commitments	17	(47)	(58)
Total credit related commitments		**1 736**	**1 418**

During 2001 certain credit related commitments totalling RR 1 402 million were settled by the Bank and the related provision of RR 708 million was released by the Bank.

Management evaluated the likelihood of possible losses arising from credit related commitments and concluded that a provision of RR 47 million was necessary as at 31 December 2002 (2001: RR 58 million) for the credit related commitments.

The Bank has the right to renegotiate the terms of credit line agreements. At 31 December 2002, the probability of losses arising in connection with these undrawn credit lines is considered remote and accordingly no provision has been established (2001: no provision has been established).

The total provision for credit related commitments is included in accrued interest expense and other liabilities (Note 17). The total outstanding contractual amount of guarantees, letters of credit, undrawn credit lines, and unused limits on granting of overdraft loans does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Movement in provision for credit related commitments are as follows:

	2002	2001
Provision for credit related commitments at 1 January	**58**	**910**
Recovery of provision created for the year	(3)	(708)
Inflation effect	(8)	(144)
Provision for credit related commitments as at 31 December	**47**	**58**

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 custody of the Bank	47	51
MinFin bonds held in custody of the Bank	3	8
Client VEB securities held on account with Vneshtorgbank	17	19
Client OFZ securities held on account with National Depository Centre	71	158

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

27 Contingencies, Commitments and Derivative Financial Instruments (Continued)

Assets pledged. At 31 December 2002 the Group has the following assets pledges as collateral:

		2002		2001	
	Notes	**Asset pledged**	**Related liability**	**Asset pledged**	**Related liability**
VEB bonds	10, 15	983	983	23	1 299
Russian Federation Eurobonds	6, 15	610	447	-	-
Total		**1 593**	**1 430**	**23**	**1 299**

In addition, mandatory cash balances with the CBRF in the amount of RR 987 million (2001: RR 861 million) represent mandatory reserve deposit which is not available to finance the Bank's day to day operations.

28 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. However, judgement is necessarily required to interpret market data to determine the estimated fair value. As described in more detail in Note 2, the Russian Federation has shown signs of an emerging market and has experienced a significant decline in the volume of activity in its financial markets. 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.

Financial instruments carried at fair value. Cash and cash equivalents, trading securities and investment securities available for sale are carried on the balance sheet at their fair value. As set out in Note 9, external independent market quotations were not available for certain investment securities available for sale. The fair value of these assets were determined by Management on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies.

Due from other banks. The fair value of floating rate placements is their carrying amount. The estimated fair value of fixed interest bearing placement is based on discounted cash flows using prevailing money market interest rates for instruments with similar credit risk and remaining maturity. Refer to Note 7 for the estimated fair value of due from other banks as at 31 December 2002. Management has estimated that as at 31 December 2002 and as at 31 December 2001 the fair value of due from other banks was not materially different from respective carrying value. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

Loans and advance to customers. Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. Refer to Note 8 for the estimated fair value of loans and advances to customers as at 31 December 2002. Management has estimated that as at 31 December 2002 and as at 31 December 2001 the fair value of loans and advances to customers was not materially different from respective carrying value. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

Borrowings. The estimated fair value of liabilities with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing placements and other borrowings without a quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. Refer to Notes 13, 14, 15, 16, 18 for the estimated fair values of due to other banks, customer accounts, other borrowed funds, subordinated loans and convertible preference shares recorded as liabilities as at 31 December 2002.

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated)

28 Fair Value of Financial Instruments (Continued)

Debt securities in issue. The fair value of debt securities in issue is based on quoted market prices. For those securities where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity. Refer to Note 15 for the estimated fair value of debt securities in issue as at 31 December 2002. Related Party Transactions

29 Related Parties Transaction

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 for the year with related parties are as follows:

	2002	2001
Loans and advances to customers		
Loans outstanding at the year end	21	52
Provision for loan impairment at the year end	(4)	-
Interest income for the year	4	5
Customer accounts		
Current/settlement accounts outstanding at the year end	-	87
Term deposits outstanding at the year end	-	104
Interest expense for the year	42	1
Guarantees issued by the Bank and outstanding at the year end	72	114

30 Subsequent Events

In January and February 2003 the Bank repaid the outstanding portion of stabilization loan obtained from the CBRF in 1998-1999 in the amount of RR 447 million. (Refer to Note 15).

In February 2003 General Shareholders' Meeting approved a new share issue of 5.5 million ordinary shares with the nominal value of RR 10 per share. The total amount of the share capital increase is RR 55 million.