RUSSIAN AGRICULTURAL BANK GROUP

Consolidated Financial Statements
and Auditors' Report

31 December 2002

Contents

PRICEWATERHOUSECOOPERS

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AUDITORS' REPORT

To the Management, Supervisory Council and Shareholders of Russian Agricultural Bank Group:

We have audited the accompanying consolidated balance sheet of Russian Agricultural Bank (the "Bank") and its subsidiary (together the "Group") as at 31 December 2002, and the related consolidated statements of operations, of cash flows and of changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Group's Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

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

PricewaterhouseCoopers

Moscow Russia
15 June 2[illegible]

Russian Agricultural Bank Group
Consolidated Balance Sheet as at 31 December 2002

	Note	2002	2001
Assets			
Cash and cash equivalents	5	1 631 511	742 684
		223 407 1	67 155
Mandatory cash balances with the Central Bank of the Russian	6	826 342 I	650421 6
Federation Trading securities Due from other banks Loans and	7	127382 3	759 953 2
advances to customers	8	833 425	304 544
Investment securities available for sale	9	5380	182036
Accrued interest income and other assets	10	168394	89022
Premises and equipment	11	243 272	170475
Total assets		9 059 1 13	10966290
Liabilities			
Due to other banks	12	972 272	586 744
Customer accounts	13	3537412	6 679 470
Promissory notes	15	318447	177 132
Other borrowed funds	14	251500	303 916
Accrued interest expense and other liabilities	16	41016	36859
Total liabilities		5120647	7 784 121
Minority interest	17	10623	12613
Shareholders' equity			
Share capital	18	4 548 833	3 554 833
Accumulated deficit	19	(620 990)	(385 277)
Total shareholders' equity		3 927 843	3 169 556
Total liabilities and shareholders' equity		9 059 113	10966290

Signed on behalf ~~oard of E~~ irccctors on 15

A.S. Zhitnik
Chairman of the Executive Board

O.V. Nikonov
Chief Accountant

ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО
«Российский Сельскохозяйственный банк»
ОАО «Россельхозбанк»
* МОСКВА *
Г.Р. № 002.003.381

I he notes set out on pages 5 to 29 form an integral part of these consolidated financial statements.

Russian Agricultural Bank Group

Consolidated Statement of Operations for the Year Ended 31 December 2002

(in thousands of Russian Roubles expressed in terms o/the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated - Note 3)

	Note	2002	2001
Interest income	20	1 302 955	522 076
Interest expense	20	(236 807)	(46 580)
Net interest income Provision for loan impairment		1 066 148	475 496
8		(143 505)	(153274)
Net interest income after provision for loan impairment Gains less losses		922643	322 222
arising from trading securities Gains less losses arising from investment		28601	47211
securities available for sale Gains less losses arising from trading in foreign		56448	37013
currencies Foreign exchange translation gains less losses Fee and commission		8825	3275 1
income	2 1 Fee and commission	25856	084 57098
expense	2 1 Other operating income	119539 (3	(11 785)
		939)	22201
		20237	
Operating income Operating expenses		1 178 210	478319
22 Monetary loss		(931 865)	(447 027)
		(404 329)	(246 155)
Loss before taxation		(157 984)	(214863)
Income tax expense	23	(57 644)	(86353)
Loss after taxation		(215628)	(301 216)
Minority interest	1 7	1990	(193)
Net loss		(213638)	(301 409)

1 lie notes set out on pages 5 to 29 Conn an integral part of these consolidated financial statements

Russian Agricultural Bank Group

Consolidated Statement of Cash Flows for the Year Ended 31 December 2002

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless othertvise slated- Note 3)

	Note	2002	2001
Cash flows from operating activities			
Interest received on loans		1232312	412750
Interest received on securities		80803	64372
Interest paid on customer accounts		(209 344)	(26471)
Interest paid on securities		(25 026)	(13946)
Income received from trading securities		16715	39153
Income received from trading in foreign currencies		8825	3275
Fees and commissions received		119539	57098
Fees and commissions paid		(3 939)	(II 785)
Other operating income received		7999	18765
Operating expenses paid		(881 187)	(392 735)
Income tax paid		(116022)	(99441)
Cash flows provided from operating activities before changes in operating assets and liabilities		230 675	51035
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(175574)	(68 237)
Net increase in trading securities		(1331791)	(470901)
Net decrease/increase) in due from other banks		5 084 21 1	(7 184833)
Net increase in loans and advances to customers		(2 092 075)	(2 280 364)
Net increase in other assets		(45571)	(11655)
Net increase in due to other banks		440311	628 829
Net (decreascy increase in customer accounts		(2 409 558)	6 888 409
Net increase in promissory notes		175050	188807
Net (decreaseyincrease in other liabilities		(5917)	6290
Net cash used in operating activities		(130 239)	(2 252 620)
Cash flows from investing activities			
Acquisition of subsidiary net of cash acquired		-	(60 303)
Acquisition of investment securities available for sale	9	(988 200)	(190943)
Proceeds from disposal of investment securities available for sale	9	1 211 397	48495
Acquisition of premises and equipment	1 1	(124873)	(132884)
Proceeds from disposal of premises and equipment	1 1	-	3815
Net cash provided from/(used in) investing activities		98324	(331 820)
Cash flows from financing activities			
Issue of ordinary shares	1 8	994000	2 972 533
Repayment of other borrowed funds	1 4	(12500)	303917
Dividends paid	24	(1 855)	-
Net cash provided from financing activities		979645	3 276 450
Effect of exchange rate changes on cash and cash equivalents		**28929**	1270
Effectof inflation on cash and cash equivalents		(87 832)	(35 757)
Net increase in cash and cash equivalents		888 827	657 523
Cash and cash equivalents at the beginning of the year		742 684	85 161
Cash and cash equivalents at the end of the year		**I 631 511**	742 684

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise staled - Note 3)

	Note	Share capital	Accumulated deficit	Total shareholders' equity
Balance at 1 January 2001		582 300	(83 868)	498 432
Net loss for the year		-	(301 409)	(301 409)
Share issue	1 8	2 972 533	-	2 972 533
Balance at 31 December 2001 Net loss for the year Share issue 18		3 554 833 994000	(385 277) (213638)	3 169 556 (213638) 994000
Dividends declared	24	-	(22 075)	(22 075)
Balance at 31 December 2002		4 548 833	(620 990)	3 927 843

[1] lie noics scl oiii on p;igcs 5 lo 29 form an integral pan of these consolidated financial statements.4

I Principal Activities

These consolidated financial statements include financial statements of the Commercial Bank "Russian Agricultural Bank" (the "Bank") and its subsidiary, Chelyabinsky Commercial Land Bank (hereinafter collectively referred to as "the Group"). Refer to Note 29 for information about the subsidiary.

The Bank is an open joint stock company and has operated under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 13 June 2000. The Bank's only shareholder is the Russian Federal Property Fund (Russian government institution). The Bank's principal business activity is commercial and retail banking operations in the Russian Federation with emphasis on lending to agricultural enterprises. According to a proposed Law on Russian Agricultural Bank, the main objectives of the Bank are:

- Participation in realisation of the monetary policy of the Russian Federation in the area of agricultural production;

- Establishment of a domestic system of lending to the agricultural producers;

- Maintenance of an effective settlement system in the area of agricultural production.

The Group has 59 branches within the Russian Federation. The Bank's registered office is located at Gagarinsky lane, Moscow, Russia, 119034. The number of the Group's employees as at 31 December 2002 was 2424(2001: 1 855).

Activities of the Group include deposit taking and commercial lending in Russian Roubles, foreign exchange dealing, cash operations and securities trading. These activities are conducted principally in Russia.

2 Operating Environment of the Group

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 Group'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

Basis of Presentation. The consolidated financial statements of the Group 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 Group maintains its accounting records in accordance with Russian banking regulations. These consolidated financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with IFRS.

3 Basis of Presentation (Continued)

These consolidated 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 consolidated 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 consolidated financial statements, and the reported amounts of revenues and expenses received and incurred 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 Group adopted IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") in 2001. The financial effects of adopting IAS 39" were reported in the consolidated financial statements of the Group as of 31 December 2001.

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

4 Significant Accounting Policies

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities), in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over financial and operating policies. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date, on which effective control is transferred to the Group, and are removed from consolidation from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Minority interest is that part of the net results of operations and of the net assets of a subsidiary attributable to interests, which are not owned, directly or indirectly, by the Group. Minority interest in the consolidated balance sheet is recorded separate from liabilities and shareholders' equity and is affected by the foreign currency translation adjustment applicable to the minority shareholders' interest in the subsidiary. Minority interest related to operational results of the current year is recorded in the consolidated statement of operations.

Associates. Associates are entities, over which the Group has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Investments in associates are accounted for using the equity method of accounting. Under this method, the Group's share of the post-acquisition profits or losses of associates is recognised in the consolidated statement of operations, and its share of post-acquisition movements in reserves is recorded as a movement in the consolidated statement of changes in shareholders' equity. The cumulative post-acquisition movements are adjusted against the cost of the investments. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associates includes goodwill (net of accumulated amortisation) on acquisition. When the Group's share of losses in an associate equals or exceeds its investment in the associate, the Group does not recognise further losses unless the Group has incurred obligations or made payments on behalf of the associate.

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 for the purposes of preparing consolidated statement of cash flows.

4 Significant Accounting Policies (Continued)

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

Trading securities. Trading securities are the securities, which are either acquired for generating profit from short-term fluctuations in price or trader's margin, or are the securities included in a portfolio, in which a pattern of short-term trading exists. The Group 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.

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 readability of these securities. In determining market value, all trading securities are valued at the last bid price.

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

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 Group 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 Group 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 consolidated statement of operations 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 consolidated statement of operations, using the effective yield method.

A credit risk provision for loan impairment is established if there is objective evidence that the Group 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 recorded as income in the consolidated statement of operations.

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 decreases the amount of provision for loan impairment in the consolidated statement of operations.

4 Significant Accounting Policies (Continued)

The Group does not enter into transactions for purchases of loans with third parties.

Other credit related commitments. In the normal course of business, the Group enters into other credit related commitments including letters of credit and guarantees. Specific provisions are recorded 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 in accordance with the accounting policies for these categories of assets.

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 recorded in the consolidated statement of operations in the period, in which they arise. Interest earned on investment securities available for sale is recorded in the consolidated statement of operations as interest income on investment securities available for sale. Dividends received are recorded in dividend income in the consolidated statement of operations.

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

Goodwill. Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries and associates is recorded in the consolidated balance sheet as an intangible asset and is amortised using the straight-line method over its estimated useful life. Management determines the estimated useful life of goodwill based on its evaluation of the respective companies at the time of the acquisition, considering factors such as existing market share, potential growth and other factors inherent in the acquired companies. At each balance sheet date the Group assesses whether there is any indication of impairment of goodwill. If such indications exist, an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

Premises and equipment Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble as at 31 December 2002, less accumulated depreciation and provision for impairment, where 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 consolidated statement of operations. The estimated recoverable amount is the higher of an asset's net selling price and its value in use.

Premises and equipment of acquired subsidiaries are initially recorded in the consolidated balance sheet at their estimated fair value at the date of acquisition.

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 consolidated statement of operations 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 - 4% per annum; Equipment

- 20% per annum; and Intangible

assets - 20% per annum.

4 Significant Accounting Policies (Continued)

Operating leases. Where the Group is the lessee, the total payments made under operating leases are charged by the lessee to the consolidated statement of operations on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Borrowings (including Due to Other Banks, Customer Accounts and Other Borrowed Funds). 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 consolidated statement of operations over the period of the borrowings, using the effective yield method.

Promissory notes. Promissory notes are recognised initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, promissory notes are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the consolidated statement of operations over the period of the security issue, using the effective yield method.

If the Group purchases its own promissory notes, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt in the consolidated statement of operations.

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 allocation and other appropriations. Russian legislation identifies the basis of allocation as the current year net profit.

Income taxes. Taxation has been provided for in the consolidated financial statements in accordance with the Russian legislation currently in force. Income tax charge in the consolidated statement of operations 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 liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts 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. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Income and expense recognition. Interest income and expense are recognised in the consolidated statement of operations for all interest bearing instruments on an accrual 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.

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 consolidated statement of operations, 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 in the consolidated statement of operations. 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 arising from these assets in the consolidated statement of operations.

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise staled - Note 3)

4 Significant Accounting Policies (Continued)

As at 31 December 2002 the principal rate of exchange used for translating foreign currency balances was USD 1 =RR 31.7844 (2001: USD I = RR30.14). 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, are initially recorded in the consolidated balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained, using the spot rate at the year end. 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 trading in foreign currency depending on the related contracts in the consolidated statement of operations.

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

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

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated 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 continues to experience relatively high levels of inflation and is considered to be hyperinflationary as defined by I AS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). Accordingly, adjustments and ^classifications 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. I AS 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 consolidated statement of operations 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.

The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPF), 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:

1998	1 216400	2.24
1999	1 661481 1	1.64
2000	995 937	1.37
2001	2371 572	1.15
2002	2730154	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 3 I December 2002) are restated by applying the relevant conversion factor. The effect of inflation on the Group's net monetary position is included in the consolidated statement of operations as a monetary gain or loss.

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise staled - Note 3)

4 Significant Accounting Policies (Continued)

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 consolidated statement of operations 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. 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 hyperinflationary has ceased, effective from I January 2003 the Group no longer applies the provisions of IAS 29.

Provisions. Provisions are recorded when the Group 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.

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Staff costs. The Group contributions to the Russian Federation state pension schemes, social insurance, obligatory medical insurance and employment funds in respect of the salary of its employees are expensed as incurred and included into staff costs in the consolidated statement of operations.

5 Cash and Cash Equivalents

	2002	2001
Cash on hand	156633	87892
Cash balances with the CBRF (other than mandatory reserve deposits) Correspondent accounts and overnight placements with other banks - Russian Federation	477451	612605
- Other countries	333021	3733
Total cash and cash equivalents	1631511	742 684

Included in correspondent accounts and overnight placements with other banks is the deposit in the amount of RR 150 000 thousand placed with a Russian bank bearing interest rate of 2% per annum. Amounts due to banks include a deposit in the same amount due to the same Russian bank bearing interest rate of 3% per annum (Refer Note 12). Subsequent to the year-end these deposits were fully paid off.

Geographical, currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 25.

fin thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless othenvise stated - Note 3)

6 Trading Securities

	2002	2001
Promissory notes Corporate	1 382 474	112354
bonds Federal loan bonds (OFZ	263 937	238 456
bonds)	129314	299 434
Russian Federation Eurobonds	50617	-
Corporate shares	-	177
Total trading securities	1826342	650421

Promissory notes represent debt securities of Russian commercial banks and companies. These securities are traded in the over-the-counter market and, therefore, prices are determined when terms of the deals are agreed by a willing buyer and a willing seller. Management has reflected these securities at their estimated fair value as at 31 December 2002.

Corporate bonds represent bonds issued by large Russian companies, and are freely tradable within Russia. The annual coupon rates on these bonds range from 11.5% to 18.5%. The bonds have maturity dates from May 2003 to September 2003.

, OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds are issued at a discount to face value, have a medium to long-term maturity period with a coupon rate of approximately I2%-15% in 2002 and yield to maturity from 13.6% to 13.9% at 31 December 2002, depending on the type of bond issue. OFZ totalling RR57281 thousand are pledged as a security against funds received from Agency for Restructuring of Credit Organisations ("ARCO") (Refer to Note 14).

Russian Federation Eurobonds are securities issued by the Ministry of Finance of the Russian Federation and are freely tradable internationally. The Group's portfolio of Russian Federation Eurobonds consists of a tranche with maturity in 2030 and yield to maturity of 9%. The annual coupon rate on these bonds is 5% and interest is payable scmi-annually.

Promissory notes in the total amount of RR 562 803 thousand with nominal value of RR 582 967 thousand have been pledged as collateral against a loan obtained from a Russian bank (Refer Notes 12 and 26).

The Bank is licensed by the Federal Commission on Securities Markets of the Russian Federation for trading in securities.

Geographical, currency, maturity and interest rate analyses of trading securities are disclosed in Note 25.

7 Due from Other Banks

--------.	2002	2001
Current term placements with other banks	I 127382	6759953
Total due from other banks	1127382	6759953

DD ?,3TM December 2002 the estimated fair value of due from other banks was RR 1 127 382 thousand (2001: KR 6 759 953 thousand). Refer to Note 27.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 25.

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otheru'ise slated- A/oft- 3)

28 Related Party Transactions (Continued)

	2002	2001
Loans and advances to customers	12270 (1	51898 (5
Loans outstanding at the year end Provision for loan impairment at the year end Interest income for the year	227)	190) 6058
Customer accounts	2233	5 708 020
Current/settlement accounts outstanding at the year end		2878 243
Guarantees received by the Group and outstanding at the year end	2081244	
Commission income		

29 Principal Consolidated Subsidiaries

Name	Nature of business	Percentage of voting rights	Percentage of ownership	Country of registration
Closed Joint - Stock Company "Chelyabinsky Commercial Land Bank"	Banking	76%	76%	Russia

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise slated - Note 3)

g Loans and Advances to Customers

	2002	2001
Current loans	4 072 263	2456187
Overdue loans	62165	30470
Less: Provision for loan impairment	(301 003)	(182 113)
Total loans and advances to customers	3 833 425	2 304 544

Movements in the provision for loan impairment are as follows:

	2002	2001
Provision for loan impairment at 1 January	182113	22007
Acquisition of subsidiary Charge of provision for ban impairment during the year	143 505	13245 153 274
Loans and advances to customers written off during the year as uncollectable	(696)	(78)
Effect of inflation	(23 919)	(6335)
Provision for loan impairment at 31 December	301003	182113

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

	2002		2001	
	Amount	%	Amount	%
Agriculture and food processing industry	1 943 985	47	1 324 604	53
Manufacturing	727521	18	229 074	9
Trade and catering	599092	15	466 305	19
' Individuals	245251	6	143 139	6
Construction	96910	2	44368	2
Investment	55303	1		-
Transport	27762	1		
Mechanical engineering and metal-working industry	11 580	0	52 190	2
Other	427 024	10	226 977	9
Total loans and advances to customers (aggregate amount)	4 134 428	100	2 486 657	100

The Group's credit exposure is concentrated in the agriculture and food-processing industry in accordance with the Group's major objective set by the Russian Government. The Group's credit exposure to agricultural sector is widely spread between its 59 branches located in 59 regions of the Russian Federation. When determining the level of the provision for loan impairment for lending to the agricultural sector, Management of the Group used the data about the social and economic development of the regions of the Russian Federation prepared and published by the Ministry of Economic Development and Trade of the Russian Federation, as well as statistical and other information on the borrowers' credit history and financial performance collected by the Group during the period of its activity.

As at 31 December 2002 the estimated fair value of loans and advances to customers was RR 3 833 425 thousand (2001: RR 2 304 544 thousand). Refer to Note 27.

2T currencv, maturity and interest rate analyses of loans and advances to customers are disclosed in Note . The Group has several balances outstanding from related parties. The relevant information on related party balances is disclosed in Note 28.

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise staled • Note 3)

Investment Securities Available for Sale

	2002	2001
Debt securities - at fair value		
Municipal bonds	500	
VneshEconomBank 3% coupon bonds (VEB)		130509
Russian Federation Eurobonds		39473
Corporate bonds		9799
Equity securities - at fair value		
Corporate shares	4880	327
Other equity securities		1928
Total investment securities available for sale	5380	182 036

Municipal bonds are bonds issued at face value by a Ministry of Finance of Mari El Republic and are denominated in the Russian roubles. As at 3 1 December 2002 they are recorded at fair value. The bonds mature in July 2003 and hive annual coupon rates of 20%.

V"*

Equity securities include investments in non-consolidated associates of the Group, as the effect of including them f into consolidated financial statements would not materially alter the consolidated financial position of the Group as * at 3 1 December 2002 or consolidated results of its operations or consolidated cash flows for the year then ended.

&?f

Geographical, currency, maturity and interest rate analyses of investment securities available for sale are disclosed in,Note25.

hi —

1 10 Accrued Interest Income and Other Assets

%	Note	2002	2001
Deferred tax asset	23	43231	19578
Settlements on funds transfer operations		55 112	4933
Accrued interest income		24095	48713
Prepaid taxes		19598	
Expenses of future periods		15273	2904
Trade debtors and prepayments		6277	5451
Fixed assets sale		2937	
Other		I 871	7443
'Total accrued income and other assets		168 394	89022

Geographical, currency and maturity analyses of other assets are disclosed in Note 25.

11 Premises and Equipment

	Note	Premises	Furniture, equipment, motor vehicles	Intangible assets	Total
\ Net book amount '-, at 31 December 2001		32910	81431	56134	170475
fe» * '•' H Book amount at cost P Opening balance *M* Additions p Disposals		33532 10485 (18590)	88669 86847 (4219)	62674 27541	184875 124873 (22 809)
&-, ,.. -fts Closing balance Sf-'V..-		25427	171 297	90215	286 939
K>»—- ••- •' "' • ^Accumulated depreciation |K Opening balance *yf* Depreciation charge 22 ^Disposals		622 1005 (691)	7238 15853 (650)	6540 13750	14400 30608 (1341)
fe-"' ' fe^- doritt JMlBiirc		936	22441	20290	43667
Net book amount r^t 31 December 2002		**24491**	**148856**	**69925**	243 272

12 Due to Other Banks

	2002	2001
Current term placements of other banks	955903	4237
Correspondent accounts and overnight placements of other banks	16369	582 507
Total due to other banks	972 272	**586 744**

As at 31 December 2002 the estimated fair value of due to other banks was RR 972 272 thousand **(2001: RR 586** 744 thousand). Refer to Note 27.

Included in term deposits is an amount of RR 150000 thousand from a Russian bank bearing 3% per annum. **Amounts of cash** and cash equivalents include an overnight deposit in the same amount due from the same Russian **bank bearing** 2% interest rate (Refer to Note 5). Subsequent to the year-end these deposits were fully paid off.

''' CUrrent term Placements of other banks are two placements of a Russian bank in the total amount of on ««4 thosand- These placements are secured by pledge of promissory notes in the Bank's portfolio totalling RR 562 803 thousand (Refer to Note 6).

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 25.

13 Customer Accounts

	2002	2001
PL**		
f- si«te and public organisations		
skkGinwit/settlement accounts f	522 760	370666
-Tenn deposits	50135	18569
ILptfcer legal entities		
BgTCuntnt/scttlement accounts	845 463 2	6 097 320
g|. Tom deposits	000 365	102414
if Individuals		
K*i-Current/demand accounts	67015	41928
K^Term deposits	51674	48573
H!. -----		
ifTotal customer accounts	3537412	6 679 470

Ipconomic sector concentrations within customer accounts are as follows:

ft""	2002		2001	
HBT^J[1]	Amount	%	Amount	%
m ----	2081244	59	5712812	86
•Oovernment bodies	391217	11	139 752	2
•^Agriculture	218141	6	182591	3
Hffade and food manufacturine	162 804	5	99572	1
Hpnnstruction	151292	4	187416	3
•pilividuals	118689	3	90501	1
Klmu&cturing	30 639	1	39972	1
Bhgurance	28 924	I	-	-
K ^	354462	10	226 854	3
— Total customer accounts	3537412	100	6 679 470	100

"At 31 December 2002 the Group has one customer with the total balance on its accounts of RR 2 081 244 thousand or 59% of total customer accounts (2001: RR 5 713 010 thousand or 86% of total customer accounts).

As at 31 December 2002 the estimated fair value of customer accounts was RR 3 537 412 thousand (2001: 6 679 470 RR thousand). Refer to Note 27.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 25. The Group has several balances outstanding to related parties. The relevant information on related party balances is disclosed in Note 28.

14 Other Borrowed Funds

Other borrowed funds represent funds obtained by the Group from Agency for Restructuring of Credit Organisations CARGO", Russian government financial institution) for the purpose of financing the main activity of the Group. Part of funds attracted from ARCO is secured by the pledge of Federal loan bonds (OFZ) totalling RR 57 281 thousand (Refer to Notes 6 and 26).

Interest rates on these funds range from 5% to 7% per annum.

As at 31 December 2002 the estimated fair value of other borrowed funds was RR 251 500 thousand (2001: RR 303 916 thousand). Refer to Note 27.

Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 25.

.15 Promissory Notes

k at 31 December2002 the estimated fair value of promissory notes was RR 318 447 thousand Oil: RR 177 132 thousand). Refer to Note 27.

hical, currency, maturity and interest rate analyses of promissory notes are disclosed in Note 25.

Accrued Interest Expense and Other Liabilities

	Note	2002	2001
iividends payable	24	20 220	-
ccrued interest expense		10847	9119
nation payable		8003	24 105
ccrued bonuses to staff		1220	1542
*er		726	2093
r*:		41016	36859

al, currency and maturity analyses of other liabilities are disclosed in Note 25.

''' Minority Interest

i table below represents the movements in the minority interest of the Group:

	2002	2001
' interest at 1 January	12613	12420
quisition of subsidiary : of		193
net (lossXprofit	(I 990)	
y. V:: Minority interest at 31 December	10623	12613

18 Share Capital

Authorised, issued and folly paid share capital of the Bank comprises:

	2002			2001		
	Number of shares	Nominal amount	Inflation adjusted amount	Number of shares	Nominal amount	Inflation adjusted amount
Ordinary shares	3799	3 799 000	4 548 833	2805	2 805 000	3 554 833
Total share capital	3799	3 799 000	4 548 833	2805	2 805 000	3 554 833

All ordinary shares have nominal value of RR I 000 thousand per share, rank equally and carry one vote.

nnn haS increased its share caP'tal bX issuing 994 shares in the total nominal amount of R, i. . t,,ousand. The entire issue was purchased and fully paid by the Russian Federal Property Fund, the Bank's sole shareholder.

(in thousands of Russian Roubles expressed in terms oftlie purchasing pa\ver of the Russian Rouble at 31 December 2002 unless otherwise staled - Note 3)

19 Retained Earnings

In accordance with Russian Law on Banks and Banking Activity, the Bank allocates profits as dividends or transfers them to reserves (fund accounts) on the basis of statutory accounting reports prepared in accordance with the Russian Accounting Rules. The Group's retained earnings and other reserves under the Russian Accounting Rules as at 31 December 2002 are RR 238 660 thousand (2001: minus RR 4 598 thousand) (non-inflated).

Set out below is a reconciliation of net profit and retained earnings and other reserves under the Russian Accounting Rules to net loss and accumulated deficit under International Financial Reporting Standards.

	2002		2001	
	Net Profit/(Loss)	Retained earnings and other reserves/ (Accumulated deficit)	Net Proflt/(Loss)	Retained earnings and other reserves/ (Accumulated deficit)
Russian Accounting Rules	248611	238 660	22271	(4 598)
Release of statutory provisions	77459	149837	62006	72378
Carry forward of last year IFRS provision for loan impairment	-	(182 113)	-	(18637)
Charge for IFRS provision for loan impairment during the year	(143 505)	(143505)	(153274)	(153 274)
Accrued income	24095	72808	48713	48713
Accrued expenses	(10847)	(19966)	(9119)	(9119)
Restatement of share capital in accordance with IAS 29	(466 896)	(792613)	(267 336)	(325717)
Restatement of fixed assets cost in accordance with IAS 29	33205	60561	11713	27356
Restatement of fixed assets depreciation in accordance with IAS 29	(31 158)	(45 557)	(13859)	(14399)
Restatement of opening accumulated deficit in accordance with IAS 29	46590	46590	13295	•
Restatement of investments in accordance with IAS 29	.	5233	5233	5233
Deferred tax asset	40436	53523	13088	13088
Amortisation of goodwill	-	(31 174)	(31 174)	(31 174)
Other adjustments	(3 1 628)	(33 274)	(2 966)	4873
International Financial Reporting Standards	(213 638)	(620 990)	(301 409)	(385 277)

20 Interest Income and Expense

	2002	2001
Interest income		
Loans and advances to customers	1 Oil 061	368 056
Due from other banks	170474	80487
Trading securities Correspondent accounts	70968	
with other banks Available for sale	50452	70358 3
securities		
		175
Total interest income	1 302 955	522 076
Interest expense	(92 022)	(4 776) (8
Term placements of other banks	(74916)	358)
Current/settlement accounts Term	(26 657)	(8472)
deposits of legal entities	(24 952)	(13946)
Promissory notes Other borrowed	(12679)	(7051) (3
funds Term deposits of	(5581)	977)
individuals		
Total interest expense	(236 807)	(46 580)
Net interest income	I 066 148	475496

(in thousands of Russian Roubles expressed in terms oftlK purchasing power of the Russian Rouble at SI December 2002 unless otherwise slated - Note 3)

21 Fee and Commission Income and Expense

	2002	2001
Fee and commission income		
Commission on cash transactions	68330	22242
Commission on settlement transactions	29663	10974
Commission on agency services	19789	21 771
Commission on cash collection	602	409
Commission on guarantees	425	
Other	730	1702
Total Tee and commission income	119539	57098
Fee and commission expense Commission		
on cash collection Commission on	(3096)	(977)
settlement transactions Commission on	(765)	(334)
cash transactions Commission on	(28)	(22)
transactions with securities Commission on		(2 432)
agency services Other		(7981)
	(50)	(39)
Total fee and commission expense	(3 939)	(11785)
Net fee and commission income	115600	**45313**

22 Operating Expenses

	Note	2002	2001
Staff costs		518739	227063
Rent expenses		93644	53735
Taxes other than on income		77178	27770
Other expenses related to premises and equipment		75 100	23952
Administrative expenses		58706	19354
Security expenses		38529	15590
Depreciation of premises and equipment	1 1	30 608	13836
Depreciation of low-value items		18401	8598
Advertising and marketing		5521	2 158
Stationary		4490	4588
Expenses related to clients claims		852 ;	2773
Impairment charge on goodwill		-	31 173
Other		10097	16437
Total operating expenses		931 865	447 027

23 Income Taxes

Income tax expense comprises the following:

	2002	2001
Current tax charge	81 297	99441
Deferred taxation movement due to:		
- Origination and reversal of temporary differences	(23 653)	(28 586)
- Effect of reduction in tax rate		15498
Income tax expense for the year	57644	**86353**

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise slated - Note 3)

23 Income **Taxes** (Continued)

The income tax rate applicable to the majority of the Group's income is 24% (2001: 43%). Effective I January 2001, the statutory tax rate was increased from 38% to 43%. A 24% 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.

	2002	2001
IFRS loss before taxation	(157984)	(214863)
Theoretical tax credit at the applicable statutory rate (2002: 24%; 2001 43%)	(37916)	(92391)
Tax effect of items, which are not deductible or assessable for taxation purposes:		
- Income, which is exempt from taxation	(11848)	(11688)
- Non deductible expenses	10414	37342
- Non temporary elements of monetary gains and losses	107286	109237
- Other non temporary differences	(9 133)	10037
- Income on government securities taxed at different rates	(3 730)	
Other taxes payable from profit		17289
Effect of the change in tax rate		15499
Inflation effect on deferred tax balance at the beginning of the year	2571	1028
Income tax expense for the year	57644	86353

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for profits tax calculation purposes. The tax effect of the movement of these temporary differences is recorded at the rate of 24% (2001: 24%), except for income on state securities that is taxed at 15% (2001: 15%).

	2001	Movement	2002
Tax effect of deductible temporary differences			
Loan impairment provision against loans to customers	35617	18641	54258
Premises and equipment: depreciation	2045	6865	8910
Accruals	7959	(6 308) 4	1651
Other		123	4 123
Gross deferred tax asset	45621	23321	68942
Tax effect of taxable temporary differences			
Loan impairment provision against loans to banks	-	(5 968)	(5 968)
Fair valuation of trading securities	(3 619)	(1 188)	(4 807)
Premises and equipment: cost	(9 709)	48	(9661)
Accruals	(1 1 692)	6417	(5 275)
Other	(1 023)	1023	
Gross deferred tax liability	(26 043)	332	(25711)
Total net deferred tax asset	19578	23653	43231

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated - Note 3)

23 Income Taxes (Continued)

	2000	Movement	2001
Tax effect of deductible temporary differences			
Loan impairment provision Premises	7614	28003	35617
and equipment: depreciation Accruals		2045	2045
Other	12	7947	7959
Gross deferred tax asset	7626	37995	45621
Tax effect of taxable temporary	(712)	(3 619)	(3619) (9
differences	(424)	(8997) (1	709)
Fair valuation of trading securities		1 268) (1	(11692)
Premises and equipment: cost		023)	(1023)
Accruals Other			
Gross deferred tax liability	(I 136)	(24 907)	(26043)
Total net deferred tax asset	6490	13088	19578

The net deferred tax asset represents income taxes recoverable through future revenues and is recorded as a deferred tax asset on the consolidated balance sheet. Deferred income tax assets are recognised for tax loss carry forwards only to the extent that realisation of the related tax benefit is probable.

24 Dividends

	2002	2001
Dividends payable at 1 January		
Dividends declared during the year	22075 (1	
Dividends paid during the year	855)	
Dividends payable at 31 December	20220	

All dividends are declared in the Russian Roubles. Dividends are declared on the basis of retained earnings in accordance with Russian Accounting Rules (See note 19).

25 Financial Risk Management

The risk management function within the Group 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 Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Group 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 an annual or more frequent review. Limits on the level of credit risk by product, borrower and industry sector are approved regularly by the Board of Directors.

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

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise stated - Note 3)

25 Financial Risk Management (Continued)

The Group's maximum exposure to credit risk is primary reflected in the carrying amounts of financial assets on the consolidated 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 Group 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 Group 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 sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

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

	Russia	OECD*	Non OECD	Total
Assets				
Cash and cash equivalents Mandatory cash	1298490	333021		1631 511
balances with the CBRF Trading securities	223 407 1 826 342 1 127382			223 407 1
Due from other banks				826 342 1 127382
Loans and advances to customers	3 833 425			3 833 425
Investment securities available for sale	5380			5380
Accrued interest income and other assets	168394			168394
Premises and equipment	243 272			243 272
Total assets	8 726 092	333021		9 059 113
Liabilities				
Due to other banks	909474	61 662	1 136	972 272
Customer accounts	3 537 227	.	185	3537412
Promissory notes	318447	.	-	318447
Other borrowed funds	251500	.	-	251500
Accrued interest expense and other liabilities	40848	160	8	41016
Total liabilities	5057496	61822	1329	5 120 647
Net balance sheet position	3 668 596	271 199	(1329)	3938466
Credit related commitments	54315			54315

*OECD - Organisation of Economic Cooperation and Development.

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

	Russia	OECD	Non OECD	Total
Net balance sheet position	3 093 577	88746	(154)	3 182 169
Credit related commitments	23 125			23 125

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 3 1 December 2002 unless otherwise staled - Note 3)

25 Financial Risk Management (Continued)

Currency risk. The Group 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 sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk at 3 1 December 2002. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet gap represents the difference between the notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Group's exposure to currency movements, and their fair values. At 3 1 December 2002, the Group has the following positions in currencies:

	RR	USD	Euro	Other currencies	Total
Assets					
Cash and cash equivalents Mandatory cash balances with the Central Bank of the Russian Federation	1 022231	436 144	173029	107	1631 511
Trading securities Due	1 775 725	50617	165 549	-	1 826 342 1
from other banks	485000	476 833			127 382
Loans and advances to customers	3 833 425		.	.	3 833 425
Investment securities available for sale	5380	.	.	.	5380
Accrued interest income and other assets	164660	3617	117	-	168 394
Premises and equipment	243 272	-	-	-	243 272
Total assets	**7753100**	**967211**	**338 695**	**107**	**9059113**
Liabilities					
Due to other banks	198 146	608 577	165 549		972 272
Customer accounts	3516451	20649	312		3537412
Promissory notes	318447				318447
Other borrowed funds	251 500				251500
Accrued interest expense and other liabilities	38222	2768	26		41016
Total liabilities	**4322766**	**631994**	**165887**		5120647
Net balance sheet position	3430334	335217	172808	107	3 938 466
Credit related commitments	**54315**				**54315**
Off-balance sheet net notional position	287 243	(286 060)			**1 183**

At 31 December 2001, the Group had the following positions in currency.

	RR	**USD**	**Euro**	**Other currencies**	**Total**
Net balance sheet position	2 871 558	268 429	41 801	381	3 182 169
Credit related commitments	23 125				23125

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Group 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 Group 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 Treasury Department and the Financial Committee of the Group.

(in thousands of Russian Roubles expressed in terms of the pure/losing power of the Russian Rouble al 31 December 2002 unless olheru-ise slated- Note 3)

25 Financial Risk Management (Continued)

The table below shows assets and liabilities as at 31 December 2002 by their remaining contractual maturity. Some of the assets, however, may be of a longer term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer term duration.

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

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	1631 511					1631511
Mandatory cash balances with the Central Bank of the Russian Federation	129887	92 399	1 1 1 1	10	-	223 407
Trading securities Due	1 826 342					1 826 342 1
from other banks	509471	617911				127382
Loans and advances to customers	285 145	1946952	1 168305	433 023	-	3 833 425
Investment securities available for sale	.	500			4 880	5 380
Accrued interest income and other assets	79475	76519	6464	1953	3983	168394
Premises and equipment	-	-			243 272	243 272
Total assets	**4 461 831**	**2 734 281**	**1 175880**	**434 986**	**252 135**	**9 059 113**
Liabilities						
Due to other banks	368 275	542 335	61662	-		972 272
Customer accounts	2056615	1 463 042	17599	156		3537412
Promissory notes Other	57222	220311	40370	544		318447
borrowed funds				251500		251 500
Accrued interest expense and other liabilities	12 124	25848	629	2415		41 016
Total liabilities	**2 494 236**	**2 251 536**	**120260**	254 615		**5120647**
Net liquidity gap	1967595	482745	1055620	180371	252135	3938466
Cumulative liquidity gap at 31 December 2002	**1967595**	**2450340**	**3505960**	**3686331**	**3938466**	
Cumulative liquidity gap at 31 December 2001	149515	2657758	3168524	3005637	3182169	

The entire portfolio of trading securities is classified within demand and less than one month as the portfolio is of a trading nature and Management believes this is a fairer portrayal of its liquidity position. Mandatory cash balances with the CBRF are allocated between different maturity categories in accordance with maturities of liabilities to which this balance relates.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Management of the Group. 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 Group and its exposure to changes in interest and exchange rates.

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble al 31 December 2002 unless otherwise stated - Note 3)

25 Financial Risk Management (Continued)

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

Interest rate risk. The Group 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 Group 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 sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions.

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group'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	1631 511	-	-	-		1631 511
Mandatory cash balances with the Central Bank of the Russian Federation	129887	92399	1 111	10		223 407
Trading securities	1 826 342	-	-	-		1 826 342
Due from other banks	509471	617911	-	-		1 127382
Loans and advances to customers	285 145	1 946 952	1 168305	433 023		3 833 425
Investment securities available for sale	.	500	-		4880	5380
Accrued interest income and other assets	79475	33288	6464	1953	47214	168 394
Premises and equipment	-	-	-		243 272	243 272
Total assets	4 461 831	2 691 050	1 175 880	434 986	295 366	9059113
Liabilities						
Due to other banks	368 275	542 335	61662	.		972 272
Customer accounts	2056615	1 463 042	17599	156		3537412
Promissory notes	57222	220311	40370	544		318447
Other borrowed funds	-	.	-	251 500		251 500
Accrued interest expense and other liabilities	12 124	25848	629	2415		41 016
Total liabilities	2 494 236	2 251 536	120260	254615		5120647
Net gap	967 595	439514	1 055 620	180371	295 366	3 938 466
Cumulative gap at 31 December 2002	I 967 595	2407 109	3 462 729	3643 100	3 938 466	

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless otherwise staled- Note 3)

25 Financial Risk Management (Continued)

As at 31 December 2001 the Group's interest rate sensitivity analysis based on the repricing of the Group'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.

	2002			2001		
	RR	USD	Euro	RR	USD	Euro
Assets						
Cash and cash equivalents	0%	0%	0%	0%	0%	0%
Mandatory cash balances with the Central Group of the Russian Federation	0%			0%		
Trading securities	16%	5%		14%		
Due from other banks	14%	8%		25%	1%	3%
Loans and advances to customers	22%			25%		
Investment securities available for sale	20%			1%		
Liabilities						
Due to other banks	5%	4%	4%	9%	2%	
Customer accounts						
- current and settlement accounts	0%	0%	0%	0%	0%	
- term deposits	11%			9%		
Promissory notes	15%			6%		
Other borrowed funds	6%			7%		

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

26 Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of own estimates and internal and external professional advice the Management is of the opinion that no material losses will be incurred and accordingly no provision has been made in these consolidated 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 Group's business activities may not coincide with the interpretation of the same activities by tax authorities.

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

Capital commitments. As at 31 December 2002 the Group had no material capital commitments.

Credit related commitments. The credit related commitments comprise loan commitments. 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:

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2002 unless olhenvise staled - Note 3)

26 Contingencies, Commitments and Derivative Financial Instruments (Continued)

Commitments to make loans at a specific rate of interest during a fixed period of time are accounted for as derivatives unless these commitments do not extend beyond the period expected to be needed to perform appropriate underwriting, in which case they considered to be "regular way" transactions. Outstanding credit related commitments are as follows:

	2002	2001
Undrawn credit lines	-	23125
Guarantees issued	54315	
Total credit related commitments	54315	23125

The total outstanding contractual amount of undrawn credit lines and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Current derivative financial instruments. Foreign currency deliverable forwards are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions.

The principal amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or principal amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The principal or agreed amounts and fair values of derivative instruments held are set out in the following table. This table reflects gross position before the netting of any counterparty position by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2002. These contracts were entered into in December 2002 and are short term in nature.

	Principal or agreed amount	Domestic Negative fair value	Positive fair value
Deliverable forwards			
Foreign currency			
- sale of foreign currency	286060	-	1183
Total	286 060	-	1 183

For these deals the Group has recorded a net gain of RR 1 183 thousand which is recorded within gains less losses arising from trading in foreign currency in the consolidated statement of operations.

Fiduciary assets. These assets are not included in the Group's consolidated balance sheet as they are not assets of the Group. 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
Bills of exchange of the Russian companies	38727	3730

Assets pledged. As at 31 December 2002, the Group has promissory notes in the total amount of RR 562 803 thousand pledged as collateral against loan received from a Russian bank (Refer to Note 6 and 12) and OFZs in the total amount of RR57281 thousand pledged as collateral against loan received from the Russian government financial institution (Refer to Notes 6 and 14). These pledged assets are included in the Group's trading securities portfolio.

27 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 Group 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 4, 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.

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.

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 12, 13 and 14 for the estimated fair values of due to other banks, customer accounts and other borrowed funds as at 31 December 2002.

Promissory notes. The fair value of promissory notes 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 promissory notes as at 31 December 2002.

28 Related Party Transactions

For the purposes of these consolidated 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 Group has significant shareholders in common. These transactions include settlements, loans, deposit taking, trade finance and foreign currency transactions. These transactions are priced predominantly at market rates. The outstanding balances at the year-end and interest expense and income as well as other transactions for the year with related parties are as follows:

tatiana.abdieva@ru.pwc.com

21.10.2003 16:44

Кому: shatravin@rshb.ru
Копия:
Тема: IAS 29

The accounting profession both locally and worldwide came to the consensus that Russia has ceased to have a hyperinflationary economy as of 1 January 2003 for reporting in accordance with IAS. This will effect certain change in the respective disclosure in 2002 IAS financial statements and will require IAS 29 cessation rules to be applied from first interim reporting for 2003.

Furthermore, the International Practices Task Force (IPTF) in USA concluded that Russia has ceased being a highly inflationary economy as of January 1, 2003 as well. The change in status will affect all our clients reporting under US GAAP either in RR or in USD.

Detailed Alert

For the last three years the cumulative inflation index in Russia was approximately 62%, which was below the 100% threshold identified by FASB Statement 52 " Foreign Currency Translation" when considering whether an economy is highly inflationary. The Task Force considered various other factors in reaching their conclusion, in addition to the cumulative inflation index. Among these factors was the improvement in the economic situation, increase in the central bank reserves, and increase in level of trust in the local currency.

As a result of the Task Force conclusion, all companies reporting under US GAAP will be required to apply the guidance contained in EITF 92-4 and EITF 92-8 of *I* January 2003.

In summary, to apply the EITFs, companies will need to make an assessment of their functional currency (under highly inflationary status, US GAAP requires the use of the reporting currency as the de-facto functional currency) and to make adjustments to the accounting for non-monetary assets and liabilities. The changes also result in some one-time consequences to recording of tax amounts.

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Mr. V.N. Komarov
Director of the Department for Investments and Special Purpose Programs
()A() "Russian Agricultural Bank"
Gagarinsky Pereulok, 3
119034 Moscow, Russia

10 November 2003

Dear Vladimir Nikolaevich,

In response to your letter dated *5* November 2003 we would like to advise you on the following.

According to the consolidated financial statements of the Russian Agricultural Bank Group (hereinafter- "the Group") as at 31 December 2002, prepared in accordance with International Financial Reporting Standards, the net loss for the year ended 31 December 2002 was RR 213 638 thousand and shareholders' equity was RR 3 927 843 thousand. Included in the net loss is the monetary loss of RR 404 329 thousand, arisen as a result of application of International Accounting Standard No. 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29").

The application of IAS 29 results in an adjustment to the consolidated statement of operations 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 (like fixed assets), shareholders' equity and profit and loss account items. If to take out the adjustments related to application of IAS 29 the net profit of the Group for the year ended 31 December 2002 would have been RR 172 234 thousand, and shareholders' equity would have equal to RR 3 892 656 thousand.

As disclosed in the above mentioned consolidated financial statements of the Group, as the characteristics of the economic environment of the Russian Federation indicate that hyperinflationary has ceased, effective from 1 January 2003 the Group no longer has to apply the provisions of IAS 29.

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.Mr. V..N. Komiirov

I() November 200J

We did not perform any subsequent events procedures as at (he dale of this letter, and uc are not in a position to comment on the consolidated financial position of (he Group as ai the dale of this letter, and, therefore, do not provide any comments in relation to this matter.

If you have any questions, please, do not hesitate to contact me at (095) 967 - 6367.

Yours sincerely,

Elizaveta Filippova
Partner
Audit and business Advisory Services for Financial Institutions