



GAZPROMBANK

ANNUAL REPORT

2002

5 GAZPROMBANK AT A GLANCE

8 ADDRESS BY THE CHAIRMAN

9 2002 MAJOR RESULTS

- 10 Macroeconomic conditions and Russia's banking sector in 2002
- 13 Major financial results
- 16 Gazprombank in the banking services market
- 17 Business development priorities

19 UNIVERSAL BANK

- 20 Diversification of customer base
- 21 Establishing an effective regional network
- 23 Expanding product range
- 24 Eurobonds issuance programme

25 STRATEGIC PARTNERSHIP WITH THE GAS INDUSTRY

- 26 OAO «Gazprom» authorised bank
- 27 Investment projects in the interest of the gas industry
- 28 Helping to increase efficiency of the gas industry

29 FOCUS ON CUSTOMER'S NEEDS

- 31 Corporate business development
- 38 Expanding services to individual customers
- 43 Investment business
- 45 Transactions in financial and stock markets

49 THE BANK'S MANAGEMENT SYSTEM

- 50 Improving the corporate governance system
- 51 Risk management
- 54 Organisational development and personnel management
- 55 Information technologies

57 SOCIAL POSITION AND PUBLIC ROLE

- 58 Charity and sponsorship
- 59 Public role

61 CONSOLIDATED FINANCIAL STATEMENTS

99 REFERENCE INFORMATION

- 100 Gazprombank shareholders
- 101 Council of the Bank
- 102 Board of Management of the Bank
- 103 Gazprombank branches
- 106 Shareholding in banks
- 107 Contact information



GAZPROMBANK AT A GLANCE

FIVE-YEAR SUMMARY OF FINANCIAL HIGHLIGHTS

as of or for the year ended December 31

	2002	2001	2000	1999	1998
Financial figures (in millions of US\$)					
Total assets	4,937	3,811	2,937	2,407	2,258
Shareholders' equity	833	714	647	329	298
Loans to customers, net	2,370	1,681	1,378	1,425	1,002
Amounts owed to customers	2,590	2,086	1,300	1,418	1,395
Net profit	116	81	25	25	-289
Ratios (in %)					
ROAA	2.7	2.4	0.9	1.1	-12.9
ROAE	15.0	11.9	5.1	8.0	-95.4
Capital Adequacy Ratio	28.4	28.6	28.0	—	—
Ratings — Moody's Investors Service					
Long-term foreign currency deposits	Ba3	B1	B3	Caa1	B2
Euro Medium-Term Notes Programme	Ba2	Ba3/B1	n/a	n/a	n/a

2002 HIGHLIGHTS

> January

RTS: Gazprombank was recognised as leader in terms of the number of transactions with OAO «Gazprom» shares conducted in 2001 on the RTS exchange.

PARTAD: Gazprombank depository was assigned the highest reliability rating «AAA».

2001 results: Gazprombank was number 3 in the Russian banking sector in terms of assets (136.4 billion roubles).

> March

VISA office in Russia: Gazprombank was recognised as one of the leaders in terms of the number of issued VISA cards in Russia which reached 150 thousand by the end of 2001.

Gazprombank's branch in Novy Urengoy opened a supplementary office in the town of Novozapolyarniy located on the largest mainland gas field «Zapolyarnoye». The new office offers a full range of banking services.

> April

Moody's Investors Service upgraded long-term foreign currency deposit rating at B1 level from «outlook stable» to «outlook positive».

Gazprombank signed a protocol on the terms of its participation in gold mining business financing in the Republic of Sakha (Yakutia). Gazprombank invests in Yakutia's largest gold mining company – AO «Aldanzoloto».

Gazprombank signed an agreement with the Government of Buryatiya on co-operation in the area of exploration and development of placers and ore deposits of precious metals and other mineral resources on the Republic's territory.

Gazprombank opened its 29th branch in Barnaul. It became the Bank's 4th branch in Siberia.

> June

Deutsche Bank – a leading investor in Europe published an analysis of Gazprombank's creditworthiness. Deutsche Bank acted as lead-manager of Gazprombank's EMTN programme for European financial market.

Gazprombank became a co-founder of «Saint Petersburg Stock Exchange» Non-commercial Partnership.

Gazprombank became one of the principal creditors of «Alrosa» company having extended to it a secured short-term loan of USD 60 million. This syndicated loan was provided to finance the company's ongoing production activities.

> July

Moody's Investors Service: Gazprombank's Eurobonds issue was assigned Ba3 rating (positive outlook) – at the level of country ceiling for Russia.

«The Banker»: Based on 2001 results Gazprombank was placed 381st in the world, 3rd in Russia, as well as in Central and Eastern Europe.

2002 HIGHLIGHTS

Bank of New York: Gazprombank was granted an award for exemplary handling of international transfers.

International Exhibition of arms, military equipment and ammunition RUSSIAN EXPO ARMS' 2002 (REA' 2002): Gazprombank's participation in the exhibition was another step in pursuing the Bank's strategic course aimed at establishing and promoting permanent partnership relations with Russian enterprises engaged in real sector of economy, including defence industry.

> September

Russian rating agency «Interfax»: Gazprombank was assigned long-term credit rating Aa3 (rus) and short-term rating RUS-1 at the national scale of «Interfax» rating agency. These ratings reflect a very high creditworthiness level compared to other borrowers.

Gazprombank placed second issue of its Eurobonds in the amount of 150 million Euro with a maturity period of 3 years. The annual return on this Eurobond issue will be 9.75%. 29 investors are involved representing 11 countries including the United Kingdom, Italy, Austria, Greece, Eastern Europe countries.

> October

The Bank of Russia registered new Gazprombank's branches in Omsk and Perm. The new branches use all banking technologies created for the Bank's regional network.

Gazprombank became the first in the Russian financial market to offer VISA cards with individual design at customer's choice. This project is unique not only for Russia, but for the entire Central and Eastern European, Middle East and Africa. New VISA cards with individual design are available in more than hundred Russian cities.

Gazprombank and OAO «GUM Trading House» signed an agreement on co-operation. Its first result was a joint project «VISA – GUM club card». In addition to using this club card as a regular VISA card customers receive discounts on goods and services at this Moscow's largest retail company.

> November

On the 21st November the Meeting of Gazprombank's shareholders approved the appointment of Andrey I. Akimov as Chairman of the Board of Management.

On the 22nd November Gazprombank opened a branch in «Ostankino» television centre, which became the Bank's sixth office in Moscow. The new branch was set up in the framework of Gazprombank's network development strategy for Moscow.

> December

Moody's Investment Services upgraded Gazprombank's long-term foreign currency deposit rating from B1 to Ba3, and Eurobonds issue rating – from Ba3 to Ba2. The ratings were set at the country ceiling level for Russia.

ADDRESS BY THE CHAIRMAN

Dear customers, partners and shareholders of the Bank!

Ladies and Gentlemen!

In 2002 Gazprombank solidified its position as one of Russia's largest credit institutions. The Bank's performance indicators increased significantly: net profit – by 44 %, assets – by 30 %. In terms of capital the Bank moved up 10 points in the list of world leaders and reaffirmed its position among three largest banks in Central and Eastern Europe. Over the past year there was a major rise in the number of enterprises, organisations and citizens who used our services and entrusted us their funds.

The Bank's relationship with its principal shareholder and customer – OAO «Gazprom» grew ever stronger and was given a further impetus. Being an authorised bank of the Group, Gazprombank believes that its primary responsibility is to meet the gas industry's ever growing demands with respect to banking services. Not only do we expand the range of financial services provided to gas industry's enterprises and raise their quality, but also dynamically develop our regional network following the customer to the remotest spots in Russia and abroad. In turn, we constantly feel the support of our shareholders and together with them look with confidence into the future.


Giving priority to the gas industry, the Bank consistently diversifies its resource and customers base attracting promising partners from other sectors of economy. The accumulated potential and the most advanced banking technologies allow us to work successfully both in spheres closely-related to Gazprom such as fuel and energy complex, chemical and petrochemical industry, as well as with enterprises of ferrous and non-ferrous metallurgy, machine building, food industry, trade etc. With respect to the entire mentioned spectrum the Bank actively develops its own and partnership programmes, which help to offer customers a broader range of services and to introduce advanced banking products. We have all necessary instruments to ensure high quality servicing of foreign trade transactions, financing and processing of international financial transactions in co-operation with largest European and world banks. New interesting programmes have been introduced for private customers with the aim to raise their interest in products and services that we offer. We can state that the Bank is successfully developing as a universal financial institution.

The principal asset of any bank is the trust of its customers and business partners. It does not come at once or as a gift from heaven. Gazprombank's shareholders, management and staff have been taking great effort to ensure that the Bank enjoys stability and wide recognition. Success was guaranteed by a balanced policy based on responsible management of entrusted funds, professional risk management, close interaction and mutual understanding with partners and customers. Preparation and publication of financial statements in accordance with International Accounting Standards, which was put on a quarterly basis last year, has helped to further increase its transparency and attractiveness to customers and investors. For many years leading Russian and foreign experts have confirmed Gazprombank's stability and reliability. Gazprombank's debt and deposit ratings are also set at the maximal levels for Russian banks. Foreign financial institutions' confidence in Gazprombank has grown, which was clearly proven by a successful placement of the Bank's Eurobonds in 2002.

Our achievements allow us to enjoy a feeling of satisfaction, but do not give the right to complacency. The scope of Gazprombank's tasks, as a leader in Russia's banking system, is determined by the scope of our country's goals. Making our own decent contribution to their attainment is our utmost objective for which we will strive.

Andrey I. Akimov
Chairman of the Board of Management
JSB «Gazprombank» (CJSC)

2002 MAJOR RESULTS

*«Leaders of Russia's banking community:
Vneshtorgbank, Sberbank and Gazprombank
hold three first places in the list of Eastern Europe's
largest banks and will hardly surrender their current
positions any time soon»* 

Vremya-MN, The Banker, July 2002

2002 MAJOR RESULTS

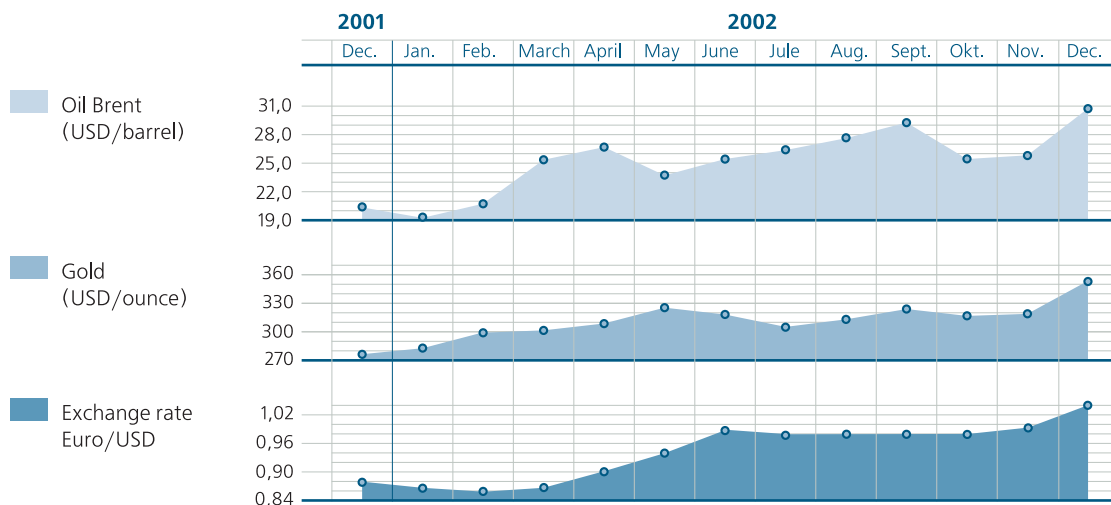
MACROECONOMIC CONDITIONS AND RUSSIA'S BANKING SECTOR IN 2002

In 2002, the world economy demonstrated rather moderate growth. Optimistic forecasts predicting developed countries' recovery from recession proved to be incorrect. Problems facing the U.S. economy were a major factor influencing world trends. The second half of 2002 was marked by a substantial depreciation of the U.S. dollar against other currencies, primarily the Euro (18.6 % in 2002).

Negative expectations in anticipation of military actions in Iraq considerably affected oil prices which throughout the year were unstable and showed tendency to increase. The oil price increase was also impacted by strikes in Venezuela, which disrupted oil exports in the world market. As a result of these and other factors, oil prices exceeded USD 30 per barrel at the end of 2002.

Unstable commodity and currency markets also contributed to a significant increase in the price of gold, which is traditionally in high demand during periods of uncertainty. By the end of the year prices on gold reached nearly a six years maximum – USD 350 per ounce.

Oil and gold prices dynamic, Euro/USD cross-rate *



* at the end of the month

Compared to insignificant growth in Western countries, **Russia's economic development** last year was more impressive. GDP growth in 2002 was 4.3 % and industrial production rose by 3.7 %. Although lower than in 2001, these figures exceeded initial Government's forecasts. Successful results of the year are explained partially by the favourable economic climate for an economy of the nature of Russia's, particularly high oil prices in the world. GDP rise was primarily due to increased oil and natural gas exports. No alternative to raw materials dominance in the structure of Russian export has been created yet, and export's potential to exert multiplication influence on other industries remains insignificant. Such export structure continues to make Russia's economy dependent on fluctuations in world prices for raw materials.



2002 MAJOR RESULTS

Capitals flow from Russia, although decreased last year from USD 16.2 billion to USD 11.7 billion, remains significant.

Favourable world market situation contributed to an increase in Russian exports by 5 % to USD 107 billion. At the same time rising domestic demand and stronger Euro led to an increase in imports by 13 % to USD 61 billion. On the whole, as a result of last year's high import growth rates, Russia's foreign trade surplus slightly dropped to USD 45.3 billion compared to USD 47.8 billion in 2001.

Due to increased net inflow of foreign currency to the country caused by growing oil and natural gas exports, the Bank of Russia's gold and currency reserves soared by 30 % over the year to exceed USD 48 billion. At the same time, as a result of the Bank of Russia's monetary policy, growing reserves led to an increase in money supply by 32 % which negatively affected the inflation rate. The consumer price index in 2002 reached 15.1 %, surpassing the Government's forecast of 12-14 %. However, the Government succeeded in preventing excessive inflation typical in the preceding years.

Corporate needs for financing exceed the capacity of the Russian banking sector despite steady growth in outstanding loans, which increased last year from 13 % to 14.6 % of the GDP.

As in 2001, population real incomes showed high growth rates – 8.9 % (8.5 % in 2001). The share of savings in incomes increased from 12.9 % in 2001 to 14.8 % last year. However, population's savings pattern shows that their scepticism toward banking institutions has not yet been overcome. A large part of savings was made in the form of real estate investments – 7 % of population incomes. Bank deposits were in the second place, their share having risen over the year from 4.6 to 5.4 %.

With respect to public finances the year 2002 was marked by a non-deficit budget and increased state reserves, which by the year's end exceeded USD 6 billion. As a further step in the tax reform, profit tax was reduced to 24 % (from previous 35 % rate for enterprises and 43 % for the banking sector).

By the beginning of 2002 Russia's **banking sector** had almost completely recovered from 1998 financial crisis. However, banking system's real growth rates slowed down in comparison with the previous year, which was a reflection of general trend in the country's economy. During the year real assets growth was 10.7 % against 20.7 % in 2001, and capital growth – 13.4 % against 41.4 % in 2001.

2002 MAJOR RESULTS

Comparative indicators of the banking sector

Indicator	31.12.1998	31.12.2001	31.12.2002
Assets (% to GDP)	38.2	34.9	38.1
Capital (% to GDP)	2.8	5.0	5.4
Outstanding loans (% to GDP)	10.9	13.0	14.6
Share of loans to non-financial sector in assets (%)	28.5	37.2	38.4
Individual deposits (% to GDP)	7.3	7.5	9.5

Source: Bank of Russia

Loans to enterprises and organisations remained the principal asset of Russian banks, and their share in total assets rose to 38.4 %. The limited number of top quality corporate borrowers has prompted banks to expand their loan product range. The highest growth rate was seen in loans extended to individual customers. Over the year their share in the total outstanding loans of the banking sector rose from 7 % to 9 %. The growth in longer-term lending was also positive, with the share of loans with the term of more than one year increasing from 38 % to 43 %.

A major tendency in the funding pattern was a gradual shift from corporate to individual deposits. Rising incomes make individual savings an important funding source.

In order to expand their funding base Russian banks in 2002 were increasingly focussed on the issuance of their own debt instruments. The volume of securities issued by banks rose during the year by 50% reaching USD 12 billion, which equals approximately 10 % of banking sector' assets.

In accordance with a strategy for the development of the banking sector adopted by the Government of the Russian Federation and the Bank of Russia at the end of 2001, steps were taken last year to improve the legislative base of the Banking sector. The purpose of these efforts was to create favourable conditions for further development of the banking sector. The Law «On insolvency (bankruptcy) of credit institutions» was amended. The Law «On counteracting legalisation (laundering) of proceeds acquired by criminal means» entered into force. The enactment of the Law «On circulation of agricultural land» has made it easier for banks to use real estate and land sites as a collateral. Liberalisation of currency regulations and currency control continued. The Government completed the work on a long-awaited Law «On insuring individual deposits in the banks of the Russian Federation» which was submitted to the State Duma. However, enactment of a number of laws was not completed including, for example, a new version of the law governing securities market and a law on credit bureaux.



2002 MAJOR RESULTS

MAJOR FINANCIAL RESULTS

2002 financial results demonstrate Gazprombank's consistent development as a universal financial institution operating under market conditions and guided by internationally recognised business principles.

Gazprombank's financial indicators (in accordance with IAS)

Millions of U.S. Dollars	1999	2000	2001	2002
Total assets	2,407	2,937	3,811	4,937
Shareholders' funds	329	647	714	833
Loans to customers, net	1,425	1,378	1,681	2,370
Net profit	25	25	81	116
Return on average assets (ROAA)	1.1%	0.9%	2.4%	2.7%
Return on average equity (ROAE)	8.0%	5.1%	11.9%	15.0%

> **Assets.** In 2002 the Bank's assets increased by 30 % reaching, by the end of the year, USD 4,937 million. Loans accounted for a main part in the Bank's assets in 2002. By the end of the year their share in total assets reached 48 %. Gazprombank's loan portfolio had one of the highest growth rates in the Russian banking sector (the outstanding loan portfolio grew by 41 % from USD 1,681 million to USD 2,370 million).

The growth in the loan portfolio can be attributed primarily to an increase in:

- commercial loans to corporate customers – by 150 % from USD 425 million to USD 1,090 million;
- gold mining financing – by 133 % to USD 49 million;
- loans to individuals – by 20 % to USD 72 million.

The share of loans to the Bank's non-gas industry corporate customers as a percentage of the total loan portfolio increased from 25 % in 2001 to 46 % in 2002, highlighting the increased diversification in the Bank's loan portfolio.

The improvement in the quality of the Bank's loan portfolio is evidenced by the decrease in the loan loss provision (from 7.4 to 7.0 % of total loans to customers). Overdue advances amounted to 1 % of the Bank's loan portfolio, which is lower than the banking sector's average.

Investments in securities grew by 217 %, which is attributable to the increased role that the bank played in the government and corporate bond market in 2002, as well as to a rise in the quotation prices of debt instruments and securities in 2002. The trading securities' portfolio increased by the end of 2002 to USD 810 million, primarily due to the increased holdings of promissory notes (5.6 times), corporate shares (by 134 %), Russian Eurobonds (by 140 %) at year end. Corporate bonds represented about 9 % of the total securities portfolio at the end of the year.

2002 MAJOR RESULTS

> **Liabilities.** Liabilities increased due to the expansion of the client base and long-term borrowing, e.g. placement of bonds in the European financial market and the issuance of promissory notes. The Bank's liabilities at the end of the year amounted to USD 4,104 million having increased by 33 %. The structure of liabilities has not undergone significant changes compared to 2001.

A key objective of the funding strategy was to form liabilities meeting client's needs in terms of both amounts and terms. The total amount of customer funding at the end of 2002 was USD 2,590 million representing annual growth of 25 %.

Customers' accounts increased as follows:

- time deposits – 14 %;
- current deposits – 34 %

Since 2001 funds raised in the form of the Bank's debt instruments increased by 56 %. This increase was primarily due to the placement of the 2nd tranche of Eurobonds of Euro 150 million, as well as to an increase in the volume of the promissory notes issued by the Bank (by 42 %). A significant portion of the promissory notes was issued with a maturity period of more than one year, thus substantially improving the Bank's long-term liquidity ratios. With the maximal permitted rate of long-term liquidity set by the Bank of Russia at the level of 120 %, this ratio decreased during 2002 from 104 % to 81 %.

Individual deposits grew over the year by almost 60 % and reached USD 468 million. Individual deposits as a percentage of total liabilities increased from 8.1 % to 11.4 % and they represented 18 % of all funding received from clients at the end of 2002. Increasing share of individual deposits is in line with the Bank's strategy of further diversifying its funding base.

> **Shareholders' funds.** At 31 December 2002 the Bank's shareholders' funds amounted to USD 833 million having increased over the year by almost USD 120 million. The Bank's profits in 2002 were the primary source of capital growth. The ratio of equity to total assets decreased slightly to 16.8 % compared to 18.7 % in 2001. The capital adequacy ratio meets the requirements of the Bank of Russia. In 2002 capital adequacy ratio was 16.5 % of risk-weighted assets, the statutory minimum set by the Bank of Russia being 10 %.

Gazprombank maintains a higher risk based capital adequacy ratio than the 8% minimum recommended by the Basel Accord. In 2002 the Bank's ratio was 28.4 %.



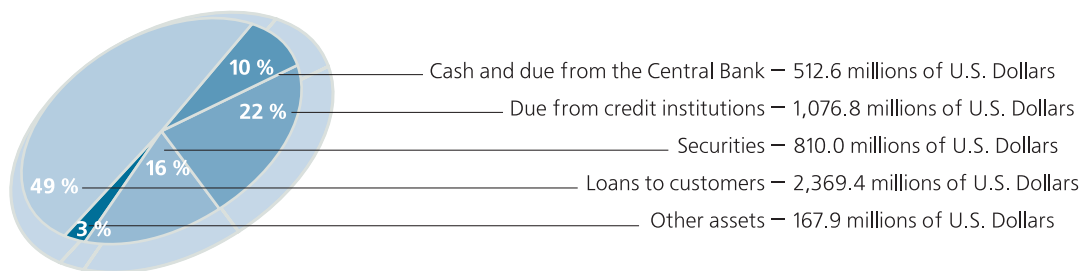
2002 MAJOR RESULTS

> **Net profit** in 2002 amounted to USD 116 million representing an annual earnings growth rate of 44 %. Net interest income was one of the major drivers of the increase in total profits. Interest income increase (11.5 %) surpassed the growth of interest expense (7.8 %) and was prompted primarily by rising income from corporate lending, and a reduction of funding costs associated with the increased level of retail funding.

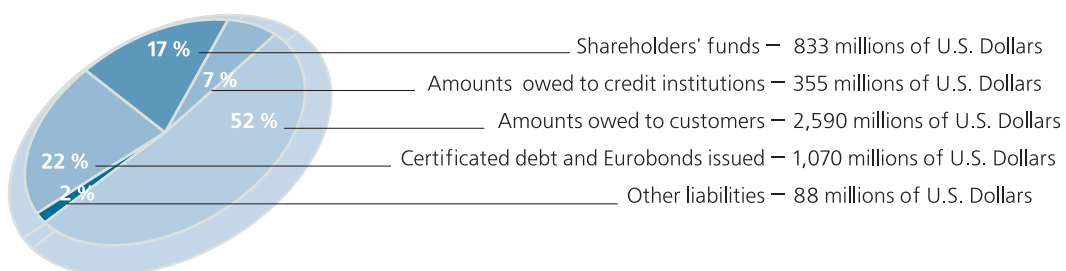
Non interest income grew by 5 % largely due to growth in fee and commission income (54 %) and a large increase in dividend income (4 times). Non interest expenses increased in 2002 by 13 % owing primarily to a 20 % increase in administrative expenses and expenses on the Bank's ongoing operations.

The attainment of profit growth rate surpassing the assets and capital growth rate helped to increase the Bank's efficiency indicators. Return on average assets (ROAA) reached 2.7 %, and return on average equity (ROAE) – 15.0 % compared to 2.4 and 11.9 % in 2001.

Assets



Liabilities and own resources



2002 MAJOR RESULTS

GAZPROMBANK IN THE BANKING SERVICES MARKET

> **Market position** Thanks to the development and diversification of its product offering and improvement in its client service and focus, Gazprombank has been consistently strengthening its position in the Russian banking sector and in international capital markets over the past several years. The Bank's growth rates, as in prior years, surpassed growth rates in the banking sector as a whole.

With respect to aggregate indicators of the Russian banking sector by the end of 2002 Gazprombank represented:

- 4 % of assets and capital,
- 5 % of loans to non-financial sector,
- 30 % of all long-term (over three years) loans,
- 5 % of individual deposits (excluding Sberbank).

Gazprombank continues to be among top five Russian banks with regard to all major indicators. It is:

- **2nd** largest bank in Russia in terms of long-term lending to enterprises and organisations, and corporate clients account balances;
- **3rd** largest bank in Russia in terms of assets, pre-tax profit, lending to enterprises and organisations, quantity of issued bankcards;
- **4th** largest bank in Russia in terms of equity;
- **5th** largest bank in Russia in terms of individual deposits.

Gazprombank was placed as 381st in terms of capital (having risen from 415th over a year) in the list of the world's top banks published by «The Banker» based on the results of 2001. For the past several years Gazprombank has been placed on this list as 3rd largest in terms of capital among banks in Russia and Central and Eastern Europe.

> **Ratings** Leading Russian and international experts and specialised rating agencies assess Gazprombank's business and outlook. These experts and agencies have a positive assessment of Gazprombank due largely to the Bank's reliability, the increased efficiency of banking operations, professional risk management and the sound credit policy.

Moody's Investors Service, an international rating agency, has been monitoring the Bank's financial activities since 1998 and assigning ratings at the country ceiling level. In December 2002 Moody's upgraded long-term foreign currency deposit rating from B1 to Ba3, and rating of medium-term Eurobonds which were placed by the Bank's 100 % subsidiary GazInvest Finance B. V. and guaranteed by Gazprombank – from Ba3 to Ba2, a result of the Bank's stable development and improvement of economic situation in Russia.

Taking into account of the increased importance of international banking markets to the Bank's strategic plans, the Bank considers possibility to obtain ratings from another international rating agency, Standard & Poor's. Russian rating agencies have acknowledged the Bank's reliability and stability as well. For the last five years Gazprombank has been placed into A1 Group (highest level of reliability) according to classification of «Rating» Information Centre. «Expert» rating agency has included Gazprombank in Group 1 in terms of financial stability.

In 2002 Gazprombank received, for the first time, ratings from «Interfax» rating agency: long-term rating Aa3 (rus) and short-term rating RUS-1 - the highest among Russian banks.

Gazprombank's depository has been included by the PARTAD Foundation for Advanced Financial Studies in the highest reliability group («AAA»).



BUSINESS DEVELOPMENT PRIORITIES

Gazprombank's business development strategy focuses on improving its internal corporate management system, maintaining high growth rates and world class quality of service

Orientation toward gas industry and its partners implies developing business directions and services of interest to the bank's principal shareholder, raising efficiency and profitability of banking operations and, as a consequence, increasing capitalisation. The realisation of these goals includes specific measures aimed at:

- improving the Bank's efficiency and investment attractiveness;
- high quality servicing of OAO «Gazprom» investment projects and foreign loans;
- participating in targeted programmes of the gas industry and attraction of financial resources for their realisation;
- creating conditions to exercise control at customer's request over the cash flows and targeted use of financial resources;
- introducing new and improving existing advanced banking products and services (project finance, factoring, financial consulting etc.);
- expanding the Bank's payment and depository systems through the expansion of the Bank's own network of branches and offices, and the promotion of correspondent relations;
- initiation and implementation of mortgage and consumer lending programmes for OAO «Gazprom» employees.

Expansion of Gazprombank as of a universal financial institution focuses on proactive client policy, diversification and simplification of the bank's products and services, high profile presence in the regions of strategic interest to its shareholders, clients and partners. Intensification of international activity includes strengthening relationships with international financial organisations, improving and increasing financing of export and import operations.

The realisation of the Bank's strategic goals is based on new approaches to client policy and regional development, as well as on the use of Gazprombank's competitive advantages. Measures aimed at promoting the Bank's global character include:

- strengthening the Bank's position in the Russian and international banking communities;
- promoting the Bank's own financial products and instruments in the Russian and international markets;
- financing principal partners and large corporate clients' projects;
- attracting and servicing the largest Russian exporters and importers, enterprises representing industries with good prospects, large retail companies and insurance corporations;
- promoting retail financing programmes including mortgage and consumer loans and the wider use of bankcards for transactions;
- increasing competitiveness and unification of services provided by the Bank through its entire corporate system.

UNIVERSAL BANK

«A new strategy has been designed to meet the demands of Russia's rapid development: Gazprombank is working towards becoming a universal bank with a broad branch network that works to the highest international standards» 

Euromoney, September 2002

DIVERSIFICATION OF CUSTOMER BASE

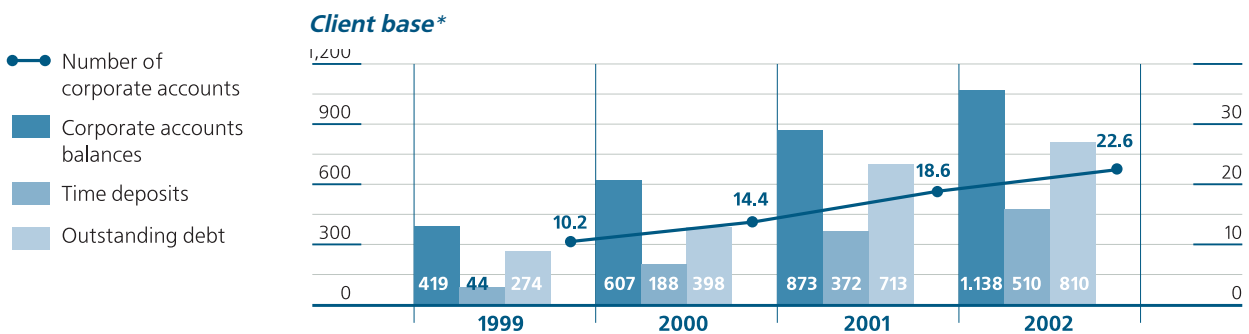
In the past several years Gazprombank has gone beyond the gas industry's boundaries becoming one of Russia's largest universal bank. The Bank holds leading positions in Russia's financial system and operates in major regions of the country.

Gazprombank provides a broad range of customers with all kinds of financial services tailored to the individual demands of each client. Due to active measures to increase management efficiency, introduction of new technologies and cutting operating costs the Bank maintains fees and commissions at a competitive level. Gazprombank's reputation for reliability, high quality of service and transparency of credit policy ensures the attraction of a large number of clients and substantial financial resources.

In addition to promoting and broadening co-operation with its largest customer and principal shareholder – OAO «Gazprom», the Bank is focussed on the expansion its client base in order to raise liquidity and optimise financial resources management.

Gazprombank has traditionally focussed on co-operation with enterprises representing promising and effectively operating industries, primarily gas, oil extraction and oil refining, chemical and petrochemical industries, ferrous and non-ferrous metallurgy, machine building and metal processing, energy, food industries as well as retail customers and large financial corporations.

In 2002 over 4,000 enterprises and organisations became Gazprombank's customers. The total number of corporate accounts grew by almost 22 % to 22.6 thousand. Average annual balances in customers' settlement and current accounts increased by 64 % exceeding USD 860 million. Foreign currency balances increased by 48 % and rouble balances by 79 %.



* At the end of the year

ESTABLISHING AN EFFECTIVE REGIONAL NETWORK

> **Gazprombank's regional network** comprises its own branch network and a network of 10 subsidiary and affiliated banks including two banks outside Russia. The Bank has 260 banking offices in 50 largest and most important Russian regions, in four regions in the Republic of Belarus, and in Hungary. The Bank's strategy is aimed at constant advancement and expansion of its presence in the regions. Gazprombank's branch network is one of the largest in Russia while the volumes of its financial transactions in the regions are comparable with large regional banks.

Expansion of the regional network traditionally implies its intensive development and presence in major gas extraction, transportation, processing and consumption regions, as well as in regions where promising projects of the gas industry are carried out. The regional network development plans take into account the interests of Gazprombank's strategic partners. Particular importance is attributed to establishing Gazprombank's branches in Siberia and the Far East and the continued development of the regional infrastructure in Volga and Ural regions.

> **Gazprombank's branch network** includes 31 branches, 92 supplementary offices and branches' operational cash desks. In 2002 the Bank opened new branches in Barnaul, Omsk and Perm, as well as 7 supplementary offices.

Introduction of new products and services, technologies and increased diversification of the product range led to increased number of customer accounts at the branches. In 2002 the number of corporate accounts in the Bank's branches grew by 28 %. The number of individual accounts exceeds 1 million.

Gazprombank branches: major financial indicators

	End of 2001 millions of U.S. Dollar	End of 2002	Annual increase %
Loans to customers	269	346	29
Settlement and current accounts balances	249	271	9
Individual deposits	219	334	53
Profit before tax	19	43	131

The provision of full service banking services to corporate customers, the combination of unique and standard banking products and unification of technology helped Gazprombank's branches to significantly increase their major financial indicators in 2002:

- profit before tax rose by 131 % to USD 43.4 million;
- outstanding loans to corporate customers reached USD 346 million;
- individual accounts balances grew by 53 %;
- debt placements grew by 51 %.

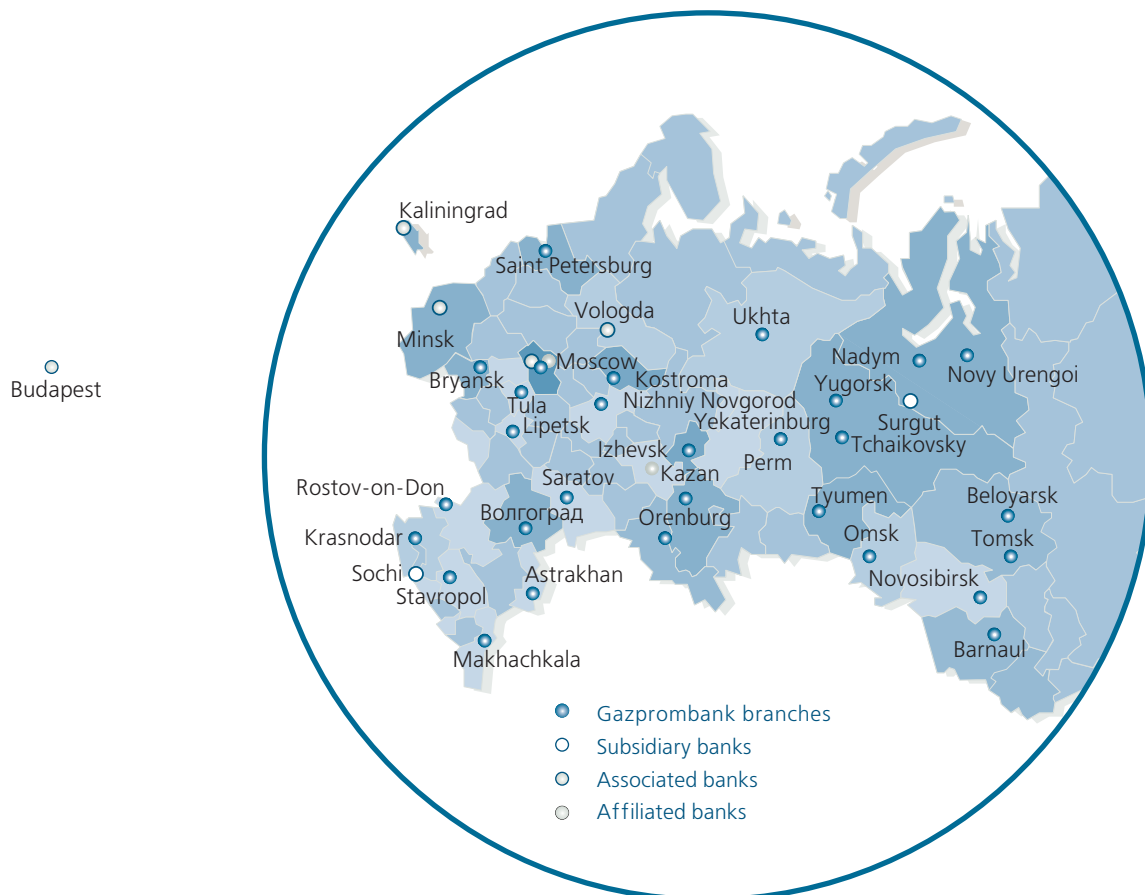
UNIVERSAL BANK

> **Subsidiary and affiliated banks** focus on the work in real sector of the economy and hold leading positions in their regions. Four of them are on the list of 200 largest Russian banks. Subsidiary and affiliated banks' assets grew in 2002 by 40 %, equity by 30 %, and profit by 80 %.

This growth was secured by:

- introduction of modern financial instruments and unified banking technologies;
- co-operation and co-ordination of actions in the area of regional development and co-operation with regional authorities of the Russian Federation;
- creation of a unified depository system and of an interregional payment system to service corporate accounts financial transactions on the basis of Gazprombank's Settlement Centre and the Bank's sponsorship in issuing and servicing bankcards.

Regional network map



EXPANDING PRODUCT RANGE

Gazprombank offers its customers modern products and technologies. Constant growth and enhancement of the Bank's product offering, its tailoring to the demands of different client groups and standardisation of products and services are central priorities to the Bank's management and staff.

The Bank is committed to the introduction and upgrading of specialised products for large and medium business. The Bank has accumulated substantial experience in dealing with export-oriented enterprises, servicing holdings and companies and organisations that have affiliates all over Russia.

Servicing these targeted customer groups requires special arrangements for interaction with and management and optimisation of financial flows. For these purposes Gazprombank has created and put into operation a unique system «Corporate Customer Settlement Centre». 25 large clients of the Bank have recently begun using this system with a total volume processed through this centre has already reached nearly USD 770 million.

Further impetus has been given to traditionally strong areas including the provision of cash and settlement services to customers in Russia and abroad, international transactions, export-import contract settlements and transactions in financial and securities markets. The Bank has expanded its product range in the sphere of project finance.

Hi-tech Internet-related banking products including the Banking Information and Dealing System and «I-trade» online trading system were added to Gazprombank's product range.

A new innovative banking product was introduced in 2002, offering customers a mechanism for the comprehensive management of their finances. This new product allows customers to access major financial markets to effectively manage liquidity, market risk and their own payment schedule, online. The use of treasury products (conversion transactions, short-term lending, and attraction of uncommitted funds) enables customers to obtain banking services in the regions at lower prices of Moscow inter-bank market.

In 2002 Gazprombank considerably expanded the range of products and services focused on the retail business. New lending products for small business and individual customers were introduced. A non-cash settlement system based on the use of Gazprombank bankcards is being consistently developed including an option of servicing customers via satellite communication systems and the Internet.

EUROBOND ISSUANCE PROGRAMME

The Bank's Euro Medium-term Notes (EMTN) Programme («the Programme») provides the platform for the issuance and placement of Eurobonds. It enables the Bank to diversify its funding base and to attract substantial foreign currency resources for longer tenors.


Debt instruments under the Programme may be issued in several tranches denominated in different currencies and amounts and having differing maturity periods. The Programme permits issuance of derivatives. The total amount of debt issued under the Programme is currently Euro 500 million.

At the end of 2001 the Bank made a successful debut in the market, placing two year bonds for Euro 200 million, a significant event for the entire Russian banking system. Gazprombank became the first Russian financial institution to place Eurobonds after the 1998 crisis, and the first non-government organisation to issue Eurobonds denominated in Euro. A second tranche for Euro 150 million with a three year maturity period was placed in October 2002. The coupon interest rate in both cases was 9.75 %, one of the best results among Russian banks' placements. This proved that Gazprombank was strengthening its positions in the European capital markets and became an important step in the Bank's integration into the international banking community.

Deutsche Bank AG (London), a major western investment bank, was lead manager of both placements. Moody's rating agency assigned to the Programme a sovereign-level rating which was upgraded to Ba2 in December 2002 following the upgrade of sovereign Eurobonds rating.



STRATEGIC PARTNERSHIP WITH THE GAS INDUSTRY

«We view Gazprombank as a solid and strong bank within a still weak Russian banking industry. The bank benefits from the underlying strength of the Gazprom Group, which, in addition to entailing business consistency and a certain protection against market volatility, offers some competitive advantages, such as sustained performance, comfortable liquidity levels, and capital injections if necessary» 

Deutsche Bank AG, London

STRATEGIC PARTNERSHIP WITH THE GAS INDUSTRY

OAO «GAZPROM» AUTHORISED BANK

Since the establishment of Gazprombank in 1990 its primary objective remains to improve quality and efficiency of financial services provided to OAO «Gazprom» and gas industry enterprises. For the past 13 years the strategic partnership with OAO «Gazprom» - the Bank's principal shareholder and largest client - has been Gazprombank's top priority. Mutually beneficial co-operation between the Bank and OAO «Gazprom» has passed the test of time and proven its effectiveness for both of the partners.

As OAO «Gazprom» authorised bank Gazprombank provides:

- comprehensive cash and settlement servicing of the gas industry;
- timely settlements between the industry's enterprises, the restructuring of consumers' debts for natural gas and of the industry enterprises' debt to the budget;
- lending to enterprises, financial servicing of the Group's strategic investment projects, participation in targeted programmes of importance to the entire industry;
- depository services and securities transactions in the interest of OAO «Gazprom» including servicing the Group's stocks, set-off transactions, promissory notes circulation, as well as broker and trust services to corporate clients in the organised securities market;
- comprehensive banking, depository and pension servicing of OAO «Gazprom» and gas industry's employees and shareholders, including non-cash transactions by bank cards;
- drawing individual customers' funds to finance the gas industry.

At present Gazprombank services almost all gas industry enterprises (about 1,000) and concentrates major financial flows of OAO «Gazprom». Responding to the needs created by gas industry consistent expansion and increasing number of its enterprises, Gazprombank timely provides them with comprehensive financial services in the regions. In particular, in 2002 the Bank opened a supplementary office of its Novy Urengoy branch in the town of Novozapolyarniy at the same time as «Zapolyarnoye» gas field was put into operation.

Under agreements with the authorities of several entities (regions) of the Russian Federation, Gazprombank participates in servicing joint programmes and projects with OAO «Gazprom» involvement, and acts as a financial and banking consultant. The Bank performs the functions of a foreign currency control agent with respect to OAO «Gazprom» international contracts.

Further expansion of Gazprombank's regional infrastructure in Siberia, the Far East and the European part of Russia, as well as creation of correspondent banks network in Southeast Asia shall fully satisfy OAO Gazprom's financial needs in these regions.



STRATEGIC PARTNERSHIP WITH THE GAS INDUSTRY

INVESTMENT PROJECTS IN THE INTEREST OF THE GAS INDUSTRY

> **Financing gas industry investment projects** in Europe and Asia is a priority for the Bank. By the end of 2002 loans made by the Bank to finance such projects totalled over USD 1,200 million. In 2002 only the Bank placed funds for these purposes for the total amount of about USD 34 million. In 2002 redemption of previously extended loans for investment projects amounted to about USD 70 million and interest earned on these loans amounted to USD 42 million.

In 2002 the Bank began, in accordance with the redemption schedule, collecting amounts on a loan to Europol Gaz SA – the largest loan ever made by a Russian bank. Gazprombank took active part in working out financial plans, preparing an intergovernmental protocol on financing final construction stage of the first line of Poland sector of «Yamal-Europe» gas pipeline.

Under a project to increase capacity of transit gas pipeline to Turkey and the Balkan countries, the Bank completed the financing of the Romanian sector. Redemption began on a loan to Romanian gas transportation company SNTGN Transgas. In accordance with its obligations the Bank exercises control over SNTGN Transgas's use of borrowed funds.

Upon instruction from OAO «Gazprom», in 2002 the Bank worked out, together with the EBRD, a lending plan for ZAO «Gastransit» (Ukraine). The Bank acts as an agent on loans to finance a project aimed at increasing transit capacity of the Ukrainian part of a gas pipeline to Turkey and the Balkan countries.

As a result of 2002 work on structuring a deal under «Interconnector» international project, the Bank earned fees of GBP 25,000 thousand (USD 35,500 thousand). For the purpose of carrying out gas industry investment projects, the Bank received funding from OAO «Gazprom» totalling USD 308 million.

> Gazprombank acted as the Russian agent for all long term syndicated loans for **OAO Gazprom's international projects and syndicated loans** and co-ordinated the raising of USD 11,800 million, which represents over 90 % of the Group's long-term foreign loans. With respect to these loans the Bank makes the required payments and settlements and services about 100 escrow accounts. In 2002 the Bank started servicing a number of new OAO «Gazprom» syndicated loans for a total amount of USD 1,300 million.

STRATEGIC PARTNERSHIP WITH THE GAS INDUSTRY

HELPING TO INCREASE EFFICIENCY OF THE GAS INDUSTRY

A strategic priority of Gazprombank remains to assist OAO «Gazprom», the Bank's principal shareholder and largest client, in realising its strategic goals. They include raising the Group's capitalisation, implementation of large international projects and increasing economic efficiency of the gas industry. The Bank's tasks pursued in the interest of OAO «Gazprom» include facilitating the Group's financial flows management, replacing promissory note settlements with money transactions and solving debt problems.

In order to increase OAO «Gazprom» capitalisation the Bank implemented several projects to increase the liquidity of the Group's shares, particularly creating necessary conditions for trading the Group's shares at «Saint Petersburg» stock exchange where the Bank is a major shareholder. OAO «Gazprom» trading operations are supported by the Bank's entire infrastructure, in the first place by its unique depository system and a developed dealing system.

A regional trading programme for OAO «Gazprom» shares, introduction of new dealing and broker operations technologies helped to increase liquidity and attractiveness of OAO «Gazprom» shares in regional markets. It ensured success of OAO «Gazprom» promissory notes domiciling (acceptance for payment) programme.

Gazprombank's depository is actively involved in promoting corporate values among the Group's individual shareholders and consolidating their efforts to exercise their right for participation in the management of the Group.

The Bank acts as OAO «Gazprom» agent with respect to paying dividends on shares, servicing internal investment loan, and is the largest market maker of OAO «Gazprom» shares.

The Bank's commitments to OAO «Gazprom» as its principal shareholder include:

- consistently increasing the Bank's market value;
- raising efficiency of banking operations and services;
- further increasing profitability.

Growing capitalisation and higher annual dividends contributed to a rise in the Bank's value. Between 1999 and 2002 the Bank's capital according to IAS increased more than twofold to over USD 830 million. Dividends in 2001 financial year amounted to USD 5.1 million, of which USD 4.4 million was paid to OAO «Gazprom».

The Bank significantly raised efficiency of the Bank's financial activity. Return on assets calculated according to IAS increased in the past three years from 1 % to 3 %, return on asset capital from 5 % to 15 %.

This all provides good opportunities for further fruitful co-operation. Maintaining attained positions in Russian commercial banks rankings, Gazprombank is soon expected to join a list of hundred largest European banks.



FOCUS ON CUSTOMER'S NEEDS

«Timely execution of settlements at the time of the crisis, honoring obligations to customers and eagerness to co-operate not only enabled Gazprombank to maintain its leading positions, but to fortify them. During the post- crisis period a large number of major Russian companies, including those producing for export, came to Gazprombank as customers» **»»**

The Banker, September 2001

FOCUS ON CUSTOMER'S NEEDS

Types of customers

GAZPROMBANK services		Large corporate customers	Corporate customers – financial sector	Small and medium business companies	Individual entrepreneurs	Individuals
Account management	Cash and settlement service in rubles and foreign currency	■	■	■	■	■
	International settlements	■	■	■	■	■
	Bank cards and travellers cheques	■	■	■	■	■
	FOREX transactions	■	■	■	■	■
Lending	Remote banking services	■	■	■	■	■
	Commercial lending	■	■	■	■	■
	Investment lending	■	■	■	■	■
	Documentary transactions	■	■	■	■	■
Asset management	Export and import transactions	■	■	■	■	■
	Deposits and promissory notes availability	■	■	■	■	■
	Precious metals transactions	■	■	■	■	■
	Dealing and brokerage transactions	■	■	■	■	■
	Securities transactions	■	■	■	■	■
Other services	Assets trust management	■	■	■	■	■
	Depository and custody services	■	■	■	■	■
	Consulting and information services	■	■	■	■	■
	Bank safe-deposit box services	■	■	■	■	■

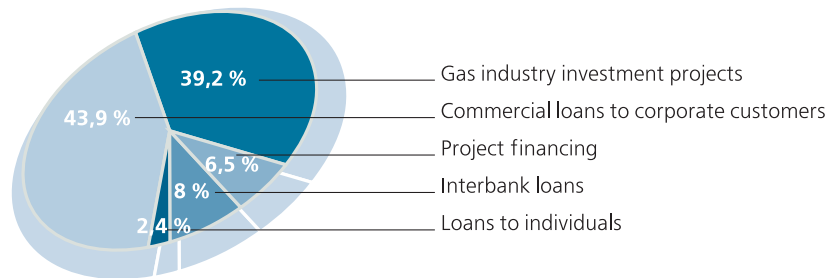
CORPORATE BUSINESS DEVELOPMENT

> **Lending**

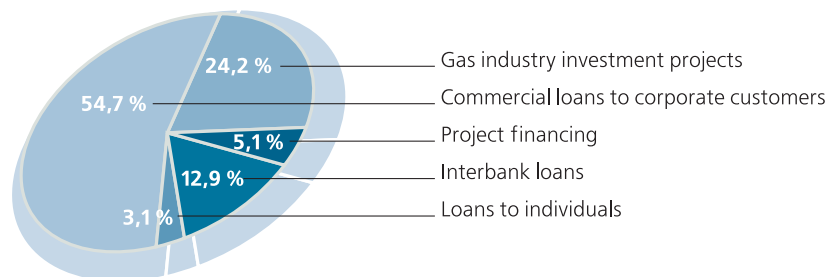
Analysis of aggregate loan portfolio dynamics demonstrates that Gazprombank actively works on increasing lending volumes and the number of customers receiving full-scale servicing. The work of the Bank's departments is focussed on forming a liquid credit portfolio and attaining required level of profitability while maintaining an acceptable level of credit risk.

Gazprombank participates in gas industry investment projects which last year accounted for around 40 % of the loan portfolio. In accordance with the Bank's strategic plans, the loan portfolio was significantly diversified in 2002 by substantially increasing commercial lending and project finance.

Structure of loan portfolio



Credit operations revenue structure



Corporate customers are offered top quality banking products for the following main purposes:

- for construction of new installations and production facilities;
- for technical renovation;
- for expansion and reconstruction of operating enterprises;
- for raising working capital;

FOCUS ON CUSTOMER'S NEEDS

- for trading and procurement operations
- for export and import contracts realisation;
- for mutual set-off transactions;
- for payments for goods and services.

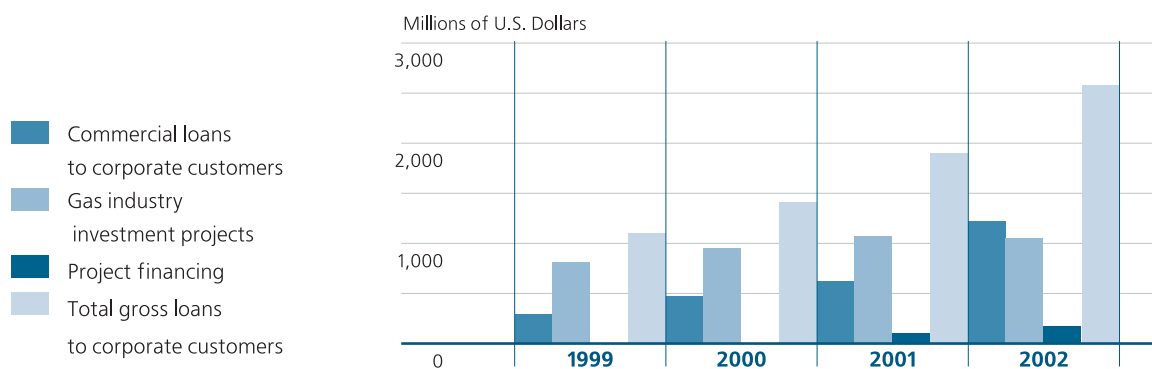
Consortium or syndicated lending is used to raise the efficiency of services. These types of lending are used to draw funds for significant long-term investment projects and project finance. The highest demand for these types of lending international investment projects in gas and oil industries, other areas of the real sector of the economy.

Introduction of factoring transactions has good prospects, allowing customers to considerably accelerate funds turnover by obtaining advance payments for goods, works and services.

In 2002, interest on loans accounted for 73 % of the Bank's interest income and amounted to USD 190 million. Average annual interest rates on loans in foreign currency decreased in 2002 by 1.9 % to 12.5 % meeting customer' needs and following market trends.

Gazprombank takes constant efforts to optimise its lending process, develop new products and update internal rules related to lending. In 2002 lending process and relevant rules were further improved: the Bank elaborated and approved a Credit policy for a period till 2004, which meets international standards.

Outstanding loans to corporate customers



> Settlement Centre

Gazprombank's Settlement Centre is an important component of an integrated system for efficient, high quality settlements. Its network combines hundreds of Russian and foreign banks, as well as all of the Bank's branches, ensuring effective settlement transactions for both Gazprombank's and other banks' customers.

The system of interbank settlements is constantly developing. The Settlement Centre – a high-tech automated system-processes more than 12 thousand payment documents daily. Gazprombank handles over 80 % of inter-city payments without using the Central Bank of Russia's resources. Switching to 24-hours a day operation mode helped to accelerate settlements with Russia's eastern regions and improve their quality.

Higher turnover of funds in customers' accounts is an indicator of an efficient settlement system. The total number of interregional clearing schemes increased in 2002 more than twice reaching 7000 for a total amount of USD 7,717 million. A system for electronic exchange of payment information between participants in settlement «chain» was fully completed. The system allows corporate customers' financial services to effectively control all stages of settlement processing.

The new settlement system allowed the Bank not only to provide its clients with speedy and high quality services, but to offer them specialised settlement services taking into account their individual needs and technological aspects of their business (financial monitoring, direct management of the accounts opened in the regions and control over spending transactions). Companies taking advantage of these services include OAO «Gazprom», «Sogaz», and «Rosgosstrakh». The number of accounts switched to the Specialised settlement servicing system increased by 120 % in 2002, due to foreign currency transactions and other factors.

The Bank put into operation a new IT-based system for multiple transfers of small sums to individuals. An important social function performed by the Bank is to transfer and pay pensions of Independent Pension Fund «Gazfond» to more than 20 thousand pensioners of the gas industry. In order to speed up transactions in foreign currency from correspondent banks abroad, the Bank's branches were included in SWIFT BIC Directory.

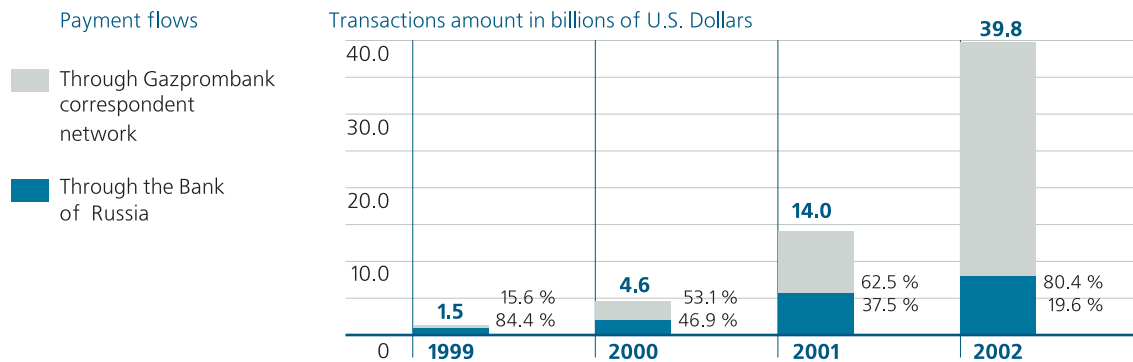
The processing of payment instructions for international transactions became almost fully automated (99 %) helping to reduce time needed to transfer customers' funds abroad and to lower transaction costs.

FOCUS ON CUSTOMER'S NEEDS

Constant improvement of technological base will very soon make it possible to:

- expand the range of settlement services offered to all Bank's customers groups;
- provide these services 24 hours a day meeting the needs of customers located in different time zones;
- introduce unified transaction standards.

Payments through the Settlement Centre



> International operations

The Bank's reputation, resource base and a wide range of services enabled the Bank, in 2002, to successfully finance and service the foreign economic operations of its customers. The existence of limits set for Gazprombank by leading world banks makes it possible to satisfy the demands of our customers' foreign partners with respect to providing guarantees of contractual obligations.

This relies on a good foundation: unique experience accumulated by our experts and specialists, new technologies for financing and servicing large projects in the gas industry and for carrying out payments against export and import contracts of leading Russian companies. The Bank has a good credit and rating history. It maintains correspondent banking relationships with over 200 banks including leading banks of the United States, the European Union, Japan, Southeast Asia, Central and Eastern Europe and with the banks of CIS countries.

Funds drawn by Gazprombank from these sources are one of the least expensive sources of funding. They allow financing the Bank's customers on attractive terms. The Bank's access to these facilities increased by over 50 % in 2002, and the available funding from this source now exceeds USD 150 million. In addition to increasing limits, foreign banks ever more willingly accept Gazprombank risk for longer tenors. The average term of operations under these limits increased to 18 months. A large number of limits are for 2 years.



FOCUS ON CUSTOMER'S NEEDS

Attractive longer tenors (over 2 years) for financing customers' international operations are made possible by export insurance agencies' readiness to accept Gazprombank risk. Guided by our customers' interests, Gazprombank has actively co-operated with such insurance agencies and financial institutions as EXIMBANK (United States), HERMES (Germany), EGAP (the Czech Republic), KUKE (Poland), MEHIB (Hungary), NCM (Netherlands), NEXI (Japan), BANK OF CHINA (China), EXIMBANK (Taiwan). Operation terms covered by export insurance agencies are usually limited to 5 years, but may be extended, in specific cases, for up to 10 years.

In 2002 many large foreign producers and suppliers expressed readiness to accept Gazprombank's direct obligations as guarantees for commercial (commodity) loans to the Bank's customers. This became a reality thanks to opportunities to refinance such loans and companies' readiness to include Gazprombank's liabilities in their balance sheets.

> **Depository Centre and its services**

Gazprombank's Depository is not only a leader among largest depositories but can surely claim to be a unique one. Originally established to service primarily OAO «Gazprom» shareholders, it now provides services to a wide range of customers through an extensive depository network reaching out as close to clients' locations as possible. The network comprises 54 regional depositories (36 at Gazprombank head-office and branches, 18 on the base of partner banks), and also 35 remote terminals.

In 2002 Gazprombank depository system maintained about 1 million depo accounts and held over 10 billion papers (promissory notes, government bonds, shares and bonds of different issuers) including about 9 billion OAO «Gazprom» shares. Gazprombank is the largest nominal custodian of OAO 'Gazprom» shares (around 37 % of total shares).

Gazprombank depository network maintains over 240 issues of securities. The Bank established correspondent relations with settlement depositories of stock exchanges. In 2002 Gazprombank carried out 218 thousand depo account securities transactions involving 7 billion securities through its depository.

Gazprombank constantly enhances traditional depository services including maintenance of depo accounts of owners and trustees, specialised depositories of unit trusts and non-government pension funds, holding documentary and non-documentary securities, carrying out deed transfers, lien and pledge transactions and payments of dividends to securities' owners.

FOCUS ON CUSTOMER'S NEEDS

The use of depository technology for transactions involving promissory notes within a unified system of debt instruments servicing substantially reduces the risks of theft and counterfeiting of securities, permits to bring together the location of depository and the place of payment, and also offers additional services accompanying depository services. Gazprombank's depository network in 2002 held promissory notes with a total value of USD 880 million including promissory notes of non-residents worth USD 114 million. The total number of transactions involving promissory notes amounted to 45 thousand.

As a holder of a Specialised depository licence Gazprombank provided full-scale service to several non-government pension and unit investment funds using a flexible system of rates and discounts.

Within the framework of co-operation with the Housing Mortgage Agency Gazprombank began providing in 2002 specialised maintenance and depository services, created an information system to support mortgage deed circulation using special methods and software. Work with double warehouse certificates became a new direction of the Bank's activity. The Depository serviced lending and mortgage transactions, repo transactions, brokerage and dealing operations and other services giving customers an opportunity to obtain additional profit on transactions with shares.

In 2002 the Depository accepted for custody through Gazprombank's interdepository account in Clearstream Banking first customers' packages of foreign bonds. Eurobond depository services are to become an important direction of the depository's development in the near future.

Gazprombank regularly performs and improves payments of dividends on depositors' securities. In 2002 the Bank launched new technological mechanisms for paying dividends to OAO «Gazprom» shareholders through the Bank's Settlement Centre and began transferring dividends to non-resident shareholders' accounts in the banks in CIS countries. Many years of successful work earned Gazprombank's Depository confidence of both private investors and professional participants in the stock market. The Professional Association of registrars, transfer-agents and depositories (PARTAD) assigned Gazprombank's depository a highest reliability rating AAA. In a list of largest depositories published by the Foundation for advanced financial studies Gazprombank was placed as second largest bank after Vnesheconombank, and as number one bank in terms of the amount of corporate securities on deposit. The depository's reliability grew in 2002 due to the conclusion of a comprehensive agreement on banking risks insurance.



> Remote banking services

Gazprombank traditionally attaches great importance to promoting remote services to customers. The existence of an extensive regional network and of customers with a wide territorial structure of operations determined successful use for the past several years of «Bank-Customer» and «Depository-Customer» systems. The systems enable customers to perform a wide range of transactions guaranteeing high level of processing and cryptographic protection. In 2002 Gazprombank offered a new «Depository-Customer» system for transactions involving promissory notes. The system is also designed to promote mortgage lending in the interest of the Housing Mortgage Agency.

Gazprombank consistently introduces advanced technologies taking advantage of Internet to broaden the spectrum of settlement transactions and services in financial and stock markets, to more efficiently use the potential of the Bank's extensive regional network.

Since 1999 Gazprombank has been offering to corporate customers with an extensive regional structure a high-tech service - specialised servicing of transactions using encrypted Internet communications through the «Bank-Customer» system.

Since 2000 the Banking Information and Dealing System combines the advantages of banking and Internet technologies opening up unparalleled opportunities to Gazprombank's customers and partners including:

- management of current liquidity by placing temporarily uncommitted funds and short-term lending;
- foreign currency conversion transactions and transactions in any world currency using main transaction dates and subsequent on-line currency control;
- information and analytical support of customers' transactions including provision of on-line information on Russian and international stock and out-of-stock markets, as well as own financial quotations and a news line;
- technical analysis and monitoring of own operations.

Along with traditional form of brokerage services Gazprombank introduced in 2002 an Internet trading system which is one of the most advanced products in the securities market. The system ensures timely, high quality and secured transactions via the Internet including transactions with OAO «Gazprom» shares in «Saint-Petersburg» stock exchange. The Bank is one of the few Internet brokers to use electronic signature created by certified software products.

EXPANDING SERVICES TO INDIVIDUAL CUSTOMERS

Individual customers' trust does not come by itself and has a solid foundation. Gazprombank was among the few Russian financial institutions that managed to ensure full-scale servicing of customers during 1998 crisis. The Bank was one of the firsts to introduce bankcards and create a unique depository system covering all Russia to service shareholders of OAO «Gazprom» - the biggest Russian joint-stock company. Veterans of the gas industry use Gazprombank services in many parts of the country and abroad.

Following its long-term strategy Gazprombank actively promotes services offered to corporate customers and individuals. The Bank's strategy includes diversification of retail services as a major competitiveness factor. The Bank consistently refocuses from a narrow category of customers (employees of corporate clients, primarily from gas industry enterprises) to mass servicing of individuals. Therefore in 2002 the Bank was energetically developing lending, depository and cash-desk servicing of individuals, improving non-cash bank card payment system, depository services to OAO «Gazprom» shareholders – a complete range of retail services.

> Settlements

Gazprombank consistently expands the spectrum of its settlement and cash desk transactions, executes money transfers in rubles and foreign currency to the accounts opened in the Bank. There has been an increase in the amounts of funds transferred through the Bank's Settlement Centre without opening accounts, including money orders in rubles to private and corporate customers. The Bank opened over 800 terminals for collection/payment of money transfers in all branches, banks - members of the Interregional banking group of the gas industry, correspondent banks in Ukraine, Moldova, and Belarus. The number of money orders increased threefold during the year.

Gazprombank is a member of Western Union express money transfers system allowing customers to quickly transfer money to almost any place on Earth. The Bank is a large operator in selling and purchasing American Express travellers cheques, accepts for payment bank cheques in foreign currency.

The availability of a large number of safe-vaults allows Gazprombank to rent individual safe-deposit boxes including for depositing sums of money used to settle real estate purchases.



FOCUS ON CUSTOMER'S NEEDS

> Attraction of funds

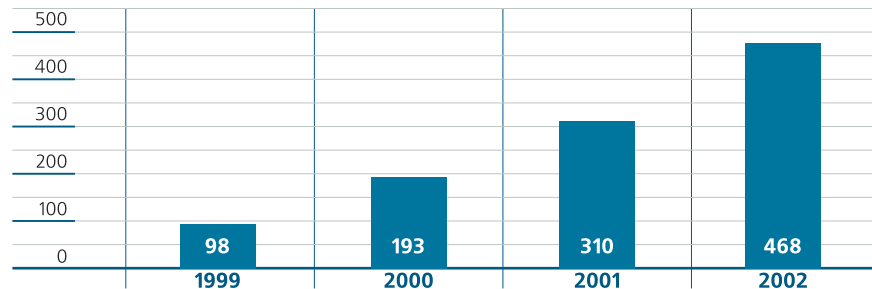
Gazprombank is traditionally among Russia's five largest banks in terms of individual customers' deposits. The Bank's branches accounted for over 72 % of new deposits. The Bank's positions are especially strong in Western Siberia, Volga and Ural regions. In 2002 individual customers' balances increased by 51 % mostly due to time deposits. The Bank has more than 1 million individual clients.

In accordance with its development strategy, Gazprombank in 2002 offered to customers alongside traditional types of deposits several new with different terms and conditions in rubles, U.S. dollars and Euro. Time deposits account for two thirds of funds deposited by individuals, with long-term deposit balances growing most rapidly.

Development of transactions with precious metals made it possible to sell to individuals precious metals in bullion. Gazprombank also sells 130 types of the Bank of Russia gold and silver souvenir and investment coins of 1989-2002 issuance, including rarities.

*Individual accounts balances **

millions of U.S. Dollars



* At the end of the year

FOCUS ON CUSTOMER'S NEEDS

> Loan programmes for individuals

Providing loans to individuals is an important component of the Bank's strategic growth plans. In 2002 the Bank extended around 11 thousand loans totalling USD 72 million to individuals. Most of these loans were consumer loans. Profits from loans to individuals exceeded USD 4.4 million at head office alone.

The introduction of new banking credit products taking into account retail prospects in location areas of the Bank's branches is a high priority. These programmes are attractive to new and traditional customers of the Bank based on the flexible interest rate and fee policy, as well as on evaluation of competitive environment.

Great attention is given to the promotion of mortgage lending. Along with a mortgage programme for the gas industry employees, the Bank plans to expand mortgage lending to employees of other corporate customers and to individuals, including in co-operation with the Housing Mortgage Agency.

In partnership with large retail companies, the Bank carries out a consumer-lending programme that includes several retail networks selling home appliances, furniture and other goods. In only the fourth quarter of 2002 the number of sales with deferred payments amounted to almost 4 thousand. The number of the Bank's partners under this programme is constantly increasing. They include car dealers, internet-shops, and travel agencies.

The Bank worked out a policy and technology of consumer lending providing for unification of retail loan services by creating a standard product line for mass customers.

Gazprombank's consumer lending programmes

Type of loans	Programme targets
Mortgage	Purchase of apartments, houses and country houses
	Construction of houses and country houses
	Purchase of land sites
Consumer	Refurbishment of apartments, houses and country houses
	Purchase of vehicles
	Urgent needs
	Purchase of consumer goods and services
Social	Medical, education and tourist services
Bank credit cards	Overdraft
Loans secured by corporate guarantees	Loans to corporate customers' employees under guarantees of the corporate employer
Loans guaranteed by securities	Loans secured by OAO «Gazprom» shares and promissory notes and Gazprombank's promissory notes.

FOCUS ON CUSTOMER'S NEEDS

> Bankcard services

Gazprombank has been developing its bankcard system since 1994. In the past several years the Bank has been a leading card issuer in Russia remaining among top five Russian banks with respect to all major indicators: number of cards issued with Russian (UnionCard) and international (VISA, MasterCard) payment systems, in the sphere of acquiring, in terms of cash withdrawal transactions and non-cash transactions performed as payment for goods and services.

Gazprombank has been a principal member of VISA and Europay Int. since 1997. It has the rights to issuance, acquiring and sponsorship of other banks. In 8 years Gazprombank created, in co-operation with its branches and partner-banks, a corporate payment system covering over 60 Russian regions. Customers of Gazprombank, its branches and partner banks have the opportunity to open accounts in rubles, U.S. Dollars and Euro.

By the end of 2002 Gazprombank together with its branches and partner banks issued over 257 thousand VISA cards and 10 thousand Eurocard/MasterCard. The total number of issued cards exceeded 620 thousand.

Gazprombank's acquiring system is one of the largest in Russia, comprising almost 400 ATMs and 850 POS terminals. The bank services over 1.2 thousand cash desk and retail terminals. The Bank developed and implemented a point of purchase plastic card payment system and set up a 24-hours customer service system.

Servicing international payment systems cards is a priority for the Bank, which issues VISA and Eurocard/MasterCard cards.

In 2002 money turnover on bankcards accounts increased by 56 % to over USD 1 billion. Average monthly card accounts balances increased by 38 % to USD 80 million.

Bank cards

Indicator	By the end of the year			
	1999	2000	2001	2002
Number of regions serviced	20	31	54	61
Number of cards in circulation, thousands	145	210	437	622
Including international payment systems cards	–	–	140	267
Number of POS terminals	450	560	571	845
Number of ATMs	210	300	335	398

FOCUS ON CUSTOMER'S NEEDS

2002 new products and programmes:

- a bankcards programme for women VISA Classic Lady's Card offering payment and discount cards of special design;
- special rate programmes «Autumn marathon» and «Winter souvenir»;
- VISA Classic cards with customised design at customer's choice;
- VISA Electron Instant Issue programme significantly reducing the time for issuing cards to customers in remote branches and offices;
- a discount cards programme «With a Gazprombank card to the world of discounts»;
- American Express Centurion card for VIP clients.

As a principal member of international payment systems, Gazprombank uses other banks for cards issuance and acquiring, acts as a sponsor when these banks join international payment systems as associated/affiliated members. Under these programmes Gazprombank has concluded agreements with 31 banks of which 10 have already joined VISA with Gazprombank sponsorship. Altogether, these credit institutions issued with Gazprombank sponsorship about 50 thousand bankcards. Balances in correspondent accounts of partner banks quadrupled in 2002.

In addition to transferring salaries, pensions, allowances, stipends and cash withdrawal transactions using Gazprombank cards, the Bank processes payments for goods and services, including payments for utilities.

At customers' requests the Bank processes payments for cellular telephone communications, money transfers, payments on loans. Movable terminals are used at enterprises allowing their employees to pay utilities and telephone bills at work.

Technical equipment and software of Gazprombank's main processing centre allow processing cards of all payment systems in any currency. The Bank established and develops a system for automation of settlements with branches and partner banks, which permitted Gazprombank to act as a settlement bank within an internal payment system. In 2002 the Bank was certified as a principal member of Europay Int. with respect to processing services. The Bank launched own MasterCard acquiring.

Major organisational and technological innovations include:

- use of «mobile» POS terminals via satellites, including terminals on ships;
- technological support of the entire range of card transactions in commerce and hotel services;
- technical preparations for the launch of a settlement system operating via «Sonic Duo» («Megaphone») mobile communication network offering an opportunity to make payments for goods and services from bank card accounts using mobile telephone menu;
- secure connection with ATMs via the Internet
- remote access of sponsored banks and branches to information resources of the processing centre.



INVESTMENT BUSINESS

> **Project finance.** Project finance is one of the most promising areas of Gazprombank's activities. Alongside gas industry projects, which traditionally form a significant part of the bank's credit portfolio, there was an increase in the past years in the volume of investment projects in the interest of other corporate customers. In the last year it increased by 150 % reaching USD 180 million. In 2002 10 new projects were launched with a USD 220 million total sum of limits set by the Bank. Over USD 115 million was already provided. The Bank continues financing investment projects started in 2000-2001 with already provided funds totalling around USD 60 million.

Gazprombank participates in investment projects in the gas, petrochemical, gold mining, food, timber and aviation industries, telecommunications and construction.

Project finance is potentially a most dynamic sphere in which customers show increased interest. At present the Bank is considering over 40 requests from prospective borrowers with amounts by far exceeding previously given credit lines.

> **Transactions with precious metals.** Three years of experience in working with precious metals helped to form a necessary organisational and technical base. Since 2001 the Bank participates in financing seasonal gold mining works. It also conducts arbitrage gold purchase and sale transactions in the domestic market.

In 2002 the work with precious metals reached a qualitatively new level in line with the strategic status of this direction in Gazprombank's activities.

Development of operations in this market is based on direct deliveries of metals from producers to the Bank, thus relying on a solid client base. The bank consistently diversifies its customers network in terms of regions they represent, potential capacity of enterprises and types of financing. Presently loans and credit lines provided by Gazprombank to precious metals producers total around USD 120 million of which 25 % have maturity periods from two to five years. The Bank's main partner in gold mining industry is OAO «Aldanzoloto» which increased production of this precious metal to 4 tons a year. Gazprombank also finances gold mining enterprises in Mongolia, in the first place KOO «Zolotoy Vostok-Mongolia» – the biggest gold producer in that country (2.8 tons a year). The Bank provides financing to several enterprises in the Republic of Sakha (Yakutia), Irkutsk region and Chukotskiy autonomous district.

FOCUS ON CUSTOMER'S NEEDS

Gazprombank substantially expanded its product range and increased the amount of direct transactions involving precious metals in Russia and abroad:

- under sale-purchase agreements with metal producers the Bank obtained over 5 tons of gold;
- under agreements with companies engaged in secondary processing of precious metals the bank obtained over 400 kilograms in gold equivalent;
- precious metals sale-purchase transactions are conducted on a regular basis in the Russian interbank market; the number of counteragent banks engaged in these transactions increased to 25;
- Gazprombank assured leading positions among banks working with Russian jewellery producers having provided them in 2002 with 2 tons of gold, 7 tons of silver, 50 kilograms of platinum and 30 kilogram of palladium;
- the Bank concluded agreements to open and maintain «metal» accounts with Commerzbank, Credit Suisse First Boston, Standard Bank London, HSBC Bank USA, under which 1.6 tons of gold was exported;
- transactions with precious metals in gold equivalent totalled around 12 tons.

Total proceeds from transactions in the market of precious metals amounted to USD 5.5 million exceeding previous year results by 1.8 times. An important feature of the last year was the Bank's entry into the market of secondary precious metals. This direction is particularly important to the largest shareholder – OAO «Gazprom» which possesses substantial quantities of secondary precious and rare metals.

The Bank's plans include further raising operational efficiency, strengthening its positions in the market of precious metals, expanding client network and co-operation with metal producers in the Republic of Sakha (Yakutia), Kamchatka region, Mongolia and other regions as regards exploration of ore deposits of interest to forming funds in the world market; broadening operations range abroad, increasing trade operations with secondary precious metals.



TRANSACTIONS IN FINANCIAL AND STOCK MARKETS

Gazprombank is one of the leaders in the Russian financial and stock markets. Creation of a unified financial space between the head office and branches which also comprises many counteragent banks, solid business ties with largest world banks, leading positions with respect to many financial instruments (OAO «Gazprom» shares, Eurobonds) determine the Bank's great significance and potential for Russia's financial and stock markets.

> **Transactions in the domestic financial market.** In 2002 Gazprombank's average daily turnover in ruble interbank deposit market was about 3 billion rubles. Transactions in the internal market of interbank loans totalled in 2002 about USD 22 billion. Credit lines opened on Gazprombank by Russian banks amounted to USD 470 million.

Gazprombank is among three market leaders determining market practice not only in the interbank loan market, but also in the domestic foreign currency market. Contributing to redirection of credit resources in the banking system Gazprombank acts as a link between 150 regional and small banks helping them to maintain liquidity levels including on the basis of guaranteed credit lines. In 2002 around 40 credit organisations from many Russia's regions became new Gazprombank's partners.

> **Transactions in the foreign currency market.** The Bank is the largest operator in the foreign currency market and conducts conversion transactions in all world currencies. Net lines opened to Gazprombank by leading western banks total USD 400 million.

In 2002 conversion transactions in the external market totalled USD 21.2 billion, and in the domestic foreign currency market USD 70 billion. Transactions in the external market of interbank loans totalled USD 124 billion.

The Bank's operations are not limited by conversion transactions. In 2002 it began large-scale transactions with foreign currency options. Largest international currency market operators became Gazprombank's partners in these operations. By using currency options the Bank substantially increased the volume and profitability of transactions in the international currency market. It substantially reduced risks on currency positions thanks to diversification of instruments in this market.

In the future the Bank plans to expand transactions with other derivatives. It also intends to more intensively offer customers new currency instruments for investment of their assets.

FOCUS ON CUSTOMER'S NEEDS

> **Transactions in the stock market.** Gazprombank is an active participant in the market of Russian government and corporate Eurobonds, Internal Government Foreign Currency bonds (OVGVZ bonds) and provides daily two-way quotations. Transactions in 2002 totalled USD 12 billion.

Gazprombank often serves as a link in Russian banks' deals with foreign institutions due to a large number of mutual trading lines. This no doubt helps to increase market liquidity, gives Russian banks an opportunity to refinance their positions in bonds through swap transactions and through transactions at non-standard time.

Gazprombank operates rather conservatively with shares of Russian issuers. At the same time it is the principal operator with regard to OAO «Gazprom» shares. Gazprombank's trading activity largely reduces fluctuations in their market quotations and lowers influence of macroeconomic conjuncture. Transactions involving OAO «Gazprom» shares totalled in 2002 over 440 million shares.

The Bank actively works with corporate and government bonds. The total amounts of transactions were: corporate bonds denominated in rubles – USD 66 million, corporate bonds denominated in foreign currency - USD 249 million, government bonds – USD 6.3 billion.

In 2002 Gazprombank took part in the preparation of a new issue of OAO «Gazprom» bonds denominated in rubles. The Bank performs agent functions during the presentation and realisation by the issuer of the offer to repurchase bonds ahead of time and the functions of a payment agent for such issue.

> **Transactions in the market of promissory notes.** Servicing OAO «Gazprom» securities is a priority for the Bank in the market of promissory notes. On the base of an instructions agreement with OAO «Gazprom» Gazprombank accepts for payment (domiciles) the Group's promissory notes, and provides information upon requests of customers about the existence of promissory notes in the issuer's register and confirms that no reasons preclude legitimate circulation of issued promissory notes. In 2002 the Bank accepted for payment over 15 thousand OAO «Gazprom» promissory notes for a total amount of over USD 1.8 billion, processed over 6.5 thousand customers requests.

In 2002 the Bank and OAO «Gazprom» started the work on a programme of redemption by OAO «Gazprom» of its own promissory notes in the secondary market to more efficiently use temporarily uncommitted funds and to speed up debt settlements.



FOCUS ON CUSTOMER'S NEEDS

Gazprombank is among largest operators in the market of promissory notes. It conducts investment, trading and clearing transactions with promissory notes of third parties, as well as collection for payment and secured keeping of promissory notes, pledge transactions. Such transactions totalled in 2002 over USD 3.8 billion. Under collection agreements with large corporate customers the Bank presented for payment in 2002 customers' promissory notes for a total amount of over USD 200 million. Collateral transactions with these securities during that period totalled around USD 63 million.

The Bank consistently improves control over transactions involving documentary securities, including particularly a thorough expertise. In 2002 the Bank's employees checked over 38 thousand promissory notes and uncovered forged securities for a total sum of USD 3.8 million.

> **Transactions in the foreign market of promissory notes.** In 2002 Gazprombank continued a programme to facilitate placements of the Bank's debt instruments in the international market. Borrowing in western markets through placements of Gazprombank's promissory notes denominated in foreign currency among western investors increased in 2002 twofold to reach USD 48 million. At present holders of Gazprombank's promissory notes include banks and financial companies in the United Kingdom, Austria, the Netherlands, and Portugal. Foreign investors' interest in Gazprombank's debt instruments further increased due to its ratings upgrade by international agencies and the Bank's excellent standing in fulfilling its commitments.

> **Brokerage transactions in securities market.** Gazprombank is among largest professional securities traders conducting transactions in both stock and out-of-stock markets. It provides brokerage services in all major stock exchanges – Moscow Interbank Currency Exchange, Moscow Stock Exchange, «Saint Petersburg» Stock Exchange. Alongside traditional brokerage services it offers services of its Internet trading system.

By the end of 2002 the Bank concluded over 200 brokerage services agreements. Brokerage transactions totalled in 2002 USD 160 million. Customers' securities portfolio at the end of 2002 was USD 63 million.

THE BANK'S MANAGEMENT SYSTEM

«Gazprombank handles settlements for much of Gazprom's gas business in Western Europe and Asia and has built up a network of correspondent accounts in over 40 different countries. Well versed in the needs of the international financial community, the bank has one of the most transparent ownership structures in the country and since this spring has been producing monthly financial reports to international accounting standards – still a rarity amongst Russian banks »»

Euromoney, September 2002

THE BANK'S MANAGEMENT SYSTEM

IMPROVING THE CORPORATE GOVERNANCE SYSTEM

Gazprombank's employees strictly observe the Codes of corporate behaviour and of ethical principles in the banking business. Our track record of stable and reliable work over many years guarantees trust of not only Russian, but also foreign investors.

The system of corporate governance is focussed on increasing efficiency of banking operations and raising the investment attractiveness of Gazprombank, confidence of shareholders, investors, customers, existing and prospective partners. Principles of corporate governance are also aimed at ensuring equal and fair distribution of the Bank's revenues.

Principles of transparency and accountability are implemented by regularly providing information about the bank's performance to shareholders, customers and investors. Since 1996 Gazprombank has provided information about its performance and financial results in accordance with international standards on a yearly, in 2001 this was increased to biannually, and since 2002 this information is now provided on a quarterly basis. This allows owners and investors to perform more objective and timely assessments of the Bank's current financial state. Gazprombank's customers and investors obtain additional detailed information on various aspects of the Bank's activities. Regularly updated information about the Bank is available on the corporate web-site.

Switching to international accounting standards provided a good basis to develop full-scale management accountability system in conformity with modern principles of corporate governance. Organisational foundations were established for improving the system of management accountability allowing evaluation of financial responsibility centres performance, professional management of assets and liabilities, introducing principles of transfer price setting and distribution of revenues for maintaining and developing the Bank's infrastructure.

Gazprombank is characterised by transparent structure of shareholders' capital and resource base. Nearly all shares are owned by OAO «Gazprom» and its subsidiaries. The existence of one principal shareholder does not run counter to the interests of minority shareholders, which primarily represent Russian gas industry as well. Dividend policy is approved at yearly meetings of shareholders, which also approve major decisions of the Board of Management and determine future business priorities.

In 2002 a new organisational structure was adopted which better suits the Bank's specifics and customers' needs. This structure is based on the principles of stricter delimitation of functions and authorities between the Bank's divisions and consists of three main components: business block divisions, support block divisions and front offices.

Gazprombank's corporate culture relies on professionalism, team spirit, frankness and transparency of business, and is focussed on achieving results.



RISK MANAGEMENT

Risk management is implemented throughout the entire bank implying the establishment of an integrated system based on clear goals and objectives, division of responsibilities, effective management supervision mechanisms to timely identify, measure, monitor and minimise risks. The Bank has developed and put into operation an effective credit, market, operational and liquidity risk management system.

> **Main principles of the risk management system:**

- integration of risk management process with the organisational structure and business development strategy;
- centralisation of credit, market, operational and liquidity risks management;
- optimisation of correlation between assumed risks and operational profits;
- independence of risk analysis and control divisions from other divisions of the Bank.

Centralisation of risk management is the responsibility of the Risk Management Department. In 2002 the entire system of risks management underwent significant changes: functions and tasks of Committees and the Internal Audit Department were restructured, basic rules and regulations were revised. Organisational structure of the Bank's risk management system includes collective bodies and specialised divisions.

Principal approaches to analysis and management of risks in Gazprombank are outlined in the Bank's credit and limits policies and in committees' regulations. These documents specify maximum acceptable risk levels with respect to all major types of banking operations and clearly define authority and basic rules governing interaction between organisational elements of the risk management system.

> **Methods.** In measuring risks Gazprombank uses advanced methods:

- Value-at-risk (VAR) – to measure market risks under normal market conditions (maximal losses during a specific period of time at a fixed confidence level);
- Stress-testing - to measure risks in emergency market situations;
- Credit equivalent of risk – assessment of current and potential exposure to counterparties' claims which may arise owing to possible changes in the market value of liabilities on investment and banking transactions;
- Apportionment of capital as a base for determining maximal risk level, market and credit risk limits.

THE BANK'S MANAGEMENT SYSTEM

Credit risk accounts for the majority of total Gazprombank's risks. The Bank's effective and consistent credit risk management system ensures adequate risk control.

Constant control over quality of lending assures adequate assessment of the Bank's possible losses on specific operations of this kind. It is based on a system of internal ratings of counterparties. This approach allows evaluation of total risk on the entire loan portfolio. In analysing risks on loans, the Bank also takes into account ratings assigned by recognised international agencies.

The Bank regularly upgrades its market risk management system. Value-At-Risk (VAR) method is used to assess market risk under normal market conditions. Model testing to assess risks is performed at four aggregate levels: for particular market instruments, for homogenous security portfolios (foreign currency, GKO and OFZ government bonds, promissory notes etc.), for different kinds of risks and for Gazprombank's entire investment portfolio. Stress analysis is used to assess losses under emergency conditions.

Market risk monitoring is performed on a regular basis. The Bank uses a tier system of limits to maintain acceptable levels of market risk. The Bank sets VAR-limits for the entire Bank and for each business unit. Reports on market risk are submitted to the Bank's management.

In managing liquidity the Bank is guided by the existing regulations of the Bank of Russia, and by its own internal policy. The Asset and Liability Management Committee manages liquidity risks, risks of changing value of assets and liabilities, risks of interest rates changes and operational risks. The Bank's Treasury carries out ongoing liquidity and solvency management.

Liquidity management includes control over compliance with the statutory requirements of the Bank of Russia, analysis and planning of cash flows, control of short-term borrowing opportunities, development of emergency action plans in the event of a crisis. Within the set limits the Treasury conducts transactions in foreign currency, fund and stock markets in order to regulate the Bank's deficit/surplus in liquidity and to timely respond to market fluctuations with respect to most liquid financial instruments.

In order to minimise operational risk the Bank constantly improves banking technologies and business processes, prepares action plans for emergency situations, offers regular training programmes to its employees, and takes other measures.

Considering the scale of the Bank's international activities and of the interests of its partners and shareholders, Gazprombank has based its risk management system on the recommendations of the Basel Committee, in spite of the fact that Russia's legislation does not yet impose obligatory compliance with them. In particular, the Bank intends to use Credit Risks Internal Ratings Based Methodology and, accordingly, compiles historical data records. The Bank intends to use Advanced Measurement Approach to manage operational risks. These efforts are expected to further increase confidence of counterparties and partners and have a positive effect on the services offered to customers.



THE BANK'S MANAGEMENT SYSTEM

Clear division of authority and functions of different structural units of the Bank in performing transactions is an important factor reducing operational risks. Constant improvement of this system, its secured functioning are guaranteed by a system of internal control and regular internal audit. The Bank works on optimising business processes as a basis for increasing automation of banking technologies and reduction of operational risks involving human factor.

The Bank considers insurance of its activities as another step toward reducing operational losses. In November 2002 Gazprombank obtained an international comprehensive banking risk insurance policy – «BBB» (Bankers Blanket Bond). Insurance coverage was provided by «Sogaz» and Lloyd's (United Kingdom). For this purpose the Bank underwent an independent international examination which assessed its operational risks levels, control and management procedures. The surveyors gave a high assessment of the Bank's organisation and operational oversight. The «BBB» programme consists of three parts:

- classic «BBB» policy providing coverage against crimes;
- insurance coverage related to losses arising from electronic and computer crimes;
- professional activities insurance.

> A comprehensive **Internal Audit System** protects the interests of the Bank, its customers and investors in accordance with the existing legal requirements. The principal purpose of the system is to ensure appropriate reliability level conformant with the nature and scope of the Bank's operations, and to reduce banking risks. Particular attention is given to the analysis of business processes and risk management control. Gazprombank consistently adopts recommendations of the Basel Committee on banking oversight.

The Internal Audit Department monitors the Bank's internal control system, identifies and examines problems, prepares proposals aimed at improving the system and making it more efficient. For this purpose it conducts regular administrative financial checks and evaluations. The Department acts as an inherent, but independent part of Gazprombank's internal control system. This system also includes control over the Bank's financial market activity compliance with existing legislation.

> **Audit.** The Bank is audited yearly by independent auditors. Since 1996 the Bank's auditors include the largest international companies, presently Deloitte & Touche. In accordance with the Bank's Charter it is also audited by a Revision Committee elected at shareholders' meetings.

THE BANK'S MANAGEMENT SYSTEM

ORGANISATIONAL DEVELOPMENT AND PERSONNEL MANAGEMENT

> **Organisational development.** In line with pursuing main priorities of strategic development and performance enhancement significant changes took place in 2002 in Gazprombank's organisational structure. The new model is based on division into large functional directions.

Each block reports to a member of the Board of Management and comprises several departments and/or independent divisions.

In order to enhance corporate governance composition and functions of the Bank's committees were revised. There were established a Lending Committee, a Lending and Investment Committee (both previously formed the Credit Committee), Asset and Liability Management Committee (instead of the former Financial Committee), Technology Committee and Depository Committee.

> **Personnel policy.** Realising the importance of human resources for raising efficiency, the Bank devotes particular attention to personnel management. Professionals with best performance results are regularly promoted to senior management positions. New impetus was given to personnel training, raising efficiency of staff, creating favourable working conditions and increasing employees' interest in the results of their work. Thanks to a well-thought personnel policy and as a result of increased performance and reduced expenses, pre-tax profit per one employee increased in 2002 by 160 %.

Number of employees at the end of 2002 was 3,600, of which two-thirds are in the branches. Personnel numbers increased by 17 % while the Bank's total business volume grew by 33 %.

A set of instructions and regulations was prepared to introduce a system of periodic evaluation of personnel performance relying on the principles of harmonising employees' activities and work plans. This technology was tested and will be widely used in day-to-day management. This will allow not only attaining full use of employees potential focusing it on the Bank's needs, but to switch to new modern technologies of personnel management.

Raising personnel qualification, forming and training personnel reserves remained a priority in human resources policy. The Bank continued regular training for senior positions in branches. Every second employee completed training programmes to raise qualification. The Bank concluded co-operation agreements with leading Russian universities establishing special Bank's stipends (grants) to students in 2002-2003.




INFORMATION TECHNOLOGIES

Information technologies (IT) development strategy focuses on finding optimal solutions to ensure realisation of specific functions of the Bank using international IT-management experience. This strategy is aimed at improving IT services and raising efficiency of the Bank's entire IT complex.

The implementation of this strategy in 2002 resulted in the following major achievements and innovations:

- centralised registration of securities transactions allowing to concentrate relevant data in the head office and adopt a unified securities transaction technology linking all branches in online mode;
- a new automated system to manage transactions involving commercial loans to facilitate business expansion;
- new individual consumer lending transactions support technology;
- «GPB i-trade» Internet trading system;
- upgrade of all client's terminals operating in the «Bank-Customer» remote banking system;
- automatic downloading to the Corporate Database of data about customers and transactions in the branches;
- conclusion of the first stage of a 24-hours user support system, including in the branches;
- start of IT-integration of the branches aimed at IT-standardisation in the entire Bank;
- continued expansion of electronic document exchange between the Bank's managers and a new automated personnel management system.

SOCIAL POSITION AND PUBLIC ROLE

«The high professionalism of Gazprombank's management becomes apparent not only through its sound financial strategy but also through the wisdom, which is expressed in the general policy of charity and sponsorship activities» 

Valery Gergiev,

Art Director of The Mariinsky Theatre

SOCIAL POSITION AND PUBLIC ROLE

CHARITY AND SPONSORSHIP

Attaching great importance to not only economic, but also spiritual revival of Russia, Gazprombank strives to play a visible role in the social life of the country. Every year the Bank allocates significant funds to finance socially important programmes and to support science, culture and sport in Russia.

In 2002 Gazprombank continued its tradition of many years' standing to provide aid and offer sponsorship to a number of programmes and projects of great social significance.

An important area of the Bank's philanthropic activities remains assistance to the Russian Orthodox Church in the restoration of churches buildings and monuments, publishing religious literature. The Bank provided considerable aid to the Saviour and Transfiguration Monastery on the Valaam Island. Under an Agreement on co-operation in the implementation of several research, cultural and educational programmes of the Russian Orthodox Church concluded between Gazprombank and the Moscow Patriarchate, increased attention was focused on publishing. The Bank supported publication and distribution through its branch network of a unique edition of the Bible for Children. The Bank also continued supporting the work on a multi-volume Orthodox Encyclopaedia carried out by the Russian Orthodox Church in co-operation with the Russian Academy of Science and under the patronage and editorship of His Holiness Alexiy II, Patriarch of Moscow and All Russia.

The Bank renders financial assistance to the museums of the Kremlin in establishing a modern information system. With the support of the Bank the famous Mariiinskiy Theatre gave a series of highly acclaimed performances on the stage of the Royal Opera Theatre «Covent Garden» in London.

Gazprombank sponsored publication of the complete works of renowned composer Georgiy Sviridov and the filming of Boris Eifman's ballets.

In 2002 Gazprombank became the General Sponsor of the World Cup and European Championship in Latino dances among professionals and of a World Championship in taekwondo.

The Bank provides regular aid to orphans, people who became handicapped in the result of Chernobyl nuclear disaster, veterans of war and labour, low-income families.

In 2003 Gazprombank intends to continue all major charity and sponsorship projects implementing them within the framework of an integrated programme. Aiming primarily at a spiritual and moral revival of Russia's society, this programme helps to create the Bank's image as of a civilised, transparent and socially responsible company.




PUBLIC ROLE

Gazprombank's public role is manifested in its active participation in various organisations and fora. Gazprombank was actively involved in discussing principles of corporate governance having made public its principal ideas on this issue as well as on the questions of ethics, at the fora of Russia's largest banking community organisation – the Association of Russian Banks.

Reform of the banking sector in Russia also receives a great deal of attention of Gazprombank's management and employees. The Bank's representatives express their ideas and proposals on vital aspects of improving Russia's banking legislation, actively cooperate with the Banking Committee of the State Duma.

Issues related to the development of Russia's banking sector and its consistent integration into the international financial community are the subject of regular discussions at the fora of the European Business Congress in which Gazprombank is a constant and active participant. We are convinced that the use of the best experience of our foreign partners will facilitate speedy adoption of international banking standards and practices in Russia, and will help to avoid many mistakes on this difficult path.

**CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2002**

«High level of non-interest income on Gazprombank's income statement contributes to its stability and also helps to decrease the volatility of earnings during a business slow-down» 

Moody's Investors Service, August 2002

Deloitte & Touche Regional
Consulting Services Limited
Business Center «Mokhovaya»
4/7 Vozdvizhenka St., Bldg. 2
Moscow 125009 Russia

Tel: 7 (095) 787 0600
Fax: 7 (095) 787 0600
www.deloitte.ru

**Deloitte
& Touche**

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheet of the Joint Stock Bank Gazprombank and its subsidiaries and associates (the «Group») as at 31 December 2002 and the related consolidated statements of profit and loss account, cash flows and shareholders' funds 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. The consolidated financial statements as of 31 December 2001 and the year then ended were audited by another auditor whose report dated 13 May 2002 expressed an unqualified opinion with regard to these financial statements.

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

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

25 April 2003

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001 (thousands of U.S. Dollars)

	Notes	2002	2001
Interest income		261,778	234,764
Interest income		(153,187)	(142,168)
Net interest income	4	108,591	92,596
Provision for losses		(35,799)	(103,969)
Net interest income after provision for losses	5	72,792	(11,373)
Dealing profits, net	6	58,622	83,669
Fees and commissions income	7	51,845	33,665
Foreign exchange gains, net		49,619	59,831
Translation gains, net		29,979	15,164
Dividend income	8	11,273	2,834
Other operating income		4,605	1,041
Non interest income		205,943	196,204
Salaries and employment benefits	9	(77,417)	(66,100)
Administrative expenses	9	(44,875)	(35,778)
Depreciation and amortization	16	(9,084)	(8,068)
Fees and commissions expense	7	(3,552)	(2,092)
Other recoveries/(provisions)	5	6,132	(1,820)
Non interest expense		(128,796)	(113,858)
Profit from operations		149,939	70,973
Income from associate	15	8,488	9,039
Profit before tax		158,427	80,012
Profit tax (expense)/benefit	10	(42,336)	795
Net profit		116,091	80,807

Signed on behalf of the Board of Management:

Andrey I. Akimov
Chairman of the Board

Alexander I. Sobol
Deputy Chairman of the Board

25 April 2003

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

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

CONSOLIDATED BALANCE SHEETS 31 DECEMBER 2002 AND 2001 (thousands of U.S. Dollars)

	Notes	2002	2001
Assets			
Cash and due from the Central Bank			
of the Russian Federation	11	512,604	452,871
Due from credit institutions, net	12	1,076,840	1,278,026
Trading securities	13	810,074	255,322
Loans to customers, net	14	2,369,913	1,681,330
Investments in unconsolidated subsidiaries			
and associates, net	15	87,497	72,754
Property, equipment and intangibles, net	16	49,220	43,801
Other assets, net	17	31,201	26,867
Total assets		4,937,349	3,810,971
Liabilities			
Amounts owed to credit institutions	18	355,426	241,895
Amounts owed to customers	19	2,590,121	2,086,103
Certificated debt	20	730,777	513,928
Eurobonds issued	20	339,523	173,375
Deferred tax liabilities	10	72,030	57,276
Provisions for other risks	28	7,396	9,254
Other liabilities	21	8,994	15,168
Total liabilities		4,104,267	3,096,999
Shareholders' funds			
Share capital	22	907,057	907,057
Treasury stock	22	(10,112)	(9,321)
Foreign currency translation reserve	15	(1,421)	(10,282)
Accumulated deficit	23	(62,442)	(173,482)
Total shareholders' funds		833,082	713,972
Total liabilities and shareholders' funds		4,937,349	3,810,971
Financial commitments and contingencies	28	814,224	774,123

Signed on behalf of the Board of Management:

Andrey I. Akimov
Chairman of the Board

Alexander I. Sobol
Deputy Chairman of the Board

25 April 2003

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

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' FUNDS FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001 (thousands of U.S. Dollars)

	Share capital	Foreign currency	Treasury stock	Accumulated deficit	Shareholders' funds
1 January 2001 (as reported)	872,901	(8,475)	–	(217,117)	647,309
Correction of error (Note 2)	34,156	–	–	(34,156)	–
1 January 2001 (as restated)	907,057	(8,475)	–	(251,273)	647,309
Net profit	–	–	–	80,807	80,807
Treasury stock purchased	–	–	(9,321)	–	(9,321)
Foreign exchange difference from translation of foreign associate	–	(1,807)	–	–	(1,807)
Dividends paid	–	–	–	(3,016)	(3,016)
31 December 2001	907,057	(10,282)	(9,321)	(173,482)	713,972
Net profit	–	–	–	116,091	116,091
Treasury stock purchased	–	–	(791)	–	(791)
Foreign exchange difference from translation of foreign associate	–	8,861	–	–	8,861
Dividends paid	–	–	–	(5,051)	(5,051)
31 December 2002	907,057	(1,421)	(10,112)	(62,442)	833,082

The Foreign currency translation reserve as of 31 December 2002 has been shown net of deferred tax of USD 449 thousand (2001 – USD 3,248 thousand).

Signed on behalf of the Board of Management:

Andrey I. Akimov
Chairman of the Board

Alexander I. Sobol
Deputy Chairman of the Board

25 April 2003

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

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

CONSOLIDATED CASH FLOW STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001 (thousands of U.S. Dollars)

	Notes	2002	2001
Cash flows from operating activities			
Interest received		260,136	175,235
Fees and commissions received		51,845	33,665
Interest paid		(107,054)	(125,648)
Fees and commissions paid		(3,552)	(2,092)
Dealing profits		8,809	46,426
Foreign exchange gains		49,619	59,831
Other operating income		4,605	1,041
Salaries and employment benefits		(77,417)	(66,100)
Administrative expenses		(44,875)	(35,778)
<i>Cash flows from operating profits before changes in operating assets and liabilities</i>		142,116	86,580
(Increase) decrease in operating assets			
Obligatory reserve with the Central Bank of the Russian Federation		(47,484)	(10,563)
Due from credit institutions		185,439	(276,519)
Trading securities		(504,689)	65,983
Derivative financial assets		6,865	(4,529)
Loans to customers		(726,459)	(329,176)
Bullion		(281)	(481)
Other assets		662	3,262
Increase (decrease) in operating liabilities			
Amounts owed to credit institutions		114,298	(190,164)
Derivative financial liabilities		8,916	5,270
Amounts owed to customers		514,551	775,992
Other liabilities		1,505	2,383
<i>Net cash flows from operating activities before profit taxes</i>		(304,561)	121,514
Profit taxes paid		(41,415)	(19,003)
Net cash flows from operating activities		(345,976)	102,511
Cash flows from investing activities			
Investments in unconsolidated subsidiaries and associates purchased		(230)	(4,333)
Investments in unconsolidated subsidiaries and associates sold		9,021	—
Available-for-sale securities purchased		(168)	(1,154)
Property, plant and intangibles purchased		(22,402)	(8,386)
Property, plant and intangibles sold		8,659	—
Dividends received — affiliated undertakings		11,273	2,834
Net cash flows from investing activities		6,153	(11,039)
Cash flows from financing activities			
Treasury stock purchased		(791)	(9,321)
Certificated debts and Eurobonds issued		331,852	221,723
Dividends paid		(5,051)	(3,016)
Net cash flows from financing activities		326,010	209,386
Change in cash and cash equivalents		(13,813)	300,858
Cash and cash equivalents, beginning of the period		1,025,279	724,421
Cash and cash equivalents, end of the period	25	1,011,466	1,025,279

Signed on behalf of the Board of Management:

Andrey I. Akimov
Chairman of the Board

Alexander I. Sobol
Deputy Chairman of the Board

25 April 2003

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

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2002

(thousands of U.S. Dollars)

NOTE 1 – PRINCIPAL ACTIVITIES AND ORGANIZATION

a) Activities and organization

The Gazprombank Group (the «Group») primarily consists of the parent company, Gazprombank (the «Bank»), and its wholly owned subsidiaries Novfintech, Gazcardservice and GazInvest Finance B.V.

A description of the operations of each of these companies follows:

- Gazprombank was established as a limited liability partnership in 1990. In November 2001 the Bank changed its legal form from a limited liability partnership to a closed joint stock company. The Bank possesses a general banking license and a license for operations with precious metals from the Central Bank of the Russian Federation, and licenses for securities operations and custody services from the Federal Stock Market Commission.
- The Bank primarily services gas industry clients in the Russian Federation, with its main activities including deposit taking, lending, and operations with securities and foreign exchange. As of 31 December 2002, these functions were carried out by Head office located in Moscow and through 31 branches, all located in the Russian Federation. The Bank is the third largest bank in the Russian Federation in terms of total assets calculated under the local accounting rules (source: Interfax Information Agency). The Bank's legal address is: Nametkina Str., 16, Bld.I, Moscow, 117420, Russian Federation.
- Novfintech and Gazcardservice are incorporated and operate in the Russian Federation. Both companies were established as limited liability companies in 1999. The main activity of Novfintech is securities operations. Gazcardservice primarily engaged in debit and credit card transaction processing and securities operations.
- GazInvest Finance B.V. was established as a limited liability company in 2000 and is incorporated in the Netherlands. The entity was founded to issue eurobonds to finance the Group's activity.

The Group had an average of 3,285 employees during the year 2002 and 3,618 employees at the end of 2002 (2001 – an average of 3,000 employees).

b) Economic dependence

As of 31 December 2002, OAO «Gazprom» owned directly or through its' subsidiaries 97.83% of the outstanding shares of the Group. The majority of the Group's funding is from, and credit exposures are to the OAO «Gazprom» Group. As such the Group is economically dependent on the OAO «Gazprom» Group. Some major activities of the Group are linked with the requirements of the OAO «Gazprom» Group and determination of pricing of transactions with the OAO «Gazprom» Group is undertaken in conjunction with other OAO «Gazprom» Group companies. See also Note 27.

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

NOTE 2 – BASIS OF PRESENTATION

a) General

The consolidated financial statements have been prepared in accordance with International Accounting Standards (IAS) and are presented in thousands of U.S. Dollars.

The Bank, Gazcardservice and Novfintech maintain their books of account and prepare statements for regulatory purposes in accordance with Russian accounting and banking legislation and instructions (RAL). GazInvest Finance B.V. maintains its accounting records in accordance with legislation of the Netherlands and is considered to be a foreign operation that is integral to the operations of the Bank. The accompanying consolidated financial statements are based on the statutory records, which are maintained under the historical cost convention as modified by the revaluation of property and equipment and the mark-to-market adjustment of trading portfolio of securities as defined by RAL. At each reporting date all Group members make appropriate adjustments and reclassifications to their unconsolidated statutory financial statements for the purpose of fair presentation in accordance with International Accounting Standards issued by the International Accounting Standards Board. The accompanying consolidated financial statements have been prepared based on those financial statements.

The preparation of financial statements in conformity with IAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

b) Changes in presentation

Certain changes in presentation have been made in these financial statements compared to the Group's financial statements as of 31 December 2001. The changes in presentation do not result from changes in significant accounting policies and are viewed to provide more details and better understanding for users. As a result, respective reclassifications were made to the 2001 figures to achieve conformity and comparability in presentation.

The major changes in presentation of financial statements as of 31 December 2001 are:

Amount	Financial caption per previous presentation	Financial caption per current presentation	Comment
26,538	Dealing profits	Interest income	Coupon interest received and accrued and discount accretion on debt securities
1,221	Foreign exchange gains and losses	Dealing profits	Net income from derivative financial instruments
50,547	Fees and commissions received	Foreign exchange gains	Realized foreign exchange gains
15,164	Foreign exchange gains and losses	Translation gains, net	Unrealized foreign exchange gains
9,236	Placements with banks	Other assets	Receivables under unmaturing derivative contracts
9,215	Deposits and balances from banks	Other liabilities	Payables under unmaturing derivative contracts

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

Also, «Cash and cash equivalents» include cash, current account with the Central Bank of the Russian Federation and due from credit institutions with maturity of three months or less when originated. Previously cash and cash equivalents included trading receivables under unmatured deliverable forward contracts. Also, due from credit institutions was limited by amounts with an original maturity of one month or less.

Furthermore, in 2002 the Group adopted the direct method of reporting cash flows from operating activities. As a result presentation of the cash flow statement for 2001 was changed.

c) Correction of error

The presented consolidated financial statements include the restatement of the opening amounts of Shareholders' funds, Provisions for losses, Investments in unconsolidated subsidiaries and associates as of 31 December 2000 due to discovery of a material fundamental error. The error has occurred as a result of misinterpretation of facts, which led to offsetting of the amount of contribution to the Group's share capital made by one of the shareholders against assets, which were contributed by it. For changes resulting from correction of the error see Notes 5, 15 and 22.

d) Measurement and presentation currency

The currency of the Russian Federation, which is the country in which the Bank is domiciled, is the Russian Ruble. However, the U.S. Dollar is used to a significant extent and has a significant impact on the operations of the Group. The majority of the Group's assets and liabilities and operations are denominated in U.S. Dollars. As a result, the Group's management has determined that the U.S. Dollar is to be used as the measurement and presentation currency of the financial statements prepared in accordance with the International Accounting Standards.

e) Reconciliation of equity and profit between Statutory Accounting Legislation and IAS

Shareholders' equity and profit are reconciled between Statutory Accounting Legislation and IAS as follows:

	2002		2001	
	Equity	Profit	Equity	Profit
Statutory Accounting Legislation	679,955	127,073	541,735	36,612
Effect of accrued interest, net	148,683	(11,312)	159,995	36,659
Translation gains (losses)	34,586	(7,568)	99,202	25,322
Provisions for losses	(32,832)	9,761	(42,593)	(43,874)
Correction of error	(34,156)	–	(34,156)	–
Mark-to-market of securities to fair value	65,190	35,737	29,453	18,730
Deferred taxes	(72,479)	(11,945)	(60,534)	20,315
Current taxation	10,826	(27,140)	–	(19,530)
Expenses recorded to funds	–	(3,540)	–	(2,365)
Income from associates	47,811	8,488	39,323	9,039
Depreciation	(1,694)	(1,694)	–	–
Treasury stock	(10,112)	–	(9,321)	–
Foreign currency translation reserve	(1,421)	–	(10,282)	–
Other, net	(1,275)	(1,769)	1,150	(101)
International Accounting Standards	833,082	116,091	713,972	80,807

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

NOTE 3 – PRINCIPAL ACCOUNTING POLICIES

a) Principles of consolidation and accounting for associates

The consolidated financial statements of the Group include the Bank and the companies that it controls (subsidiaries). This control is normally evidenced when the Group owns, either directly or indirectly, more than 50 % of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The purchase method of accounting is used for acquired businesses. Companies acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or to the date of disposal.

Investments in associated companies (generally investments of between 20 % to 50 % in a company's equity) where the Group exercises a significant influence are accounted for by using the equity method. When the investee incurs losses the Group recognizes its share of losses until the carrying amount of the investment is reduced to nil. Recognition of further losses is discontinued.

Intercompany balances and transactions, including intercompany profits and losses, are eliminated. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

b) Foreign currency translation

Income and expenses, and non-monetary items included in the balance sheet at period end, denominated in currencies other than the presentation currency, are recorded by applying the exchange rate prevailing on the date of the transaction. Exchange differences resulting from a change in the prevailing exchange rate between the transaction date and the date of settlement are recognized in the profit and loss account as translation gains or losses. Differences between the contractual exchange rate and the prevailing exchange rate on the date of the transaction settlement represent a dealing income or loss and are recognized as foreign exchange gain or loss.

Non U.S. Dollar denominated monetary items included in the period end balance sheet of the Group are translated at the exchange rate prevailing at the period end.

Exchange differences arising from the translation from the Hungarian Forint to the U.S. Dollar of the investment in Altalanos Ertekforgalmi Bank (the «AEB»), whose operations are not considered integral to the operations of the Group, are included directly in equity in the «Foreign currency translation reserve».

Non U.S. Dollar share capital/charter fund contributions have been included in the financial statements at the exchange rate prevailing on the date of contribution.

c) Income and expense recognition

Interest income and expense are recognized on an accrual basis. Commissions and other income are credited to income when the related transactions are completed. Non-interest expenses are recognized at the time the transaction occurs.

Materials and supplies are expensed in full to the profit and loss account on purchase date. Prior to 2002 materials and supplies were expensed on commencement of active use. Management believes that the change in the accounting policy will result in a more appropriate presentation. The change is applied prospectively since adjustments to prior periods are not reasonably determinable. Amounts of materials are not significant.

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

d) Recognition and derecognition of financial instruments

The Group recognizes financial assets held for trading and available-for-sale assets on the date it commits to purchase the assets. Held-to-maturity instruments and originated loans and receivables are recognized on the day they are transferred to or originated by the Group.

A financial asset is derecognized when the Group loses control over contractual rights that comprise that asset. This occurs when the rights are realized, expire or are surrendered. A financial liability is derecognized when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as of the date the Group non-recourse commits to sell the asset. Held-to-maturity instruments and originated loans and receivables are derecognized on the day they are transferred by the Group.

e) Due from credit institutions

In the normal course of business, the Group lends or deposits funds for various periods with other credit institutions. Such amounts are categorized as loans originated by the Group and are carried at amortized cost. As these placements of funds are typically unsecured extensions of credit, some of the assets may be impaired. The principles used to create provision for loan impairment on amounts due from credit institutions are the same as for loans to customers (see below).

f) Trading and available-for-sale securities

The Group classified its securities into the following two categories:

- Securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or included in a portfolio in which a pattern of short-term profit-taking exists are classified as trading securities,
- Securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale.

The classification of investments is determined by management at the time of the purchase. All securities are initially recognized at cost (including transaction costs), which is the fair value of the consideration given for them. Subsequently trading and available-for-sale securities are measured as follows:

- Trading securities are subsequently measured at fair value based on quoted bid prices. All related realized and unrealized gains and losses are included in dealing profit.
- Available-for-sale investment securities are subsequently measured at fair value based on quoted bid prices or present value of future cash flows. Unrealized gains and losses arising from changes in the fair value of available-for-sale securities are recognized as profit or loss from investment securities in the profit and loss account.

Interest earned while holding trading and available-for-sale securities is reported as interest income. Dividends receivable are included in dividend income when a dividend is declared.

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention («regular way» purchases and sales) are recognized 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.

g) Repurchase and reverse repurchase agreements

The Group as an element of its treasury management and trading business utilizes repurchase and reverse repurchase agreements. Repurchase agreements («repos») are accounted for as financing transactions. As such, the related securities are recorded in the Group's accounts and the related payable is included as an amount due to credit institutions or customers, respectively. Any related expense arising from the pricing spreads for the underlying securities is recognized as interest expense and accrued over the period that the related transactions are open using the effective yield method. Securities lent to counter-parties are also included in the financial statements.

Reverse repurchase agreements («reverse repos») are accounted for as loans and advances to banks or customers, respectively. Securities borrowed are not recognized in the financial statements. Any related income arising from the pricing spreads for the underlying securities is recognized as interest income over the period that the related transactions are open using the effective yield method.

h) Derivatives

The Group enters into derivative financial instruments for trading purposes. Derivatives are initially recognized at cost (including transaction costs), which approximates the fair value of the consideration given for them, and subsequently are measured at their fair value. Fair values are obtained from quoted market prices (if available) and discounted cash flow models. Since at present there is a very limited market for derivatives in the Russian Federation, the fair value of the foreign currency derivative position is calculated based on the exchange rate effective as of the reporting date.

Changes in the fair value of derivatives are included in net dealing profit.

i) Loans to customers

Loans granted by the Group by providing money directly to the borrower are categorized as loans originated by the Group. They are initially recognized at cost which is the fair value of the consideration given and are subsequently measured at amortized cost. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction. All loans and advances are recognized when cash is advanced to borrowers.

A credit risk allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at inception.

The loan loss allowance 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 allocated to borrowers and reflecting the current economic conditions in which the borrowers operate. When a loss is uncollectable, it is written off against the related allowance for impairment. Subsequent recoveries are credited to the provision for loan losses expense in the profit and loss account.

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

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

j) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

k) 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, as described in accounting policies for the financial instruments that are carried at fair value as prescribed by IAS 39. However, judgment is necessarily required to interpret market data to determine the estimated fair value. As described in more detail in Note 28(f), the Russian Federation has signs of an emerging market and has relatively small 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 realized in the current circumstances.

Management considers that it is not possible to reliably estimate the fair value of loans and advances to banks and customers, term deposits and certificated debt, which are carried at amortized cost as prescribed by IAS 39. These instruments are not currently traded in the Russian financial markets, and an objective estimate of their fair value is not available. The instability of the interest rate and exchange rate environment significantly affects the fair value of these financial instruments. Because of these factors, Management does not believe that an objective basis for the fair value of loans and advances to customers, term deposits and certificated debt can be obtained with sufficient reliability to provide meaningful information to users.

l) Property, equipment and intangibles

Property, equipment and intangibles are recorded at historical cost, except for those carried at revalued amounts, less accumulated depreciation (amortization). Depreciation (amortization) is provided to write off the cost on a straight-line basis over the estimated useful economic life of the asset. The economic lives are as follows:

	Years
Buildings	50-100
Office equipment	3-14
Leasehold improvements	Over expected life of the lease
Software	3-10

Assets under construction are not depreciated. Depreciation of these assets will begin when the related assets are placed in service.

Repairs and maintenance are charged to the profit and loss account.

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

m) Operating leases

The Group enters into operating lease agreements as a lessee. The total payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

n) Amounts owed to credit institutions and to customers

Amounts owed to credit institutions and to customers are initially recognized at cost, which amount to the initiation/issue proceeds, less transaction costs incurred. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective yield method. If the Group purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of a liability and the consideration paid is included in net interest income.

o) Certificated debts

Certificated debts represent promissory notes, certificates of deposit and bonds issued by the Group to customers. They are accounted for according to the same principles used for amounts owed to credit institutions and customers.

p) Dividends and treasury stock

Dividends on ordinary shares are recognized in equity in the period in which they are declared. Dividends for the year, which are declared after the balance sheet date, are treated as a subsequent event under IAS 10 «Events after the balance sheet date».

Where the Bank or its subsidiaries purchase the Bank's share capital or obtain rights to purchase its share capital, the consideration paid is shown as a deduction from total shareholders' equity.

q) Provisions

Provisions are recognized 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.

r) Taxation

The taxation charge is calculated in accordance with the regulations of the Russian Federation and other jurisdictions in which the Bank has offices and branches or where its' subsidiaries are located and is based on the results reported in the profit and loss accounts of the Bank and its subsidiaries prepared under RAL or other statutory legislation after adjustments for tax purposes. Deferred taxes are provided on temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

The Russian Federation also has various operating taxes, which are assessed on the Group's activities. These taxes are included as a component of administrative expenses in the profit and loss account.

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

s) *Cash and cash equivalents*

The Group considers cash, current account with the Central Bank of the Russian Federation and due from credit institutions with maturity of three months or less when originated to be cash equivalents.

NOTE 4 – NET INTEREST INCOME

Net interest income comprises:

	2002	2001
Interest income		
Loans to customers	190,269	172,539
Debt securities	36,447	26,538
Due from credit institutions	35,062	35,687
	261,778	234,764
Interest expense		
Amounts owed to customers	57,023	54,133
Certificated debts	50,928	60,783
Eurobonds	22,902	488
Amounts owed to credit institutions	22,334	26,764
	153,187	142,168
Net interest income	108,591	92,596

Interest income from debt securities includes coupon interest received and accrued and discount accretion.

NOTE 5 – PROVISIONS FOR LOSSES

Provisions for losses in the profit and loss account represent the charge required in the current year to establish total allowance for losses carried forward in accordance with IAS.

The movement in the allowances for interest earning assets during 2002 and 2001 was:

	Loans to banks	Loans to customers	Total allowances
1 January 2001 (as reported)	4,679	48,487	53,166
Correction of error (Note 2)	10,526	1,133	11,659
1 January 2001 (as restated)	15,205	49,620	64,825
Provisions charged to profit	19,841	84,128	103,969
31 December 2001	35,046	133,748	168,794
(Recoveries)/provisions charged to profit	(14,808)	50,607	35,799
Amounts written off	–	(6,149)	(6,149)
31 December 2002	20,238	178,206	198,444

In accordance with the statutory legislation, loans may only be written off with the approval of the Shareholders' Council and, in certain cases, with the respective decision of the Court.

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

The movement in other allowances and provisions for other risks during 2002 and 2001 was:

	Investments in unconsolidated subsidiaries and associates	Available- for-sale securities	Other assets	Other risks	Total allowances
1 January 2001 (as reported)	9,600	–	6,249	7,927	23,776
Correction of error (Note 2)	17,075	–	–	–	17,075
1 January 2001 (as restated)	26,675	–	6,249	7,927	40,851
Provisions/(recoveries) charged to profit	1,069	78	(654)	1,327	1,820
Amounts written off	–	–	(4,707)	–	(4,707)
31 December 2001	27,744	78	888	9,254	37,964
(Recoveries)/provisions charged to profit	(5,601)	1,142	185	(1,858)	(6,132)
31 December 2002	22,143	1,220	1,073	7,396	31,832

Allowances for losses are deducted from the related assets. Provisions for other risks are recorded in liabilities (see Note 28).

NOTE 6 – DEALING PROFITS

Net dealing profits comprise:

	2002			2001		
	Fair value adjustment	Sale and redemption	Total	Fair value adjustment	Sale and redemption	Total
Trading securities	47,719	7,834	55,553	37,233	44,296	81,529
Derivative financial instruments	2,072	(64)	2,008	21	1,200	1,221
Bullion	22	1,039	1,061	(11)	930	919
Dealing profit, net	49,813	8,809	58,622	37,243	46,426	83,669

NOTE 7 – FEES AND COMMISSIONS INCOME AND EXPENSE

Fees and commissions income comprises:

	2002	2001
Settlements operations	29,572	16,219
Cash operations	11,626	8,217
Securities operations	8,298	7,298
Guarantees issued	938	1,683
Other	1,411	248
Fees and commissions income	51,845	33,665

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

Fees and commissions expense comprises:

	2002	2001
Settlements operations	2,256	1,316
Cash operations	322	251
Other	974	525
Fees and commissions expense	3,552	2,092

NOTE 8 – DIVIDEND INCOME

Included in dividend is USD 7,602 thousand that relates to one-off dividend payment upon liquidation in April 2002 of a company, in which the Group had an equity participation.

NOTE 9 – SALARIES AND ADMINISTRATIVE EXPENSES

Salaries and administrative expenses comprise:

	2002	2001
Salaries	67,200	57,051
Social security costs	10,062	9,049
Other	155	–
Salaries and employment benefits	77,417	66,100
Occupancy	14,424	10,103
Operating taxes	11,297	11,078
Rental expenses	7,659	7,415
Business development	4,517	963
Communications	3,767	3,397
Professional services	1,407	2,457
Other	1,804	365
Administrative expenses	44,875	35,778

The Group does not have pension arrangements separate from the State pension system of the Russian Federation. The Russian Federation system requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense, included in social security costs, is charged to the profit and loss account in the period the related compensation is earned by an employee.

NOTE 10 – PROFIT TAX

Provision for profit taxes comprises:

	2002	2001
Current tax charge	30,381	19,530
Deferred taxation:		
– Origination and reversal of timing differences	11,955	15,399
– Effect of reduction in tax rate	–	(35,724)
Profit tax expense/(benefit)	42,336	(795)

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

Russian legal entities must individually report taxable income and remit profit taxes thereon to the appropriate authorities. Beginning 1 January 2002, the combined statutory profit tax rate for the Bank decreased to 24 % from 43 %. More specifically, the tax rate for profits other than on state securities in 2002 was 7.5 % for federal taxes and 16.5 % for regional and city taxes. The tax rate for interest income on state securities was 15 % for federal taxes.

Also, beginning 1 January 2002 profit tax for Russian banks is calculated based on accrued incomes and expenses. Prior to 2002, profit tax was assessed based on cash incomes and expenses. The majority of the Group's profit tax is paid by the Bank.

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

	2002	2001
Profit (loss) before taxation	158,427	80,012
Statutory tax rate	24%	43%
Theoretical profit tax charge at statutory rate	38,022	34,405
Income taxed at different rates	(1,227)	(1,455)
Tax concession of subsidiary	(2,632)	–
Tax exempt income	(77,574)	(23,537)
Non-deductible expenditures	85,600	29,819
Profit of subsidiaries taxed at different rates	–	(3,835)
Effect of change in tax rates	–	(35,724)
Other permanent differences	147	(468)
Profit tax provision	42,336	(795)

As of 31 December 2002 and 2001, the Group's net deferred profit tax liability was USD 72,030 thousand and USD 57,276 thousand, respectively. Deferred tax liabilities are the amounts of profit taxes payable in future periods in respect of taxable temporary differences. The following represents an analysis of the deferred tax balance sheet position as of 31 December 2002 and 2001, respectively.

	2002	2001
Tax effect of deductible temporary differences		
Provision for losses	15,029	16,078
Effect of translation of the Group's share of AEB net assets into USD	449	3,248
Interest accrued	–	10,124
Other	1,639	1
Deferred tax asset	17,117	29,451
Tax effect of taxable temporary differences		
Interest capitalized and accrued	45,546	48,523
Adjustment of securities to fair value	15,836	12,041
Income from associate	11,475	11,086
Foreign currency translation effect	8,081	15,077
Provision for losses	7,150	–
Other	1,059	–
Deferred tax liability	89,147	86,727
Net deferred tax liability	72,030	57,276

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

Deferred tax asset arising from translation of the Group's share of net assets of AEB from the Hungarian Forint to the US Dollar is recorded directly to equity as part of Foreign exchange translation reserve.

A reconciliation of changes in the balance sheet deferred tax position during 2002 follows:

Deferred tax liability as of 31 December 2001	57,276
Deferred tax charged to the Profit and loss account	11,955
Change in deferred tax recorded directly to equity	2,799
Deferred tax liability as of 31 December 2002	72,030

As of 31 December 2002 tax assets consist of current profit tax asset of USD 11,034 thousand (2001 – nil). Current tax asset arises from over-payment of profit tax by the Bank due to the statutory advance tax payments system and is usually realized either by off-setting with the Bank's profit tax liabilities in subsequent periods, or by repayment from tax authorities.

The Russian Federation currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, profit tax, a number of turnover based taxes, social tax, and other taxes. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations (like the Ministry of Taxes and Levies and its various inspectorates); thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in the Russian Federation substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Group is in substantial compliance with the tax laws affecting its operations.

NOTE 11 – CASH AND DUE FROM THE CENTRAL BANK OF THE RUSSIAN FEDERATION

Cash and due from the Central Bank of the Russian Federation comprise:

	2002	2001
Cash on hand	61,064	42,130
Current accounts	232,674	239,359
Obligatory reserve	218,866	171,382
Cash and due from the Central Bank of the Russian Federation	512,604	452,871

The Central Bank of the Russian Federation requires credit institutions to maintain non-interest earning cash deposit (obligatory reserve) with the Central Bank of the Russian Federation, the amount of which depends on the level of funds attracted by a credit institution. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation.

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

NOTE 12 — DUE FROM CREDIT INSTITUTIONS

Due from credit institutions comprise:

	2002	2001
Current accounts	622,690	503,270
Time deposits	474,388	809,802
	1,097,078	1,313,072
Less – Allowances for loan losses	(20,238)	(35,046)
Due from credit institutions, net	1,076,840	1,278,026

As of 31 December 2002, 34 % (USD 367,338 thousand) of the gross amount of due from credit institutions relates to placements with Deutsche Bank AG (Germany) and Commerzbank AG (Germany). As of 31 December 2001, 48 % related to placements with Deutsche Bank AG (Germany) and Dresdner Bank (Germany).

Amounts due from AEB (Hungary) constituted 21 % (USD 225,240 thousand) of the gross amount due from credit institutions (2001 – 20 % or USD 260,509 thousand). Included in this amount is a USD 60,000 thousand non-convertible subordinated loan to AEB, which bears one-year LIBOR interest. The above loan has been established by the Group to AEB in December 1997 with maturity in December 2007.

Additionally, the Group has pledged USD 78,198 thousand of placements with Deutsche Bank AG and AEB as collateral for syndicated loans received by OAO «Gazprom» (2001 – USD 58,583 thousand). Same amounts are blocked as collateral on escrow accounts of OAO «Gazprom» (see Note 19).

As of 31 December 2002 the Bank had USD 239,203 thousand placed on time deposits with foreign banks that represent amounts transferred under letters of credit opened with the Bank (2001 – USD 427,935 thousand). These placements are covered by USD 270,330 thousand of customer funds blocked on their time deposit accounts (2001 – USD 454,756 thousand) (see Note 19).

NOTE 13 — TRADING SECURITIES

Trading securities comprise:

	2002		2001	
	Normal value	Carrying value	Normal value	Carrying value
Corporate shares	61,277	288,243	39,617	123,377
Promissory notes	288,271	268,993	52,068	48,140
Russian eurobonds	145,077	145,911	72,066	60,724
Corporate bonds	73,320	72,641	–	–
Vnesheconombank bonds	36,192	29,089	29,085	20,201
State bonds (OFZ)	2,586	2,542	3,025	2,880
Moscow government bonds	1,521	1,553	–	–
Moscow government eurobonds	1,042	1,102	–	–
	609,286	810,074	195,861	255,322

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

USD 288,185 thousand of corporate shares represent OAO «Gazprom» ordinary shares. The Group has written obligation to sell USD 61,714 thousand OAO «Gazprom» ordinary shares in June 2003 to a third party.

Promissory notes are mainly represented by short-term notes issued by members of OAO «Gazprom» Group (USD 260,956 thousand). The rest of the portfolio is represented by marketable promissory notes of Russian «blue-chip» companies.

Russian eurobonds are securities issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. The Group's portfolio of Russian eurobonds consists of 8 tranches with maturity dates ranging from 2003 to 2030. The annual coupon rates on these bonds range from 5 % to 12.75 % and interest is paid semi-annually.

Corporate bonds consist of USD 35,426 thousand of OAO «Gazprom» Ruble and foreign currency denominated bonds. The remaining balance comprises corporate bonds of Russian «blue-chip» telecommunication, energy and metallurgical enterprises.

Vnesheconombank (VEB) bonds are U.S. Dollar denominated bearer securities, which carry the guarantee of the Ministry of Finance of the Russian Federation. The bonds are purchased at a discount to nominal value and carry an annual coupon of 3 %. The portfolio consists of 4 tranches with maturity dates ranging from 2003 to 2011.

OFZ bonds are Ruble denominated government securities issued and guaranteed by the Ministry of Finance of the Russian Federation. OFZ bonds are issued at a discount to face value and have a medium to long-term maturity periods with a coupon rate of approximately 10-15 % depending on the type of bond issue.

Trading securities are measured at fair value based on quoted bid prices. It should be noted that because of the relative illiquidity in the Russian securities markets, the reliability of market quotations used in valuing the Group's securities may not be reflective of their fair value in an exchange between a willing buyer and a willing seller due to the Group's volume of holdings.

NOTE 14 – LOANS TO CUSTOMERS

Loans to customers are made within the Russian Federation and abroad and comprise:

	2002	2001
Gas extraction, transportation and trading enterprises	1,337,629	1,309,360
Manufacturing	405,147	143,578
Trading enterprises	261,640	41,339
Oil enterprises	226,662	11,974
Real estate construction	108,717	101,465
Individuals	71,975	60,210
Precious metals mining	48,630	20,848
Other	87,719	126,304
	2,548,119	1,815,078
Less – Allowances for loan losses	(178,206)	(133,748)
Loans to customers, net	2,369,913	1,681,330

The Group has a significant concentration of loans extended to OAO «Gazprom» Group. As of 31 December 2002, loans to OAO «Gazprom» Group accounted for 69 % (USD 1,762,812 thousand) of the total loan portfolio (2001 – 66 % or USD 1,189,903 thousand).

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

One loan to Europol Gaz SA, an OAO «Gazprom» Group company, represented 34 % (USD 860,430 thousand) (2001 – 49 % or USD 893,786 thousand) of the gross loans to customers balance as of 31 December 2002. Europol Gaz SA is a joint-stock company incorporated in Poland and established for the purpose of constructing and further operating of gas pipelines from Belarus through Poland to Western Europe. Construction began in 1997 and the first pipeline was completed at the end of 1999, allowing gas deliveries to commence to Europe. Construction of the remaining pipeline is scheduled to be completed in 2005. Europol Gaz SA will retain ownership of the pipelines and repay the loan from transport fees it charges for gas shipment via the pipelines. First principal and interest repayments of the Group's loan exposure on Europol Gaz SA began in February 2002.

The Group's loan portfolio has been extended to the following types of enterprises:

	2002	2001
Private companies	565,302	540,012
State controlled companies	1,910,842	1,214,856
Individuals	71,975	60,210
Loans to customers	2,548,119	1,815,078

NOTE 15 – INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND ASSOCIATES

Investments in unconsolidated subsidiaries and associates consist of the following investments:

	2002	2001
Unconsolidated subsidiaries	9,066	8,865
Associates	100,574	91,633
	109,640	100,498
Less – Allowances for impairment	(22,143)	(27,744)
Investments in unconsolidated subsidiaries and associates, net	87,497	72,754

As of 31 December 2002, the Group has investments in the following unconsolidated subsidiaries:

Name	Principal activity	Country	Group's holding, %	Cost of investment
Sibirgazbank	Banking	Russia	60%	5,852
Raschetno-Depositarnaya Kompanya	Clearing & Custody	Russia	56%	1,249
Sochigazprombank	Banking	Russia	85%	822
Volgobait Regionalnaya Investitsionnaya Kompanya	Information Technology	Russia	94%	613
Commerz Investments	Securities Trading	Russia	98%	162
Exsor-2000	Securities Trading	Russia	100%	151
Gaztechleasing	Catering	Russia	100%	106
Tulagiprokhim	Leasing	Russia	100%	92
Kompanya Risk-Management Consulting	Chemical	Russia	50%	9
Energoinvest-Finance	Consulting	Russia	75%	6
Just M	Real Estate	Russia	100%	4
	Securities Trading	Russia	50%	0
				9,066

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

As of 31 December 2002, the Group has investments in the following associate:

Name	Principal activity	Country	Group's holding, %	Cost of investment
AEB	Banking	Hungary	26%	65,728
Sovfintrade	Banking	Russia	26%	17,075
Gazenergoprombank	Banking	Russia	23%	8,558
Belgazprombank	Banking	Belarus	34%	3,794
Severgazbank	Banking	Russia	21%	3,584
Evropeyskiy Eta & Co.	Banking	Russia	34%	1,525
	Information Technology	Russia	25%	150
Spetsialisirovanny Registrator Draga	Custody	Russia	20%	80
Energogazleasing	Leasing	Russia	50%	44
Sofrasi	Representative office	France	30%	21
Ecomet-S	Chemical	Russia	27%	9
Sibirskaya Investitsionnaya Kompanya	Securities Trading	Russia	50%	5
FinCom	Securities Trading	Russia	45%	1
Birzhevoy Complex	Securities Trading	Russia	40%	0
				100,574

Investments in Altalanos Ertekeforgalmi Bank («AEB»), a Hungarian privately owned commercial bank in which the Group owns 25.52 % of the common stock, was accounted for under the equity method. The Group's share of net assets of AEB as of 31 December 2002 was USD 65,728 thousand (2001 – USD 45,580 thousand). The Group's share of income of AEB for 12 months 2002 net of tax and intercompany profits and losses was USD 8,488 thousand (2001 – USD 9,039 thousand). This amount was disclosed in the consolidated profit and loss account of the Group as Income from associate. The foreign currency translation reserve in amount of USD 1,421 thousand (2001 – USD 10,282 thousand) arising from the translation of Hungarian Forints into U.S. Dollars has been shown net of deferred tax USD 449 thousand (2001 – USD 3,248 thousand).

The investments in unconsolidated subsidiaries and in associates other than AEB are accounted for using the cost method. The investments have not been consolidated with the results of the Group nor accounted for under the equity method, as the effect would not materially alter the financial position of the Group as of 31 December 2002 or the results of its operations or cash flows of the Group for the period then ended.

The equity instruments disclosed above (other than AEB) are carried at cost, because they do not have a quoted market price in an active market and other methods of reasonably estimating fair value are unworkable due to the absence of comparable quoted companies and the lack of reliable information for discounted cash flow analysis. It is also currently impossible to calculate the range of estimates within which fair value of the equity investments is highly likely to lie.

The recognition of investment in CJSB «Sovfintrade» on the balance sheet in 2002 and 2001 in the amount of USD 17,075 thousand relates to restatement of opening balances as of 31 December 2000 due to correction of a fundamental error (see Note 2).

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

NOTE 16 — PROPERTY, EQUIPMENT AND INTANGIBLES

The movements of property, equipment and intangibles during 2001 and 2002 were as follows:

	Land and buildings	Office equipment and leasehold improvement	Software	Assets under construction	Total
Cost of acquisition					
1 January 2001	18,588	23,672	3,682	4,541	50,483
Additions	722	11,174	1,209	3,202	16,307
Disposals	(1,145)	(182)	(30)	(6,780)	(8,137)
31 December 2001	18,165	34,664	4,861	963	58,653
Additions	2,377	11,745	549	7,731	22,402
Equipment booked under leasing agreements	—	7,898	—	—	7,898
Disposals	(138)	(4,307)	(166)	(4,048)	(8,659)
31 December 2002	20,404	50,000	5,244	4,646	80,294
Accumulated depreciation and amortization					
1 January 2001	387	5,369	1,244	—	7,000
Charge for the year	368	6,396	1,304	—	8,068
Disposals	(4)	(182)	(30)	—	(216)
31 December 2001	751	11,583	2,518	—	14,852
Charge for the year	307	8,222	555	—	9,084
Equipment booked under leasing agreements	—	7,898	—	—	7,898
Disposals	(4)	(730)	(26)	—	(760)
31 December 2002	1,054	26,973	3,047	—	31,074
Net book value					
31 December 2001	17,414	23,081	2,343	963	43,801
31 December 2002	19,350	23,027	2,197	4,646	49,220

USD 7,898 thousand of additions to office equipment and leasehold improvements and accumulated depreciation, respectively, relate to fully depreciated office equipment which was received by the Group after the expiration of leasing agreements and is still in use.

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

NOTE 17 — OTHER ASSETS

Other assets comprise:

	Note	2002	2001
Tax assets	10	11,034	–
Available-for-sale securities		5,178	2,795
Accrued income and deferred expenses		3,963	5,277
Derivative financial assets	24	2,371	9,236
Trade debtors and prepayments		2,147	1,192
Receivable arising from foreign exchange and bullion operations		2,083	–
Bullion in vault		784	481
Materials and supplies		–	3,043
Other		5,934	5,809
		33,494	27,833
Less – Allowance for impairment		(2,293)	(966)
Other assets, net		31,201	26,867

NOTE 18 — AMOUNTS OWED TO CREDIT INSTITUTIONS

Amounts owed to credit institutions comprise:

	2002	2001
Current accounts	148,271	98,307
Time deposits	207,155	143,588
Amounts owed to credit institutions	355,426	241,895

NOTE 19 — AMOUNTS OWED TO CUSTOMERS

Amounts owed to customers comprise:

	2002	2001
Current accounts	1,421,287	1,060,112
Time deposits	1,168,834	1,025,991
Amounts owed to customers	2,590,121	2,086,103

Current accounts and time deposits of OAO «Gazprom» Group composed 59 % (USD 1,259,708 thousand) of the Group's total amounts owed to customers (2001 – 67 % or USD 1,387,770 thousand).

The following represents amounts, which were blocked by the Group as collateral against the Bank's placements with Deutsche Bank AG and AEB related to syndicated loans received by OAO «Gazprom» («escrow accounts»); and as coverage under letters of credit opened with the Bank as of 31 December 2002 and 2001.

	2002	2001
Escrow accounts	78,390	59,814
Coverage under letters of credit	270,330	454,756
Blocked customer accounts	348,720	514,570

As of 31 December 2002 the Group had USD 308,052 thousand of subordinated deposits, which mature between 2005 and 2016 (2001 – USD 265,607 thousand).

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

NOTE 20 – CERTIFICATED DEBTS AND EUROBONDS ISSUED

Certificated debt and Eurobonds issued comprise:

	2002	2001
Promissory notes issued	698,241	493,623
Certificates of deposit issued	32,536	20,305
Eurobonds issued	339,523	173,375
	1,070,300	687,303

Eurobonds issued represent internationally traded Euro Medium Term Notes issued by the Group on 21 December 2001 and 4 October 2002 with the face value of Euro 200,000 thousand and Euro 150,000 thousand, respectively. The issues mature in December 2003 and October 2005, respectively.

NOTE 21 – OTHER LIABILITIES

Other liabilities comprise:

	Note	2002	2001
Operating taxes payable		2,916	2,081
Advances received		1,259	–
Accrued expenses		1,237	–
Payable to suppliers		1,141	1,695
Derivative financial liabilities	24	299	9,215
Other		2,142	2,177
Other liabilities		8,994	15,168

NOTE 22 – SHARE CAPITAL

The share capital of the Bank has been contributed by shareholders mainly in foreign currency. Shareholders are entitled to dividends and capital distributions in Rubles. The historical value adjustment of the share capital contributions as of 31 December 2002 and 2001 was as follows:

	2002	2001
Share capital in Rubles at period end rate	419,446	442,331
Translation adjustment to reflect historical value of capital contributed	487,611	464,726
	907,057	907,057

The authorized, issued and outstanding share capital comprised of 13,331,851 ordinary shares as of 31 December 2002 and 2001. All shares have par value of 1,000 Rubles. The holders of ordinary shares are entitled to receive dividends as annually declared and are entitled to one vote per share at annual and other general meetings of the Bank's shareholders.

As of 31 December 2002 the Group held 289,590 of its own shares (2001 – 264,750).

The opening balance of share capital as of 31 December 2000 has been increased by USD 34,156 thousand as a result of restatement due to correction of a fundamental error (see Note 2).

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

NOTE 23 — ACCUMULATED DEFICIT

Dividends payable by the Group are restricted to the maximum distributable reserves, which are determined by the amount of reserves as disclosed in the accounts of the Bank prepared in accordance with statutory legislation. As of 31 December 2002, the statutory accounts of the Bank disclosed distributable reserves of USD 104,042 thousand and non-distributable reserves of USD 51,563 thousand (2001 — distributable reserves of USD 87,177 thousand and non-distributable reserves of USD 52,892 thousand). The major part of statutory non-distributable reserves are General reserves, which represent amounts set aside, as required by the regulations of the Russian Federation, in respect of general banking risks, including future losses and other unforeseen risks or contingencies.

As of 25 April 2003 the Group's Board of Management proposed a dividend payout of USD 24,219 thousand subject to further approval or amendment of the Board of Directors and of shareholders.

NOTE 24 — DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into deals with derivative financial instruments for trading purposes.

As of 31 December 2002 the Group's derivative financial assets amounted to USD 2,371 thousand (2001 — USD 9,236 thousand). Derivative financial liabilities amounted to USD 299 thousand (2001 — USD 9,215 thousand).

The Group's position and fair value of derivatives outstanding as of 31 December 2002 are as follows:

	Notional principal equivalent	Fair value	Receivables/ (payables) under derivative contracts
Securities forward contracts			
Assets foreign	5,220	5,223	3
	5,220	5,223	3
Assets domestic	20,030	22,275	2,245
Liabilities domestic	(4,698)	(4,997)	(299)
	15,332	17,278	1,946
Foreign exchange contracts			
Foreign options held	20,500	20,623	123
	20,500	20,623	123

The fair value of the Group's position on derivatives was calculated as follows:

- **Bullion contracts** — based on the RUR/gram of gold bullion exchange rate of the Central Bank of the Russian Federation effective as of 31 December 2002 translated into U.S. Dollars at closing rate.
- **Securities contracts** — based on closing bid rates for corporate shares and debt securities quoted on MICEX and RTS as of the period-end.

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

The fair value of these transactions is believed to reflect the credit and other types of economic risk for the Group.

The resulting effect of fair value adjustment of derivatives on the Group's reserves as of 31 December 2002 and 2001 was USD 2,072 thousand and USD 21 thousand, respectively.

The maturities of all derivative financial instruments are less than one month. Subsequently the deals were settled in the normal course of business.

NOTE 25 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of 31 December 2002 and 2001 as shown in the consolidated cash flow statement comprised:

	2002	2001
Cash on hand	61,064	42,130
Current account with the Central Bank of the Russian Federation	232,674	239,359
Due from credit institutions:		
Current accounts	618,997	503,270
Time deposits with a maturity of three months or less when originated	98,731	240,520
Cash and cash equivalents	1,011,466	1,025,279

NOTE 26 – RISK MANAGEMENT POLICIES

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The Group considers risk management and risk controls to be vitally important aspects of its business operations and management activities, establishing and integrating these functions into corporate organization in the form of continuous process. The Group has set internal standards of risk transparency as the basis for controlling, limiting and managing risks. The Group has recently established a Risk Management Department, which will directly report to the Board of Management and is responsible for developing methods used to measure risks and for independently measuring and monitoring risks on an ongoing basis.

In addition to that, the Group has an Internal Audit Department, one of the activities of which is aimed specifically at preventing losses for the Group and its customers. Management believes that all the regulatory requirements of the Central Bank of the Russian Federation regarding an internal audit function are fully satisfied.

The main risks inherent to the Group's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Group's risk management policies in relation to those risks follows.

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

> Credit risk

The Group is exposed 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. 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 borrowers are approved on a monthly basis by the Credit Committee.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering balance and off-balance sheet exposures which are set by the Credit Committee which is called once a week. 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 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.

The credit risk exposure on derivatives is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments.

Credit-related commitments ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, are analyzed as part of the credit risk exposure on a customer and are assigned the same credit rating as loans to this customer. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are frequently fully or partially covered by the funds deposited by customers and therefore bear no credit risk.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

The Group's credit policy is approved and periodically reviewed by the Board of Management.

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

The geographical concentration of banking assets and liabilities as of 31 December 2002 and 2001 follows.

	2002				2001			
	Russia	OECD	Other non-OECD	Total	Russia	OECD	Other non-OECD	Total
Assets								
Cash and due from CBR	512,604	—	—	512,604	452,871	—	—	452,871
Credit institutions, net	151,756	910,640	14,444	1,076,840	36,242	1,206,659	35,125	1,278,026
Trading securities	810,074	—	—	810,074	255,322	—	—	255,322
Derivatives	2,245	126	—	2,371	9,236	—	—	9,236
Loans to customers, net	1,278,450	1,003,487	87,976	2,369,913	623,740	933,206	124,384	1,681,330
	2,755,129	1,914,253	102,420	4,771,802	1,377,411	2,139,865	159,509	3,676,785
Liabilities								
Credit institutions	245,591	107,026	2,809	355,426	149,151	90,796	1,948	241,895
Derivatives	299	—	—	299	9,215	—	—	9,215
Customers	2,557,694	—	32,427	2,590,121	2,063,466	9,779	12,858	2,086,103
Certificated debts and Eurobonds	730,777	339,523	—	1,070,300	500,979	186,324	—	687,303
	3,534,361	446,549	35,236	4,016,146	2,722,811	286,899	14,806	3,024,516
Net position	(779,232)	1,467,704	67,184	755,656	(1,345,400)	1,852,966	144,703	652,269

> Liquidity risk

The Group is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs, guarantees and from margin and other derivatives settled by cash. The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due.

The Asset and Liability Management Committee sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

The contractual maturities of monetary assets and liabilities as of 31 December 2002 and 2001 follow.

	2002							
	On demand	Less than 1 month	1 to 3 month	3 months to 1 year	1 to 5 year	Over 5 year	Overdue	Total
Assets								
Cash and due from CBR	392,014	12,161	8,018	59,886	17,291	23,234	—	512,604
Credit institutions, net	615,622	356,404	1,859	32,340	6,316	61,359	2,940	1,076,840
Trading securities	810,074	—	—	—	—	—	—	810,074
Derivatives	—	2,371	—	—	—	—	—	2,371
Loans to customers, net	25,906	269,208	356,024	521,759	528,167	660,496	8,353	2,369,913
	1,843,616	640,114	365,901	613,985	551,774	745,089	11,293	4,771,802
Liabilities								
Credit institutions	148,271	126,744	8,972	8,144	8,284	55,011	—	355,426
Derivatives	—	299	—	—	—	—	—	299
Customers	1,421,287	25,749	41,811	708,444	38,223	354,607	—	2,590,121
Certificated debts and Eurobonds	97,930	88,660	82,920	369,210	424,756	6,824	—	1,070,300
	1,667,488	241,452	133,703	1,085,798	471,263	416,442	—	4,016,146
Net position	176,128	398,692	232,198	(471,813)	80,511	328,647	11,293	755,656
Accumulated gap	176,128	574,820	807,018	335,205	415,716	744,363	755,656	

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

2001							
	On demand	Less than 1 month	1 to 3 month	3 months to 1 year	1 to 5 year	Over 5 year	Overdue Total
Assets							
Cash and due from CBR	281,489	77,647	10,941	32,579	33,836	16,379	— 452,871
Credit institutions, net	503,270	219,285	21,235	260,408	235,292	38,536	— 1,278,026
Trading securities	255,322	—	—	—	—	—	— 255,322
Derivatives	—	9,236	—	—	—	—	— 9,236
Loans to customers, net	—	145,842	146,812	208,160	121,697	1,049,904	8,915 1,681,330
	1,040,081	452,010	178,988	501,147	390,825	1,104,819	8,915 3,676,785
Liabilities							
Credit institutions	98,307	1,977	2,000	127,160	12,451	—	— 241,895
Derivatives	—	9,215	—	—	—	—	— 9,215
Customers	1,060,112	2,020	77,380	383,640	293,375	269,576	— 2,086,103
Certificated debts and Eurobonds	—	171,938	102,062	151,762	261,413	128	— 687,303
	1,158,419	185,150	181,442	662,562	567,239	269,704	— 3,024,516
Net position	(118,338)	266,860	(2,454)	(161,415)	(176,414)	835,115	8,915 652,269
Accumulated gap	(118,338)	148,522	146,068	(15,347)	(191,761)	643,354	652,269

> Interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates.

Interest rate risk is managed by increasing or decreasing positions within limits, specified by the Group's management. These limits restrict the potential effect of movements in interest rates on interest margin and on the value of interest-sensitive assets and liabilities.

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

The Group's interest rate policy is reviewed and approved by the Asset and Liability Management Committee. The Group's average effective interest rates as of 31 December 2002 and 2001 for monetary financial instruments follow.

	2002			2001		
	Rubles	US Dollars	Other foreign currencies	Rubles	US Dollars	Other foreign currencies
Interest earning assets						
Credit institutions:						
– current accounts	0.7%	0.9%	0.9%	0.8%	1.0%	1.0%
– term deposits	9.2%	2.6%	2.0%	21.2%	2.3%	3.9%
Trading securities:						
– State bonds	14.5%	7.0%	9.1%	16.0%	12.1%	–
– Eurobonds	14.2%	10.1%	10.0%	–	10.1%	7.1%
– Promissory notes	15.3%	6.6%	–	25.1%	–	–
Loans to customers,						
– individuals	21.0%	11.4%	2.3%	12.6%	10.7%	15%
– enterprises	21.4%	13.0%	11.5%	–	–	–
Interest bearing liabilities						
Credit institutions:						
– current accounts	0.8%	1.4%	0.1%	1.5%	1.0%	1.0%
– term deposits	12.5%	4.1%	7.5%	7.0%	10.9%	6.4%
Customers:						
– current accounts	0.8%	0.4%	0.5%	0.2%	0.1%	–
– term deposits	7.7%	3.6%	2.6%	12.6%	3.8%	0.7%
Certificated debts	2.9%	2.2%	3.2%	11.7%	6.6%	6.5%
– Eurobonds	–	–	9.8%	–	–	10.7%

> Foreign exchange rate risk

The Group has assets and liabilities denominated in several foreign currencies. The Group's financial position and cash flows are exposed to the effects of fluctuations in the prevailing foreign currency exchange rates.

The Group's Asset and Liability Management Committee sets limits on the level of exposure by currency. These limits also comply with the minimum requirements of the Central Bank of the Russian Federation.

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

The Group's exposure to foreign currency exchange rate risk follows.

	2002				2001			
	Rubles	US Dollars	Other	Total	Rubles	US Dollars	Other	Total
Assets								
Cash and due from CBR	494,050	13,393	5,161	512,604	436,479	11,832	4,560	452,871
Credit institutions, net	114,964	537,797	424,079	1,076,840	24,281	803,720	450,025	1,278,026
Trading securities	511,841	263,115	35,118	810,074	174,397	68,673	12,252	255,322
Loans to customers, net	625,782	1,492,702	251,429	2,369,913	362,403	1,239,609	79,318	1,681,330
Unconsolidated subsidiaries and associates	21,748	65,728	21	87,497	23,359	45,580	3,815	72,754
Property, equipment and intangibles	49,220	—	—	49,220	43,801	—	—	43,801
Other assets, net	28,696	2,505	—	31,201	21,179	5,688	—	26,867
	1,846,301	2,375,240	715,808	4,937,349	1,085,899	2,175,102	549,970	3,810,971
Liabilities								
Credit institutions	188,907	88,341	78,178	355,426	19,129	125,386	97,380	241,895
Customers	854,985	1,304,692	430,444	2,590,121	800,597	819,243	466,263	2,086,103
Certificated debts and Eurobonds	583,007	138,059	349,234	1,070,300	399,382	108,726	179,195	687,303
All other liabilities	88,119	299	—	88,418	81,698	—	—	81,698
	1,715,018	1,531,391	857,856	4,104,265	1,300,806	1,053,355	742,838	3,096,999
Net balance sheet position	131,283	843,849	(142,048)	833,084	(214,907)	1,121,747	(192,868)	713,972

NOTE 27 — RELATED PARTIES

Related parties, as defined by IAS 24, are those counter parties that represent:

- (a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);
- (b) associates — enterprises in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group, and anyone expected to influence, or be influenced by, that person in their dealings with the Group;
- (d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group and close members of the families of such individuals; and

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

(e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Group and enterprises that have a member of key management in common with the Group.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding with related parties:

	2002		2001	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Due from credit institutions, gross	419,863	1,097,078	271,981	1,313,072
Trading securities	584,567	810,074	170,162	255,322
Loans to customers, gross	1,765,714	2,548,119	1,189,903	1,815,078
Amounts owed to credit institutions	81,095	355,426	113,977	241,895
Amounts owed to customers	1,501,795	2,590,121	1,387,770	2,086,103
Certificated debt	199,472	730,777	247,647	513,928
Undrawn loan commitments	217,284	436,263	204,500	292,716
Letters of credit	131,083	274,233	368,205	368,355
Guarantees given	41,265	88,333	75,213	94,366
Income and expenses				
Interest income	97,426	261,778	110,268	234,764
Dealing profits (losses), net	(6,231)	58,622	(3,670)	83,669
Fees and commissions income	21,995	51,845	16,939	33,665
Interest expense	31,366	153,187	83,860	142,168

NOTE 28 – FINANCIAL COMMITMENTS AND CONTINGENCIES

a) Credit related financial commitments

The credit related financial commitments as of 31 December 2002 and 2001 comprise:

	2002	2001
Undrawn loan commitments	436,263	292,716
Letters of credit	274,233	368,355
Guarantees given	88,333	94,366
	798,829	755,437

The Group's management evaluated the likelihood of possible losses arising from credit related commitments and concluded that a provision of USD 7,396 thousand was necessary as of 31 December 2002 (2001 – USD 9,254 thousand).

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

b) Operating lease obligations

The credit related financial commitments as of 31 December 2002 and 2001 comprise:

	2002	2001
Not later than 1 year	916	4,910
Later than 1 year and not later than 5 years	10,890	7,361
Later than 5 years	3,589	6,415
	15,395	18,686

c) Capital commitments

In the normal course of business, the Group enters into contracts for construction and repair works of the Banks' buildings, with suppliers of consulting and systems services and other. As of 31 December 2002, there were no material future contracted liabilities with respect to these contracts.

d) Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

e) Insurance

The Group has not currently obtained insurance coverage related to property owned or liabilities arising from errors or omissions except for insurance coverage for the Group's vehicles. Liability insurance is generally not available in the Russian Federation at present.

f) Operating environment

Over the past two years the Russian Federation has begun the transformation to a developed economy, with all the relevant implications for politics, corporate behavior and financial markets. A GDP growth of 4.3% in 2002 was accompanied by continuous strengthening of Russia's finances, evidenced by high fiscal surplus, surging corporate profits, boosting of currency reserves and appreciation of the Ruble in real terms, stability of the FOREX market and further monetarization of the economy. The major benefits of these developments are easing in external debt payments and suppression of inflation, growth of domestic fixed-capital investment and start of restructuring in the industrial sector, revival of Russia's banking sector and a boost of the corporate bond market.

Nevertheless, operations in the Russian Federation still involve risks that are not typically associated with those in developed economies. Such risks persist in the current environment with results that include, but are not limited to, a currency that is not freely convertible outside of the country, various currency controls, low liquidity levels for debt and equity markets, dependence of the economy on raw materials export and lack of progress in structural reforms (land, pension system, natural monopolies).

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

NOTE 29 – CAPITAL ADEQUACY

The Central Bank of the Russian Federation requires banks to maintain a capital adequacy ratio of 10 % of risk-weighted assets, computed based on RAL. As of 31 December 2002 and 2001, the Bank's capital adequacy ratio calculated on this basis exceeded the statutory minimum.

The Group's international risk based capital adequacy ratio as of 31 December 2002 and 2001 was 28.4 % and 28.6 %, respectively, which exceeds the minimum ratio of 8 % recommended by the Basel Accord.

The ratio is calculated in accordance with the rules set forth by the Basel Accord, using the following risk weightings:

Weighting	Description of items
0 %	Cash, amounts with the Central Bank of Russia and claims on the Government of the Russian Federation denominated in Rubles and funded in Rubles
20 %	Due from OECD credit institutions
20 %	Due from non-OECD credit institutions maturing within one year
100 %	Loans to customers
100 %	All other assets
	<i>Off-balance sheet items</i>
0 %	Undrawn loan commitments maturing within one year
20 %	Guarantees issued in favor of OECD credit institutions
50 %	Undrawn loan commitments maturing in over one year and all standby letters of credit issued
100 %	All other guarantees issued
1 % – 5 %	Foreign exchange contracts
0 % – 0.5 %	Interest rate contracts

Capital is calculated as the total of restricted and unrestricted components of equity, plus the Group's general allowances for loans losses, to the extent that these general reserves for loan losses do not exceed 1.25 % of risk weighted assets.

NOTE 30 – SUBSEQUENT EVENTS

In February 2003 OAO «Gazprom» successfully completed placement of its ten-year bonds in the amount of USD 1,750,000 thousand on international markets, which resulted in significant increase (over 30 %) of the Group's total assets and liabilities in the first quarter of 2003.

In March 2003 the Group acquired 285,000 thousand of OAO «Gazprom» shares.

In the end of 2002 the Group's Board of Management made a decision to invest additional USD 12,585 thousand in Insurance Company of Gas Industry («Sogaz») to increase its shareholding from 15.6 % to 45.3 %. The transaction is yet to be approved by federal authorities.

REFERENCE INFORMATION

REFERENCE INFORMATION

GAZPROMBANK SHAREHOLDERS

ОАО «Gazprom»	—	87.49 %
ООО «Gazexport»	—	6.64 %
ООО «Novfintech»	—	2.17 %

Less than 1 % of shares:

ООО «Astrakhangazprom»
ОАО «Volgogradneftemash»
ООО «Volgogradtransgaz»
ООО «Volgotransgaz»
ООО «Gazkomplektimpeks»
ООО «Kavkaztransgaz»
ОАО «Kostromatrubininvest»
ООО «Kubangazprom»
ООО «Lentransgaz»
ООО «Mezhregiongaz»
Ministry of State Property of the Russian Federation
ООО «Mostransgaz»
ООО «Nadymgazprom»
ООО «Orenburggazprom»
ООО «Permtransgaz»
ООО «Severgazprom»
DOAO «Spetsgazavtotrans»
ООО «Surgutgazprom»
ООО «Uraltransgaz»
ООО «Urengoygazprom»
ООО «Tomsktransgaz»
ООО «Tyumentransgaz»
ОАО «Centrgaz»
ООО «Yugtransgaz»
ООО «Yamburggazdobycha»

All Gazprombank shareholders, with the exception of the Ministry of State Property of the Russian Federation, are affiliated with ОАО «Gazprom».

REFERENCE INFORMATION

COUNCIL OF THE BANK

Chairman of the Council

Alexey B. Miller

Chairman of the Board of Management,
OAO «Gazprom»

Deputy Chairmen of the Council

Mikhail L. Sereda

Chief of Staff of the Board
of Management, OAO «Gazprom»

Yuri I. Lvov

Members of the Council

Alexander G. Ananenkov

Deputy Chairman of the Board
of Management, OAO «Gazprom»

Yelena A. Vasilyeva

Deputy Chairman of the Board
of Management, Chief Accountant,
OAO «Gazprom»

Alexander V. Krasnenkov

Member of the Board of Management,
Director, Department of Property
Management and Corporate Relations,
OAO «Gazprom»

REFERENCE INFORMATION

BOARD OF MANAGEMENT OF THE BANK

Chairman of the Board of Management

Andrey I. AKIMOV

Deputy Chairmen of the Board of Management

Yevgeniy G. DUBROBIN

Kirill Y. LEVIN

Alexander I. SOBOL

Pavel V. UTKIN

Members of the Board of Management

Alexander V. BRINZA

Andrey L. VON

Viktor B. KORYTOV

Svetlana E. MALUSEVA

REFERENCE INFORMATION

GAZPROMBANK BRANCHES

Astrakhan:	Russia, 414057, Astrakhan, Proyezd Vorobjova, 12-2 (7-851-2) 33-9459
Barnaul:	Russia, 656037, Barnaul, ul. Severo-zapadnaya, 20 (7-3852) 77-7205
Beloyarsk:	Russia, 628161, Tyumen Oblast (Region), ul. Molodosti, 7a (7-346-70) 2-2177
Bryansk:	Russia, 241011, Bryansk, pl. Partizan, 4 (7-0832) 74-5917
Volgograd:	Russia, 400074, Volgograd, ul. Kozlovskaya, 34a (7-844-2) 93-0005
Yekaterinburg:	Russia, 620086, Yekaterinburg, ul. Radishcheva 55 A (7-343-2) 12-1601
Izhevsk:	Russia, 426039, Republic of Udmurtia, Izhevsk, Votkinskoye shosse, 182 (7-341-2) 75-0563
Kostroma:	Russia, 156000, Kostroma, ul. Sovetskaya, 9a (7-094-2) 31-3949
Krasnodar:	Russia, 350051, Krasnodar, ul. Dzerzhinskogo, 36 (7-861-2) 54-2246
Lipetsk:	Russia, 398002, Lipetsk, ul. Gagarina, 49a (7-074-2) 42-0101
Makhachkala:	Russia, 367025, Republic of Daghestan, Makhachkala ul. Yermoshkina, 24 (7-872-2) 67-5329

REFERENCE INFORMATION

Moscow:	Russia, 117799, Moscow, Prospekt Vernadskogo, 41 (7-095) 782-0841
Nadym:	Russia, 629736, Tyumen Oblast (Region), Nadym, Orudzheva Naberezhnaya (Embankment), 53 (7-345-95) 20-020
Nizhniy Novgorod:	Russia, 603005, Nizhni Novgorod, ul. Piskunova, 3/5 (7-831-2) 34-0147
Novosibirsk:	Russia: 630132, Novosibirsk, ul. 1905 goda, 18 (7-3832) 20-2800
Novy Urengoi:	Russia, 629300, Tyumen Oblast (Region), Novy Urengoy, ul. 26 syezda KPSS, 4, P.O.Box 210 (7-345-49) 4-0611
Omsk:	Russia, 644088, Omsk, ul. Magistralnaya, 2 (7-3812) 65-7601
Orenburg:	Russia, 460000, Orenburg, ul. Pravdy, 18 (7-353-2) 73-3071
Perm:	Russia, 614000, Perm, ul. Kommunisticheskaya, 54 (7-3422) 34-16-60
Rostov-on-Don:	Russia, 344024, Rostov-on-Don, Prospekt Sokolova, 80 (7-863-2) 34-3374
Saint Petersburg:	Russia, 193148, Saint Petersburg, ul. Sedova, 15 (7-812) 567-6183

REFERENCE INFORMATION

Saratov:	Russia, 410012, Saratov, ul. Maxima Gorkogo, 41 (7-845-2) 44-2400
Stavropol:	Russia, 355012, Stavropol, ul. Lenina, 419-2, (7-865-2) 94-4244
Tomsk:	Russia, 634006, Tomsk, ul. Pushkina, 52 E (7-382-2) 79-1027
Tula:	Russia, 300026, Tula, Prospekt Lenina, 106 (7-087-2) 33-3529
Tyumen:	Russia, 625026, Tyumen, ul. Respubliki, 62 (7-345-2) 22-8415
Ufa:	Russia, 450022, Republic of Bashkortostan, Ufa, ul. Mendeleyeva, 138 (7-347-2) 52-2827
Ukhta:	Russia, 169400, Republic of Komi, Ukhta, ul. 30-letiya Oktyabrya, 25 (7-821-47) 7-4653
Tchaikovsky:	Russia, 617740, Perm Oblast (Region), Tchaikovsky, Primorsky Bulvar, 30 (7-342-41) 6-4651
Schelkovsky:	Russia, 141100, Moscow Oblast, Schelkovo, Proletarsky Prospekt, 1-1a (7-256) 7-0629
Yugorsk:	Russia, 628260, Tyumen Oblast (Region), Sovetskiy Rayon (District), Yugorsk, ul. Lenina, 31 (7-346-75) 2-3910

REFERENCE INFORMATION

SHAREHOLDING IN BANKS

> Subsidiary banks

OOO KB «Sochigazprombank»
Russia, 354000, Sochi, ul. Navaginskaya, 14
Gazprombank's share: 85.34 %

AKB «Sibirgazbank» (ZAO)
Russia, 628417, Tyumen Oblast (Region), Hanty-Mansiyskiy AO,
Surgut, Boulevard Svobody, 12
Gazprombank's share: 60.11 %

> Associated banks

ОАО «Belgazprombank»
Republic of Belarus, 220121, Minsk, ul. Pritytskogo, 60/2
Gazprombank's share: 33.91 %

ZAO IKB «Evropeyskiy»
Russia, 236010, Kaliningrad, ul. Kutuzova, 39
Gazprombank's share: 33.7 %

AKB «Sovfintrade» (ZAO)
Russia, 109147, Moscow, ul. Marksistskaya, 14/16, bldg. 1
Gazprombank's share: 25.84 %

Altalanos Ertektorgalmi Bank rt.
H-1055, Hungary, Budapest, Marko Street, 9
Gazprombank's share: 25.54 %

OOO KB «Gazenergoprombank»
Russia, 142770, Moscow Oblast (Region), Leninsky rayon,
pos. Gazoprovod, Business centre
Gazprombank's share: 22.5 %

OAO KB «Severgazbank»
Russia, 160001, Vologda, ul. Blagoveschenskaya, 3
Gazprombank's share: 21.2 %

> Other banking investments

AKB «IntrastBank» (OAO)
Russia, 113054, Moscow, 5-iy Monetchikovskiy per, 3, Building 1
Gazprombank's share: 13.71 %

AKB «Spurt» (OAO)
Russia, 420107, Republic of Tatarstan, Kazan, ul. Spartakovskaya, 2
Gazprombank's share: 6 %

CONTACT INFORMATION

Full registered name:

Joint-Stock Bank of the Gas Industry Gazprombank
(Closed Joint-Stock Company)

Abbreviated name:

JSB Gazprombank (CJSC)

Mailing address: 117420, Moscow, ul. Nametkina, 16, Building 1

Head office address: 117418, Moscow, ul. Novocheremushkinskaya, 63

Telephone: (095) 719-1763, 913-7474

Fax: (095) 913-7319

Telex: 412027 GAZ RU

Web-site: www.gazprombank.ru

E-mail: mailbox@gazprombank.ru

SWIFT Code : GAZPRUMM

Reuters Dealing Code: GZPM

Correspondent account: 30101810200000000823

at OPERU of the Bank of Russia's Main Department for Moscow

INN (TAXPAYER IDENTIFICATION NUMBER): 7744001497

BIK (BANK IDENTIFICATION CODE): 044525823

OKPO: 09807684

OKONKh: 96120

OKVED: 65.12

