

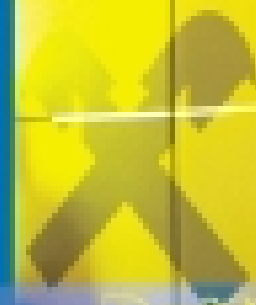
Annual Report 2002

Raiffeisen
BANK



Raiffeisen
BANK

Annual Report
2002



Reiffeisen BANK



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Financial Highlights

In USD thousand

2002 2001

Summary of Statements of Income

Net interest income	28 095	24 549
Net interest income after provision for losses on loans and advances	21 961	21 144
Net revenues	54 159	41 945
Profit before taxation	29 413	24 787

Net profit	24 177	18 388
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Summary of Balance Sheets

Assets		
Cash and cash equivalents	340 753	206 677
Securities	48 024	14 367
Loans and advances	936 130	585 099
Other	28 074	18 894

Total assets	1 352 981	825 037
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Liabilities		
Customers accounts	641 824	413 520
Due to banks and other borrowed funds	587 415	301 818
Other	12 238	19 372

Total liabilities	1 241 477	734 710
Shareholders' equity	111 504	90 327
Total liabilities and shareholders' equity	1 352 981	825 037

Summary of Ratios

Capital adequacy	12,8%	19,2%
Return on average assets	2,2%	2,5%
Return on equity at the beginning of the year	26,8%	26,4%
Total equity / Total assets	8,2%	10,9%
Liquid assets / Total assets	43,1%	46,3%
Current liquidity ratio	92,6%	111,9%
Allowance on loan losses (customer loans)	1,5%	1,3%
Overdue customer loans / Total gross customer loans	0,16%	0,04%
Total loans / Total deposits	76,2%	81,8%
Due to banks and other borrowed funds / Total liabilities	47,3%	41,1%
Due to banks / Total deposits	46,9%	40,5%
Net interest margin	3,5%	4,3%
Net interest income / Total interest income	51,2%	49,8%
Average interest earning assets / Average interest-bearing liabilities	81,2%	89,2%
Net revenues / Average assets	5,0%	5,8%
Operating expenses / Average assets	2,3%	2,5%



Michel Perhirin, Chairman of the Managing Board

Statement by the Chairman of the Managing Board

I am pleased to report that Raiffeisenbank Austria has had another strong performance for the last financial year. Fuelled by the strengthening Russian economy and the focused efforts of a strong management team and workforce, Raiffeisenbank has witnessed a 64% growth in total assets, which at 31 December 2002 totaled approximately USD 1.4 billion, together with a 23% increase in equity, which at 31 December 2002 totaled approximately USD 111.5 million. Raiffeisenbank is currently ranked 13th among Russian banks on the basis of its assets base, and 7th among retail banks in the Russian Federation. These impressive growth results and market positioning have not been at the expense of the quality of assets or earnings, the return on equity for the year at 26.8% is more than the prior year and the level of loan loss provisioning is far below the average for the Russian banking sector.

I am grateful to the Supervisory Board, the Management, and staff of Raiffeisenbank for the tireless and focused efforts that they have made throughout the past year in ensuring that the Bank has been able to achieve and exceed its strategic visions. I would also like to take this opportunity to thank all of our valued customers and business partners for the new and continued support that they have afforded to our Bank throughout 2002 and continuing into 2003. We remain highly committed to strive for the highest levels of customer service and responsiveness, to offering cutting edge solutions to the business needs of our customers, and to being a preferred service provider and true business partner.

It is also very relevant to acknowledge the valuable contributions made by our colleagues in Austria and elsewhere within the RZB international network, who have in no small way assisted the Bank throughout the year in ensuring the delivery of seamless, and quality banking services in a dynamic banking market.

The continued groupwide efforts have been acknowledged by various external parties and were evidenced by Raiffeisenbank Austria being awarded the title of Best Bank in Central & Eastern Europe and Central Asia granted to RZB-Group by renowned magazine Global Finance.

Michel Perhirin
Chairman of the Managing Board

Report of the Managing Board

We are pleased to present a brief overview of some of the key activities and achievements of Raiffeisenbank for the year ended 31 December 2002.



Corporate Banking

Throughout the year Raiffeisenbank has continued its policy of offering turn key solutions in cash management and lending to its customers, and has continued to expand its market share in a number of strategically important market sectors. The Bank's overall customer base of 1 800 has increased by 30% in comparison to last year.

Raiffeisenbank's automotive desk has actively participated in tenders to provide cash services to key market players including key Russian organizations and international manufacturers, and was successful in winning an important tender in this area.

The consumer goods desk has been active in exploring new collateral sources and in expanding the levels of lending to local market leaders in key market sectors such as food and beverages, clothing, electrical, and retail chains, whilst the international desk has continued to develop relationships with leading international producers with subsidiaries in Russia.

During the year Raiffeisenbank's telecoms desk continued to successfully cooperate with major fixed line operators and key players in the mobile sector, with a USD 15 million financing facility being provided to the largest fixed line operator in Moscow and USD 50 million of bridge financing being provided to one of the market leaders in the mobile sector.

Continued advancements in the level of services and market share have been made in the areas of cash management, commodity trade finance and structured project finance, with the Bank continuing to explore and implement new service opportunities, and secure major new deals. Activities in the area of syndicated facilities have been particularly strong, with Raiffeisenbank participating in: a USD 300 million syndication to OJSC Oil Company LUKOIL, secured by export crude oil; and facilities totaling USD 700 million for Siberian Oil Company. The LUKOIL deal has been awarded twice as the Best Deal of the Year in pre-export financing by the Trade Finance magazine and Deal of the Year on EEMEA markets by the International Financing Review.

The commercial real estate sector has also been strong, with a number of facilities being extended during the year to finance the construction of quality office facilities.

Throughout the year the Bank has been very active in expanding the level of its leasing activities, witnessing in excess of 50% growth in the volume of business in this sector, with an active presence in both Moscow and Saint Petersburg.



Consumer Banking

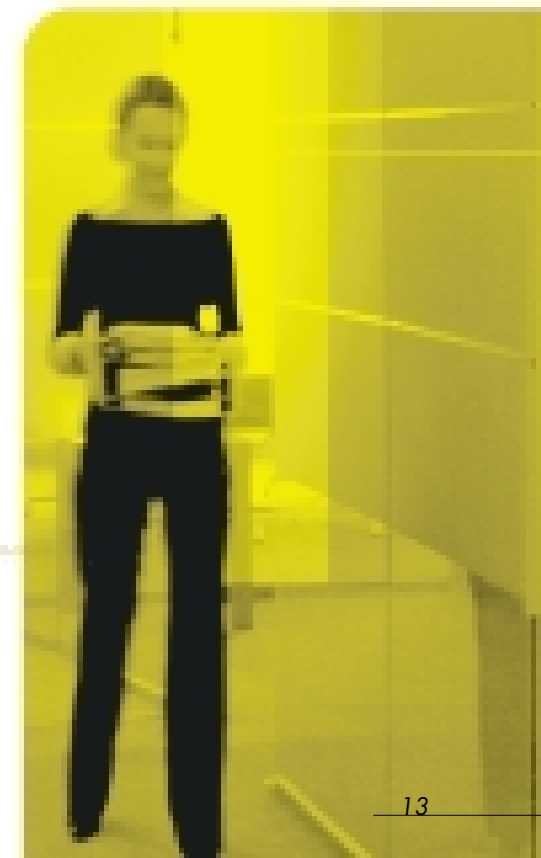


Raiffeisenbank continues to expand the nature and volume of its retail banking activities.

The Bank led the Russian market in implementing a credit scoring technology which facilitated the rapid processing of consumer loan applications with individual application values of up to USD 50 000. New mechanisms for the processing of car loan applications were also implemented during the year, and Raiffeisenbank is now able to return a decision on car loan applications within 3 working days or 1 weekday for special programmes with dealerships announced.

In June 2002, Raiffeisenbank was the first to introduce floating interest rate for mortgage loans which allowed the Bank to offer its customers longer-term (10 years) mortgage loans at 10% and below, in the existing financial environment. By the year end the competition managed to offer their variants of the programme, but with higher rates.

Raiffeisenbank Austria currently occupies 5th place in terms of its individual customer deposits base in Euro and USD, has achieved one of the three highest VISA retail sales volume for the year on the Russian bankcard market, and was the first bank within Russia to issue international bankcards linked to fully operational Euro accounts.





Financial Institutions Activities – Correspondent Banking

Raiffeisenbank has continued to build upon the level of relations with Russian and foreign financial institutions, and as at the end of 2002 had relations with over 400 correspondents from 45 countries throughout the world.

Rouble funding capabilities and FX lines currently approximate USD 250 million and USD 300 million respectively and the group continues to work actively with other business lines within the Bank in marketing new products, particularly in the investment banking and corporate sectors.





Investment Banking

Raiffeisenbank continued to be a dominant player in the corporate bond market, in 2002 acting as the Lead Manager / Co-Lead Manager in 9 corporate bond issues, exceeding USD 315 million, which represented 20% of all Russian placements for the year, and is rated well ahead of any other Western bank operating in this sector in the Russian Federation.

Raiffeisenbank was the first bank in Russia to sign a market-making agreement for market-making in the corporate bond market at MICEX, rules for which were approved by the Exchange in October 2002. The successful experience of Raiffeisenbank in the corporate bond market gained in 2001–2002 enabled the Bank to commit itself to the market-maker functions at MICEX. Based on the results achieved from these activities shortly afterwards the Bank was selected as Best Market-Maker by MICEX.

The Bank also further strengthened its market positioning with respect to loan syndications, through acting as the Joint Lead Arranger for a USD 33 million internationally syndicated loan to OJSC Ural-Siberian Bank in August 2002, and as the arranger for a USD 38.7 million syndicated letter of credit issuance facility for JSC Aeroflot – Russian Airlines. Two other significant facilities arranged in 2002 were a USD 15 million facility for JSCB AK BARS and a USD 12.5 million syndicated facility for NIKoil Investment Banking Group (JSB). In recognition of these achievements Raiffeisen Banking Group in Russia was selected as the Best Syndicated Loan Provider on the market by the renowned magazine Global Finance in the special survey on Russia, with information on the who is who in Russian finance industry.





SYNDICATED LOAN
USD 15 000 000

Arranger



December 2002



SISTEMA

BOND ISSUE
RUR 1 200 000 000

Arranger
Underwriter



November 2002



BOND ISSUE
RUR 280 000 000

Arranger
Underwriter



October 2002



JOINT STOCK COMPANY
"VYKSA STEEL WORKS"

BOND ISSUE
RUR 1 000 000 000

Arranger
Underwriter



September 2002



BOND ISSUE
RUR 3 000 000 000

Financial Advisor
Co-Underwriter



September 2002



SYNDICATED LOAN
USD 33 000 000

Arranger



August 2002



Rabo Invest,
A member of Rabobank Group

BOND ISSUE
RUR 1 200 000 000

Co-Arranger



July 2002



SECOND BOND ISSUE
RUR 600 000 000

Arranger
Underwriter



July 2002



Nizhnekamskneftekhim

BOND ISSUE
RUR 1 500 000 000

Co-Arranger



May 2002



BOND ISSUE
RUR 270 000 000

Co-Arranger



May 2002



BOND ISSUE
RUR 1 000 000 000

Arranger
Underwriter

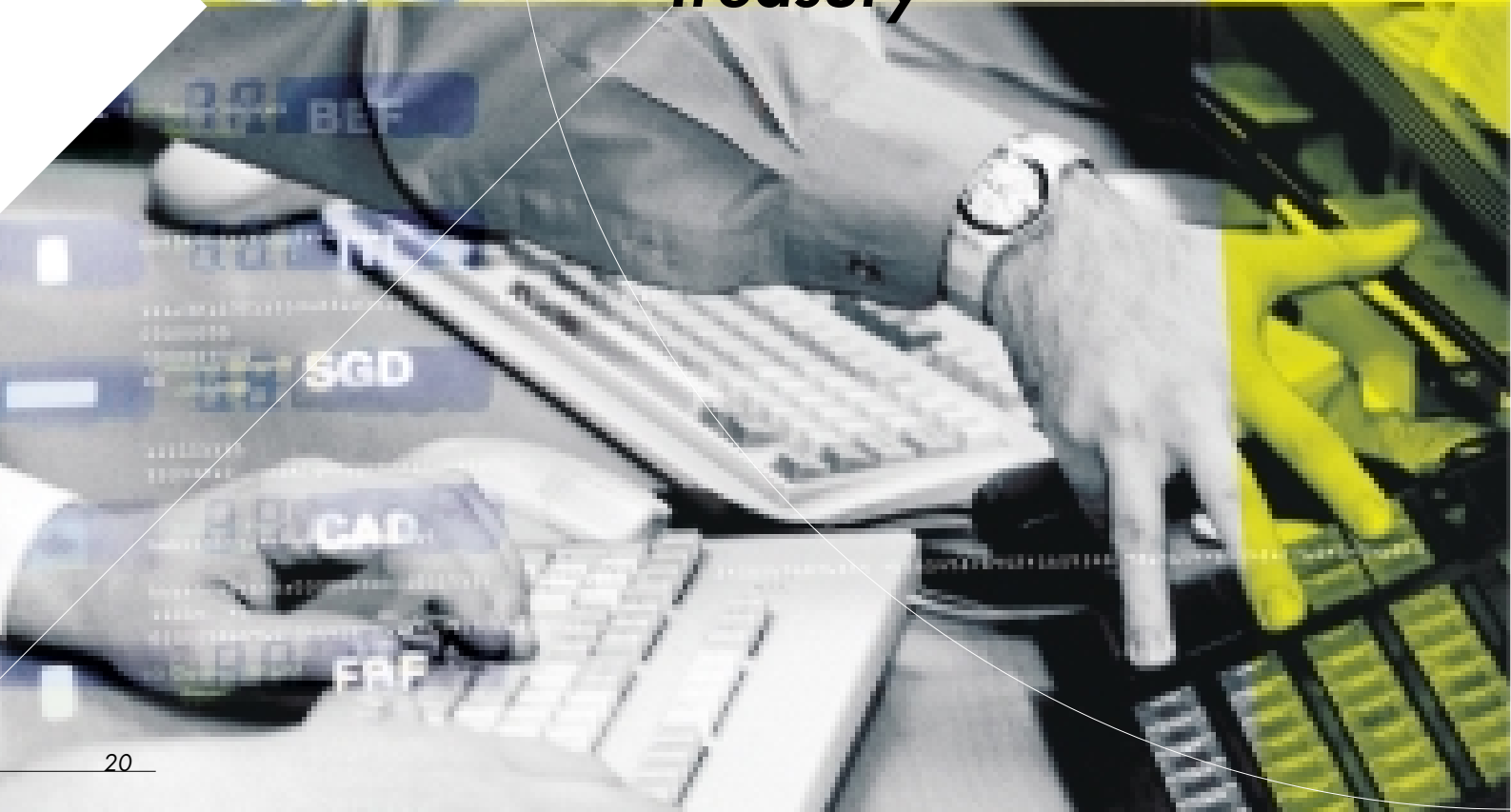


March 2002





Treasury



Raiffeisenbank has maintained its market leadership position with respect to foreign exchange activities in the Russian Federation, with the successes in this area being evidenced by the receipt of two nominations in 2002 by the Moscow Interbank Currency Association survey of dealers: Best FOREX Dealer in Russia (Kirill Grishanov) and the Second Best FOREX Dealing Desk in Russia .

The strengthening of the corporate bonds market, evidenced by improved liquidity, strong premiums, an increased number of instruments and blue chip names has enabled Raiffeisenbank to realize increased gains in this area of operations.

Raiffeisenbank capitalized on activities in the area of Eurobonds, both in the form of Russian Federation sovereign debt and corporate bonds, which were particularly strong during 2002, and continues to position itself for expected increases in the level of activities in equity trading and brokerage services.





During the year Raiffeisenbank successfully implemented its straight through processing initiatives, designed to shorten settlement cycles and to streamline client custody data exchange.

The introduction of SWIFT ISO 15022 has brought the Bank into full compliance with the European market clearing and settlement standards in terms of information exchange and has created a reliable platform for the maintenance of international securities transactions.

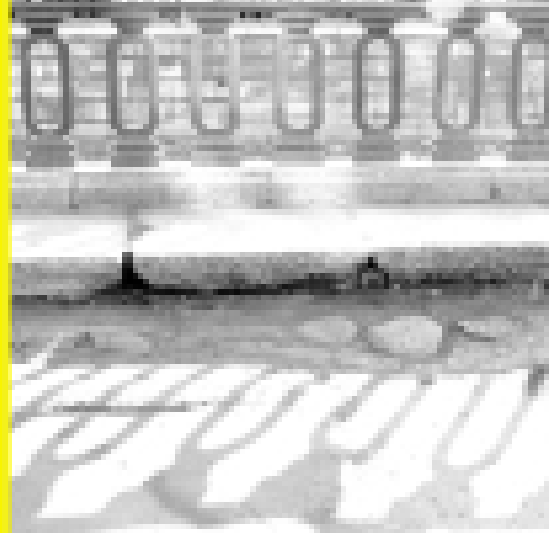
This level of active market positioning has been evidenced by the fact that during the year Raiffeisenbank was rated within the top 10 depositories in Russia by the Professional Association of Registrars, Transfer Agents, and Depositories. Also beginning of 2003 clients' assets under Raiffeisenbank's custody exceeded USD 1.75 billion.

Custody

 Raiffeisen BANK



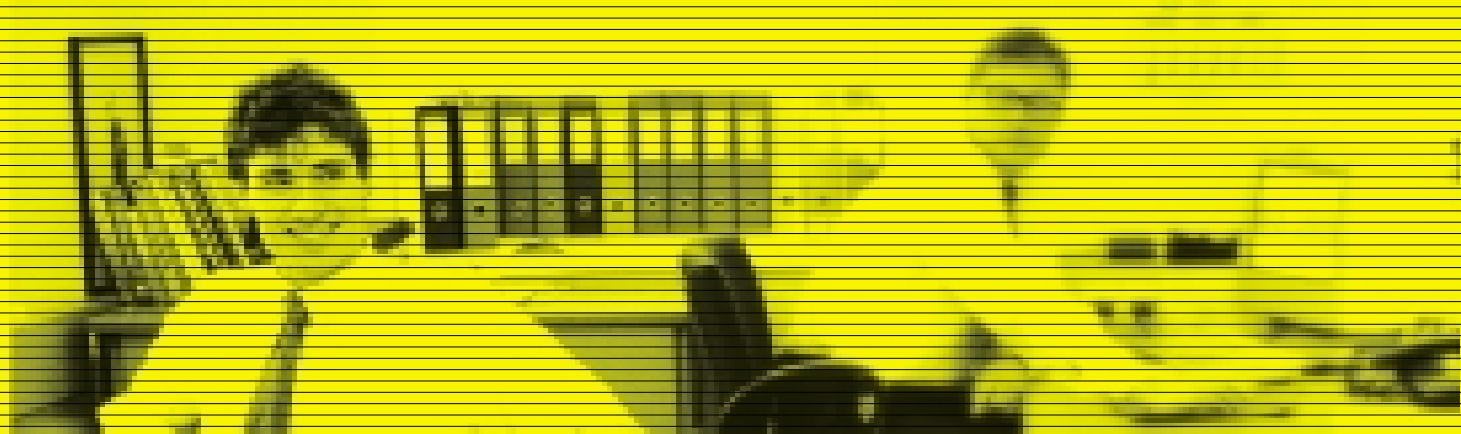
Saint-Petersburg



After little over a year in this market, it is a pleasure to note that Northern Capital branch in Saint Petersburg is already recognized as an active player in the North-West Region, and across all business sectors. Consumer lending activities have been particularly strong in this sector, especially in the area of Raiffeisenbank's car lending programme. The Bank's customer base continues to diversify, and customers are responding positively to the flexible and competitive approach demonstrated by the Bank in dealing with their business needs.

Managing Board of Raiffeisenbank Austria





Financial Statements and Auditors' Report

31 December 2002

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AUDITORS' REPORT

To the Shareholders and Management of ZAO Raiffeisenbank Austria:

- 1 We have audited the accompanying balance sheet of ZAO Raiffeisenbank Austria (the "Bank") as at 31 December 2002, and the related statements of income, of cash flows and of changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Bank's Management. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
- 3 In our opinion the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2002 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.


Moscow, Russia
31 March 2003

ZAO Raiffeisenbank Austria
Balance Sheet as at 31 December 2002
(expressed in thousands of US dollars - Note 3)

	Note	2002	2001 restated
Assets			
Cash and cash equivalents	5	272 704	165 088
Mandatory cash balances with the Central Bank of the Russian Federation		68 049	41 589
Trading securities	6	48 024	14 367
Due from other banks	7	194 378	161 316
Loans and advances to customers	8	741 752	423 783
Investment securities available for sale	9	7 987	149
Accrued interest income and other assets		4 950	6 054
Premises and equipment	10	15 137	12 691
Total assets		1 352 981	825 037
Liabilities			
Due to other banks	11	567 415	281 818
Customer accounts	12	641 824	413 520
Promissory notes		2 667	3 595
Other borrowed funds	13	20 000	20 000
Accrued interest expense and other liabilities		7 400	10 927
Deferred tax liability	19	2 171	4 850
Total liabilities		1 241 477	734 710
Shareholders' equity			
Share capital	14	165 000	165 000
Additional paid-in capital		30 000	30 000
Accumulated deficit	15	(83 496)	(104 673)
Total shareholders' equity		111 504	90 327
Total liabilities and shareholders' equity		1 352 981	825 037

Approved for issue by the Board of Directors and signed on its behalf on 31 March 2003.


Michel Peharin
President


Eugene Toutkevitch
Finance Director

ZAO Raiffeisenbank Austria

Statement of Income for the Year
Ended 31 December 2002

(expressed in thousands of US dollars Note 3)

	Note	2002	2001 restated
Interest income	16	54 845	49 312
Interest expense	16	(26 750)	(24 763)
Net interest income		28 095	24 549
Provision for loan impairment	8	(6 134)	(3 405)
Net interest income after provision for loan impairment		21 961	21 144
Gains less losses arising from trading securities		400	351
Gains less losses arising from trading in foreign currencies		17 743	13 564
Gains from sales of originated loans		2 183	
Foreign exchange translation gains less losses		(588)	2 370
Fee and commission income	17	23 402	12 887
Fee and commission expense	17	(11 415)	(9 036)
Other operating income		473	665
Operating income		54 159	41 945
Operating expenses	18	(24 746)	(17 858)
Gains arising from settlement of forward contracts			700
Profit before taxation		29 413	24 787
Income tax expense	19	(5 236)	(6 399)
Net profit		24 177	18 388

ZAO Raiffeisenbank Austria

Statement of Cash Flows for the Year
Ended 31 December 2002

(expressed in thousands of US dollars Note 3)

	Note	2002	2001 restated
Cash flows from operating activities			
Interest received		53 418	49 757
Interest paid		(22 795)	(24 775)
Income received from trading in trading securities		188	345
Income received from trading in foreign currencies		17 978	13 635
Fees and commissions received		23 402	12 887
Fees and commissions paid		(11 415)	(9 036)
Other operating income received		473	665
Income received on settlements on forward contracts			700
Operating expenses paid		(22 842)	(16 821)
Income tax paid		(6 797)	(5 969)
Cash flows from operating activities before changes in operating assets and liabilities		31 610	21 388
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(29 101)	(2 330)
Net increase in trading securities		(34 972)	(10 863)
Net (increase) / decrease in due from other banks		(35 011)	2 351
Net increase in loans and advances to customers		(323 264)	(162 463)
Net decrease / (increase) in other assets		2 127	(2 263)
Net increase in due to other banks		286 950	160 300
Net increase in customer accounts		229 211	96 570
Net (decrease) / increase in promissory notes		(928)	227
Net (decrease) / increase in other liabilities		(5 492)	5 571
Net cash from operating activities		121 130	108 488

ZAO Raiffeisenbank Austria

Statement of Changes in Shareholders' Equity for the Year Ended 31 December 2002

(expressed in thousands of US dollars - Note 3)

	Note	2002	2001 restated
Cash flows from investing activities			
Acquisition of investment securities available for sale		(7 700)	
Acquisition of premises and equipment	10	(4 394)	(4 499)
Net cash used in investing activities		(12 094)	(4 499)
Cash flows from financing activities			
Capital contributions from shareholders other than share issues			15 000
Other borrowed funds received	13		20 000
Dividends paid	20	(3 000)	
Net cash (used in) / from financing activities		(3 000)	35 000
Effect of exchange rate changes on cash and cash equivalents		1 580	(1 124)
Net increase in cash and cash equivalents		107 616	137 865
Cash and cash equivalents at the beginning of the year		165 088	27 223
Cash and cash equivalents at the end of the year	5	272 704	165 088

	Note	Share capital	Additional paid-in capital	Accumulated deficit	Total shareholders' equity
Balance at 1 January 2001 (restated)		165 000	15 000	(123 061)	56 939
Net profit for the year				18 388	18 388
Additional paid-in capital			15 000		15 000
Balance at 31 December 2001 (restated)		165 000	30 000	(104 673)	90 327
Net profit for the year				24 177	24 177
Dividends declared and paid	20			(3 000)	(3 000)
Balance at 31 December 2002		165 000	30 000	(83 496)	111 504

ZAO Raiffeisenbank Austria

Notes to the Financial Statements — 31 December 2002

(expressed in thousands of US dollars - Note 3)

1. Principal Activities

ZAO Raiffeisenbank Austria (the Bank) is a commercial bank owned by shareholders whose liability is limited to the equity invested. The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation (CBRF) since 1996. The Bank's principal business activity is commercial and retail banking operations within the Russian Federation.

The Bank is a subsidiary of Raiffeisen Zentralbank Österreich (the Parent Bank), which owns 99% of the shareholders' capital.

The Bank's registered office is located at the following address: 17/1 Troitskaya str., 129090 Moscow, Russia. The Bank has 1 branch in St Petersburg and 5 divisions in Moscow.

The average number of the Bank's employees during the year was 350 (2001: 266).

2. Operating Environment of the Bank

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

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

bilisation has been a positive contributing factor for the further development of the political and legal environment.

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

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

3. Basis of Presentation

Basis of Presentation

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

The national currency of the Russian Federation, where the Bank is domiciled, is the Russian Rouble (RR). However, the Bank's assets and liabilities are mostly denominated in United States dollars (US dollars or "USD") - refer to Note 21. The US dollar is used to a significant extent in, and has a significant impact on, the operations of the Bank. Also, the US dollar is the currency in which Management manages the business risks and exposures, and measures the performance, of the Bank's business. Based upon these and other factors, the measurement currency of the Bank is considered to be the US dollar and, therefore, these financial statements are measured and presented in US dollars. The Bank's accounting records provide sufficient accounting information regarding the original US dollar equivalent of transactions executed in other currencies.

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and

the reported amounts of revenues and expenses during the reported period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

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

Change in accounting policy

At 1 January 2002 the Bank changed its accounting policy with respect to the currency in which the financial statements are measured in order to comply with IASC Interpretation SIC 19, Reporting Currency – Measurement and Presentation of Financial Statements under IAS 21 and IAS 29. Previously, the Bank used the Russian Rouble for measuring and presenting items in its financial statements, meaning that transactions in currencies other than Russian Rouble were treated as transactions in foreign currencies. As mentioned above, the Bank now uses US dollar as its measurement currency. The Bank has also changed the currency in which it presents its financial statements from Russian Rouble to the US dollar. In accordance with the benchmark treatment of IAS 8 Net Profit or Loss For the Period, Fundamental Errors and Changes in Accounting Policies, the corresponding balance sheet, statement of income, statement of cash flows and statement of changes in shareholders' equity and related notes as of 31 December 2001 have been restated in order to reflect adoption of this new accounting policy. The application of this change in accounting policy resulted in an increase in shareholders' equity, as previously reported, at 31 December 2001 in the amount of approximately USD 844 thousand and an increase in net profit for the year ended 31 December 2001 in the amount of approximately USD 6 078 thousand.

are not considered as part of cash and cash equivalents for the purposes of the cash flow statement.

Trading securities

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

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

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

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

Sale and repurchase agreements and lending of securities

Sale and repurchase agreements (repos) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included into trading securities, investment securities available for sale or held to maturity as appropriate. The corresponding liability is presented within due to other banks or other borrowed funds. Securities purchased under agreements to resell (reverse repo) are recorded as due from other banks or loans and advances to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with-

4. Significant Accounting Policies

Cash and cash equivalents

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

Mandatory cash balances with the CBRF

Mandatory cash balances with the CBRF represent mandatory reserve deposits which are not available to finance the Bank's day to day operations and hence

in gains less losses arising from trading securities in the statement of income. The obligation to return them is recorded at fair value as a trading liability.

Originated loans and advances and provisions for loan impairment

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

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

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

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

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

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the statement of income.

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

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

Other credit related commitments

In the normal course of business, the Bank enters into other credit related commitments including letters of credit and guarantees. Specific provisions are recorded against other credit related commitments when losses are considered probable.

Investment securities available for sale

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

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

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

Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the statement of income. The estimated recoverable amount is the higher of an asset's net selling price or its value in use.

Construction in progress is carried at cost less provision for impairment. Upon completion, assets are transferred to premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

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

Depreciation

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

Premises 2–2.5% per annum;

Equipment 10–20% per annum.

Leasehold improvements over the term of the underlying lease.

Operating leases

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

Promissory notes

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

Additional paid-in capital

Additional paid-in capital represents the excess of contributions over the nominal value of equity units issued and amounts contributed by shareholders in addition to equity units.

Dividends

Dividends are recorded in equity in the period in which they are declared. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

Income taxes

Taxation has been provided for in the financial statements in accordance with Russian legislation currently in force. Income tax charge in the statement of income for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the year, using the tax rates enacted at the balance sheet date. Taxes, other than on income, are recorded within operating expenses.

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

Income and expense recognition

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

Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided.

Foreign currency translation

Monetary assets and liabilities originally denominated in USD are stated at their original USD amounts. Monetary assets and liabilities in other currencies have been translated to USD using the exchange rate ruling at the balance sheet date. Non-monetary assets and liabilities, which are denominated in currencies other than USD, have been translated into USD at the exchange rates in effect as at the date of transaction. Income and expenses, which were earned and incurred in currencies other than USD, have been translated into USD using a basis that approximates the rate of exchange ruling at the date of transaction.

Gains and losses arising from the translation of assets and liabilities into USD are reflected in the consolidated statement of income as foreign exchange translation losses net of gains.

As at 31 December 2002 the principal rate of exchange used for translating balances in Russian Roubles to USD was USD 1 = RR 31.78 (2001: USD 1 = RR 30.14).

Derivative financial instruments

Derivative financial instruments including foreign exchange contracts and other derivative financial instruments are initially recorded in the balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models, options pricing models or using the spot rate at the year end as the basis as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives are included in gains less losses arising from trading in foreign currency or gains less losses arising from trading securities depending on the related contracts.

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

The Bank also trades in forwards in securities. All related gains and losses are recorded within gains less losses arising from trading securities.

Offsetting

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

Provisions

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

Staff costs

The Bank's contributions to the Russian Federation state pension schemes, social insurance, obligatory medical insurance and employment funds in respect of its employees are expensed as incurred and included into staff costs. Bonuses are paid at the discretion of the Parent Bank and are accounted for on a cash basis.

5. Cash and Cash Equivalents

	2002	2001 restated
Cash on hand	24 758	14 229
Cash balances with the CBRF (other than mandatory reserve deposits)	34 494	7 518
Correspondent accounts and overnight placements with other banks		
Russian Federation	5 115	1 779
Other countries	208 337	141 562
Total cash and cash equivalents	272 704	165 088

The relevant information on related party balances is disclosed in Note 24.

6. Trading Securities

	2002	2001 restated
Corporate Bonds	20 466	13 859
Russian Federation Eurobonds	12 247	
Federal loan bonds (OFZ bonds)	10 131	
Corporate shares	5 180	508
Total trading securities	48 024	14 367

Corporate bonds are interest bearing securities denominated in RR, issued by large Russian companies, and are freely tradable in Russia. These bonds have maturity dates ranging from 2003 to 2006, coupon rates of approximately 12–20% in 2002 and a yield to maturity from 14% to 19% at 31 December 2002, depending on the type of bond issue.

Russian Federation Eurobonds are interest bearing securities denominated in USD, issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. These bonds have maturity dates ranging from 2003 to 2028, coupon rates of approximately 10–12.75% in 2002 and a yield to maturity from 3.6% to 9.3% at 31 December 2002, depending on the type of bond issue.

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds are issued at a discount to face value, have maturity dates ranging from 2004 to 2005, coupon rates of approximately 10–12% in 2002 and a yield to maturity from 13.3% to 13.8% at 31 December 2002, depending on the type of bond issue.

Corporate shares are shares of Russian companies.

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

7. Due from Other Banks

	2002	2001 restated
Current term placements with other banks	194 378	161 316
Total due from other banks	194 378	161 316

As at 31 December 2002 the estimated fair value of due from other banks was USD 194 378 thousand (2001: USD 161 316 thousand). Refer to Note 23.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 21. The relevant information on related party balances is disclosed in Note 24.

8. Loans and Advances to Customers

	2002	2001 restated
Current loans	743 033	414 406
Securities directly purchased from the issuer and classified as originated loans	9 056	14 595
Overdue loans	1 171	156
Less: Provision for loan impairment	(11 508)	(5 374)
Total loans and advances to customers	741 752	423 783

Movements in the provision for loan impairment are as follows:

	2002	2001 restated
Provision for loan impairment at 1 January	(5 374)	(1 969)
Provision for loan impairment during the year	(6 134)	(3 405)
Provision for loan impairment at 31 December	(11 508)	(5 374)

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

	2002		2001 (restated)	
	Amount	%	Amount	%
Manufacturing	446 639	59.3	240 461	56.0
Mining	87 736	11.6	19 795	4.6
Trade	46 500	6.2	34 344	8.0
Financial Services	37 532	5.0	38 933	9.1
Real estate	29 843	4.0	30 510	7.1
Individuals	26 183	3.5	5 745	1.3
Education	8 650	1.1	10 225	2.4
Construction	4 900	0.7	13 605	3.2
Government bodies			14 595	3.4
Other	65 277	8.6	20 944	4.9
Total loans and advances to customers (aggregate amount)	753 260	100.0	429 157	100.0

At 31 December 2002 the Bank has 10 borrowers with aggregated loan amounts above USD 20 000 thousand. The aggregate amount of these loans is USD 320 365 thousand or 43% of the gross loan portfolio.

For the purposes of decreasing the risk associated within its loan portfolio, some of the loans are secured with a cash collateral held by the Bank or guarantees from other banks. The total amount of cash collateral placed in relation to loans outstanding as at 31 December 2002 amounted to USD 600 thousand (2001: USD 10 851 thousand) and the total amount of loans outstanding guaranteed by other banks is USD 209 453 thousand (2001: USD 189 762 thousand), including USD 207 465 thousand (2001: USD 184 694 thousand) guaranteed by Raiffeisen Zentralbank Österreich, the Parent Bank. Management has not established a provision against the loans guaranteed by Raiffeisen Zentralbank Österreich. Refer to Note 24 for information on related party transactions.

As at 31 December 2002 the estimated fair value of loans and advances to customers was USD 741 752 thousand (2001: USD 423 783 thousand). Refer to Note 23.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 21.

9. Investment Securities Available for Sale

Securities available for sale represent corporate bonds denominated in Russian Roubles issued by large Russian companies that are freely tradable in Russia. These bonds have maturity dates ranging from 2003 to 2006, coupon rates of approximately 12–20% in 2002 and a yield to maturity from 14% to 19% at 31 December 2002, depending on the type of bond issue.

Geographical, currency, maturity and interest rate analyses of investment securities available for sale are disclosed in Note 21.

10. Premises and Equipment

	Note	Premises	Leasehold improvements	Office and computer equipment	Construction in progress	Total
Net book amount at 31 December 2001 (restated)						
		5 451	2 218	3 760	1 262	12 691
Book amount at cost						
Opening balance		6 176	2 286	5 774	1 262	15 498
Additions		1 837	1	1 992	564	4 394
Transfers		248	1 014		(1 262)	
Disposals				(335)		(335)
Closing balance		8 261	3 301	7 431	564	19 557
Accumulated depreciation						
Opening balance		(725)	(68)	(2 014)		(2 807)
Depreciation charge	18	(168)	(496)	(1 240)		(1 904)
Disposals				291		291
Closing balance		(893)	(564)	(2 963)	—	(4 420)
Net book amount at 31 December 2002		7 368	2 737	4 468	564	15 137

Construction in progress consists mainly of construction and refurbishment of branch premises. Upon completion, assets are transferred to premises and equipment.

11. Due to Other Banks

	2002	2001 restated
Current term placements of other banks	556 839	43 088
Sale and repurchase agreements with other banks	7 614	
Correspondent accounts and overnight placements of other banks	2 962	238 730
Total due to other banks	567 415	281 818

Securities sold under sale and repurchase agreements are OFZ bonds with a fair value of USD 7 570 thousand at 31 December 2002. As at 31 December 2002 these securities were recorded on the balance sheet within trading securities. Refer to Note 22.

As at 31 December 2002 the estimated fair value of due to other banks was USD 567 415 thousand (2001: USD 281 818 thousand). Refer to Note 23.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 21. The relevant information on related party balances is disclosed in Note 24.

12. Customer Accounts

	2002	2001 restated
Legal entities		
Current /settlement accounts	246 168	128 284
Term deposits	108 433	101 267
Individuals		
Current /demand accounts	137 211	77 418
Term deposits	150 012	106 551
Total customer accounts	641 824	413 520

Economic sector concentrations within customer accounts are as follows:

	2002		2001 (restated)	
	Amount	%	Amount	%
Individuals	287 223	44.8	183 969	44.5
Manufacturing	171 924	26.8	99 425	24.0
Transport and communications	85 672	13.3	62 284	15.1
Financial services	46 628	7.3	25 184	6.1
Trade	20 811	3.2	31 169	7.5
Mining	14 397	2.2	2 810	0.7
Real estate and renting	6 371	1.0	6 879	1.7
Other	8 798	1.4	1 800	0.4
Total customer accounts	641 824	100.0	413 520	100.0

At 31 December 2002 the Bank has 9 customers with balances above USD 6 000 thousand. The aggregate balances of these customers are USD 207 762 thousand, or 32% of total customer accounts.

Included in customer accounts are deposits of USD 1 196 thousand (2001: USD 14 523 thousand) held as collateral for irrevocable commitments under import letters of credit.

As at 31 December 2002 the estimated fair value of customer accounts was USD 641 824 thousand (2001: USD 413 520 thousand). Refer to Note 23.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 21. The relevant information on related party balances is disclosed in Note 24.

13. Other Borrowed Funds

The Bank has borrowings of USD 20 000 thousand (2001: USD 20 000 thousand) in the form of a subordinated loan from European Bank for Reconstruction and Development. The contractual maturity of this loan is 18 December 2007 and the annual interest rate is LIBOR plus 2.5% per annum.

As at 31 December 2002 the estimated fair value of other borrowed funds was USD 20 000 thousand (2001: USD 20 000 thousand). Refer to Note 23.

Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 21.

14. Share Capital

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

	2002			2001		
	Number of shares	Nominal amount in thousands of RR	Amount in thousands of USD	Number of shares	Nominal amount in thousands of RR	Amount in thousands of USD (restated)
Ordinary shares	1 000	1 004 000	165 000	1 000	1 004 000	165 000
Total share capital	1 000	1 004 000	165 000	1 000	1 004 000	165 000

Contributions to the Bank's share capital were originally made in the form of USD. All ordinary shares have a nominal value of RR 1 004 thousand per share, rank equally and carry one vote.

In the year 2001 the Bank changed its legal form from a limited liability partnership to a closed joint stock company. The units of the partners were converted into shares. As the Bank had an amount of total equity lower than the charter capital of the Bank, under Russian statutory rules applicable to joint stock companies, the Bank had to reduce its charter capital to RR 1 004 000 thousand and number of shares to 1 000 shares while changing its legal form. The participation percentage of the shareholders in the charter capital remained unchanged.

15. Accumulated Deficit and Other Reserves

In accordance with Russian Law on Banks and Banking Activity, the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules as at 31 December 2002 are RR 1 910 072 thousand (2001: RR 812 789 thousand).

16. Interest Income and Expense

	2002	2001 restated
Interest income		
Loans and advances to customers	40 074	44 463
Due from other banks	10 176	4 203
Securities	4 595	646
Total interest income	54 845	49 312
Interest expense		
Term placements of other banks	14 557	3 753
Term deposits of legal entities	4 706	12 965
Term deposits of individuals	3 773	5 743
Current /settlement accounts	3 618	2 086
Promissory notes	96	216
Total interest expense	26 750	24 763
Net interest income	28 095	24 549

17. Fee and Commission Income and Expense

	2002	2001 restated
Fee and commission income		
Commission income on investment banking operations	4 057	562
Commissions on operations with plastic cards	3 872	838
Commissions on export operations	2 518	1 755
Documentary business commissions	2 441	722
Commission transactions with securities	2 315	1 653
Commission on settlement transactions	2 200	2 924
Commission on cash operations	1 910	1 182
Other	4 089	3 251
Total fee and commission income	23 402	12 887

18. Operating Expenses

	2002	2001 restated
Fee and commission expense		
Standby facility fees (Note 21)	6 549	6 111
Documentary business commissions	1 784	418
Commissions on settlement transactions	973	187
Commission transactions with securities	761	380
Commission on currency conversion	391	900
Other	957	1 040
Total fee and commission expense	11 415	9 036
Net fee and commission income	11 987	3 851

	Note	2002	2001 restated
Staff costs		12 350	10 226
Other expenses related			
to premises and equipment		2 611	2 098
Taxes other than on income		2 272	962
Administrative expenses		2 089	2 382
Depreciation	10	1 904	962
Advertising and marketing		754	629
Professional services		485	346
Travelling and accommodation		353	81
Other operating expenses		1 928	172
Total operating expenses		24 746	17 858

19. Income Taxes

Income tax expense comprises the following:

	2002	2001 restated
Current tax charge	7 915	5 897
Deferred taxation movement due to:		
Origination and reversal of temporary differences	(2 679)	5 312
Effect of reduction in tax rate		(4 810)
Income tax expense for the year	5 236	6 399

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

	2002	2001 restated
Profit before taxation	29 413	24 787
Theoretical tax charge at the applicable statutory rate (2002: 24%; 2001: 24%)	7 059	5 949
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non deductible expenses recorded in reserves	14	
Non deductible provision for impairment of loans	(65)	(2 962)
Non temporary elements of translation gains and losses	1 690	2 744
Other accrued income/expenses	(1 164)	(40)
Other non temporary differences	355	2 927
Non deductible expenses	639	2 358
Utilisation of previously unrecognised tax losses	(3 182)	(2 701)
Income on government securities taxed at different rates	(148)	(898)
Movements in tax losses not utilised	1 545	5 735

	2002	2001 restated
Effect of the change in tax rate		(4 810)
Non-recognised net deferred tax asset movement	(1 507)	(1 903)
Income tax expense for the year	5 236	6 399

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

	2000 restated	Movement	2001 restated	Movement	2002
Tax effect of deductible temporary differences					
Premises and equipment	450	(450)			
Accruals	745	(330)	415	(415)	
Tax loss carried forward	8 750	(5 735)	3 015	(1 545)	1 470
Gross deferred tax asset	9 945	(6 515)	3 430	(1 960)	1 470
Less: non-recognised deferred tax asset	(3 410)	1 903	(1 507)	1 507	
Net deferred tax asset	6 535	(4 612)	1 923	(453)	1 470
Tax effect of taxable temporary differences					
Accruals	(1 321)	383	(938)	938	
Premises and equipment	(2 385)	1 267	(1 118)	45	(1 073)
Valuation of trading securities and originated loans	(363)	308	(55)	(29)	(84)
Loan impairment provision	(6 814)	2 152	(4 662)	2 178	(2 484)
Gross deferred tax liability	(10 883)	4 110	(6 773)	3 132	(3 641)
Total net deferred tax liability	(4 348)	(502)	(4 850)	2 679	(2 171)

The Bank has available USD 6 125 thousand (2001: USD 12 563 thousand) of tax loss carry forward, which can be utilised over the next year. The amount of tax loss, which can be used, is limited to 30% of the taxable profit for that year. Management has reviewed its profit forecast for the next year and as a result has recorded certain deductible temporary differences.

20. Dividends

Interim dividends for the year 2002 were declared by the Bank and paid in November 2002 in the amount of USD 3 000 thousand.

21. Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimize operational and legal risks.

Credit risk

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

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. 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 Bank's maximum exposure to credit risk is primary reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

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

Market risk

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

Geographical risk

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

	Russia	OECD	Non OECD	Total
Assets				
Cash and cash equivalents	64 367	208 334	3	272 704
Mandatory cash balances with the Central Bank of the Russian Federation	68 049			68 049
Trading securities	48 024			48 024
Due from other banks	83 877	110 501		194 378
Loans and advances to customers	741 752			741 752
Investment securities available for sale	7 987			7 987
Accrued interest income and other assets	4 465	485		4 950
Premises and equipment	15 137			15 137
Total assets	1 033 658	319 320	3	1 352 981
Liabilities				
Due to other banks	51 172	516 222	21	567 415
Customer accounts	627 522	12 330	1 972	641 824
Promissory notes	2 667			2 667
Other borrowed funds		20 000		20 000
Accrued interest expense and other liabilities	5 245	2 151	4	7 400
Deferred tax liability	2 171			2 171
Total liabilities	688 777	550 703	1 997	1 241 477
Net balance sheet position	344 881	(231 383)	(1 994)	111 504
Credit related commitments	124 587	150	—	124 737

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

	Russia	OECD	Non OECD	Total
Net balance sheet position (restated)	55 232	36 376	(1 281)	90 327
Credit related commitments (restated)	56 297	—	—	56 297

Currency risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2002. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet gap represents the difference between the notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Bank's exposure to currency movements, and their fair values.

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

	RR	USD	Euro	Other currencies	Total
Assets					
Cash and cash equivalents	46 713	178 244	46 485	1 262	272 704
Mandatory cash balances with the Central Bank of the Russian Federation	68 049				68 049
Trading securities	35 777	12 247			48 024
Due from other banks	74 377	118 805	1 196		194 378
Loans and advances to customers	44 391	670 806	21 819	4 736	741 752
Investment securities available for sale	7 987				7 987
Accrued interest income and other assets	2 602	2 163	185		4 950
Premises and equipment	15 137				15 137
Total assets	295 033	982 265	69 685	5 998	1 352 981
Liabilities					
Due to other banks	51 378	507 122	8 911	4	567 415
Customer accounts	199 945	378 431	63 207	241	641 824
Promissory notes		2 667			2 667
Other borrowed funds		20 000			20 000
Accrued interest expense and other liabilities	3 583	3 533	283	1	7 400
Deferred tax liability	2 171				2 171
Total liabilities	257 077	911 753	72 401	246	1 241 477
Net balance sheet position	37 956	70 512	(2 716)	5 752	111 504

	RR	USD	Euro	Other currencies	Total
Credit related commitments	3 541	101 614	19 271	311	124 737
Off-balance sheet net notional position	82 931	(79 781)	3 125	(6 560)	(285)

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

	RR	USD	Euro	Other currencies	Total
Net balance sheet position (restated)	(32 792)	119 042	(4 079)	8 156	90 327
Credit related commitments (restated)	44 680	657	8 003	2 957	56 297
Off-balance sheet net notional position (restated)	122 932	(129 108)	9 992	(3 866)	(50)

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

Liquidity risk

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

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

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

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	272 704					272 704
Mandatory cash balances with the Central Bank of the Russian Federation	54 869	9 849	2 477	854		68 049
Trading securities	48 024					48 024
Due from other banks	138 488	32 890	23 000			194 378
Loans and advances to customers	1 957	88 772	192 570	458 453		741 752
Investment securities available for sale		121	1 892	5 615	359	7 987
Accrued interest income and other assets	4 950					4 950
Premises and equipment					15 137	15 137
Total assets	520 992	131 632	219 939	464 922	15 496	1 352 981
Liabilities						
Due to other banks	57 001	233 515	8 076	268 823		567 415
Customer accounts	517 507	92 898	23 365	8 054		641 824
Promissory notes	1 316		1 351			2 667
Other borrowed funds				20 000		20 000
Accrued interest expense and other liabilities	7 400					7 400
Deferred tax liability					2 171	2 171
Total liabilities	583 224	326 413	32 792	296 877	2 171	1 241 477
Net liquidity gap	(62 232)	(194 781)	187 147	168 045	13 325	111 504
Cumulative liquidity gap at 31 December 2002	(62 232)	(257 013)	(69 866)	98 179	111 504	—
Cumulative liquidity gap at 31 December 2001 (restated)	(58 298)	(30 093)	60 056	82 194	90 327	—

The entire portfolio of trading securities is classified within demand and less than one month as the portfolio is of a trading nature and Management believe this is a fairer portrayal of its liquidity position.

Mandatory cash balances with the CBRF are mainly included within demand and less than one month as the majority of liabilities to which this balance relates to are also included within this category. However, these balances could be withdrawn only in the month subsequent to the month of the withdrawal of related customer accounts.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

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

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

The Parent Bank has committed to provide financial support to the Bank in the event of a substantial change in market conditions in the Russian Federation via a loan facility of up to USD 400 million. This commitment is valid for one year up to 31 December 2003. A similar arrangement with a facility of up to USD 400 million was effective during 2002. A substantial change of market conditions is defined as the impossibility for the Bank to borrow monetary funds on the currency market of the Russian Federation at a rate less than LIBOR plus 5%. During 2002 the Bank paid to the Parent Bank a standby facility fee of 1.5% or USD 6 549 thousand with respect to this arrangement. Refer to Notes 17 and 24.

Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins

may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

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

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

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing	Total
Assets						
Cash and cash equivalents	272 704					272 704
Mandatory cash balances with the Central Bank of the Russian Federation	54 869	9 849	2 477	854		68 049
Trading securities	48 024					48 024
Due from other banks	138 488	32 890	23 000			194 378
Loans and advances to customers	559 458	126 245	35 567	20 482		741 752
Investment securities available for sale		121	1 892	5 615	359	7 987
Accrued interest income and other assets	4 950					4 950
Premises and equipment					15 137	15 137
Total assets	1 078 493	169 105	62 936	26 951	15 496	1 352 981
Liabilities						
Due to other banks	88 356	312 036	8 175	158 848		567 415
Customer accounts	517 507	92 898	23 365	8 054		641 824
Promissory notes	1 316		1 351			2 667
Other borrowed funds		20 000				20 000

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing	Total
Accrued interest expense and other liabilities	7 400					7 400
Deferred tax liability					2 171	2 171
Total liabilities	614 579	424 934	32 891	166 902	2 171	1 241 477
Net liquidity gap	463 914	(255 829)	30 045	(139 951)	13 325	111 504
Cumulative gap at 31 December 2002	463 914	208 085	238 130	98 179	111 504	—

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

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

	2002				2001			
	USD	RR	Euro	Other currencies	USD	RR	Euro	Other currencies
Assets								
Debt trading securities	12.57%	16.49%				16.63%		
Due from other banks	1.17%	14.18%	0%		2.48%	23.55%	2.93%	0%
Loans and advances to customers	6.68%	16.65%	6.70%	5.92%	6.37%	28.03%	5.03%	6.49%
Debt investment securities available for sale		16.67%						
Liabilities								
Due to other banks	3.36%	12.35%	7.54%	0%	17.37%	4.97%	4.31%	0%
Customer accounts	1.31%	5.53%	1.06%	0%	2.36%	11.42%	1.63%	0.01%
Debt securities in issue	1.81%				3.46%	18.91%		
Other borrowed funds	4.16%				4.40%			

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

22. Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings

From time to time and in the normal course of business, claims against the Bank are received. On the basis of own estimates and internal and external professional advice the Management is of the opinion that no material losses will be incurred and accordingly no provision has been made in these financial statements.

Tax legislation

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

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

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

Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under non-cancellable premises operating leases are as follows:

	2002	2001 restated
Not later than 1 year	388	268
Later than 1 year and not later than 5 years	226	226
Later than 5 years	518	181
Total operating lease commitments	1 132	675

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Outstanding credit related commitments are as follows:

	2002	2001 restated
Import letters of credit	44 392	20 977
Guarantees issued	80 345	35 320
Total credit related commitments	124 737	56 297

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

Derivative financial instruments

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

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

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

	Domestic		Foreign			
	Principal or agreed amount	Negative fair value	Positive fair value	Principal or agreed amount	Negative fair value	Positive fair value
Deliverable forwards						
Foreign currency						
purchase RR against foreign currencies	52 166		166	91 987	(13)	
sale RR against foreign currencies	61 000	(222)				
purchase USD against other currencies				6 364	(196)	
Spot						
Foreign currency						
purchase EUR against other currencies				3 125	(20)	
Total	113 166	(222)	166	101 476	(229)	—

For these deals the Bank has recorded a net loss of USD 285 thousand which is included within gains less losses arising from trading in foreign currency.

Assets pledged

At 31 December 2002 the Bank has the following assets pledged as collateral:

	Notes	2002		2001	
		Asset pledged	Related liability	Asset pledged	Related liability
Trading securities	6, 11	7 570	7 614		
Total		7 570	7 614	—	—

In addition, mandatory cash balances with the CBRF in the amount of USD 68 049 thousand (2001: USD 41 589 thousand) represent mandatory cash reserve deposits which are not available to finance the Bank's day to day operations.

23. Fair Value of Financial Instruments

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

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. As described in more detail in Note 2, the Russian Federation has shown signs of an emerging market and has experienced a significant decline in the volume of activity in its financial markets. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Financial instruments carried at fair value

Cash and cash equivalents, trading securities and investment securities available for sale are carried on the balance sheet at their fair value.

Due from other banks

The fair value of floating rate placements is their carrying amount. The estimated fair value of fixed interest bearing placement is based on discounted cash flows using prevailing money market interest rates for instruments with similar credit

risk and remaining maturity. Refer to Note 7 for the estimated fair value of due from other banks as at 31 December 2002.

Loans and advance to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. Refer to Note 8 for the estimated fair value of loans and advances to customers as at 31 December 2002.

Borrowings

The estimated fair value of liabilities with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing placements and other borrowings without a quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. Refer to Notes 11, 12 and 13 for the estimated fair values of due to other banks, customer accounts and other borrowed funds as at 31 December 2002.

Debt securities in issue

For those securities where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

The fair value of derivatives is disclosed in Note 22.

24. Related Party Transactions

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

Banking transactions are entered into in the normal course of business with significant shareholders, directors, subsidiaries, associates, companies with which the Bank has significant shareholders in common and other related parties. These transactions include settlements, loans, deposit taking, guarantees, trade finance and foreign currency transactions. These transactions are priced pre-

dominantly at market rates. The outstanding balances at the year end and income and expense items for the year with related parties are as follows:

	2002	2001 restated
Correspondent accounts and overnight placements with other banks	188 162	120 787
Due from other banks		
Term placements at the year end	188 464	16 136
Loans and advances to customers		
Loans and advances at the year end	9 476	13 548
Provision for loan impairment at the year end	(1 142)	(1 083)
Interest income	3 758	7 391
Due to other banks		
Correspondent accounts and overnight placements of other banks at the year end	316	852
Term placement at the year end	475 382	195 130
Interest expense for the year	(7 532)	(8 970)
Customer accounts		
Current/settlement accounts at the year end	924	451
Guarantees issued by the Bank	81	4 150
Guarantees received by the Bank	297 915	229 539
Import letters of credit	651	—
Fee and commission expense (Note 21)	6 549	6 567
Profit/(loss) from FOREX operations	1 708	(1 397)
Profit on trading with securities	338	—

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Herbert Stepic (left), Chairman of the Supervisory Board of ZAO Raiffeisenbank Austria and Deputy Chairman of RZB receiving 'Best Bank in Central and Eastern Europe and Central Asia' award from Mark Johnson, the editor of the investment magazine Global Finance; Washington DC, March 2002.

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