

VOZROZHDENIYE BANK

Financial Statements and Auditors' Report

31 December 2001

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AUDITORS' REPORT

To the Supervisory Council of Vozrozhdeniye Bank:

- 1 We have audited the accompanying balance sheet of Vozrozhdeniye Bank (the "Bank") as at 31 December 2001, 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 2001 and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Moscow, Russia
15 May 2002

Vozrozhdeniye Bank**Balance Sheet as at 31 December 2001***(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2001 unless otherwise stated)*

	Note	2001	2000
Assets			
Cash and cash equivalents	5	1 359	877
Mandatory cash balances with the Central Bank of the Russian Federation		748	485
Trading securities	6	1 035	1 099
Due from other banks	7	530	277
Loans and advances to customers	8	6 452	6 335
Investment securities available for sale	9	353	94
Accrued interest income		165	403
Other assets	10	143	59
Premises and equipment	11	1 219	1 261
Total assets		12 004	10 890
Liabilities			
Due to other banks	12	412	547
Customer accounts	13	7 945	6 402
Other borrowed funds	14	2 601	3 253
Accrued interest expense		166	87
Other liabilities	16	129	804
		11 253	11 093
Long-term subordinated loans	15	365	468
Exchangeable convertible preference shares recorded as liabilities	17	89	202
Total liabilities		11 707	11 763
Shareholders' equity/(deficit)			
Share capital	17	3 749	3 749
Share premium	17	586	586
Accumulated deficit	18	(4 038)	(5 208)
Total shareholders' equity/(deficit)		297	(873)
Total liabilities and shareholders' equity/(deficit)		12 004	10 890

Signed on behalf of the Board of Directors on 15 May 2002.

President
Orlov D. L.

Chief Accountant
Novikova A. A.

Vozrozhdeniye Bank**Statement of Income for the Year Ended 31 December 2001***(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2001 unless otherwise stated)*

	Note	2001	2000
Interest income	19	973	1 107
Interest income on securities	19	157	75
Interest expense	19	(917)	(707)
Net interest income		213	475
(Provision)/recovery of provision for loan impairment	7, 8	(14)	1 017
Net interest income after provision for loan impairment		199	1 492
Gains less losses arising from trading securities		551	55
Losses less gains arising from investment securities available for sale		(88)	17
Gains less losses arising from dealing in foreign currencies		71	38
Foreign exchange translation gains less losses		69	21
Fee and commission income	20	324	301
Fee and commission expense	20	(19)	(23)
Recovery of provision/(provision) for losses on credit related commitments	27	615	(59)
Other operating income		38	17
Net revenues		1 760	1 859
Operating expenses	21	(1 209)	(999)
Reversal of losses on forward foreign exchange contracts	27	-	289
Monetary gain		245	779
Profit before taxation		796	1 928
Taxation	22	(1)	(8)
Net profit		795	1 920
Earnings per share (expressed in RR per share)	23		
Basic		71	176
Diluted		60	155

Vozrozhdeniye Bank**Statement of Cash Flows for the Year Ended 31 December 2001***(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2001 unless otherwise stated)*

	Note	2001	2000
Cash flows from operating activities			
Interest received on loans		1 102	903
Interest paid		(689)	(695)
Interest received on securities		179	75
Income received from dealing in trading securities		813	257
Income received from dealing in foreign currencies		71	38
Fees and commissions received		324	301
Fees and commissions paid		(19)	(23)
Other operating income received		39	17
Operating expenses paid		(1 009)	(833)
Income tax paid		(1)	(8)
Operating profit before changes in operating assets and liabilities		810	32
Net cash (increase)/decrease from operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(365)	(89)
Net increase in due from other banks		(212)	(258)
Net increase in loans and advances to customers		(1 101)	(135)
Net increase in trading securities		(343)	(1 219)
Net (increase)/decrease in other assets		(126)	17
Net decrease in due to other banks		(68)	(52)
Net increase in customer accounts		2 637	2 355
Net increase/(decrease) in other liabilities		72	(1)
Net cash from operating activities		1 304	650
Cash flows from investing activities			
Purchase of premises and equipment	11	(178)	(71)
Purchases of investment securities available for sale		(357)	-
Proceeds from sale of investment securities available for sale		-	120
Net cash (used in)/from investing activities		(535)	49
Cash flows from financing activities			
Payments on stabilisation loan from the Central Bank of the RF	14	(430)	-
Other borrowed funds received/(repaid)	14	338	(403)
Dividends paid	24	(3)	(3)
Net cash used in financing activities		(95)	(406)
Effect of exchange rate changes on cash and cash equivalents		15	12
Effect of inflation on cash and cash equivalents		(207)	(214)
Net increase in cash and cash equivalents		482	91
Cash and cash equivalents at beginning of the year		877	786
Cash and cash equivalents at the end of the year		1 359	877

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

Vozrozhdeniye Bank**Statement of Changes in Shareholders' Equity for the Year Ended 31 December 2001***(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2001 unless otherwise stated)*

	Share capital	Share premium	Accumulated deficit	Total shareholders' equity/(deficit)
Balance at 1 January 2000	3 718	150	(7 125)	(3 257)
Net profit for the year	-	-	1 920	1 920
Share issue				
- Nominal value	31	-	-	31
- Share premium	-	436	-	436
Dividends declared and paid (Note 24)				
- Preference shares	-	-	(3)	(3)
Balance at 31 December 2000 (as previously reported)	3 749	586	(5 208)	(873)
Effect of adopting of IAS 39 on:				
- Loans and advances to customers (Note 8)	-	-	(12)	(12)
- Exchangeable convertible preference shares recorded as liabilities (Note 17)	-	-	103	103
- Long-term subordinated loans (Note 15)	-	-	77	77
- Other borrowed funds (Note 14)	-	-	210	210
Balance at 31 December 2000 (restated)	3 749	586	(4 830)	(495)
Net profit for the year	-	-	795	795
Dividends declared and paid (Note 24)				
- Preference shares	-	-	(3)	(3)
Balance at 31 December 2001	3 749	586	(4 038)	297

1 Principal Activities

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

The Bank has 60 branches within the Russian Federation primarily in Moscow and the Moscow region. The Bank's registered Head office is located in Moscow, Luchnikov pereulok, 7/4. The number of the Bank’s employees as at 31 December 2001 was 3 635 (31 December 2000: 3 482).

2 Operating Environment of the Bank

The economy of the Russian Federation continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the country; a low level of liquidity in the public and private debt and equity markets; and relatively high inflation.

Additionally, 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 political stabilisation in 2000 and continuing into 2001 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 securities which would be determined in an efficient, active market involving willing buyers and willing sellers. Management has therefore used the best available information to adjust market quotations to reflect their best estimate of fair values where considered necessary.

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

Basis of Presentation. The financial statements of the Bank are prepared in accordance with International Accounting Standards. The Bank maintains its accounting records in accordance with Russian banking regulations. These financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with International Accounting Standards (“IAS”) issued by the International Accounting Standards Committee.

The financial statements are presented in the national currency of the Russian Federation, the Russian Rouble (“RR”), expressed in terms of the purchasing power of the Russian Rouble as at 31 December 2001.

As at 1 January 2001, the Bank adopted IAS 39 “Financial Instruments: Recognition and Measurement” (“IAS 39”). The financial effects of adopting IAS 39 are reported in the statement of changes in shareholders equity. IAS 39 has been applied prospectively in accordance with the requirements of the Standard and therefore corresponding financial information has not been restated. Further information relating to the effect of the adoption of IAS 39 is presented in the relevant accounting policies for loans and advances to customers and provision for loan impairment, investment securities available for sale, other borrowed funds, long-term subordinated loans, exchangeable convertible preference shares, and related disclosures.

Where necessary, corresponding figures, other than arising from the implementation of IAS 39, have been adjusted to conform with changes in the presentation of the current year.

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

Changes in the Financial Position of the Bank. The improved economic conditions in the Russian Federation during 2001 have enabled Management of the Bank to continue their efforts, commenced in 1999-2000 to strengthen the Bank's financial condition. As a result of these efforts the Bank has recorded a profit for the year ended 31 December 2001 of RR 795 million and the Bank has returned to a positive net equity position of RR 297 million. During 2001, the most significant actions of Management included:

- The Bank entered into several new agreements with the Agency on Restructuring Credit Institutions (ARCO), that resulted in a reduction of the Bank's credit related commitments and corresponding reductions in provisions for losses on these credit related commitments totalling RR 380 million (non-inflated, - Note 27).
- The Bank settled overdue credit related commitments totalling USD 7 million (Note 27).
- The Bank repaid RR 430 million of stabilisation loan to CBRF (Note 14).
- The Management of the Bank has undertaken measures aimed at diversifying the loan portfolio. There has also been an improvement in the quality of the loan portfolio, resulting in a reduction in the overall level of provision for loan impairment (Note 8).

Furthermore, efforts have been reinforced in order to improve the overall profitability of the Bank, and improve the efficiency of funds flows within the Bank. In addition, a series of initiatives aimed at attracting deposits to the Bank through its branch network have resulted in an increase in deposits during the year. Total number of customer accounts rose by 16% to approximately 135 thousand, and funds attracted during the year amounted to RR 1 543 million.

In addition as further discussed in Note 17, during 2000 the Bank issued exchangeable convertible preference shares which are recorded in these financial statements, in accordance with IAS, as liabilities. Management are of the opinion that these shares represent, in reality, equity of the Bank, but have been treated as liabilities under IAS.

During 2002 Management of the Bank will continue its program of measures aimed at further improving the financial position and profitability of the Bank. In the context of the economic environment in which the Bank operates (Note 2), Management is of the opinion that the Bank will be able to continue its operations and activities, and meet its obligations as they fall due for the foreseeable future. Accordingly, Management have prepared these financial statements on the basis that the Bank will continue as a going concern.

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 deposits, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

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

Trading securities. At 1 January 2001 the Bank adopted IAS 39 and classified part of its securities portfolio as "trading" securities. Trading securities are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. The Bank classifies securities into trading securities if it has an intention to sell them within one year after purchase.

Trading securities are initially recognised at cost (which includes transaction costs) and subsequently re-measured 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.

4 Significant Accounting Policies (Continued)

Changes in fair values are recorded within gains less losses arising from trading securities in the statement of income in the period in which the change occurs. Coupon and interest earned on trading securities are reflected in the statement of income as interest income on securities. Dividends received are included in other operating income.

Prior to the adoption of IAS 39 trading securities were treated by the Bank as part of its trading portfolio. Government securities and corporate shares were carried at market value. The values for other securities were derived either from market quotations or from the Management's assessment of the future realisability of these securities. Certain securities, for which there was no readily attainable market value or those securities for which Management had determined that the available quotation did not depict their true market value, were fair valued by Management. Changes in market values were recorded within gains less losses arising from securities in the statement of income in the period in which the change occurred. Coupon and interest earned on trading securities were reflected in the statement of income as interest income on securities. Dividends received were included in other operating income.

Loans and advances to customers and provisions for loan impairment. Loans originated by the Bank by providing money directly to the borrower are categorised as loans originated by the Bank and are carried at amortised cost less provision for loan impairment.

All loans and advances are recognised when cash is advanced to borrowers.

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. 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 based on the instrument's interest rate at inception.

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 legal procedures have been completed and the amount of the loss has been determined. Recoveries of amounts previously written off are treated as income.

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

Prior to the adoption of IAS 39, loans and advances were stated at the principal amounts outstanding net of provisions for losses on loans and advances.

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

Investment securities available for sale. At 1 January 2001 the Bank adopted IAS 39 and classified part of its securities portfolio as "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 re-measured to fair value based on their market price. Certain investment securities available for sale for which there is no available external independent quotation have been fair valued by Management. Fair value has been determined after the application of various valuation methodologies, including assumptions as to amounts to be realised on settlement. 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. Coupon and interest earned on investment securities available for sale are reflected in the statement of income as interest income on securities. Dividends received are included in other operating income.

4 Significant Accounting Policies (Continued)

Prior to adoption of IAS 39, all investment securities were carried at cost less provision for diminution in value, created in cases where the value of a security had declined, and Management believed that the decline was not temporary in nature. Income derived from investment securities was accounted for on a cash basis. On disposal, the difference between the net disposal proceeds and the carrying amount was charged or credited to income.

Premises and equipment. Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2001 less accumulated depreciation and provision for impairment when required. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the statement of income. The estimated recoverable amount is the higher of an asset's net selling price and its value in use.

Construction in progress is carried at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2001, less provision for any impairment in value. Upon completion, assets are transferred to premises and equipment at their carrying value. Construction in progress is not depreciated until the asset is available for use.

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

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

Premises 2% per annum; and

Equipment 15-20% per annum.

Leasehold improvements - over the term of the underlying lease.

Promissory notes. Promissory notes issued by the Bank to its customers, more commonly known as "veksels", either carry a fixed date of repayment, or are repaid on demand. 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 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.

Prior to the adoption of IAS 39, promissory notes issued by the Bank were recorded at nominal value with the corresponding discount recorded within other assets and amortised to the statement of income over the period of maturity of the security.

The Bank also purchases promissory notes from its customers or in the market. These promissory notes are included within trading securities, loans and advances to customers or in due from other banks, depending on their substance and subsequently re-measured and accounted in accordance with the accounting policies described above for those categories of assets.

Borrowings. Borrowings are recognised initially at 'cost', being their issue proceeds net of transaction costs incurred. Subsequently borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the statement of income over the period of the borrowings using the effective yield method.

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

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

4 Significant Accounting Policies (Continued)

Dividends. Dividends payable are not accounted for until they have been ratified at the Bank's Annual General Meeting. 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. Charge for taxation in the statement of income for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the year, using the tax rates enacted at the balance sheet date. Taxes, other than on income, are recorded within operating expenses.

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

Income and expense recognition. Interest income and expense are recognised in the statement of income on an accruals basis. Interest income is not recognised when it is overdue and/or in situations where Management believes it is not collectible. Interest income includes coupons earned on fixed income securities and accrued discount. Commissions and other income are credited to income when the related transactions are completed. Non-interest expenses are recognised at the time the products are received or the service is provided.

Foreign currency translation. Transactions denominated in foreign currency are recorded at the exchange rate ruling on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the statement of income using the exchange rate ruling on that date.

Monetary assets and liabilities denominated in foreign currency are translated into Russian Roubles at the official exchange rate of the CBRF at the balance sheet date. Foreign currency gains and losses arising from the translation of assets and liabilities are reflected in the statement of income as foreign exchange translation gains less losses. As at 31 December 2001 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 30.14 (2000: USD 1 = RR 28.16). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a convertible currency outside of the Russian Federation.

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

Changes in the fair value of derivatives are included in gains less losses arising from dealing in foreign currency, gains less losses arising from trading securities and gains less losses from dealing in precious metals depending on the related contracts.

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

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

Accounting for the effects of hyperinflation. Russia continues to experience relatively high levels of inflation and is considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). Accordingly, adjustments and reclassifications made for the purposes of IAS presentation include the restatement, in accordance with IAS 29, for changes in the general purchasing power of the Russian Rouble. IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. IAS indicates that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

4 Significant Accounting Policies (Continued)

The application of IAS 29 results in an adjustment to the statement of income for the loss of purchasing power of the Russian Rouble. This gain or loss on net monetary position is calculated as the difference resulting from the restatement of non-monetary assets, shareholders' equity and profit and loss account items. Corresponding figures for the year ended 31 December 2000 have also been restated for the changes in the general purchasing power of the Russian Rouble at 31 December 2001.

The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992. The indices used to restate the financial statements are based on 1988 prices using 100 as the base index. The inflation indices for the five years ended 31 December 2001 and the respective conversion factors are the following:

	Index	Conversion Factor
1997	659 403	3.6
1998	1 216 400	2.0
1999	1 661 481	1.4
2000	1 995 937	1.2
2001	2 371 572	1.0

Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at 31 December 2001. Non-monetary assets and liabilities (items which are not expressed in terms of the monetary unit current at 31 December 2001) are restated by applying the relevant conversion factor. The effect of inflation on the Bank's net monetary position is included in the statement of income as a monetary gain or loss.

Premises and equipment have been indexed by the change in the CPI from the date of purchase or from the date of the last revaluation. Where indexation is applied, an assessment has been made of the potential impairment and diminution in the carrying value of these assets and, where applicable, such assets have been reduced to their recoverable amounts.

Components of equity have been indexed by the change in the CPI from the approximate date of transactions resulting in movements in equity.

Amounts included in the statement of income have been indexed by the change in the general price index based on following assumptions:

- Inflation has occurred evenly over the year; and
- Income and expenditures have accrued evenly over the year except for charges against profit for aggregate movements in provisions for loan impairment;

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

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

Segment reporting. A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Geographical segments of the Bank have been reported separately within these financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

Vozrozhdeniye Bank**Notes to the Financial Statements – 31 December 2001***(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2001 unless otherwise stated)***5 Cash and Cash Equivalents**

	2001	2000
Cash on hand	359	298
Cash balances with the CBRF (other than mandatory reserve deposits)	442	356
Correspondent accounts and overnight deposits with other banks		
- Russian Federation	22	20
- Other countries	536	203
Total cash and cash equivalents	1 359	877

6 Trading Securities

	2001	2000
RR denominated securities		
Federal loan bonds (OFZ)	31	44
Corporate shares	47	34
Promissory notes	36	128
US dollar denominated securities		
VneshEconomBank 3% coupon bonds (VEB)	88	149
Russian Federation Eurobonds	833	515
Promissory notes	-	229
Total trading securities	1 035	1 099

Federal loan bonds (OFZ) are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds are issued at a discount to face value, have a medium to long-term maturity period with a coupon rate of approximately 5-15% in 2001 and yield to maturity from 15% to 17%, depending on the type of bond issue.

Corporate shares are shares of Russian companies.

Promissory notes denominated in Roubles represent debt securities issued by a publicly traded Russian company, and debt securities of a Russian commercial bank. Promissory notes were issued at discount to nominal value, bear interest at 6-24%, and mature in 2002. These promissory notes are traded in the over-the-counter market and are carried at market value as at 31 December 2001.

VEB bonds are bearer securities which carry the guarantee of the Ministry of Finance of the Russian Federation, and are commonly referred to as "MinFin bonds". The bonds are purchased at a discount to nominal value and carry an annual coupon of 3%. The bonds have maturity dates from May 2006 to May 2008 and yield to maturity from 12% to 14%. VEB bonds are stated at market value. As at 31 December 2001 VEB bonds with a market value of RR 20 million (2000: RR 10 million) and a nominal value of USD 1.2 million (2000: USD 1.2 million) have been pledged to third parties as collateral.

Russian Federation Eurobonds are securities issued by the Ministry of Finance of the Russian Federation and are freely tradable internationally. The Bank's portfolio of Russian Federation Eurobonds consists of GLB-18 and GLB-30 tranches with maturity dates ranging from July 2018 to March 2030 and yield to maturity from 11.5% to 12.5%. The annual coupon rates on these bonds range from 5% to 11%, and interest is payable semi-annually.

As at 31 December 2000 promissory notes denominated in USD were issued by a Russian commercial bank at nominal value, bearing interest at 8%, and maturing in 2002. As these promissory notes were not traded in the over-the-counter market, Management has estimated their fair value based on a discounted cash flow model as at 31 December 2000. During 2001 the Bank has sold these promissory notes.

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

Vozrozhdeniye Bank**Notes to the Financial Statements – 31 December 2001***(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2001 unless otherwise stated)***7 Due from Other Banks**

	2001	2000
Current loans	530	180
Restricted placements with banks	-	203
Overdue placements	8	8
Less: Provision for loan impairment	(8)	(114)
Total due from other banks	530	277

Movements in the provision for loan impairment are as follows:

	2001	2000
Provision for loan impairment at 1 January	114	44
(Recovery of provision for loan impairment during the year)/charge for provision for loan impairment during the year	(88)	77
Effect of inflation	(18)	(7)
Provision for loan impairment at 31 December	8	114

Restricted placements with banks as at 31 December 2000 included a USD denominated deposit of RR 168 million (USD 5 million), placed with a foreign bank as collateral for a guarantee. The Bank recorded a provision for potential losses of RR 101 million related to this agreement as at 31 December 2000. Access to those funds was restricted in accordance with the collateral agreement. The remaining balance of restricted placements with banks of RR 35 million (USD 1.05 million) as at 31 December 2000 represented deposit placed with a foreign bank as a collateral for custom settlements of the Banks' clients. Access to these funds was restricted. During 2001 no obligation arose under the custom settlements agreements, and as at 31 December 2001 there are no restricted placements with banks.

Geographical and currency analysis of due from other banks is disclosed in Note 25. The effective average interest rates and maturity structure of due from other banks is detailed in Note 26.

8 Loans and Advances to Customers

	2001	2000
Current loans	4 463	3 091
Rescheduled (current) loans	3 313	4 831
Overdue loans	5	100
Less: Provision for loan impairment	(1 329)	(1 687)
Total loans and advances to customers	6 452	6 335

Vozrozhdeniye Bank**Notes to the Financial Statements – 31 December 2001***(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2001 unless otherwise stated)***8 Loans and Advances to Customers (Continued)**

Movements in the provision for loan impairment are as follows:

	2001	2000
Provision for loan impairment at 1 January	1 687	3 351
Adjustment on adoption of IAS 39	12	-
Charge for provision for loan impairment during the year/(recovery of provision for loan impairment during the year)	102	(1 094)
Loans and advances to customers written off during the year as uncollectable	(205)	(8)
Effect of inflation	(267)	(562)
Provision for loan impairment at 31 December	1 329	1 687

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

	2001		2000	
	Amount	%	Amount	%
Manufacturing	2 985	38	2 172	27
Construction	1 143	15	1 450	19
Loans issued under a staff compensation plan	926	12	836	10
Government bodies and municipal authorities	797	10	1 700	21
Trade	613	8	406	5
Individuals	550	7	293	4
Transport	208	3	271	3
Agricultural	195	3	342	4
Finance	20	-	149	2
Other	344	4	403	5
Total loans and advances to customers (aggregate amount)	7 781	100	8 022	100

The Bank has 7 borrowers with aggregated loan amounts above RR 149 million. The aggregate amount of these loans is RR 2 458 million or 32% of the loan portfolio.

As at 1 January 2001 the Bank adopted IAS 39 (Note 3). As a result, as at 31 December 2001, loans and advances to customers were recorded at amortised cost less provision for loan impairment. The difference between amortised cost less provision for loan impairment and balances previously reported as at 1 January 2001 in the amount of RR 12 million was recorded in the statement of changes in shareholders equity.

The geographical and currency analysis of loans and advances to customers is disclosed in Note 25. The effective average interest rates and maturity structure of the loan portfolio is detailed in Note 26. The Bank has several loans to related parties. The relevant information on related party loans is disclosed in Note 29.

Included in loans to individuals are loans in the amount of RR 926 million (2000: 836 RR million) granted to employees of the Bank under a staff compensation plan (Note 13). The Bank does not bear credit risk on these loans.

Vozrozhdeniye Bank**Notes to the Financial Statements – 31 December 2001***(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2001 unless otherwise stated)***9 Investment Securities Available for Sale**

	2001	2000
Investments held for sale	305	37
Investment in non-consolidated subsidiary companies	44	53
Investment in associated companies	4	4
Total investment securities available for sale	353	94

As described in Note 3, the Bank adopted IAS 39 as at 1 January 2001. Prior to the adoption of IAS 39, investment securities available for sale were carried at cost less provision for impairment, and this net amount is regarded, under IAS 39, as the carrying value of this investment.

As at 31 December 2001 investments held for sale include RR 268 million (nominal value RR 335 million) of promissory notes issued by the Agency for Restructuring of Credit Organisations (ARCO). The Bank has entered into an option agreement with ARCO under which the Bank has the right to exchange the ARCO promissory notes for 10% of the ordinary shares of a large Russian meat processing company (the "Plant"). As at 31 December 2001 ARCO owns 20% of the share capital of the Plant (refer to Note 27).

10 Other Assets

	2001	2000
Trade debtors and prepayments	104	33
Deferred charges	16	4
Settlements on conversion operations	12	5
Prepaid taxes	9	11
Other	2	6
Total other assets	143	59

Vozrozhdeniye Bank**Notes to the Financial Statements – 31 December 2001***(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2001 unless otherwise stated)***11 Premises and Equipment**

	Premises and leasehold improvements	Office and computer equipment	Construction in progress	Total
Net book amount at 31 December 2000	1 027	143	91	1 261
Book amount at cost				
Opening balance	1 145	1 010	91	2 246
Additions	17	98	63	178
Disposals	(14)	(30)	(26)	(70)
Closing balance	1 148	1 078	128	2 354
Accumulated depreciation				
Opening balance	118	867	-	985
Depreciation charge (Note 21)	23	154	-	177
Disposals	(1)	(26)	-	(27)
Closing balance	140	995	-	1 135
Net book amount at 31 December 2001	1 008	83	128	1 219

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

12 Due to Other Banks

	2001	2000
Correspondent accounts and overnight deposits of other banks	168	145
Term deposits	-	74
Current loans	244	328
Total due to other banks	412	547

Geographical and currency analysis of due to other banks is disclosed in Note 25. The effective average interest rates and maturity structure of due to other banks is detailed in Note 26.

Vozrozhdeniye Bank**Notes to the Financial Statements – 31 December 2001***(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2001 unless otherwise stated)***13 Customer Accounts**

	2001	2000
State and public organisations		
- Current/settlement accounts	1 123	2 318
- Term deposits	433	577
Other legal entities		
- Current/settlement accounts	1 991	711
- Term deposits	1 514	1 069
Individuals		
- Current/demand accounts	1 101	660
- Term deposits	1 783	1 067
Total customer accounts	7 945	6 402

Included in term deposits of other legal entities are RR 926 million (2000: RR 836 million) placed with the Bank under a staff compensation plan (Note 8).

The geographical and currency analysis of customer accounts is disclosed in Note 25. The effective average interest rates and maturity analysis is provided in Note 26. The Bank has several deposits with related parties. The relevant information on related party deposits is disclosed in Note 29.

Economic sector concentrations within customer accounts are as follows:

	2001		2000	
	Amount	%	Amount	%
Individuals	2 884	36	1 727	27
Government bodies and municipal authorities	1 556	20	2 895	45
Finance	1 189	15	553	9
Manufacturing	864	11	408	6
Agriculture	625	8	397	6
Trade	512	6	232	4
Construction	169	2	157	3
Other	146	2	33	-
Total customer accounts	7 945	100	6 402	100

Vozrozhdeniye Bank

Notes to the Financial Statements – 31 December 2001

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

14 Other Borrowed Funds

	2001	2000
Stabilisation loans from CBRF	747	1 461
IBRD and EBRD loans	1 128	1 331
Other	726	461
Total other borrowed funds	2 601	3 253

CBRF stabilisation loans. The Bank received two stabilisation loans from the CBRF during 1998-1999 for the purpose of improving the financial and liquidity position of the Bank. The loan of RR 380 million was repaid by the Bank in several instalments during 2001. The second loan was partly repaid by the Bank in the amount of RR 50 million in February 2001, and the rest of the loan principal is due for repayment on 10 July 2002.

The loan bears contractual interest of one third of the CBRF refinancing rate which as at 31 December 2000 was 8.33% (2000: 8.33%).

IBRD and EBRD loans. During 1996-1997 the Bank was granted 3 credit line facilities for the amounts of USD 50 million, USD 10 million and USD 12.5 million from the International and European Banks for Reconstruction and Development (IBRD and EBRD). The financing is used under the terms of the following programs - Housing Construction Project, Enterprises Support Program (ESP) and the Financial Institutions Development Program (FIDP). The interest rates on these facilities range from 6-8% (2000: 8-10%), with interest payable semi-annually. The Bank received these funds from the Ministry of Finance of the Russian Federation, which acted as an agent in providing these loan facilities.

Within the credit line granted under the Housing Construction Project the Bank has drawn down a total of USD 37 million. As at 31 December 2001 the outstanding facility under this project amounted to RR 1 040 million (1999: RR 993 million), the equivalent of USD 34.5 million. The facility is repayable in increasing instalments over 10 years, beginning in 1999. The Bank repaid USD 750 thousand in 2001. At present the Management is continuing negotiations with the Ministry of Finance of the Russian Federation in respect of amending the schedule of repayment of these loan facilities. Management considers that it is currently not possible to estimate with reasonable accuracy the amount of restructuring expenses, if any, that the Bank may incur on agreement of a new repayment schedule.

During 2001 the Bank has fully repaid the USD 1.1 million drawn down under ESP.

As at 31 December 2001 a total of RR 88 million (1999: RR 96 million), the equivalent of USD 2.9 million has been drawn down under FIDP. The facility is repayable in instalments over 8 years, beginning in January 2000. During 2001 the Bank repaid USD 492 thousand of this facility.

Other. Other includes promissory notes and certificates of deposits, which generally mature within 2-3 months from 31 December 2001. The average interest rates on bills of exchange and certificates of deposits outstanding at 31 December 2001 was 11% for Rouble denominated securities, and 6% for foreign currency denominated securities.

As at 31 December 2000 other borrowed funds were recorded at their nominal value. As at 1 January 2001 the Bank adopted IAS 39 (Note 3). As a result as at 31 December 2001 other borrowed funds were recorded at amortised cost. The difference between nominal value and amortised cost of other borrowed funds as at 1 January 2001 in the amount of RR 210 million was recorded in the statement of changes in the shareholders equity.

Currency analysis of other borrowed funds is disclosed in Note 25 and maturity analysis is provided in Note 26.

15 Long-Term Subordinated Loans

During 2000 the Bank entered into agreements with two Russian companies to restructure liabilities on customer accounts into long term subordinated loans as follows:

- USD denominated customer deposit in the amount of USD 8 million was restructured into a USD denominated subordinated loan in the same amount on 17 April 2000. The subordinated loan bears contractual interest at 2.25% and matures in 2006.
- USD denominated customer deposit in the amount of USD 6 million was restructured into a USD denominated subordinated loan in the same amount on 31 March 2000. The subordinated loan bears interest at 12% and matures in 2008.

No gains or losses were recorded on these restructuring transactions in 2000. Under the terms of the subordinated loans, in the event of liquidation of the Bank, the repayment of these loans is subordinated to all other creditors of the Bank.

As at 31 December 2000 long-term subordinated loans were recorded at their nominal value. As at 1 January 2001 the Bank adopted IAS 39 (Note 3). As a result as at 31 December 2001 long-term subordinated loans were recorded at amortised cost. The difference between nominal value and amortised cost of long-term subordinated loans as at 1 January 2001 in the amount of RR 77 million was recorded in the statement of changes in the shareholders' equity.

16 Other Liabilities

	2001	2000
Provision for credit related commitments (Note 27)	50	790
Settlements on conversion operations	39	-
Other accruals and deferred income	29	-
Taxation payable	8	11
Other	3	3
Total other liabilities	129	804

17 Share Capital and Share Premium

Statutory capital authorised, issued and fully paid comprises:

	2001			2000		
	Number of shares	Nominal amount	Inflation adjusted amount	Number of shares	Nominal amount	Inflation adjusted amount
Ordinary shares	11 248 753	112	3 685	11 248 753	112	3 685
Preference shares	12 945 050	13	52	12 945 041	13	52
Convertible preference shares	1 999 941	20	29	1 999 941	20	29
Less: exchangeable convertible preference shares recorded as liabilities	(1 176 470)	(12)	(17)	(1 176 470)	(12)	(17)
Total share capital		133	3 749		133	3 749

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

17 Share Capital and Share Premium (Continued)

Preference shares and convertible preference shares have nominal values of RR 1 and RR 10 respectively and do not carry voting rights at the General Shareholders' Meeting (GSM) except for the cases stipulated by the Charter of the Bank. Preference shares give the holder the right to receive an annual fixed dividend of 20% p.a. of its nominal value. The final dividend is to be approved by the GSM. The GSM can decide on non-payment of dividends or on partial payment of dividends.

During 2000 the Bank increased its statutory share capital as follows:

- 1 418 181 ordinary shares were issued for RR 214 per share (historic cost – 155 per share), resulting in an increase in share capital of RR 304 million, including share premium of RR 284 million
- 1 999 941 convertible preference shares were issued for RR 198 per share (historic cost – RR 144 per share), resulting in an increase in share capital of RR 397 million including share premium of RR 370 million.

The Bank issued these shares to creditors of the Bank as part of debt restructuring agreements as settlements for amounts issued to these creditors. No cash was received by the Bank as a result of these share issues. No gain or loss was recorded by the Bank on these transactions.

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

Included in convertible preference shares are 1 176 470 of exchangeable convertible preference shares issued to Canadian Imperial Bank of Commerce ("CIBC") as part of a debt restructuring agreement in 2000. In accordance with an agreement between the Bank and CIBC, the Bank has agreed to exchange these preference shares into long-term (six year) debt instruments in 2005 at a price of USD 5.10 per share. These will be repaid by the Bank in equal instalments during the six years following the date of exchange. CIBC has the right to sell the exchangeable convertible preferred shares to third parties. In the event of such a sale, the exchange agreement with the Bank expires. In accordance with IAS these exchangeable convertible preference shares are recorded in the balance sheet as a liability. Management are of the opinion that these shares represent equity of the Bank.

As at 31 December 2000 exchangeable convertible preference shares were recorded at their nominal value. As at 1 January 2001 the Bank adopted IAS 39 (Note 3). As a result as at 31 December 2001 exchangeable convertible preference shares were recorded at amortised cost. The difference between nominal value and amortised cost of exchangeable convertible preference shares as at 1 January 2001 in the amount of RR 103 million was recorded in the statement of changes in shareholders equity.

As at 31 December 2001, 550 000 ordinary shares of the Bank had the right to circulate on international exchange markets through Level One American Depository Receipts (ADR). One ADR corresponds to one ordinary share of the Bank with nominal value RR 10. The Bank of New York, which is registered as the nominal holder of the 550 000 ordinary shares, is the issuer of the ADRs.

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

18 Accumulated Deficit and Other Reserves

In accordance with Russian Law on Banks and Banking Activity, the Bank must distribute all profits as dividends or transfer 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 2001 are RR 126 million (2000: RR 214 million (non-inflated)).

Vozrozhdeniye Bank**Notes to the Financial Statements – 31 December 2001***(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2001 unless otherwise stated)***19 Interest Income and Expense**

	2001	2000
Interest income		
Loans and advances to customers	910	1 098
Due from other banks	63	9
Securities	157	75
Total interest income	1 130	1 182
Interest expense		
Other borrowed funds	284	202
Term deposits of individuals	212	170
Term deposits of legal entities	135	96
Term placements of banks	130	23
Current/settlement accounts	67	127
Promissory notes	53	65
Subordinated loans	36	24
Total interest expense	917	707
Net interest income	213	475

On 1 January 2001 the Bank adopted IAS 39 (Note 3). As a result of the change in accounting arising from the implementation of IAS 39, the statement of income for the year ended 31 December 2001, records interest expense based on effective interest rates. This results in a higher interest expense in the amount of RR 142 million when compared with the 31 December 2000 statement of income. In 2000 prior to the adoption of IAS 39 the Bank recorded interest expenses based on contractual rates.

20 Fee and Commission Income and Expense

	2001	2000
Commission on cash transactions	149	114
Commission on settlement transactions	91	84
Commission on project finance	19	39
Commission on cash collection	18	20
Other	47	44
Total fee and commission income	324	301
Total fee and commission expense	19	23
Net fee and commission income	305	278

21 Operating Expenses

	2001	2000
Staff costs	527	403
Depreciation of premises and equipment (Note 11)	177	157
Maintenance, repairs and transport	110	79
Taxes other than on income	109	115
Other expenses related to premises and equipment	94	63
Stationery, printing and communication	66	61
Administrative expenses	40	82
Other	86	39
Total operating expenses	1 209	999

22 Income Taxes

Income tax expense was comprised of the following:

	2001	2000
Current tax charge	1	8
Income tax expense for the year	1	8

The income tax rate applicable to the majority of the Bank's income is 43 percent (2000: 38 percent). Effective 1 January 2001, the tax rate has been increased from 38 percent to 43 percent. A 24 percent income tax rate has been enacted in August 2001 which becomes effective starting from 1 January 2002. A reconciliation between the expected and the actual taxation charge is provided below.

	2001	2000
IAS profit before taxation	796	1 928
Theoretical tax charge at the applicable statutory rate	342	733
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income on government securities taxed at different rates	1	8
- Non deductible provisions for credit related commitments	(264)	(86)
- Non deductible provisions for loans and advances to customers	(31)	95
- Non temporary elements of monetary gains and losses	(34)	(201)
- Other non temporary differences	66	6
Tax loss carry forward not recognised	35	-
Effect of the change in tax rate	133	(57)
Inflation effect on deferred tax balance at the beginning of the year	78	198
Non-recognised net deferred tax asset movement	(325)	(688)
Income tax expense for the year	1	8

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

22 Income Taxes (Continued)

	2000	Movement	2001
Tax effect of deductible temporary differences			
Loan impairment provision	606	(364)	242
Fair valuation of trading securities	173	(173)	-
Fair valuation of investment securities available for sale	-	16	16
Accruals	-	2	2
Other	48	(40)	8
Gross deferred tax asset	827	(559)	268
Less: non-recognised deferred tax asset	(494)	325	(169)
Net deferred tax asset	333	(234)	99
Tax effect of taxable temporary differences			
Premises and equipment	(164)	82	(82)
Fair valuation of trading securities	-	(17)	(17)
Accruals	(169)	169	-
Gross deferred tax liability	(333)	234	(99)
Total net deferred tax asset	-	-	-

As at 31 December 2001, a net deferred tax asset in the amount of RR 169 million (2000: RR 494 million) has not been recorded for the net deductible temporary differences as it is not probable that sufficient taxable profit will be available to allow the benefit of that deferred tax asset to be utilised.

The Bank also has available RR 35 million of tax loss carry forwards, which may be utilised during 10 years starting from 2002. The tax loss carry forwards have not been recognised as deferred tax assets, due to the uncertainty of future utilisation.

23 Earnings per Share

Basic earnings per share are calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

	2001	2000
Net profit attributable to shareholders	795	1 920
Less: preference dividends	(3)	(3)
Net profit attributable to ordinary shareholders	792	1 917
Weighted average number of ordinary shares in issue (millions)	11.2	10.9
Basic earnings per share (expressed in RR per share)	71	176

23 Earnings per Share (Continued)

For the diluted earnings per share the weighted number of shares outstanding is adjusted to assume conversion of all potential dilutive shares. The Bank's convertible preference shares with a nominal value of 10 RR per share (Note 17) should be converted into ordinary shares in 2005. The basis of conversion is 1 preference share to 1 ordinary share. In the diluted EPS calculation all convertible preference shares are assumed to have been converted into ordinary shares.

	2001	2000
Net profit attributable to shareholders	795	1 920
Less: preference dividends	(3)	(3)
Net profit attributable to ordinary shareholders	792	1 917
Weighted average number of ordinary shares in issue (millions)	11.2	10.9
Adjustment for assumed conversion of convertible preference shares (millions)	2.0	1.5
Weighted average number of ordinary shares for diluted earnings per share (millions)	13.2	12.4
Diluted earnings per share (expressed in RR per share)	60	155

24 Dividends

	2001	2000
Preference dividends		
Declared and paid during the year	3	3
Total dividends	3	3

All dividends are declared and paid in Russian Roubles.

Vozrozhdeniye Bank**Notes to the Financial Statements – 31 December 2001***(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2001 unless otherwise stated)***25 Geographical Analysis and Currency Risk**

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

	Russia	OECD	Non OECD	Total
Assets				
Cash and cash equivalents	823	530	6	1 359
Mandatory cash balances with the Central Bank of the Russian Federation	748	-	-	748
Trading securities	1 035	-	-	1 035
Due from other banks	511	19	-	530
Loans and advances to customers	6 452	-	-	6 452
Investment securities available for sale	332	1	20	353
Accrued interest income	165	-	-	165
Other assets	142	1	-	143
Premises and equipment	1 219	-	-	1 219
Total assets	11 427	551	26	12 004
Liabilities				
Due to other banks	294	91	27	412
Customer accounts	7 909	-	36	7 945
Other borrowed funds	2 571	-	30	2 601
Accrued interest expense	166	-	-	166
Other liabilities	129	-	-	129
Long term subordinated loans	365	-	-	365
Exchangeable convertible preference shares recorded as liabilities	-	89	-	89
Total liabilities	11 434	180	93	11 707
Net balance sheet position at 31 December 2001	(7)	371	(67)	297
Net balance sheet position at 31 December 2000	(820)	(224)	171	(873)

25 Geographical Analysis and Currency Risk (Continued)

Currency analysis. Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. At year end, the Bank had balances in Russian Roubles and other currencies. Other currencies represent mainly amounts in US dollars and the Euro.

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

	RR	USD	Euro	Other currencies	Total
Assets					
Cash and cash equivalents	715	603	34	7	1 359
Mandatory cash balances with the Central Bank of the Russian Federation	748	-	-	-	748
Trading securities	114	921	-	-	1 035
Due from other banks	360	170	-	-	530
Loans and advances to customers	3 464	2 988	-	-	6 452
Investment securities available for sale	332	20	1	-	353
Accrued interest income	89	76	-	-	165
Other assets	91	51	1	-	143
Premises and equipment	1 219	-	-	-	1 219
Total assets	7 132	4 829	36	7	12 004
Liabilities					
Due to other banks	248	164	-	-	412
Customer accounts	5 747	2 180	11	7	7 945
Other borrowed funds	1 230	1 371	-	-	2 601
Accrued interest expense	120	46	-	-	166
Other liabilities	33	84	12	-	129
Long term subordinated loans	-	365	-	-	365
Exchangeable convertible preference shares recorded as liabilities	-	89	-	-	89
Total liabilities	7 378	4 299	23	7	11 707
Net balance sheet position at 31 December 2001	(246)	530	13	-	297
Credit commitments	704	390	137	-	1 231

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.

26 Interest Rate, Liquidity, Market and Credit Risks

Interest rate risk. The Bank is exposed to interest rate price risk, principally as a result of lending and advances to customers and other banks, at fixed interest rates, in amounts and for periods which differ from those of term deposits and other borrowed funds at fixed interest rates.

In practice, interest rates are generally fixed on a short term basis normally at three month intervals. Also, interest rates that are contractually fixed on both assets and liabilities are often renegotiated to reflect current market conditions.

26 Interest Rate and Liquidity, Market and Credit Risks (Continued)

The table below summarises the effective average year end interest rate, by major currencies, for monetary financial instruments outstanding as at 31 December 2001. The analysis has been prepared on the basis of weighted average interest rates for the various financial instruments using year end contractual rates.

	2001		2000	
	USD	RR	USD	RR
Assets				
Cash and cash equivalents	1%	2%	1%	2%
Trading securities	12%	20%	12%	21%
Due from other banks	8%	14%	9%	16%
Loans and advances to customers	14%	27%	14%	22%
Liabilities				
Due to other banks	8%	1%	10%	1%
Customer accounts				
- Current and settlement accounts	0%	1%	0%	1%
- Term deposits	6%	14%	4%	16%
Promissory notes	6%	11%	6%	12%
Other borrowed funds	7%	25%	7%	11%
Long-term subordinated loans	10%	-	6%	-
Exchangeable convertible preference shares recorded as liabilities	9%	-	-	-

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

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. Liquidity risk is managed by the Liquidity Division of the Bank. The table below shows assets and liabilities as at 31 December 2001 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 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.

Vozrozhdeniye Bank**Notes to the Financial Statements – 31 December 2001***(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2001 unless otherwise stated)***26 Interest Rate and Liquidity, Market and Credit Risks (Continued)**

The liquidity position of the Bank as at 31 December 2001 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	1 359	-	-	-	-	1 359
Mandatory cash balances with the Central Bank of the Russian Federation	748	-	-	-	-	748
Trading securities	1 035	-	-	-	-	1 035
Due from other banks	361	-	169	-	-	530
Loans and advances to customers	877	3 029	1 307	1 239	-	6 452
Investment securities available for sale	-	-	-	-	353	353
Accrued interest income	21	78	34	32	-	165
Other assets	75	68	-	-	-	143
Premises and equipment	-	-	-	-	1 219	1 219
Total assets	4 476	3 175	1 510	1 271	1 572	12 004
Liabilities						
Due to other banks	245	95	-	72	-	412
Customer accounts	6 086	1 517	330	12	-	7 945
Other borrowed funds	326	246	869	1 160	-	2 601
Accrued interest expense	127	32	7	-	-	166
Other liabilities	50	29	-	50	-	129
Long term subordinated loans	-	-	-	365	-	365
Exchangeable convertible preference shares recorded as liabilities	-	-	-	89	-	89
Total liabilities	6 834	1 919	1 206	1 748	-	11 707
Net liquidity gap	(2 358)	1 256	304	(477)	1 572	297
Cumulative liquidity gap at 31 December 2001	(2 358)	(1 102)	(798)	(1 275)	297	-
Cumulative liquidity gap at 31 December 2000	(1 419)	(277)	(500)	(2 713)	(873)	-

26 Interest Rate and Liquidity, Market and Credit Risks (Continued)

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

The Bank is exposed 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 also may reduce or create losses in the event that unexpected movements arise. The Bank's interest rate sensitivity analysis based on the re-pricing of the Bank's assets and liabilities does not differ significantly from the maturity analysis disclosed in the table above.

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

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

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 quarterly by the Board of Directors, and the Assets and Liabilities Management Committee.

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

The Bank's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

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

27 Contingencies, Commitments and Derivative Financial Instruments

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

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

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

27 Contingencies, Commitments and Derivative Financial Instruments (Continued)

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

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

Credit related commitments. The credit related commitments comprise loan commitments, letters of credit and guarantees. The contractual amount of these commitments represents the value at risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless. Outstanding credit related commitments are as follows:

	2001	2000
Undrawn credit lines	185	124
Unused limits on granting of overdraft loans	328	12
Guarantees issued	738	2 018
Export letters of credit	30	1
Availed bills of exchange	-	134
Less: provision for losses on credit related commitments	(50)	(790)
Total credit related commitments	1 231	1 499

During 1999 and 2000 the Bank entered into agreements with the Association for Restructuring of Credit Organisations (ARCO). Under these agreements the Bank sold loans totalling RR 633 million (non-inflated) to ARCO in return for RR 379 million (non-inflated) in cash, and promissory notes totalling RR 254 million (non-inflated) issued by ARCO. Under the terms of these agreements the Bank guaranteed to repurchase these loans from ARCO if the borrower fails to repay the loans to ARCO within 3 years. As at 31 December 2000 included in guarantees issued is RR 633 million (non-inflated) relating to these agreements. The Bank recorded a provision of RR 380 million (non-inflated) for the potential losses in this respect. During 2001 the Bank entered into new agreements with ARCO under which the repurchase guarantee was cancelled and the related provision in the amount of RR 380 million (non-inflated) was released by the Bank. The Bank also restructured the ARCO promissory notes into new promissory notes (refer to Note 9).

During 2001 certain overdue credit related commitments totalling USD 7 million were settled by the Bank and the related provision of RR 113 million was released by the Bank.

Management evaluated the likelihood of possible losses arising from other credit related commitments and concluded that a provision of RR 50 million was necessary as at 31 December 2001 (2000: RR 790 million) for other credit related commitments.

The Bank has the right to renegotiate the terms of credit line agreements. At 31 December 2001, the probability of losses arising in connection with these undrawn credit lines is considered remote and accordingly no provision has been established (2000: no provision has been established).

The total provision for credit related commitments is included in other liabilities (Note 16). The total outstanding contractual amount of guarantees, letters of credit, undrawn credit lines, and unused limits on granting of overdraft loans does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Contingencies. As described in Note 14, at present the Management is continuing negotiations with the Ministry of Finance of the Russian Federation in respect of amending the schedule of repayment of loan facilities received from IBRD and EBRD. Management considers that it is currently not possible to estimate with reasonable accuracy the amount of restructuring expenses, if any, that the Bank may incur on agreement of a new repayment schedule. Because of this uncertainty, Management has not provided for these potential restructuring expenses as at 31 December 2001. Provision for such expenses will be recognised in the future when they can be reasonably estimated.

27 Contingencies, Commitments and Derivative Financial Instruments (Continued)

Movement in provision for credit related commitments are as follows:

	2001	2000
Provision for credit related commitments at 1 January	790	878
(Recoveries of provision)/provision created for the year	(615)	59
Inflation effect	(125)	(147)
Provision for credit related commitments as at 31 December	50	790

Derivative financial instruments. At 31 December 2001 the Bank had outstanding forward foreign exchange contracts with Russian and foreign banks whereby it had agreed to buy or sell Russian Roubles in exchange for another currency at an exchange rate agreed to at the date of the contract. These contracts were entered into prior to 17 August 1998 and matured during 1998 but have not yet been settled. The Bank has been able to settle outstanding contracts with a few counterparties and any resultant gains or losses have been recorded in the statement of income.

The Bank has calculated the exposure on outstanding contracts using the exchange rates ruling on the maturity dates of the contracts as the Bank has historically settled domestic derivatives in Russian Roubles. Principal or agreed amount of contracts for which the date of maturity is past due and no settlement had been completed as of 31 December 2001 amounted to RR 1 485 million for purchase of foreign currency with total gains of RR 1 153 million and RR 2 540 million for sale of foreign currency with total losses of RR 2 813 million. If the outstanding contracts were settled, the Bank's net loss after fully providing for receivables as at 31 December 2001 would equal to RR 2 813 million.

The Civil Code of the Russian Federation stipulates a three year period for commencing action to enforce contracts. This period expired during 2001. On the basis of independent external legal advice regarding the enforceability of these contracts under Russian law, market practices and the activities of other participants in the derivatives market in Russia, as well as a significant passage of time, Management is of the opinion that these contracts with domestic banks are no longer legally enforceable, and that therefore no losses will arise for the Bank as a result of these contracts.

Management of the Bank has therefore not recorded any liabilities in respect of these contracts in the financial statements of the Bank for the years ended 31 December 2000 and 31 December 2001. Previously recorded loss provisions under these contracts, amounting to RR 289 million as at 31 December 1999, have been released and are reflected in the Bank's statement of income and included in net profit for the year ended 31 December 2000.

The following table summarizes the movement in the provision for losses outstanding forward foreign exchange residents:

	2001	2000
Provision as at 1 January	-	347
Release of provision during the year	-	(289)
Impact of inflation	-	(58)
Provision as at 31 December	-	-

Fiduciary assets. These assets are not included in the Bank's balance sheet as they are not assets of the Bank. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets fall into the following categories:

	2001	2000
	Nominal value	Nominal value
Shares in companies held in custody of the Bank	51	50
MinFin bonds held in custody of the Bank	8	-
Client VEB securities held on account with Vneshtorgbank	19	298
Client OFZ securities held on account with National Depository Centre	158	129

28 Fair Value of Financial Instruments

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

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

Management has estimated that the fair value of certain balance sheet instruments is not materially different than their recorded values. These balance sheet instruments include cash, nostros and term deposits, placements with banks and other financial institutions, securities held for trading or available for sale purposes, loans and advances to customers, deposits from banks and other financial institutions, current accounts and deposits from customers, certificates of deposit and promissory notes and other short-term assets and liabilities which are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair value, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. Refer to Note 26.

The fair values of equity securities in associated and subsidiary companies, share capital, premises and equipment, and other assets and liabilities which are not of a contractual nature are not calculated as they are not considered financial instruments under IAS 32, "Financial Instruments: Disclosure and Presentation".

29 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 and companies with which the Bank has significant shareholders in common. These transactions include settlements, loans, deposit taking, trade finance and foreign currency transactions. These transactions are priced predominantly at market rates. The outstanding balances at the year end and interest expense and income for the year with related parties are as follows:

	2001	2000
Loans and advances to customers		
Loans outstanding at the year end	45	26
Provision for loan impairment at the year end	-	(5)
Interest income for the year	4	2
Customer accounts		
Current/settlement accounts outstanding at the year end	77	-
Term deposits outstanding at the year end	90	49
Interest expense for the year	1	5
Guarantees issued by the Bank and outstanding at the year end	99	229