

**VOZROZHDENIYE BANK**

**Financial Statements and Auditors' Report**

**31 December 2000**

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## AUDITORS' REPORT

To the Board of Directors of Vozrozhdeniye Bank:

- 1 We have audited the accompanying balance sheet of Vozrozhdeniye Bank (the "Bank") as at 31 December 2000, and the related statements of income, of cash flows and of changes in shareholders' deficit 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 As described in Note 26, during 1998 the Bank entered into forward foreign exchange and option contracts whereby it agreed to buy or sell Russian Roubles in exchange for other currencies at a fixed rate of exchange at some future date. As a result of economic conditions in the Russian Federation, the value of the Russian Rouble against other currencies has declined significantly. The total contractual obligation in respect of the Bank's unsettled domestic forward foreign exchange and option contracts amounted to RR 2 813 million (1999: RR 3 379 million), if measured at the contractual exchange rates as required by International Accounting Standards. With respect to these contracts, the Management of the Bank has not recorded any provision for losses on these contracts as at 31 December 2000 (1999: RR 292 million), as Management no longer believes that any losses will arise for the Bank on these contracts. If the Bank were to have recorded its liabilities under these forward foreign exchange and option contracts based on contractual obligations, the following adjustments to the financial statements would result to each of the years taken independently:
  - For 1999, total liabilities and shareholders' deficit would increase by RR 3 087 million; net profit for the year would decrease by RR 3 087 million.
  - For 2000, total liabilities and shareholders' deficit would increase by RR 2 813 million; net profit for the year would increase by RR 274 million.
- 4 In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2000 and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.
- 5 Without further qualifying our opinion, we draw attention to Note 3 in the accompanying financial statements. As at 31 December 2000 the Bank's total liabilities exceeded its total assets by RR 735 million. Management's plans regarding improving the financial condition and performance of the Bank are described in Note 3 to the accompanying financial statements. The accompanying financial statements have been prepared assuming that the Bank will continue as a going concern.

Moscow, Russia  
15 May 2001

**Vozrozhdeniye Bank**  
**Balance Sheet as at 31 December 2000**

(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2000 - Note 3)

	Note	2000	1999 (restated)
<b>Assets</b>			
Cash and cash equivalents	5	738	662
Mandatory cash balances with the Central Bank of the Russian Federation		408	407
Securities	6	925	186
Due from banks	7	233	121
Loans and advances to customers	8	5 332	4 989
Other investments	9	79	109
Accrued interest income		339	201
Other assets		50	78
Premises and equipment	10	1 061	1 138
<b>Total assets</b>		<b>9 165</b>	<b>7 891</b>
<b>Liabilities</b>			
Due to banks		460	601
Customer accounts	11	5 388	5 281
Obligations under forward contracts	26	-	292
Accrued interest expense		73	76
Other liabilities	14	677	752
Other borrowed funds	12	2 738	3 630
		<b>9 336</b>	<b>10 632</b>
Long-term subordinated loans	13	394	-
Exchangeable convertible preference shares recorded as liabilities	15	170	-
<b>Total liabilities</b>		<b>9 900</b>	<b>10 632</b>
<b>Shareholders' deficit</b>			
Share capital	15	3 155	3 129
Share premium	15	493	126
Accumulated deficit	16	(4 383)	(5 996)
<b>Total shareholders' deficit</b>		<b>(735)</b>	<b>(2 741)</b>
<b>Total liabilities and shareholders' deficit</b>		<b>9 165</b>	<b>7 891</b>

Signed on behalf of the Board of Directors on 15 May 2001.

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 President  
 Orlov D.L.

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 Chief Accountant  
 Novikova A.A.

**Vozrozhdeniye Bank****Statement of Income for the Year Ended 31 December 2000***(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2000 unless otherwise stated - Note 3)*

	Note	2000	1999 (restated)
Interest income on loans		932	1 395
Interest income on securities		63	88
Interest expense		(595)	(1 071)
<b>Net interest income</b>	17	<b>400</b>	<b>412</b>
Recovery of provision/(provision) for losses on loans and advances	7, 8	856	(998)
<b>Net interest income/(negative interest margin) after provision for losses on loans and advances</b>		<b>1 256</b>	<b>(586)</b>
Gains less losses arising from securities		46	841
Gains less losses arising from dealing in foreign currencies/ (losses, net of gains)		32	(3)
Foreign exchange translation gains less losses		18	141
Fee and commission income	18	253	207
Fee and commission expense	18	(19)	(19)
(Provision)/recovery of provision for losses on credit related commitments	26	(50)	1 091
Other operating income		14	13
<b>Net revenues</b>		<b>1 550</b>	<b>1 685</b>
Operating expenses	19	(841)	(955)
Reversal of losses on forward foreign exchange contracts	26	243	3 087
Gains from disposal of other investment	9	66	-
Provision for diminution in value of other investments	9	(51)	(110)
Gains arising from settlement of forward contracts		-	105
Gains arising from early retirement of debt		-	438
Monetary gain		656	3 143
<b>Profit before tax</b>		<b>1 623</b>	<b>7 393</b>
Taxation	20	(7)	(25)
<b>Net profit</b>		<b>1 616</b>	<b>7 368</b>
<b>Earnings per share (expressed in RR per share)</b>	21		
Basic		148	752
Diluted		130	752

**Vozrozhdeniye Bank****Statement of Cash Flows for the Year Ended 31 December 2000***(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2000 - Note 3)*

	Note	2000	1999 (restated)
<b>Cash flows from operating activities</b>			
Interest received on loans		760	2 202
Interest paid		(585)	(2 141)
Interest received on securities		63	88
Income received from dealing with securities		216	339
Income received/(expenses paid) from dealing in foreign currencies		32	(3)
Fees and commissions received		253	206
Fees and commissions paid		(19)	(19)
Other operating income received		14	13
Operating expenses paid		(700)	(625)
Income tax paid		(7)	(21)
<b>Operating profit before changes in operating assets and liabilities</b>		<b>27</b>	<b>39</b>
<b>Net cash (increase)/decrease in operating assets and liabilities</b>			
Net increase in mandatory cash balances with the CBRF		(75)	(316)
Net (increase)/decrease in due from banks		(217)	375
Net increase in loans and advances to customers		(114)	(834)
Net (increase)/decrease in securities		(1 026)	1 084
Net decrease in other assets		15	7
Net decrease in due to banks		(44)	(12)
Net increase/(decrease) in customer accounts		1 982	(748)
Net decrease in other liabilities		(1)	(62)
<b>Net cash from/(used in) operating activities</b>		<b>547</b>	<b>(467)</b>
<b>Cash flows from investing activities</b>			
Purchase of other investments		-	(23)
Proceeds from disposal of other investments		101	-
Purchase of premises and equipment		(60)	(98)
Proceeds from sale of premises and equipment		-	23
<b>Net cash from/(used in) investing activities</b>		<b>41</b>	<b>(98)</b>
<b>Cash flows from financing activities</b>			
Proceeds from stabilisation loan from the CBRF		-	1 219
Repayment of other borrowed funds		(339)	(466)
Dividends paid		(3)	(3)
<b>Net cash (used in)/from financing activities</b>		<b>(342)</b>	<b>750</b>
Effect of inflation on cash and cash equivalents		(180)	(176)
Effect of exchange rate changes on cash and cash equivalents		10	236
<b>Net increase in cash and cash equivalents</b>		<b>76</b>	<b>245</b>
Cash and cash equivalents at beginning of the year		662	417
<b>Cash and cash equivalents at the end of the year</b>	<b>5</b>	<b>738</b>	<b>662</b>

**Explanatory notes to Statement of Cash Flows**

- (1) The effect of the revaluation of foreign currency balances and the inflationary effect of monetary balances on the Bank's assets and liabilities was eliminated from the above statement of cash flows.
- (2) The effects of the following non cash transactions are also excluded from the statement of cash flows: shares issued during the year (Note 15); and the receipt of subordinated loans (Note 13).

**Vozrozhdeniye Bank****Statement of Changes in Shareholders' Deficit for the Year Ended 31 December 2000***(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2000 - Note 3)*

	<b>Share capital</b>	<b>Share premium</b>	<b>Revaluation reserve for premises and equipment</b>	<b>Accumulated deficit</b>	<b>Total shareholders' deficit</b>
<b>Balance at 1 January 1999</b> <b>(as previously reported)</b>	<b>111</b>	<b>9</b>	<b>175</b>	<b>(6 498)</b>	<b>(6 203)</b>
Effect of adoption of IAS 29 (Note 28)	3 018	117	(175)	(5 608)	(2 648)
Effect of fixed assets impairment (Note 10)	-	-	-	(1 255)	(1 255)
<b>Balance at 1 January 1999 (restated)</b>	<b>3 129</b>	<b>126</b>	<b>-</b>	<b>(13 361)</b>	<b>(10 106)</b>
Net profit for the year (restated)	-	-	-	7 368	7 368
Dividends declared and paid (Note 22)					
- Preferred shares	-	-	-	(3)	(3)
<b>Balance at 31 December 1999 (restated)</b>	<b>3 129</b>	<b>126</b>	<b>-</b>	<b>(5 996)</b>	<b>(2 741)</b>
Share issue (Note 15)					
- Nominal value	26	-	-	-	26
- Share premium	-	367	-	-	367
Net profit for the year	-	-	-	1 616	1 616
Dividends declared and paid (Note 22)					
- Preferred shares	-	-	-	(3)	(3)
<b>Balance at 31 December 2000</b>	<b>3 155</b>	<b>493</b>	<b>-</b>	<b>(4 383)</b>	<b>(735)</b>

## **1 Principal Activities**

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

The Bank has 62 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 2000 was 3 482 (31 December 1999: 3 389).

## **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 high inflation.

Additionally, the banking sector in the Russian Federation is particularly impacted by 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 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.

In addition, current 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 downwards, based on the concept of prudence, 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.

During 2000, the Bank retrospectively adopted IAS 29 “Financial Reporting in Hyperinflationary Economies” which is described in more detail in Note 28. 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. Accordingly, adjustments and reclassifications made to the statutory records for the purpose of IAS presentation include the restatement for the changes in the general purchasing power of the Russian Rouble in accordance with IAS 29. Corresponding information was revised retrospectively to reflect the effect of the adoption of this standard.

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 2000.

Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current year. In 2000 the Bank netted interest income and interest expense for interbranch settlements previously included into the statement of income. The comparative amounts in the financial statements for 1999 have been adjusted accordingly. The effect of the change is a decrease in interest income for loans and a corresponding decrease in interest expense. The net effect on the result for each year is nil.

In 2000 operating expenses paid by the Bank as interest on deposit on non market rates are recorded by the Bank as operating expenses. The comparative amounts in the financial statements for 1999 have been adjusted accordingly.

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

The effect of the change is a decrease in interest expense and a corresponding increase in operating expense. The net effect on the result for the year is nil.

**Changes in the Financial Position of the Bank.** As a result of the impact of economic conditions in the Russian Federation, which are described in more detail in Note 2, as at 31 December 2000 the Bank's liabilities exceed its assets by RR 735 million (1999: RR 2 741 million). In response to these economic events, the Management of the Bank has undertaken and continues to undertake certain actions to strengthen the Bank's financial condition.

During 2000, the most significant actions included:

- In March 2000, as part of debt restructuring agreements, the Bank increased its share capital through the issue of ordinary and preference shares for a total of RR 590 million (Note 15). Included in this amount are RR 170 million of exchangeable convertible preference shares issued to Canadian Imperial Bank of Commerce which are recorded in the balance sheet as liabilities at 31 December 2000.
- During 2000, the Bank entered into several agreements with the Agency on Restructuring Credit Institutions (ARCO), that effectively provides for collateralised financing over a three year period (Notes 8 and 26).
- During 2000, and subsequent to the year end, the Bank settled overdue credit related commitments totalling RR 310 million (USD 11 million) (Note 26).
- During 2000, the Bank entered into agreements with two customers to restructure RR 394 million of deposits into long term subordinated loans (Note 13).
- During 2000, the Bank has reduced the level of operating expenses. There has also been an improvement in the quality of the loan portfolio, resulting in a reduction in the overall level of loan loss provisions required (Note 8).

During 2001 Management of the Bank has continued its program of measures aimed at improving the financial condition of the Bank. Efforts have been reinforced in order to improve the overall profitability of the Bank, reduce operating expenses and improve the efficiency of funds flows within the Bank. In addition:

- Following discussions with the Central Bank of the Russian Federation, the Bank obtained agreement for the prolongation until July 2001 of the stabilisation loan totalling RR 1 230 million (Note 12).
- A series of initiatives aimed at attracting deposits to the Bank through its branch network have resulted in an increase in liquidity.
- Continued attention is being paid to improving the quality of the loan portfolio.
- Negotiations continue to restructure outstanding debt obligations and other liabilities.
- Management is continuing negotiations with a number of the Bank's borrowers with respect to restructuring certain loans due to the Bank.
- The Bank is continuing to improve the quality of the Bank's assets, reduce costs and attract new customers.

In Management's opinion the above actions being undertaken will prove ultimately to be successful and, notwithstanding the economic environment in which the Bank operates (Note 2), therefore the Bank will be able to continue its operations and activities, and meet its obligations as they fall due until, at least, 31 December 2001. 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 banks. Amounts, which relate to funds that are of restricted nature, are excluded from cash and cash equivalents.

#### **4 Significant Accounting Policies (Continued)**

**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.

**Securities.** Corporate shares and government securities are carried at market value. The values for other securities are derived either from market quotations or from the Management's assessment of the future realisability of these securities. Certain securities, for which there is no readily attainable market value or those securities for which Management has determined that the available quotation does not depict the security's true market value, have been fair valued by Management.

In determining market value, all securities are valued at the last trade price if quoted on an exchange or, if traded over-the-counter, at the last bid price. If listed market prices are not available or if liquidating the Bank's position would reasonably be expected to impact market prices, fair value is determined based upon other relevant factors, including Management's estimates of amounts to be realised on settlement, assuming current market conditions and an orderly disposition in a reasonable period of time and the level of liquidity in the stock. Market value is not necessarily indicative of the amount which could be obtained for disposal of a large block of securities.

Changes in market values are recorded within gains less losses arising from securities in the statement of income in the period in which the change occurs. Coupons earned on government securities are reflected in the statement of income as interest income on securities whereas any trading gains or losses on these securities are reflected as gains less losses arising from securities.

Because of inherent settlement risk of the securities market, securities purchases and sales are recorded on the date that ownership is transferred.

**Sale and repurchase agreements.** Sale and repurchase agreements ("repo") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included in securities. The corresponding liability is included in due to banks/customer accounts. Securities purchased under agreements to resell ("reverse repo") are recorded as loans and advances to banks or customers as appropriate. The differences between the sale and repurchase prices are treated as interest and accrued evenly over the life of the repo agreement.

**Loans and advances and provisions for losses on loans and advances.** Loans and advances are stated at the principal amounts outstanding net of provisions for losses on loans and advances.

Provisions for losses on loans and advances are based on the evaluation by Management of their collectability. Specific provisions are raised against debts whose recovery has been identified as doubtful. A general provision is raised against the latent bad and doubtful loans and advances which are inherent in the loan and advances portfolio but which at the date of preparing the financial statements have not been specifically identified. Recoveries of amounts previously written off are treated as income by reducing the provision for losses on loans and advances for the year. The net aggregate provisions raised during the year are recognised in the statement of income.

Estimates of losses on loans and advances require the exercise of judgement and the use of assumptions. The principal factors considered in determining the loan loss provision are the growth, composition and quality of the loan portfolio, ability of the individual borrowers to repay the loans, past performance history of the individual loans, level of past due loans and advances, current economic conditions and value and adequacy of collateral.

Loans and advances that cannot be recovered are written off and charged against the balance sheet provision for losses on loans. Such loans and advances are written off after all the necessary legal procedures have been completed and the amount of the loss has been determined.

**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. The accounting policy and provisioning methodology is similar to that for loans noted above.

#### **4 Significant Accounting Policies (Continued)**

**Other investments.** Other investments include the Bank's investments in subsidiaries and associated companies, which have not been accounted for on a consolidation basis or on an equity accounting basis, investments held for sale and trade investments held for long term purposes. These investments are carried at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2000, less any provision for permanent diminution in value, created in cases where the value of an investment has declined, and Management believes that the decline is not temporary in nature.

Income derived from these investments is accounted for on a cash basis. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is 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 2000, 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 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 2000, less provision for any impairment in value. Upon completion, assets are transferred to premises and equipment at its 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;

Equipment 20% per annum; and

Leasehold improvements - over the term of the underlying lease.

**Bills of exchange.** Bills of exchange, more commonly known as "veksels", are instruments issued by the Bank to its customers which 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. Bills of exchange issued by the Bank are 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 veksel.

The Bank also purchases bills of exchange from its customers or in the market. These bills are carried at cost and the discount against the nominal value is accrued over the period to maturity. Provision is made, based on Management's assessment, for bills that are considered uncollectable. Purchased bills of exchange are included within the balance sheet in securities or in loans and advances to customers or to banks, depending on their substance.

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

**Preferred shares.** Preferred shares that are not redeemable and upon which dividends are declared at the discretion of Management, are classified as equity. Convertible preferred shares that may be exchanged with the Bank for debt including related share premium are classified as liabilities in the balance sheet. Dividends paid on such shares are recorded as interest expense.

**Dividends.** Dividends payable are not accounted for until they have been ratified at the Bank's Shareholders' Annual General Meeting. The statutory accounting reports of the Bank are the basis for paying dividends and other profit distribution. Russian legislation identifies the basis of distribution as the current year net profit.

#### **4 Significant Accounting Policies (Continued)**

**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 liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible 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 in situations where Management believes it is not collectible. Interest income includes coupons earned on fixed income securities. 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 2000 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 28.16 (1999: USD 1 = RR 27.00). 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 include index forward and index option contracts in domestic exchange market. The Bank's normal policy is to measure these instruments using contractual rates, with resultant gains or losses being reported within gains less losses arising from dealing in foreign currency within the statement of income. The August 1998 economic crisis and the subsequent legal uncertainty over derivatives' contracts have necessitated the Bank to adopt specific accounting methods with regard to domestic index forwards and options as noted below:

##### Index Forwards

- The Bank has either paid the amount due under index contracts, and realised a loss/gain, or negotiated a settlement for a lesser amount and has recognised a loss/gain based on the agreed terms, or has not settled with the counterparty positions. Positions on index contracts where no settlements or agreements have been reached, have been offset within each counterparty. As Management does not believe that these contracts will be settled or are legally enforceable, Management has fully provided against gains, and has fully released previously recorded provision for losses or the above instruments.

##### Index Options

- The Bank has used the same approach for index options as noted under index forwards above.

**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.

#### **4 Significant Accounting Policies (Continued)**

**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. Accordingly, adjustments and reclassifications made for the purposes of IAS presentation include the restatement for changes in the general purchasing power of the Russian Rouble in accordance with IAS 29. 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.

The application of this principle 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 1999 have also been restated for the changes in the general purchasing power of the Russian Rouble at 31 December 2000.

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 factors for the five years ended 31 December 2000 are the following:

	<b>Inflation for the year</b>
1996	22
1997	11
1998	83
1999	37
2000	20

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Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at 31 December 2000. Non-monetary assets and liabilities (items which are not expressed in terms of the monetary unit current at 31 December 2000) 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.

Premises and equipment, have been indexed by the change in the consumer price index from the date of purchase. 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 consumer price index from the date of transactions resulting in movement in equity.

Amounts included in the statement of income have been indexed by the change in the consumer 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 losses on loans and advances;
  - provision for diminution in value of other investments; and
  - provision for impairment in value of non-monetary assets, all of which 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 amount to 28% of employees' gross salaries, and are expensed as incurred. The contributions are included into staff costs.

**5 Cash and Cash Equivalents**

	<b>2000</b>	<b>1999</b>
Cash on hand	251	227
Cash balances with the CBRF (other than mandatory reserve deposits)	300	279
Correspondent accounts and overnight deposits with other banks		
- Russian Federation	16	10
- Other countries	171	146
<b>Total cash and cash equivalents</b>	<b>738</b>	<b>662</b>

**6 Securities**

	<b>2000</b>	<b>1999</b>
<b>RR denominated securities</b>		
Bills of exchange	108	-
Federal loan bonds (OFZ)	37	36
Corporate shares	29	13
Other	-	1
<b>US dollar denominated securities</b>		
Bills of exchange	193	-
Eurobonds	433	-
VneshEconomBank 3% coupon bonds (VEB)	125	136
<b>Total securities</b>	<b>925</b>	<b>186</b>

Bills of exchange represent debt securities issued by a publicly traded Russian company, and debt securities of a Russian commercial bank.

Bills of exchange issued by the Russian company are denominated in Roubles, issued at discount to nominal value, bear interest at 20%, and mature in 2000 - 2001. These bills of exchange are traded in the over-the-counter market and are carried at market value as at 31 December 2000.

Bills of exchange issued by the Russian commercial bank are denominated in USD, issued at nominal value, bear interest at 8%, and mature in 2002. As these bills of exchange are not traded in the over-the-counter market, Management has estimated their fair value based on discounted cash flow model.

OFZ bonds are Russian Rouble denominated government securities issued and guaranteed by the Ministry of Finance of the Russian Federation and are stated at market value. 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 - 30% in 2000, depending on the type of bond issue.

Corporate shares are shares of Russian companies. They are reflected at year-end market value, which has been estimated by Management using bid prices from the over-the-counter market.

Russian Federation Eurobonds are securities issued by the Ministry of Finance of the Russian Federation, are freely tradable internationally and stated at year end market value. The Bank's portfolio of Russian Federation Eurobonds consists of 4 tranches with maturity dates ranging from June 2007 to March 2030. The annual coupon rates on these bonds range from 2.5% to 12.15%, and interest is payable semi-annually.

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 2003 to May 2011. VEB bonds are stated at market value.

**6 Securities (Continued)**

VEB bonds with the market value as at 31 December 2000 of RR 38 million and nominal value of USD 4 million, were transferred to third parties subsequent to the year end under one of the Bank's repayment agreements on overdue credit related commitments (Note 26).

As at 31 December 2000, VEB bonds with a market value of RR 10 million (1999: RR 11 million) and a nominal value of USD 1.2 million have been pledged to third parties as collateral.

The Bank is licensed by the CBRF as a primary dealer at MICEX for dealing and trading in government securities.

**7 Due from Banks**

	<b>2000</b>	<b>1999</b>
Current interbank loans	151	158
Restricted placements with banks	171	-
Overdue interbank loans	7	-
Less: Provision for losses on due from banks	(96)	(37)
<b>Total due from banks</b>	<b>233</b>	<b>121</b>

Restricted placements with banks includes a USD denominated deposit of RR 141 million (USD 5 million), placed with a foreign bank as collateral for a guarantee. The Bank recorded a provision for potential losses of RR 85 million related to this agreement (Note 26). Access to these funds is restricted in accordance with the collateral agreement. The remaining balance of restricted placements with banks of RR 30 million (USD 1.05 million) represents deposit placed with a foreign bank as a collateral for custom settlements of the Banks' clients. Access to these funds is similarly restricted. Interest rates on these restricted deposits range from 6 to 8 %.

Movements in the provision for losses on due from banks are as follows:

	<b>2000</b>	<b>1999</b> (restated)
<b>Provision for losses on due from banks at 1 January</b>	<b>37</b>	<b>195</b>
Charge against profits for losses on due from banks during the year/ (recoveries of amounts previously provided against)	65	(106)
Effect of inflation	(6)	(52)
<b>Provision for losses on due from banks at 31 December</b>	<b>96</b>	<b>37</b>

The weighted average interest rates on current interbank loans as at 31 December 2000 was 16% on loans granted in Russian Roubles and 9% on loans in foreign currency.

Geographical and currency analysis of due from banks is disclosed in Note 23. The maturity structure of the loan portfolio is detailed in Note 25.

**8 Loans and Advances to Customers**

	<b>2000</b>	<b>1999</b>
Current loans	2 602	4 296
Rescheduled (current) loans	4 066	3 426
Overdue loans	84	88
Less: Provision for losses on loans and advances to customers	(1 420)	(2 821)
<b>Total loans and advances to customers</b>	<b>5 332</b>	<b>4 989</b>

Movements in the provision for losses on loans and advances to customers are as follows:

	<b>2000</b>	<b>1999</b> (restated)
<b>Provision for losses on loans and advances to customers at 1 January</b>	<b>2 821</b>	<b>2 379</b>
(Recoveries of amounts previously provided against)/charge against profits for losses on loans and advances to customers during the year	(921)	1 104
Loans and advances to customers written off during the year as uncollectable	(7)	(25)
Effect of inflation	(473)	(637)
<b>Provision for losses on loans and advances to customers at 31 December</b>	<b>1 420</b>	<b>2 821</b>

The aggregate amount of non-performing loans on which interest is not being accrued amounted to RR 84 million as at 31 December 2000 (1999: RR 88 million).

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

	<b>2000</b>		<b>1999</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Industry	1 828	27	2 233	28
Municipal and other government bodies	1 431	21	1 152	15
Construction	1 220	18	1 165	15
Individuals	950	14	550	7
Trade	342	5	920	12
Agricultural	288	4	475	6
Transport	228	3	67	1
Finance	125	2	239	3
Other	340	6	1 009	13
<b>Total loans and advances to customers (aggregate amount)</b>	<b>6 752</b>	<b>100</b>	<b>7 810</b>	<b>100</b>

The Bank has 4 borrowers with aggregated loan amounts above RR 300 million. The aggregate amount of these loans is RR 1 972 million or 29% of the loan portfolio. The Bank's aggregate exposure to one of its borrowers, including credit related commitments, totals RR 1 642 million (1999: RR 1 722 million), from which RR 478 million (1999: 708 million) is included in loans and advances to customers, RR 1 023 million (1999: RR 1 014 million) represents other guarantees issued (Note 26) and RR 141 million (1999: nil) is included in due from banks (Note 7).

The weighted average interest rates on loans and advances as at 31 December 2000 was 22% on loans and advances denominated in Russian Roubles and 14% on loans and advances denominated in foreign currencies.

## 8 Loans and Advances to Customers (Continued)

Loans and advances to customers include RR 254 million (1999: RR 198 million) of promissory notes issued by the Agency for Restructuring of Credit Organisations (ARCO) relating to the assignment of certain loans of the Bank to ARCO (Note 26). The Bank has guaranteed to repurchase these assigned loans in the event of default by the borrower. The ARCO promissory notes may be used by the Bank as partial settlement in the event of repurchase occurring. These promissory notes are denominated in Russian Roubles, do not bear interest, mature in 2049 and 2050 and are pledged as collateral under this transaction. Provision for credit related commitments includes provision for losses related to the repurchase guarantee issued by the Bank to ARCO (Note 26).

Also included in loans to individuals are loans of RR 836 million (1999: RR 475 million) issued to employees of the Bank as part of a staff compensation plan (Note 11).

The geographical and currency analysis of loans and advances to customers is disclosed in Note 23. The maturity structure of the loan portfolio is detailed in Note 25. The Bank has several loans to related parties. The relevant information on related party loans is disclosed in Note 27.

## 9 Other Investments

	2000	1999 (restated)
Investment in non-consolidated subsidiary companies	147	151
Investment in associated companies	7	222
Trade investments held for long term purposes	283	105
Less: Provision for diminution in value of other investments	(358)	(369)
<b>Total other investments</b>	<b>79</b>	<b>109</b>

A summary of the movements in the provision for diminution in value are as follows:

	2000	1999 (restated)
<b>Provision for diminution in value of other investments at 1 January</b>	<b>369</b>	<b>354</b>
Charge against profit for the provision for diminution in value of other investments	51	110
Effect of inflation	(62)	(95)
<b>Provision for diminution in value of other investments at 31 December</b>	<b>358</b>	<b>369</b>

The non-consolidated subsidiary companies are:

Name	Nature of business	Country of registration	Percentage of equity controlled	Cost of investment	Loans granted to company	Deposits taken from company
OOO Kreskat	Construction	Russia	99	12	-	-
OOO Moscow Reinsurance Society	Insurance	Russia	82	126	-	39
Other				9	-	-
<b>Total</b>				<b>147</b>	<b>-</b>	<b>39</b>

**Vozrozhdeniye Bank****Notes to the Financial Statements – 31 December 2000***(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2000 - Note 3)***9 Other Investments (Continued)**

The associated companies are:

Name	Nature of business	Country of registration	Percentage of equity controlled	Cost of investment	Loans granted to company	Deposits taken from company
OOO First Company of General Insurance	Insurance	Russia	25.2	4	-	-
Company Vozrozhdeniye Finance B.V.Netherlands	Investment	Netherlands	20.0	2	-	-
TOO Medlamo	Construction	Russia	25.9	1	-	-
<b>Total</b>				<b>7</b>	<b>-</b>	<b>-</b>

In March 2000 the Bank disposed of an investment in associate First Czech Russian Bank. The Bank received RR 101 million as proceeds which resulted in a RR 66 million gain on this disposal.

**10 Premises and Equipment**

	Premises and leasehold improvements	Motor vehicles, office and computer equipment	Construction in progress	Total
<b>Net book amount at 31 December 1999 (restated)</b>	<b>875</b>	<b>191</b>	<b>72</b>	<b>1 138</b>
Book amount				
Opening balance (restated)	954	827	72	1 853
Additions	9	46	5	60
Disposals	-	(23)	-	(23)
<b>Closing balance</b>	<b>963</b>	<b>850</b>	<b>77</b>	<b>1 890</b>
<b>Accumulated depreciation</b>				
Opening balance (restated)	79	636	-	715
Depreciation charge	18	114	-	132
Disposals	-	(18)	-	(18)
<b>Closing balance</b>	<b>97</b>	<b>732</b>	<b>-</b>	<b>829</b>
<b>Net book amount at 31 December 2000</b>	<b>866</b>	<b>118</b>	<b>77</b>	<b>1 061</b>

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

As a result of changes in the accounting policy and the resulting restatement of premises and equipment, and the adoption of IAS 29, the Management assessed premises and equipment, and construction in progress for possible impairment in accordance with IAS 36 "Impairment of assets". As a result a net impairment loss RR 1 255 million was recognised prior to 31 December 1998.

Subsequent to this date Management reviewed fixed assets for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Management believes that there were no such indicators of impairment in 1999 and 2000.

**11 Customer Accounts**

	<b>2000</b>	<b>1999</b>
<b>State and public organisations</b>		
- Current/settlement accounts	1 951	1 773
- Term deposits	486	11
<b>Other legal entities</b>		
- Current/settlement accounts	598	2 013
- Term deposits	900	593
<b>Individuals</b>		
- Current/demand accounts	555	357
- Term deposits	898	534
<b>Total customer accounts</b>	<b>5 388</b>	<b>5 281</b>

Included in deposits of other legal entities are RR 836 million (1999: RR 475 million) placed by employees of the bank under a staff compensation plan (Note 8).

The weighted average interest rate on customer accounts outstanding as at 31 December 2000 was: for current and settlement accounts in Russian 5%; in foreign currency – 2%; for term deposits in Russian Roubles – 16%; and in foreign currency – 5%. The geographical and currency analysis of customer accounts is disclosed in Note 23 and maturity analysis is provided in Note 25.

Economic sector concentrations within customer accounts are as follows:

	<b>2000</b>		<b>1999</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Municipal and other governmental bodies	2 437	45	1 784	34
Individuals	1 453	26	891	17
Finance	465	9	228	4
Industry	343	7	1 161	22
Trade	195	4	383	7
Construction	132	3	309	6
Agricultural	335	6	440	8
Other	28	-	85	2
<b>Total customer accounts</b>	<b>5 388</b>	<b>100</b>	<b>5 281</b>	<b>100</b>

**12 Other Borrowed Funds**

	<b>2000</b>	<b>1999</b>
Stabilisation loans from CBRF	1 230	1 478
IBRD and EBRD loans	1 120	1 382
Other	388	770
<b>Total other borrowed funds</b>	<b>2 738</b>	<b>3 630</b>

## **12 Other Borrowed Funds (Continued)**

**CBRF stabilisation loans.** Stabilisation loans were received from the CBRF during 1998-1999 for the purpose of improving the financial and liquidity position of the Bank. In 2000 the CBRF again prolonged these loans. The loans are repayable in two tranches: RR 850 million on 10 July 2001 and RR 380 million on 20 November 2001. The loans bear interest of one third of the CBRF refinancing rate which as at 31 December 2000 was 8.33% (1999: 18.33%). The loans are collateralised by guarantees from the Administrations of certain regions of the Russian Federation, each of which has received loans from the Bank, and by the assignment of a loan due from the Government of the Moscow city.

**IBRD and EBRD loans.** During 1996-1997 the Bank was granted 3 credit line facilities for the amounts of USD 50 million, 10 million and 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 8-10% (1999: 8-9%), with interest payable semi-annually.

As at 31 December 2000 a total of RR 993 million (1999: 1 183 RR million) the equivalent of USD 35.3 million, has been drawn down under the Housing Construction Project. The facility is repayable in instalments over 10 years, beginning in 1999. The Bank repaid USD 1.25 million in 2000.

As at 31 December 2000 a total of RR 31 million (1999: RR 84 million), the equivalent of USD 1.1 million has been drawn down under ESP. The facility is repayable in instalments over 10 years, beginning in 2000. During 2000 the Bank repaid USD 1.5 million of this facility.

As at 31 December 2000 a total of RR 96 million (1999: RR 115 million), the equivalent of USD 3.4 million has been drawn down under FIDP. The facility is repayable in instalments over 8 years, beginning in January 2000. During 2000 the Bank repaid USD 194 thousand of this facility. As at 31 December 2000, VEB bonds with a market value of RR 10 million (1999: RR 11 million) and a nominal value of USD 1.2 million have been pledged as a collateral under this loan (Note 6).

**Other.** Other includes bills of exchange and certificates of deposits, which generally mature within 2 - 3 months from 31 December 2000. The average interest rates on bills of exchange and certificates of deposits outstanding at 31 December 2000 was 12% for Rouble denominated securities, and 6% for foreign currency denominated securities.

Currency analysis of other borrowed funds is disclosed in Note 23 and maturity analysis is provided in Note 25.

## **13 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:

- RR 225 million of USD denominated customer deposits was restructured into a USD denominated subordinated loan of RR 225 million (USD equivalent 8 million) on 17 April 2000. The subordinated loan bears interest at 2.25% and matures in 2006.
- RR 169 million of USD denominated customer deposits was restructured into a USD denominated subordinated loan of RR 169 million (USD equivalent 6 million) on 31 March 2000. The subordinated loan bears interest at 12% and matures in 2008.

No gains or losses were recorded on these transactions. 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.

**Vozrozhdeniye Bank****Notes to the Financial Statements – 31 December 2000***(in millions of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2000 unless otherwise stated- Note 3)***14 Other Liabilities**

	<b>2000</b>	<b>1999</b>
Provision for credit related commitments (Note 26)	665	739
Taxation payable	9	8
Other	3	5
<b>Total other liabilities</b>	<b>677</b>	<b>752</b>

**15 Share Capital and Share Premium**

Statutory capital issued and fully paid comprises:

	<b>2000</b>			<b>1999 (restated)</b>		
	<b>Number of shares</b>	<b>Nominal amount</b>	<b>Inflation adjusted amount</b>	<b>Number of shares</b>	<b>Nominal amount</b>	<b>Inflation adjusted amount</b>
Ordinary shares	11 248 753	112	3 101	9 830 572	98	3 085
Preference shares	12 945 041	13	44	12 945 041	13	44
Convertible preference shares	1 999 941	20	24	-	-	-
Less: exchangeable convertible preference shares recorded as liabilities	(1 176 470)	(12)	(14)	-	-	-
<b>Total share capital</b>		<b>133</b>	<b>3 155</b>		<b>111</b>	<b>3 129</b>

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

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 shall 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 180 per share (historic cost – 155 per share), resulting in an increase in share capital of RR 256 million, including share premium of RR 239 million
- 1 999 941 convertible preference shares were issued for RR 167 per share (historic cost – RR 144 per share), resulting in an increase in share capital of RR 334 million including share premium of RR 311 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 accordance with a separate 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.

**15 Share Capital and Share Premium (Continued)**

As at 31 December 2000 550 000 ordinary shares of the Bank had the right to circulate on the international exchange market 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.

**16 Accumulated Deficit**

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 2000 are RR 214 million (1999: RR 217 million).

**17 Interest Income and Expense**

	<b>2000</b>	<b>1999</b> <b>(restated)</b>
<b>Interest income</b>		
Loans and advances to customers	924	1 363
Due from banks	8	32
Securities	63	88
<b>Total interest income</b>	<b>995</b>	<b>1 483</b>
<b>Interest expense</b>		
Customer accounts	188	322
Other borrowed funds	170	334
Term deposits of individuals	143	213
Bills of exchange	55	135
Subordinated loans	20	-
Term deposits of banks	19	67
<b>Total interest expense</b>	<b>595</b>	<b>1 071</b>
<b>Net interest income</b>	<b>400</b>	<b>412</b>

**18 Fee and Commission Income and Expense**

	<b>2000</b>	<b>1999</b> <b>(restated)</b>
Commission on cash transactions	96	60
Commission on settlement transactions	71	82
Commission on project finance	32	11
Commission on cash collection	17	16
Other	37	38
<b>Total fee and commission income</b>	<b>253</b>	<b>207</b>
<b>Total fee and commission expense</b>	<b>19</b>	<b>19</b>
<b>Net fee and commission income</b>	<b>234</b>	<b>188</b>

**19 Operating Expenses**

	<b>2000</b>	<b>1999</b> <b>(restated)</b>
Staff costs	339	298
Depreciation	132	178
Taxes other than on income	97	148
Administration expenses	69	74
Maintenance, repairs and transport	67	77
Stationary, printing and communication	51	78
Office rent	30	21
Other	56	81
<b>Total operating expenses</b>	<b>841</b>	<b>955</b>

**20 Income Taxes**

Income tax expense was comprised of the following:

	<b>2000</b>	<b>1999</b> <b>(restated)</b>
Current tax charge	7	25
<b>Income tax expense for the year</b>	<b>7</b>	<b>25</b>

The income tax rate applicable to the majority of the Bank's income is 38 percent (1999: 38 percent). The tax rate decreased from 43 percent to 38 percent as of 1 April 1999. Effective 1 January 2001, the tax rate has again been increased to 43 percent. A reconciliation between the expected and the actual taxation charge is provided below.

	<b>2000</b>	<b>1999</b> <b>(restated)</b>
<b>IAS profit before taxation</b>	<b>1 623</b>	<b>7 393</b>
Theoretical tax charge at the applicable statutory rate	617	2 809
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income on government securities taxed at different rates	7	(21)
- Non deductible provisions for forwards and credit related commitments	(72)	(1 631)
- Non deductible provision for loans and advances to customers	80	(53)
- Non temporary elements of monetary gains and losses	(169)	(1 054)
- Other non temporary differences	4	25
Effect of the change in tax rate	(48)	102
Inflation effect on deferred tax balance at the beginning of the year	167	458
Non-recognised net deferred tax asset movement	(579)	(610)
<b>Income tax expense for the year</b>	<b>7</b>	<b>25</b>

**20 Income Taxes (Continued)**

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 43%, except for income on state securities that is taxed at 15%.

	<b>1999</b> <b>(restated)</b>	<b>Movement</b>	<b>2000</b>
<b>Tax effect of deductible temporary differences</b>			
Provision for losses on loans	1 050	(540)	510
Mark to market of securities	84	62	146
Other	37	3	40
<b>Gross deferred tax asset</b>	<b>1 171</b>	<b>(475)</b>	<b>696</b>
Less: non-recognised deferred tax asset	(995)	579	(416)
<b>Net deferred tax asset</b>	<b>176</b>	<b>104</b>	<b>280</b>
<b>Tax effect of taxable temporary differences</b>			
Accruals	(76)	(66)	(142)
Premises and equipment	(100)	(38)	(138)
<b>Gross deferred tax liability</b>	<b>(176)</b>	<b>(104)</b>	<b>(280)</b>
<b>Total net deferred tax asset</b>	<b>-</b>	<b>-</b>	<b>-</b>

As at 31 December 2000, a net deferred tax asset in the amount of RR 416 million (1999: RR 995 million) has not been recorded as it is not probable that sufficient taxable profit will be available to allow the benefit of that deferred tax asset to be utilised.

**21 Earnings per Share**

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

	<b>2000</b>	<b>1999</b> <b>(restated)</b>
Net profit attributable to ordinary shareholders	1 616	7 368
Weighted average number of ordinary shares in issue (million)	10.9	9.8
<b>Basic earnings per share (expressed in RR per share)</b>	<b>148</b>	<b>752</b>

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 15) 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 and net income is adjusted to eliminate the applicable dividends on convertible preference shares.

In 1999 the Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal basic earnings per share.

**21 Earnings per Share (Continued)**

	<b>2000</b>
<b>Net income used to determine the diluted earnings per share</b>	<b>1 616</b>
Weighted average number of ordinary shares in issue (million)	10.9
Adjustment for assumed conversion of convertible preference shares (million)	1.5
<b>Weighted average number of ordinary shares for diluted earnings per share</b>	<b>12.4</b>
<b>Diluted earnings per share (expressed in RR per share)</b>	<b>130</b>

**22 Dividends**

	<b>2000</b>	<b>1999 (restated)</b>
<b>Preference dividends</b>		
Declared and paid during the year	3	3
<b>Total dividends</b>	<b>3</b>	<b>3</b>

Dividends paid during 2000 and 1999 were 0.2 roubles per one preference share.

**23 Geographical Analysis and Currency Risk**

*Geographical analysis.* The geographical analysis of the Bank's assets and liabilities as at 31 December 2000 is set out below:

	<b>Russia</b>	<b>OECD</b>	<b>Non OECD</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	567	171	-	738
Mandatory cash balances with the CBRF	408	-	-	408
Securities	925	-	-	925
Due from banks	66	13	154	233
Loans and advances to customers	5 332	-	-	5 332
Other investments	61	1	17	79
Accrued interest income	339	-	-	339
Other assets	50	-	-	50
Premises and equipment	1 061	-	-	1 061
<b>Total assets</b>	<b>8 809</b>	<b>185</b>	<b>171</b>	<b>9 165</b>
<b>Liabilities</b>				
Due to banks	264	193	3	460
Customer accounts	5 365	-	23	5 388
Accrued interest expense	61	11	1	73
Other liabilities	677	-	-	677
Other borrowed funds	1 448	1 290	-	2 738
Long term subordinated loans	394	-	-	394
Exchangeable convertible preference shares recorded as liabilities	-	170	-	170
<b>Total liabilities</b>	<b>8 209</b>	<b>1 664</b>	<b>27</b>	<b>9 900</b>
<b>Net balance sheet position at 31 December 2000</b>	<b>600</b>	<b>(1 479)</b>	<b>144</b>	<b>(735)</b>
<b>Net balance sheet position at 31 December 1999 (restated)</b>	<b>(1 482)</b>	<b>(1 266)</b>	<b>7</b>	<b>(2 741)</b>

## 23 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, US Dollars and other currencies.

At 31 December 2000, the Bank has the following positions in currencies:

	RR	USD	Other currencies	Total
<b>Assets</b>				
Cash and cash equivalents	487	228	23	738
Mandatory cash balances with the CBRF	408	-	-	408
Securities	174	751	-	925
Due from banks	66	167	-	233
Loans and advances to customers	2 130	3 202	-	5 332
Other investments	61	18	-	79
Accrued interest income	189	150	-	339
Other assets	44	6	-	50
Premises and equipment	1 061	-	-	1 061
<b>Total assets</b>	<b>4 620</b>	<b>4 522</b>	<b>23</b>	<b>9 165</b>
<b>Liabilities</b>				
Due to banks	182	278	-	460
Customer accounts	3 857	1 523	8	5 388
Accrued interest expense	33	40	-	73
Other liabilities	404	264	9	677
Other borrowed funds	1 556	1 182	-	2 738
Long term subordinated loans		394		394
Exchangeable convertible preference shares recorded as liabilities	-	170	-	170
<b>Total liabilities</b>	<b>6 032</b>	<b>3 851</b>	<b>17</b>	<b>9 900</b>
<b>Net balance sheet position at 31 December 2000</b>	<b>(1 412)</b>	<b>671</b>	<b>6</b>	<b>(735)</b>
<b>Credit commitments</b>	<b>(738)</b>	<b>(240)</b>	<b>(169)</b>	<b>(1 147)</b>
<b>Net balance sheet position at 31 December 1999 (restated)</b>	<b>(661)</b>	<b>(2 086)</b>	<b>6</b>	<b>(2 741)</b>

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.

## 24 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 Management 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 displays characteristics 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.

**24 Fair Value of Financial Instruments (Continued)**

Management considers that it is difficult to estimate the fair value of loans and advances to customers, term deposits and other debt instruments. These instruments are not currently traded in the Russian financial markets, and an objective estimate of their fair value is not available. The instability of the interest rate and exchange rate environment significantly affects the fair value of these financial instruments. Some financial institutions have been unwilling to lend to or invest in Russian companies, thus limiting information which might otherwise be available to Management to assist in estimating fair values. Because of these factors, Management does not believe that an objective basis for the fair value of loans and advances to customers and term deposits can be obtained with sufficient reliability to provide meaningful information to users.

The following methods and assumptions were used to estimate the fair value of the Bank's other financial instruments.

Financial assets

For monetary assets, excluding the assets described above, fair value approximates the carrying value.

The fair values of certain financial assets carried at cost, including cash and cash equivalents, due from banks and other financial assets are considered to approximate their respective carrying values due to their short-term nature.

The fair values of securities are determined by reference to market value.

Financial liabilities

For monetary liabilities, excluding the liabilities described above, fair value approximates the carrying value.

**25 Interest Rate, Liquidity and Credit Risk**

**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. The table below summarises the effective average interest rate, by major currencies, for monetary financial instruments outstanding as at 31 December 2000. The analysis has been prepared on the basis of weighted average interest rates for the various financial instruments using year end contractual rates.

	USD	RR
<b>Assets</b>		
Cash and cash equivalents	1%	2%
Securities	5%	21%
Due from banks	9%	16%
Loans and advances to customers	14%	22%
<b>Liabilities</b>		
Due to banks	10%	1%
Term deposits of individuals	4%	16%
Customer accounts	4%	12%
Other borrowed funds	7%	11%
Bills of exchange and certificates of deposits	6%	12%
Subordinated loans	6%	-

**Liquidity risk.** Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The liquidity risk is managed by the Liquidity Division of the Bank. The table below shows assets and liabilities as at 31 December 2000 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.

**25 Interest Rate, Liquidity and Credit Risk (Continued)**

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.

The liquidity position of the Bank as at 31 December 2000 is set out below.

	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 1 year</b>	<b>No stated maturity</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	738	-	-	-	-	738
Mandatory cash balances with the CBRF	-	-	-	-	408	408
Securities	925	-	-	-	-	925
Due from banks	148	29	56	-	-	233
Loans and advances to customers	995	1 424	1 514	1 399	-	5 332
Other investments	-	-	-	-	79	79
Accrued interest income	-	339	-	-	-	339
Other assets	44	-	-	6	-	50
Premises and equipment	-	-	-	-	1 061	1 061
<b>Total assets</b>	<b>2 850</b>	<b>1 792</b>	<b>1 570</b>	<b>1 405</b>	<b>1 548</b>	<b>9 165</b>
<b>Liabilities</b>						
Due to banks	310	20	31	99	-	460
Customer accounts	3 372	674	423	919	-	5 388
Accrued interest expense	66	6	1	-	-	73
Other liabilities	69	-	71	537	-	677
Other borrowed funds	227	131	1 232	1 148	-	2 738
Long term subordinated loans	-	-	-	394	-	394
Exchangeable convertible preference shares recorded as liabilities	-	-	-	170	-	170
<b>Total liabilities</b>	<b>4 044</b>	<b>831</b>	<b>1 758</b>	<b>3 267</b>	<b>-</b>	<b>9 900</b>
<b>Net liquidity gap</b>	<b>(1 194)</b>	<b>961</b>	<b>(188)</b>	<b>(1 862)</b>	<b>1 548</b>	<b>(735)</b>
<b>Cumulative liquidity gap at 31 December 2000</b>	<b>(1 194)</b>	<b>(233)</b>	<b>(421)</b>	<b>(2 283)</b>	<b>(735)</b>	<b>-</b>
<b>Cumulative liquidity gap at 31 December 1999 (restated)</b>	<b>(4 487)</b>	<b>(4 104)</b>	<b>(3 907)</b>	<b>(4 400)</b>	<b>(2 741)</b>	<b>-</b>

**25 Interest Rate, Liquidity and Credit Risk (Continued)**

Overdue assets are fully provided against, and thus, have no impact on the above table. The entire portfolio of 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. 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 customer 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 deposits provide a long-term and stable source of funding for the Bank.

**Credit risk.** The Bank's maximum exposure to credit risk, excluding the value of collateral, 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.

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

**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:

	<b>2000</b>	<b>1999 (restated)</b>
Project finance guarantees issued	675	437
Other guarantees issued	1 023	751
Availed bills of exchange	113	1 106
Export letters of credit	1	-
Undrawn credit lines	-	53
Import letters of credit	-	210
Less: provision for losses on credit related commitments	(665)	(739)
<b>Total credit related commitments</b>	<b>1 147</b>	<b>1 818</b>

**26 Contingencies, Commitments and Derivative Financial Instruments (Continued)**

Movement in provision for credit related commitments are as follows:

	<b>2000</b>	<b>1999 (restated)</b>
<b>Provision for credit related commitments at 1 January</b>	<b>739</b>	<b>2 499</b>
Provision created for the year/ (recoveries of amounts previously provided against)	50	(1 091)
Inflation effect	(124)	(669)
<b>Provision for credit related commitments as at 31 December</b>	<b>665</b>	<b>739</b>

During 1999 and 2000 the Bank entered into agreements with the Association for Restructuring of Credit Organisations (ARCO). Under these agreements the Bank assigned loans totalling RR 633 million (1999: RR 491 million) to ARCO in return for RR 379 million (1999: RR 293 million) in cash, and promissory notes totalling RR 254 million (1999: RR 198 million) issued by ARCO (Note 8). Under the terms of these agreements the Bank has 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 other guarantees issued is RR 633 million (1999: RR 491 million) relating to these agreements. The Bank has recorded a provision of RR 380 million (1999: RR 294 million) for the potential losses in this respect.

A further RR 197 million is included in other guarantees related to a USD 7 million guarantee on a loan issued by a foreign bank to one of the Bank's main borrowers. The Bank recorded a provision of RR 114 million for the potential losses related to this guarantee.

In December 2000 the Bank agreed the terms of repayment of certain overdue credit related commitments totalling USD 11 million. Under the terms of these agreements the Bank settled USD 7 million of these liabilities prior to the year end and remaining RR 113 million (the equivalent of USD 4 million) subsequent to the year end. As at 31 December 2000 the Bank has recorded a provision of RR 34 million (1999: RR 264 million) for the potential losses relating to the unsettled credit related commitment of RR 113 million (the equivalent of USD 4 million).

Management also evaluated the likelihood of possible losses arising from other credit related commitments and concluded that a further provision of RR 137 million was necessary as at 31 December 2000 (1999: RR 181 million) for other credit related commitments.

The total provision for credit related commitments is included in other liabilities (Note 14). The total outstanding contractual amount of guarantees, letters of credit, and undrawn credit lines does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

**Derivatives.** As at 31 December 2000, the Bank has outstanding forward foreign exchange contracts with domestic Russian 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 a majority of these contracts matured during 1998 and early 1999 but, because of the circumstances of the Russian financial crisis in August 1998, these amounts have not yet been settled. The Bank has been able to settle outstanding contracts with several counterparties at rates substantially below the contractual rates, and any resultant gains or losses have been recorded.

At present there is uncertainty in Russia with respect as to how, and on which basis, derivative contracts will be settled; only a small proportion of outstanding domestic index forward contracts have been settled in the market. Such settlements have been made at rates substantially below the contractual rates.

On the basis of their own judgement, as well as market practices, legal rulings and activities of other participants of the derivative markets, Management believes that it is possible that contracts between Russian banks may become void or other remedial measures may be available such that no gains or losses will accrue to the Bank. Accordingly Management has provided fully against gains arising on these contracts, and has not recorded any provision for losses on these contracts. In the event the outstanding contracts are settled and gains or losses do accrue to the Bank, the gains and losses would be recognised in the statement of income in the period that the settlement occurs.

**26 Contingencies, Commitments and Derivative Financial Instruments (Continued)**

The table below reflects netting of counterparty position, where applicable, in respect of contracts for which the maturity date is past due, no settlement has been made as of 31 December 2000 and relates to contracts entered into before August 1998. Gains and losses on sale or purchase of foreign currency are calculated based upon rates of exchange at contractual maturity. The aggregate principal amounts of these unsettled forward contracts as at 31 December 2000 are: for index forwards – sale of foreign currency RR 2 508 million, purchase of foreign currency RR 1 453 million; for index options – sale of foreign currency RR 32 million, purchase of foreign currency RR 32 million. The contractual gain and loss on unsettled domestic index contracts is as follows:

	<b>2000</b>	<b>1999</b>
Counterparty losses	(3 314)	(3 981)
Losses offset by counterparty gains	501	602
<b>Contractual obligations under derivative financial instruments</b>	<b>(2 813)</b>	<b>(3 379)</b>
Counterparty gains	1 654	2 731
Gains offset by counterparty losses	(501)	(602)
Total gains after netting by counterparty position	1 153	2 129
Less: Provision for uncollectable gains	(1 153)	(2 129)
<b>Amounts receivable under derivative financial instruments</b>	<b>-</b>	<b>-</b>

In 1998 Management of the Bank established a provision for losses on unsettled contracts of RR 4 766 million. As at 31 December 1999 the Management of the Bank reduced the provision by RR 3 087 based on their best estimate as at that date of the ultimate loss to the Bank arising from the settlement of these contracts. As at 31 December 2000 the Management of the Bank further reduced the provision by RR 243 million as Management now does not expect to incur any losses in this respect. No provision is therefore recorded in respect of the derivative contracts as of 31 December 2000.

A summary of movements in provision for domestic index forward exchange and option contracts is as follows:

	<b>2000</b>	<b>1999</b> <b>(restated)</b>
<b>Provision at 1 January</b>	<b>292</b>	<b>4 766</b>
Amount paid on settlements on forwards	-	(3)
Gains arising from settlements on forward	-	(105)
Release of provision during year	(243)	(3 087)
Effect of inflation	(49)	(1 279)
<b>Provision at 31 December</b>	<b>-</b>	<b>292</b>

The Bank also engages in transactions with other off-balance sheet financial instruments.

Foreign exchange off-balance sheet financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. The nominal amounts for off-balance sheet financial instruments are not reflected in the balance sheet.

**26 Contingencies, Commitments and Derivative Financial Instruments (Continued)**

**Fiduciary assets.** These assets are not included in the Bank’s balance sheet as they are not assets of the Bank. The fiduciary assets fall into the following categories:

	<b>2000</b>
	<b>Nominal value</b>
Shares in companies	50
Client VEB securities held on an account with Vneshtorgbank	298
Client OFZ securities held on an account with National Depository Centre	129

**Assets pledged.** As at 31 December 2000, the Bank pledged as collateral the following assets:

- VEB bonds with a market value of RR 10 million (1999: RR 11 million) and a nominal value of USD 1.2 million have been pledged to third parties as collateral (Note 6);
- Placements with banks of RR 171 million (Note 7).

**27 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 as well as other transactions for the year with related parties are as follows:

	<b>2000</b>	<b>1999</b>
		<b>(restated)</b>
<b>Loans</b>		
Loans outstanding as at year end	22	148
Interest income	2	14
<b>Deposits</b>		
Outstanding balance as at year end	41	191
Interest expense	4	1
<b>Guarantees issued</b>	193	-

**28 Adoption of IAS 29**

As 1 January 2000, the Bank adopted IAS 29 “Financial Reporting in Hyperinflationary Economies” for the first time. In accordance with IAS 29, the financial statements should be adjusted to reflect the effects of the change in purchasing power of the Russian Rouble based on general price indices in Russia. Previously, these adjustments had not been made and accordingly the amounts in the financial statements of the Bank were stated at historical cost.

This adoption of IAS 29 has been accounted for retrospectively. Corresponding information has been restated to conform to this change in accounting policy. The effect of the change in accounting policy on the financial statements for the year ended 31 December 1999 is as follows:

	<b>Historical cost</b>	<b>Effect of IAS 29</b>	<b>Restated</b>
Total assets	6 352	1 539	7 891
Total liabilities	8 851	1 781	10 632
Shareholders deficit	(2 499)	(242)	(2 741)
Profit for the year	3 709	3 659	7 368

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