



Financial Statements and Auditors' Report

31 December 2001



Raiffeisenbank
Branch
Tsarev Sad

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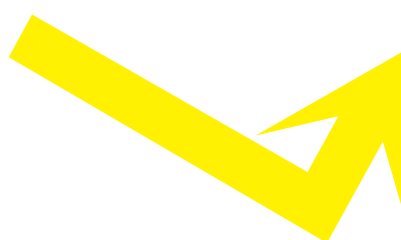
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Raiffeisenbank
Branch
Tverskoye





Shareholders, Officers and Auditors

Shareholders

	<i>% Ownership</i>	<i>% Votes</i>
Raiffeisen Zentralbank Österreich AG	99.00	99.00
Raiffeisen International Beteiligungsgesellschaft mbH	0.50	0.50
Raiffeisen-Invest Gesellschaft mbH	0.50	0.50
	100.00	100.00

Council of the Bank

Herbert Stepic
Otto Auboek
Heinz Hoedl

Board of Management

Michel Perhirin
Eugene Toutkevitch
Levan Zolotarev
Alexander Ouchakov

Auditors

ZAO PricewaterhouseCoopers Audit, Moscow

AUDITORS' REPORT

To the Shareholders and Management of ZAO Raiffeisenbank Austria:

- 1 We have audited the accompanying balance sheet of ZAO Raiffeisenbank Austria (the "Bank") as at 31 December 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.

PricewaterhouseCoopers

Moscow, Russia
15 February 2002




ZAO Raiffeisenbank Austria

Balance Sheet as at 31 December 2001

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2001 - Note 3)

	Note	2001	2000
Assets			
Cash and cash equivalents	5	4 975 741	911 764
Mandatory cash balances with the Central Bank of the Russian Federation		1 253 491	1 409 909
Trading securities	6	433 008	136 371
Due from other banks	7	4 862 068	5 481 507
Loans and advances to customers	8	12 772 811	9 021 569
Other investments	9	5 946	7 577
Accrued interest income		77 609	101 202
Other assets	10	104 853	40 721
Premises and equipment	11	347 131	240 622
Total assets		24 832 658	17 351 242
Liabilities			
Due to other banks	12	8 494 006	4 216 460
Customer accounts	13	12 463 486	10 798 926
Promissory notes		108 348	112 794
Other borrowed funds	14	602 800	-
Accrued interest expense		51 849	58 064
Other liabilities	15	277 454	121 721
Deferred tax liability	22	137 701	120 442
Total liabilities		22 135 644	15 428 407
Shareholders' equity			
Share capital	16	6 175 371	6 175 371
Additional paid-in capital	17	1 053 238	593 124
Accumulated deficit and other reserves	18	(4 531 595)	(4 845 660)
Total shareholders' equity		2 697 014	1 922 835
Total liabilities and shareholders' equity		24 832 658	17 351 242

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


Michel Perhirin
President


Eugene Toukervitch
Finance Director

The notes set out on pages 5 to 28 form an integral part of these financial statements.

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ZAO Raiffeisenbank Austria

Statement of Income for the Year Ended 31 December 2001

(in thousands of Russian Roubles expressed in terms
of the purchasing power of the Russian Rouble
at 31 December – Note 3)

	Note	2001	2000
Interest income	19	1 526 604	1 430 471
Interest expense	19	(776 780)	(672 402)
Net interest income		749 824	758 069
Provision for loan impairment	7, 8	(106 528)	(13 108)
Net interest income after provision for loan impairment		643 296	744 961
Gains less losses arising from trading securities		31 279	(9 588)
Gains less losses arising from dealing in foreign currencies		425 495	509 316
Foreign exchange translation gains less losses		227 848	55 332
Fee and commission income	20	404 237	277 149
Fee and commission expense	200	(283 447)	(290 284)
Other operating income		20 862	28 346
Net revenues		1 469 570	1 315 232
Operating expenses	21	(556 348)	(599 673)
Gains arising from settlement of forward contracts	25	21 815	94 986
Provision for impairment of other investments	9	(1 631)	—
Monetary loss		(360 950)	(261 500)
Profit before taxation		572 456	549 045
Taxation	22	(201 435)	(207 912)
Net profit		371 021	341 133

ZAO Raiffeisenbank Austria

Statement of Cash Flows for the Year Ended 31 December 2001

(in thousands of Russian Roubles expressed in terms
of the purchasing power of the Russian Rouble
at 31 December 2001 — Note 3)

	Note	2001	2000
Cash flows from operating activities			
Interest received on loans		1 550 197	1 404 603
Interest paid		(782 995)	(678 947)
Income received from dealing in trading securities		24 423	(9 588)
Income received from dealing in foreign currencies		425 495	508 633
Fees and commissions received		404 237	277 149
Fees and commissions paid		(283 447)	(290 284)
Other operating income received		20 862	46 557
Income received on settlements on forward contracts		21 815	94 987
Operating expenses paid		(527 648)	(579 911)
Income tax paid		(197 506)	(69 599)
Operating profits before changes in operating assets and liabilities			
		655 433	703 600
Net cash (increase)/decrease from operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(78 078)	(937 192)
Net decrease/(increase) in due from other banks		34 945	(2 998 348)
Net increase in loans and advances to customers		(5 032 239)	(4 592 613)
Net increase in trading securities		(342 109)	(162 914)
Net (increase)/decrease in other assets		(75 884)	5 630
Net increase in due to other banks		4 959 701	1 002 631
Net increase in customer accounts		2 981 706	5 773 391
Net increase/(decrease) in promissory notes		10 479	(43 248)

Net increase/(decrease) in other liabilities 188 179 (36 348)

**Net cash from / (used in)
operating activities 3 302 133 (1 285 411)**

Cash flows from investing activities

Purchase of premises and equipment 11 (135 667) (75 190)

Purchases of other investment — (5 946)

Net cash used in investing activities (135 667) (81 136)

Cash flows from financing activities

Capital contributions from shareholders 17 460 114 524 068

Other borrowed funds received 602 800 —

Net cash from financing activities 1 062 914 524 068

**Effect of exchange rate changes
on cash and cash equivalents 23 961 (3 689)**

**Effect of inflation on cash
and cash equivalents (189 364) (322 252)**

**Net increase/(decrease) in cash
and cash equivalents 4 063 977 (1 168 420)**

Cash and cash equivalents
at beginning of the year 911 764 2 080 184

**Cash and cash equivalents
at the end of the year 5 4 975 741 911 764**

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

ZAO Raiffeisenbank Austria

Statement of Changes in Shareholders' Equity for the Year Ended 31 December 2001

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2001 — Note 3)

	Share capital	Additional paid-in capital	Accumulated deficit and other reserves	Total shareholders' equity
Balance at 1 January 2000	6 175 371	69 056 (5 186 793)		1 057 634
Net profit	—	—	341 133	341 133
Additional paid-in capital (Note 17)	—	524 068	—	524 068
Balance at 31 December 2000 (as previously reported)	6 175 371	593 124 (4 845 660)		1 922 835
Effect of adopting of IAS 39 on loans and advances to customers, net of taxation (Note 8)	—	—	14 274	14 274
Effect of adopting of IAS 39 on securities, net of taxation (Note 8)	—	—	(71 230)	(71 230)
Balance at 31 December 2000 (restated)	6 175 371	593 124 (4 902 616)		1 865 879
Net profit	—	—	371 021	371 021
Additional paid-in capital (Note 17)	—	460 114	—	460 114
Balance at 31 December 2001	6 175 371	1 053 238 (4 531 595)		2 697 014



ZAO Raiffeisenbank Austria

Notes to the Financial Statements – 31 December 2001

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2001 – Note 3)

1. Principal Activities

- ZAO Raiffeisenbank Austria (the “Bank”) is a commercial bank owned by shareholders whose liability is limited to the equity invested. The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation (“CBRF”) since 1996. The Bank’s principal business activity is commercial and retail banking operations within the Russian Federation.
- The Bank is a subsidiary of Raiffeisen Zentralbank Österreich (the “Parent Bank”), which owns 99% of the shareholders’ capital.
- The Bank has 1 branch in St Petersburg and 4 branches in Moscow. The Bank’s registered office is located at the following address: 17/1 Troitskaya str., 129090 Moscow, Russia. The average number of the Bank’s employees during the year was 266 (2000: 212).

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 beginning in 2000 and continuing into 2002 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

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 and interpretations issued by the Standing Interpretations Committee of the IASC.

● 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. All amounts presented in the financial statements have been rounded to the nearest thousand.

- 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. Further information relating to the effect of the adoption of IAS 39 is presented in the relevant accounting policies for trading securities, originated loans and provision for loan impairment, derivative financial instruments and related disclosures.

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

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 all of its securities portfolio as "trading" securities. Trading securities are securities which are 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 holding 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.

- 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 dividend income.

- Prior to the adoption of IAS 39 all trading securities were treated by the Bank as part of its trading portfolio. Federal government bonds (OFZ) were carried at the lower of amortised cost and market value. Corporate shares and other government securities 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 dividend income.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repos")



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

- Securities lent to counterparties are retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses arising from trading securities in the statement of income. The obligation to return them is recorded at fair value as a trading liability.

Originated loans and advances and provisions for loan impairment. Loans originated by the Bank by providing money directly to the borrower or to a sub-participation agent at draw down 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 rat-



ings 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.


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

- 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.

- At 1 January 2001 the Bank adopted IAS 39 and classified its securities purchased from the issuer as originated loans. Those securities are initially recognised at cost (which includes transaction costs) and subsequently are carried at amortised cost using the effective yield method, less any provision for impairment, calculated as the difference between the carrying amount and the present value of expected future cash flows discounted at the instrument’s original effective interest rate.

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.

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. These investments are carried at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2001, less any provision for impairment, 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 2001, 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 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.

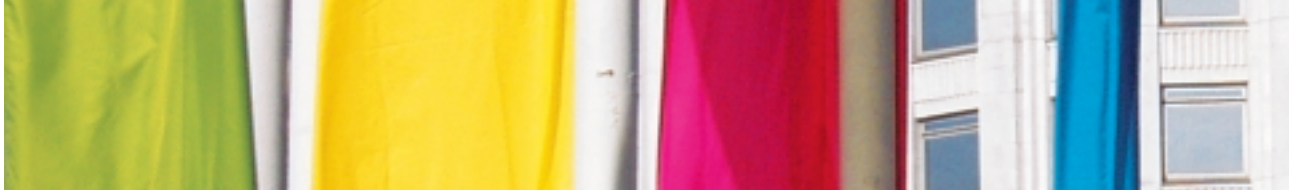
- Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and are taken into account in determining profit/(loss). Repairs and maintenance are charged to the statement of income when the expenditure is incurred.

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

- ▣ Premises 2–2.5% per annum; and
- ▣ Equipment 10–25% 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”, car-



ry a fixed date of repayment. These may be issued against cash deposits or as a payment instrument which the customer can discount in the over-the-counter secondary market. Promissory notes issued by the Bank are 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.


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

Dividends. Dividends 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 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



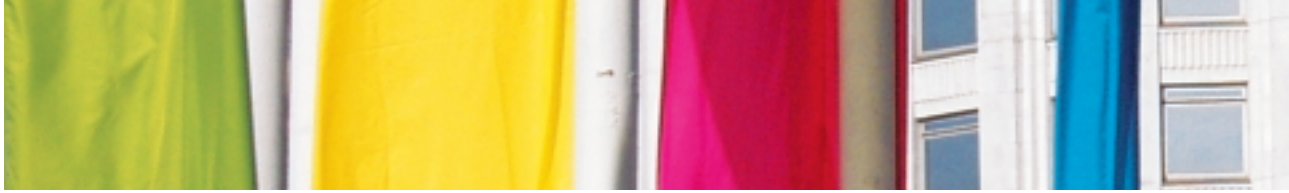
on an accruals basis. Interest income is not recognised when it is overdue and/or in situations where Management believes it is not collectible. Interest income includes coupons earned on fixed income securities and accrued discount. Commissions and other income are credited to income when the related 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 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, 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.

- The August 1998 economic crisis and the subsequent legal uncertainty over domestic index forward contracts have necessitated the Bank to adopt specific accounting methods, for these specific contracts, as described hereunder.

- The Bank has either paid the amount due under index contracts, and realised a loss or gain, or negotiated a settlement for a lesser amount and has recognised a gain based on the agreed terms, or has not settled with the counterparty. Where no settlements or agreements have been reached, the gain or loss on the index contracts has been recognised applying the exchange rates ruling on the contractual maturity dates.

- Where applicable, Management has made provisions against the gains recognised on the above instruments where it is likely that collectability of the receivable from the counterparty is doubtful.

- Gains and losses recognised on the index contracts have been offset within each counterparty since existing legal practice provides that there is a legally enforceable right to offset these amounts, and it intends to settle all the contracts with the same counterparty on a net basis.

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.

● 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:

	<i>Index</i>	<i>Conversion Factor</i>
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 general price index 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 general price index from the approximate date of transactions resulting in movement 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.

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

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.

Operating leases. Payments made under operating leases are charged against income in equal instalments over the period of the lease.

5. Cash and Cash Equivalents

	2001	2000
Cash on hand	428 873	219 577
Cash balances with the CBRF (other than mandatory reserve deposits)	226 593	329 990
Correspondent accounts and overnight deposits with other banks		
▶ Russian Federation	53 581	59 428
▶ Other countries	4 266 694	302 769
Total cash and cash equivalents	4 975 741	911 764

● The relevant information on related party balances is disclosed in Note 27.

6. Trading Securities

	2001	2000
RR denominated securities		
Corporate bonds	417 707	—
Corporate shares	15 301	—
Vneshtorgbank Bonds (VTB)	—	80 202
US dollar denominated securities		
VneshEconomBank 3% coupon bonds (VEB)	—	56 169
Total trading securities	433 008	136 371



- Corporate bonds are interest bearing securities denominated in Rouble, issued by large Russian companies. The annual coupon rates on these bonds range from 15% to 22%. The bonds have maturity dates from 2002 to 2006 and a yield to maturity from 18 % to 23 %.

Corporate shares are shares of Russian companies.

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

7. Due from Other Banks

	2001	2000
Current loans and term deposits	4 862 068	5 481 507
Total due from other banks	4 862 068	5 481 507

- The geographical and currency analysis of due from other banks is disclosed in Note 23. The effective average interest rates and maturity structure of due from other banks is detailed in Note 24. The Bank has several balances with related parties. The relevant information on related party balances is disclosed in Note 27.

- Movements in the provision for loan impairment are as follows:

	2001	2000
Provision for loan impairment		
at 1 January	—	(135 015)
Recovery of provision for loan impairment during the year	—	18 211
Due from other banks written off during the year as uncollectable	—	94 182
Effect of inflation	—	22 622
Provision for loan impairment at 31 December	—	—

8. Loans and Advances to Customers

	2001	2000
Current loans	11 489 599	8 314 610
Rescheduled (current) loans	1 000 605	109 924
Overdue loans	4 702	—
Securities directly purchased from the issuer and classified as originated loans	439 879	677 256
Less: Provision for loan impairment	(161 974)	(80 221)
Total loans and advances to customers	12 772 811	9 021 569

● Movements in the provision for loan impairment are as follows:

	2001	2000
Provision for loan impairment at 1 January	(80 221)	(58 745)
Adjustment on adoption of IAS 39	14 274	—
Charge for provision for loan impairment during the year	(106 528)	(31 319)
Effect of inflation	10 501	9 843
Provision for loan impairment at 31 December	(161 974)	(80 221)

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

	Amount	2001 %	Amount	2000 %
Manufacturing	7 247 480	56.0	5 218 725	57.3
Financial Services	1 173 440	9.1	790 373	8.7
Trade	1 035 136	8.0	874 450	9.6
Real estate	919 585	7.1	497 838	5.5
Mining	596 612	4.6	—	—
Government bodies	439 879	3.4	677 256	7.4
Construction	410 041	3.2	372 490	4.1
Education	308 182	2.4	366 380	4.0
Individuals	173 148	1.3	98 777	1.1
Other	631 282	4.9	205 502	2.3

Total loans and advances to customers (aggregate amount)

12 934 785 100.0 9 101 791 100.0

● The Bank has 10 borrowers with aggregated loan amounts above RR 300 000 thousand. The aggregate amount of these loans is RR 5 521 359 thousand or 43% of the loan portfolio.

● For the purposes of decreasing the risk associated with its loan portfolio, some of the loans are secured with a cash collateral held by the Bank or guarantees from other banks. The total amount of cash collateral placed in relation to loans outstanding as at 31 December 2001 amounted to RR 327 035 thousand (2000: RR 75 841 thousand) and the total amount of loans outstanding guaranteed by other banks is RR 5 719 421 thousand (2000: RR 4 642 105 thousand), including RR 5 566 687 thousand (2000: RR 4 413 496 thousand) guaranteed by Raiffeisen Zentralbank Osterreich, the Parent Bank. Management has not established a provision against the loans guaranteed by Raiffeisen Zentralbank Osterreich. Refer to Note 27 for information on related party transactions.

● As at 31 December 2001, with adoption of IAS 39 the approach to provision on possible loan losses (impairment loss) has changed, as a result the provision amount brought forward was reduced by RR 14 274 thousand.

● The Bank's OFZ bonds (Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation) were obtained directly from Ministry of Finance as a result of GKO restructuring performed in 1999. In prior year's financial statements these bonds were treated as securities. As of 31 December 2001 due to adoption of IAS 39 these bonds are treated as originated loans. OFZ bonds are issued at a discount to face value, have a medium to long-term maturity period with a coupon rate of approximately 15–20% in 2001 and yield to maturity from 27% to 43%, depending on the type of bond issue.

● The geographical and currency analysis of loans and advances to customers is disclosed in Note 23. The effective average interest rates and maturity structure of the loan portfolio is detailed in Note 24. The Bank has several loans to related parties. The relevant information on related party loans is disclosed in Note 27.

9. Other Investments

	2001	2000
Equity securities		
Investment in non-consolidated subsidiary companies	5 946	5 946
Investment in associated companies not accounted for under the equity method	1 631	1 631
Less: Provision for impairment	(1 631)	—
Total other investments	5 946	7 577



● There were no movements in other investments during 2001.

● Movements in the provision for impairment are as follows:

	2001
Provision for impairment at 1 January	–
Charge for provision for impairment during the year	(1 631)
Provision for impairment at 31 December	(1 631)

● The principal non-consolidated subsidiary and associated companies are:

<i>Name</i>	<i>Nature of business</i>	<i>Country of registration</i>	<i>Percentage of equity controlled</i>	<i>Cost of investment</i>	<i>Loans granted to company</i>
OOO "Raiffeisen-Leasing"	Leasing	Russia	50%	5 946	375 706
OOO "Raiffeisen Investment"	Investment	Russia	26%	1 631	32 630
Total				7 577	408 336

10. Other Assets

	2001	2000
Trade debtors and prepayments	97 163	29 644
Other	7 690	11 077
Total other assets	104 853	40 721

11. Premises and Equipment

	Premises	Leasehold improvements	Office and computer equipment	Construction in progress	Total
Net book amount at 31 December 2000	117 506	29 850	93 266	—	240 622
Book amount at cost or valuation					
Opening balance	129 962	29 911	125 179	—	285 052
Additions	5 590	43 233	52 582	34 262	135 667
Disposals	—	—	(1 481)	—	(1 481)
Closing balance	135 552	73 144	176 280	34 262	419 238
Accumulated depreciation					
Opening balance	(12 456)	(61)	(31 913)	—	(44 430)
Depreciation charge (Note 21)	(3 272)	(2 039)	(23 388)	—	(28 699)
Disposals	—	—	1 022	—	1 022
Closing balance	(15 728)	(2 100)	(54 279)	—	(72 107)
Net book amount at 31 December 2001	119 824	71 044	122 001	34 262	347 131

● 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
Loans and term deposits	7 195 326	3 454 144
Correspondent accounts	1 298 680	762 316
Total due to other banks	8 494 006	4 216 460



● The geographical and currency analysis of due to other banks is disclosed in Note 23. The effective average interest rates and maturity structure of due to other banks is detailed in Note 24. The Bank has several balances with related parties. The relevant information on related party balances is disclosed in Note 27.

13. Customer Accounts

	2001	2000
Legal entities		
– Current/settlement accounts	3 866 469	2 708 344
– Term deposits	3 052 202	5 551 308
Individuals		
– Current/demand accounts	2 333 380	1 497 030
– Term deposits	3 211 435	1 042 244
Total customer accounts	12 463 486	10 798 926

● The geographical and currency analysis of customer accounts is disclosed in Note 23. The effective average interest rates and maturity analysis is provided in Note 24. The Bank has several deposits with related parties. The relevant information on related party deposits is disclosed in Note 27.

● Economic sector concentrations within customer accounts are as follows:

	Amount	2001 %	Amount	2000 %
Individuals	5 544 815	44.5	2 539 275	23.5
Manufacturing	2 996 681	24.0	3 451 605	32.0
Transport and communications	1 877 240	15.1	1 778 170	16.4
Financial services	759 039	6.1	1 390 015	12.9
Trade	939 446	7.5	495 966	4.6
Mining	84 693	0.7	754 572	7.0
Other	261 572	2.1	389 323	3.6
Total customer accounts	12 463 486	100.0	10 798 926	100.0

● Included in customer accounts are deposits of RR 437 720 thousand (2000: RR 1 48 715 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 25.

14. Other Borrowed Funds

	2001	2000
Term borrowings from other banks	602 800	—
Total other borrowed funds	602 800	—

● As at 31 December 2001 the Bank has borrowings of USD 20 million (equivalent of RR 602 800 thousand) in the form of a subordinated loan. The contractual maturity of this loan is 18 December 2007 and the annual interest rate is LIBOR plus 2.5% per annum.



15. Other Liabilities

	2001	2000
Settlements		
on conversion operations	221 787	78 768
Taxation payable	10 770	24 100
Other	44 897	18 853
Total other liabilities	277 454	121 721

16. Share Capital

● Statutory capital authorised, issued and fully paid comprises:

	Number of shares	2001 Nominal amount	Inflation adjusted amount	Number of shares	2000 Nominal amount	Inflation adjusted amount
Ordinary shares	1 000	1 004 000	6 175 371	3 500	3 516 340	6 175 371
Total share capital	1 000	1 004 000	6 175 371	3 500	3 516 340	6 175 371

● The Bank's share capital as of 31 December 2001 consists of 1 000 registered shares with a total value recorded in the Bank's statutory financial statements of RR 1 004 000 thousand. All ordinary shares have a nominal value of RR 1 004 thousand per share, rank equally and carry one vote.

● On 9 February 2001 the Bank changed its legal form from a limited liability partnership to a closed joint stock company. The units of the partners were converted into shares. As the Bank had an amount of total equity lower than the charter capital of the Bank, under statutory rules applicable to joint stock companies, the Bank had to reduce its charter capital to RR 1 004 000 thousand and number of shares to 1 000 shares while changing its legal form. The participation percentage of the shareholders in the charter capital remained unchanged.

17. Additional Paid-in Capital

- Additional paid-in capital represents the excess of contributions received over the nominal value of shares issued.
- On 26 June 2001 Raiffeisen Zentralbank Österreich contributed RR 460 114 thousand (2000: RR 524 068 thousand) of additional paid-in capital to increase the capitalisation of the Bank.

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 812 789 thousand (2000: deficit RR 2 455 690 thousand (non-inflated)).

19. Interest Income and Expense

	2001	2000
Interest income		
Loans and advances to customers	1 221 368	707 704
Due from other banks	131 858	509 889
Securities	173 378	212 878
Total interest income	1 526 604	1 430 471
Interest expense		
Term placements of banks	(406 701)	(354 935)
Term deposits of legal entities	(180 157)	(162 644)
Term deposits of individuals	(117 724)	(27 190)
Current/settlement accounts	(65 428)	(116 617)
Promissory notes	(6 770)	(11 016)
Total interest expense	(776 780)	(672 402)
Net interest income	749 824	758 069

20. Fee and Commission Income and Expense

	2001	2000
Commissions on operations		
with plastic cards	91 731	40 025
Commissions on export operations	55 041	49 760
Loan issuance commissions	51 838	32 770
Commission		
on settlement transactions	37 070	36 754
Commission on cash operations	26 301	52 239
Commission transactions		
with securities	22 633	5 370
Documentary business		
commissions	17 642	45 334
Other	101 981	14 897
Total fee and commission income	404 237	277 149
Standby facility fees (Note 24)	(191 690)	(154 803)
Commission		
on currency conversion	(28 217)	(64 292)
Documentary business		
commissions	(13 123)	(31 989)
Commission transactions		
with securities	(11 916)	(6 249)
Commissions		
on settlement transactions	(5 879)	(4 728)
Other	(32 622)	(28 223)
Total fee and commission expense	(283 447)	(290 284)
Net fee and commission income/(expense)	120 790	(13 135)

21. Operating Expenses

	2001	2000
Staff costs	(320 778)	(331 553)
Administrative expenses	(74 718)	(36 567)
Other expenses related to premises and equipment	(65 802)	(37 295)
Taxes other than on income	(30 178)	(65 416)
Depreciation	(28 699)	(19 762)
Advertising and marketing	(19 739)	(19 473)
Professional services	(10 841)	(22 664)
Travelling and accommodation	(2 546)	(10 008)
Other operating expenses	(3 047)	(56 935)
Total operating expenses	(556 348)	(599 673)

22. Income Taxes

- Income tax expense was comprised of the following:

	2001	2000
Current tax charge	184 176	87 470
Deferred taxation movement due to:		
– Origination and reversal of temporary differences	162 239	96 624
– Effect of reduction in tax rate	(144 980)	23 818
Income tax expense for the year	201 435	207 912

- 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. As this tax rate was enacted by 31 December 2001, the effect of the change on



closing deferred tax liabilities amounting to RR 144 980 thousand has been recognised in these financial statements. A reconciliation between the expected and the actual taxation charge is provided below.

	2001	2000
IAS profit before taxation	572 456	549 045
Theoretical tax charge at the applicable statutory rate	246 156	208 637
Tax effect of items which are not deductible or assessable for taxation purposes:		
– Non deductible expenses recorded in reserves	–	(5 713)
– Non deductible provision for impairment of loans	(89 283)	(29 088)
– Non temporary elements of monetary gains and losses	54 160	95 153
– Other accrued income/expenses	(1 201)	–
– Other non temporary differences	59 746	(7 483)
– Non deductible expenses	71 077	126 968
– Income which is exempt from taxation	(81 399)	(57 737)
– Income on government securities taxed at different rates	(27 057)	(33 360)
– Movements in tax losses not utilised	202 178	121 739
Effect of the change in tax rate	(144 980)	23 818
Inflation effect on deferred tax balance at the beginning of the year	(19 176)	–
Non-recognised net deferred tax asset movement	(68 786)	(235 022)
Income tax expense for the year	201 435	207 912

● Differences between IAS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabili-

ties 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.

	2000 Movement		2001
Tax effect of deductible temporary differences			
Premises and equipment	9 115	(9 115)	—
Accruals	24 967	(12 158)	12 809
Tax loss carried forward	293 042	(202 178)	90 864
Gross deferred tax asset	327 124	(223 451)	103 673
Less: non-recognised deferred tax asset	(114 218)	68 786	(45 432)
Net deferred tax asset	212 906	(154 665)	58 241
Tax effect of taxable temporary differences			
Accruals	(44 265)	25 356	(18 909)
Premises and equipment	(48 734)	23 514	(25 220)
Valuation of trading securities and originated loans	(12 142)	491	(11 651)
Loan impairment provision	(228 207)	88 045	(140 162)
Gross deferred tax liability	(333 348)	137 406	(195 942)
Total net deferred tax liability	(120 442)	(17 259)	(137 701)

- The Bank also has available RR 379 million of tax loss carry forwards, which can be utilised in equal parts over the next 2 years. The amount of tax loss, which can be used every year, is limited to 50% of the taxable profit for that year.

- Management has reviewed its profit forecast for the next three years and as a result of the limitation on the utilisation of tax loss carry forwards as described above, a net deferred tax asset in the amount of RR 45 432 thousand at 31 December 2001 has not been recorded for the net deductible temporary differences.

23. 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	709 047	4 266 531	163	4 975 741
Mandatory cash balances with the Central Bank of the Russian Federation	1 253 491	—	—	1 253 491
Trading securities	433 008	—	—	433 008
Due from other banks	246 233	4 615 835	—	4 862 068
Loans and advances to customers	12 772 811	—	—	12 772 811
Other investments	5 946	—	—	5 946
Accrued interest income	57 295	20 314	—	77 609
Other assets	104 853	—	—	104 853
Premises and equipment	347 131	—	—	347 131
Total assets	15 929 815	8 902 680	163	24 832 658
Liabilities				
Due to other banks	1 543 705	6 927 484	22 817	8 494 006
Customer accounts	12 189 259	258 257	15 970	12 463 486
Promissory notes	108 348	—	—	108 348
Other borrowed funds	—	602 800	—	602 800
Accrued interest expense	34 071	17 778	—	51 849
Other liabilities	277 454	—	—	277 454
Deferred tax liability	137 701	—	—	137 701
Total liabilities	14 290 538	7 806 319	38 787	22 135 644
Net balance sheet position at 31 December 2001	1 639 277	1 096 361	(38 624)	2 697 014
Net balance sheet position at 31 December 2000	(348 220)	2 469 152	(198 097)	1 922 835

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	465 066	4 189 790	29 535	291 350	4 975 741
Mandatory cash balances with the Central Bank of the Russian Federation	1 253 491	—	—	—	1 253 491
Trading securities	433 008	—	—	—	433 008
Due from other banks	191 981	4 435 400	158 357	76 330	4 862 068
Loans and advances to customers	1 064 323	11 303 274	336 702	68 512	12 772 811
Other investments	5 946	—	—	—	5 946
Accrued interest income	5 529	69 264	2 179	637	77 609
Other assets	104 853	—	—	—	104 853
Premises and equipment	347 131	—	—	—	347 131
Total assets	3 871 328	19 997 728	526 773	436 829	24 832 658
Liabilities					
Due to other banks	1 979 724	6 211 247	301 809	1 226	8 494 006
Customer accounts	2 424 660	9 503 152	346 359	189 315	12 463 486
Promissory notes	54 982	53 366	—	—	108 348
Other borrowed funds	—	602 800	—	—	602 800
Accrued interest expense	10 592	39 240	1 559	458	51 849
Other liabilities	277 454	—	—	—	277 454
Deferred tax liability	137 701	—	—	—	137 701
Total liabilities	4 885 113	16 409 805	649 727	190 999	22 135 644
Net balance sheet position	(1 013 785)	3 587 923	(122 954)	245 830	2 697 014
Off-balance sheet					
net notional position	3 705 176	(3 891 320)	301 154	(116 519)	(1 509)
Credit commitments	1 461 409	2 899 025	417 121	89 125	4 866 680



● At 31 December 2000, the Bank had the following positions in currency:

	RR	USD	Euro	Other currencies	Total
Net balance sheet position at 31 December 2000	282 372	1 607 263	(12 603)	45 803	1 922 835
Off-balance sheet notional position	1 667 540	(1 624 562)	3 285	(45 579)	684
Credit commitments	563 570	3 748 242	426 928	30 176	4 768 916

● The off-balance sheet net notional position represents notional currency positions on foreign exchange forward contracts entered into during 2001.

● 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. Interest Rate and 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.

● 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	Euro	Other currencies	USD	RR	Euro	Other currencies
Assets								
Trading securities	—	16.63%	—	—	3.59%	26.00%	—	—
Due from other banks	2.48%	23.55%	2.93%	0%	6.27%	22.77%	0%	—
Loans and advances to customers	6.37%	28.03%	5.03%	6.49%	11.40%	22.98%	6.73%	5.58%
Liabilities								
Due to other banks	17.37%	4.97%	4.31%	0%	10.60%	22.92%	5.15%	0%
Customer accounts	2.36%	11.42%	1.63%	0.01%	5.64%	12.57%	0.82%	0.82%
Promissory notes	3.46%	18.91%	—	—	6.15%	12.42%	—	—
Other borrowed funds	4.4%	—	—	—	—	—	—	—

● 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. The liquidity risk is managed by Credit and Risk Management Department 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.

● The liquidity position of the Bank as at 31 December 2001 is set out below.

	<i>Demand and less than 1 month</i>	<i>From 1 to 6 months</i>	<i>From 6 to 12 months</i>	<i>More than 1 year</i>	<i>No stated maturity</i>	<i>Total</i>
Assets						
Cash and cash equivalents	4 975 741	—	—	—	—	4 975 741
Mandatory cash balances with the Central Bank of the Russian Federation	961 142	239 250	44 378	8 721	—	1 253 491
Trading securities	433 008	—	—	—	—	433 008
Due from other banks	4 308 888	440 690	36 509	75 981	—	4 862 068
Loans and advances to customers	93 290	3 018 962	3 963 797	5 692 437	4 325	12 772 811
Other investments	—	—	—	—	5 946	5 946
Accrued interest income	77 609	—	—	—	—	77 609
Other assets	104 853	—	—	—	—	104 853
Premises and equipment	—	—	—	—	347 131	347 131
Total assets	10 954 531	3 698 902	4 044 684	5 777 139	357 402	24 832 658
Liabilities						
Due to other banks	2 767 200	461 605	886 335	4 378 866	—	8 494 006
Customer accounts	9 556 652	2 378 866	441 256	86 712	—	12 463 486
Promissory notes	58 467	8 339	—	41 542	—	108 348
Other borrowed funds	—	—	—	602 800	—	602 800
Accrued interest expense	51 849	—	—	—	—	51 849
Other liabilities	277 454	—	—	—	—	277 454
Deferred tax liability	—	—	—	—	137 701	137 701
Total liabilities	12 711 622	2 848 810	1 327 591	5 109 920	137 701	22 135 644
Net liquidity gap	(1 757 091)	850 092	2 717 093	667 219	219 701	2 697 014

Cumulative liquidity

gap at 31

December 2001	(1 757 091)	(906 999)	1 810 094	2 477 313	2 697 014	—
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Cumulative liquidity

gap at 31

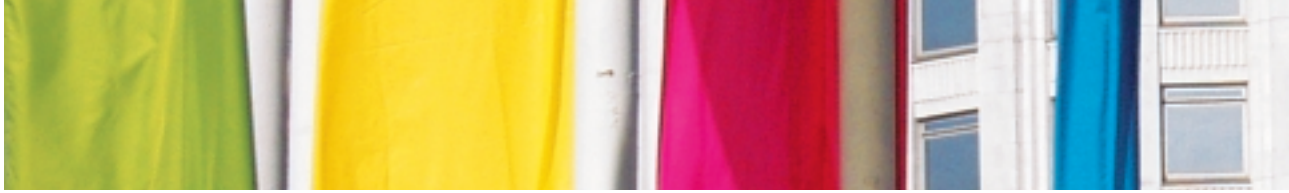
December 2000	(2 694 007)	(1 950 559)	(168 226)	1 795 079	1 922 835	—
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● Mandatory cash balances with the CBRF are included within from 1 to 6 months as the majority of liabilities to which this balance relates to are included within demand and less than one month. However, these balances could be withdrawn only in the month subsequent to the month of the withdrawal of related customer accounts.

● 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 repricing of the Bank's assets and liabilities does not differ significantly from the maturity analysis disclosed in the table above. However, the major of the loan portfolio is repriced on a monthly basis.

● 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.

● The Parent Bank has committed to provide financial support to the Bank in the event of a substantial change in market conditions in the Russian Federation via a loan facility of up to USD 400 million (RR 12 056 000 thousand as at 31 December 2001). This commitment is valid for one year up to 29 December 2002. A similar arrangement with a facility of up to USD 300 million was effective during 2001. A substantial change of market conditions is defined as the impossibility for the Bank to borrow



monetary funds on the currency market of the Russian Federation at a rate less than LIBOR plus 3%. During 2001 the Bank paid to the Parent Bank a standby facility fee of 1.5% or RR 191 690 thousand with respect to this arrangement. Refer to Notes 20 and 27.

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

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.

- 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.

25. 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.

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

	2001	2000
Not later than 1 year	50 217	13 701
Later than 1 year and not later than 5 years	92 045	45 492
Later than 5 years	7 595	—
Total operating lease commitments	149 857	59 193



● **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. In general, all the Bank's import letters of credit are collateralised with cash deposits or collateral pledged to the Bank and accordingly the Bank normally assumes minimal risk. Outstanding credit related commitments are as follows:


	2001	2000
Undrawn credit lines	3 169 908	2 634 727
Import letters of credit	632 233	270 297
Guarantees issued	1 064 539	1 863 892
Total credit related commitments	4 866 680	4 768 916

● 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 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 2001, the Bank has 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. A majority of these contracts were entered into prior to 17 August 1998 and a majority of these contracts matured during 1998 and early 1999 but have not yet been settled.

● The Bank has been able to settle outstanding contracts with one counterparty during 2001 and resultant gains of RR 21



815 thousand (2000: RR 94 986 thousand) have been recorded as the balances had been previously provided against in past years. At 31 December 2001 the Bank had outstanding contracts, that were entered into during 1998, with one "operating" domestic bank. The calculated net gain on these transactions, based on contractual rates, is RR 589 734 thousand. Management has fully provided against this gain in these financial statements as it is likely that collectability of the receivable from the counterparty is doubtful.

- At present there is uncertainty in Russia with respect as to how, and on which basis, certain 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.

- Management believes that it is possible that contracts between Russian banks may become void or other remedial measures may be available. In the event the outstanding contracts are declared void or settled at an amount different than the amount called for in the contract, the losses and gains would be adjusted and the difference would be recognised in the statement of operations in the period that the settlement occurs.

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

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

- The following table provide an analysis of the principal or agreed amounts of contracts outstanding at the year end and loss or gain arising. This table reflects gross position before the netting of any counterparty position by type of instrument.

- The table below includes contracts with a maturity date subsequent to 31 December 2001. These contracts were entered into in December 2001 and are short term in nature.



	Principal or agreed amount	Domestic Unrealised Loss	Unrealised Gain	Principal or agreed amount	Foreign Unrealised Loss	Unrealised Gain
Deliverable forwards						
Foreign currency						
– purchase of USD against JPY	–	–	–	125 081	–	604
Spot						
Foreign currency						
– purchase RR against foreign currencies	1 437 519	–	7 694	5 880 444	–	39
– sale RR against foreign currencies	777 335	(8 765)	–	2 835 452	(118)	–
– purchase EUR against other currencies	–	–	–	310 250	(835)	–
– purchase USD against other currencies	–	–	–	1 354	–	1
– purchase of JPY against USD	–	–	–	70 700	(129)	–
Total	2 214 854	(8 765)	7 694	9 223 281	(1 082)	644

● The unrealised gain/loss in the table above reflects the fair value of open derivatives as at the year end. For these deals the Bank has recorded a net loss of RR 1 509 thousand which is included within gains less losses arising from dealing in foreign currency.

● **Assets pledged.** As at 31 December 2001, the Bank has cash assets in the total amount of RR 437 720 thousand (2000: RR 196 859 thousand) pledged as collateral against guarantees and letters of credit issued in favour of its customers.



26. 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 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. Other borrowed funds are at international market rates. 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 24.

● 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 con-



sidered financial instruments under IAS 32, "Financial Instruments: Disclosure and Presentation".

- Management believes that it is difficult to estimate the fair value of forward foreign exchange contracts entered into prior to the economic crisis of August 1998. Currently these instruments are not actively traded in the Russian financial markets and an objective estimate of fair value is not available. The fair value of other off-balance sheet derivative contracts is shown in Note 25.

27. Related Parties 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:

	2001	2000
Correspondent accounts and overnight deposits with other banks at the year end	3 640 509	88 900
Due from other banks		
Term placements outstanding at the year end	486 343	574 589
Loans and advances to customers		
Loans outstanding at the year end	408 336	40 610
Provision for loan impairment at the year end	(32 630)	(812)
Interest income for the year	215 748	296 379
Due to other banks		
Correspondent accounts and overnight deposits of other banks at the year end	25 686	1 106
Term placement outstanding at the year end	5 881 204	2 227 798
Interest expense for the year	(261 848)	14 529
Customer accounts		
Current/settlement accounts outstanding at the year end	13 590	5 054
Guarantees issued by the Bank and outstanding at the year end	125 081	38 516
Guarantees received by the Bank and outstanding at the year end	6 918 299	4 965 182
Losses on foreign exchange trading	40 781	16 154
Fees and commissions paid	191 690	190 082

● Included in the amount of fees and commissions paid is RR 191 690 thousand (2000: RR 154 803 thousand) of commitment fees paid to the Parent Bank for maintenance of the loan facility guarantee. Refer to Notes 20 and 24.

28. Reconciliation of Russian Accounting Rules to International Accounting Standards

● The following is a reconciliation of the Bank's profit before taxation and reserves under Russian Accounting Rules to profit before taxation and reserves under International Accounting Standards (IAS). The profit before taxation is before allocation of profits for the year to the reserves accounts. Reserves according to Russian Accounting Rules include the total of the reserves accounts and the profit undistributed during the year.

	<i>2001 Profit before taxation</i>	<i>Accumulated deficit and other reserves</i>	<i>2000 Profit before taxation</i>	<i>Accumulated deficit and other reserves</i>
Russian Accounting Rules	485 495	812 789	96 522	(2 455 690)
Reversal of statutory adjustment to decrease share capital	—	(2 512 340)	—	—
Additional capital and share premium included in accumulated deficit and other reserves under Russian accounting rules but disclosed separately in IAS financial statements	—	(885 283)	—	(448 706)
Accrual of revenue and expenses	21 924	21 924	19 965	19 965
Release of statutory provision for loan impairment	333 410	826 583	485 279	493 173
Amortisation of discount on securities	72 708	72 708	23 601	23 601
Effect of adopting IAS 39 on securities and loans and advances to customers	—	(56 956)	—	—
Other	19 869	(80 358)	185 178	15 842
	933 406	(1 800 933)	810 545	(2 351 815)
IAS 29 adjustments	(360 950)	(2 730 662)	(261 500)	(2 493 845)
International Accounting Standards	572 456	(4 531 595)	549 045	(4 845 660)

