

ABSOLUT BANK

Financial Statements and Auditors' Report

31 December 2000

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AUDITORS' REPORT

To the Board of Directors of Absolut Bank:

- 1 We have audited the accompanying balance sheet of Absolut Bank (the "Bank") as at 31 December 2000, 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 The Bank has prepared these financial statements in accordance with International Accounting Standards for the first time as at 31 December 2000. Consequently, the accompanying financial statements do not include corresponding information for the prior period, as required by International Accounting Standard 1 (Revised) "Presentation of Financial Statements".
- 4 In our opinion, except for the omission of the corresponding information referred to in paragraph 3 above, 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.

Moscow, Russia
10 April 2001

Absolut Bank
Balance Sheet as at 31 December 2000

(in thousands 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
Assets		
Cash and cash equivalents	5	475 403
Mandatory cash balances with the Central Bank of the Russian Federation		53 330
Securities	6	201 888
Due from banks	7	573 104
Loans and advances to customers	8	870 271
Other investments	9	4 788
Other assets	10	37 124
Equipment	11	17 515
Total assets		2 233 423
Liabilities		
Due to banks	12	663 583
Customer accounts	13	732 832
Bills of exchange		266 497
Other liabilities	14	68 288
Total liabilities		1 731 200
Shareholders' equity		
Share capital	15	741 743
Share premium	15	6 904
Accumulated deficit	16	(246 424)
Total shareholders' equity		502 223
Total liabilities and shareholders' equity		2 233 423

Signed on behalf of the Board of Directors on 10 April 2001.

President
Kapitonov O.S.

Chief Accountant
Serditseva E.L.

Absolut Bank**Statement of Income for the Year Ended 31 December 2000***(in thousands 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
Interest income	17	211 300
Interest expense	17	(39 652)
Net interest income		171 648
Provision for losses on loans and advances	7, 8	(42 352)
Net interest income after provision for losses on loans and advances		129 296
Gains less losses arising from securities		16 868
Gains less losses arising from dealing in foreign currencies		46 556
Foreign exchange translation losses, net of gains		(629)
Fee and commission income	18	19 949
Fee and commission expense	18	(5 574)
Other operating income		15 073
Net revenues		221 539
Operating expenses	19	(108 560)
Provision for impairment in value of non-monetary assets	11	(1 476)
Monetary loss		(59 879)
Profit before taxation		51 624
Taxation	20	(30 844)
Net profit		20 780

Absolut Bank**Statement of Cash Flows for the Year Ended 31 December 2000***(in thousands 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
Cash flows from operating activities		
Interest received		201 232
Interest paid		(39 523)
Income received on securities		12 664
Income received from dealing in foreign currencies		46 556
Fees and commissions received		19 949
Fees and commissions paid		(5 574)
Other operating income received		14 660
Operating expenses paid		(104 201)
Income tax paid		(15 477)
<hr/>		
Operating profits before changes in operating assets and liabilities		130 286
Net cash (increase)/decrease from operating assets and liabilities		
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(26 194)
Net increase in due from banks		(159 067)
Net increase in loans and advances to customers		(498 922)
Net increase in securities		(185 588)
Net decrease in other assets		15 917
Net increase in due to banks		232 575
Net increase in customer accounts		447 876
Net increase in bills of exchange		73 751
Net increase in other liabilities		7 678
<hr/>		
Net cash from operating activities		38 312
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Cash flows from investing activities		
Purchase of equipment		(13 044)
Proceeds from sale of equipment		383
Purchases of other investments		(1 375)
Dividend income received		30
<hr/>		
Net cash used in investing activities		(14 006)
<hr/>		
Cash flows from financing activities		
Issue of ordinary shares		206 904
Dividends paid		(44 880)
<hr/>		
Net cash from financing activities		162 024
<hr/>		
Effect of exchange rate changes on cash and cash equivalents		7 058
<hr/>		
Effect of inflation on cash and cash equivalents		(58 114)
<hr/>		
Net increase in cash and cash equivalents		135 274
Cash and cash equivalents at beginning of the year		340 129
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Cash and cash equivalents at the end of the year	5	475 403

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

Absolut Bank**Statement of Changes in Shareholders' Equity for the Year Ended 31 December 2000***(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2000 unless otherwise stated - Note 3)*

	Share capital	Share premium	Accumulated deficit	Total shareholders' equity
Balance at 1 January 2000	541 743	-	(222 324)	319 419
Share issue (Note 15)				
- Nominal value	200 000	-	-	200 000
- Share premium	-	6 904	-	6 904
Dividends paid (Note 15)	-	-	(44 880)	(44 880)
Net profit	-	-	20 780	20 780
Balance at 31 December 2000	741 743	6 904	(246 424)	502 223

1 Principal Activities

Absolut 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 1993. The Bank’s principal business activity is commercial and retail banking operations within the Russian Federation.

The Bank’s registered office is located at Leninsky prospekt 108, bld. 1, Moscow, Russia. The number of the Bank’s employees as at 31 December 2000 was 307.

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, 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

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 except for the fact that the Bank has prepared these financial statements in accordance with International Accounting Standards for the first time as at 31 December 2000. Consequently, the accompanying financial statements do not include corresponding information for the prior year, as required by International Accounting Standard 1 (Revised) “Presentation of Financial Statements”.

The financial statements are prepared under the historical cost convention, as restated in accordance with IAS 29 - Financial Reporting in Hyperinflationary Economies. 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.

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.

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.

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 purchased under agreements to resell ("reverse repo") are recorded as loans and advances to customers. 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. Additional 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 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 associated company, which has not been accounted for on an equity accounting basis. This investment is 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.

Equipment. Equipment and intangible assets 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.

Gains and losses on disposal of 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:

Equipment 20% per annum; and

Intangible assets 20% per annum.

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. Purchased bills of exchange are included within the balance sheet in securities and carried at fair value based on Management's assessment.

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

Dividends. Dividends paid during the period covered by the financial statements are charged to equity.

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/or in situations where Management believes it is not collectible. Interest income includes coupons earned on fixed income securities and accrued discount on federal short-term zero coupon bonds. 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.

4 Significant Accounting Policies (Continued)

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. 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.

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. 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 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.

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 2000 and the respective conversion factors are the following:

	Index	Conversion Factor
1996	594 110	3.4
1997	659 403	3.0
1998	1 216 400	1.7
1999	1 661 481	1.2
2000	1 995 937	1.0

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 or loss.

Equipment and other investments have been indexed by the change in the general 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 general price index from the approximate date of transactions resulting in movement in equity.

4 Significant Accounting Policies (Continued)

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 losses on loans and advances; and
 - provision for impairment in value of non-monetary assets.

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

Pension costs. The Bank contributes to the Russian Federation state pension schemes, social insurance, obligatory medical insurance and employment funds in respect of its employees. The Bank's pension scheme contributions amount to 28% of employees' gross salaries, and 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

	2000
Cash on hand	54 754
Cash balances with the CBRF (other than mandatory reserve deposits)	276 211
Correspondent accounts and overnight deposits with other banks	
- Russian Federation	3 309
- United States of America	125 830
- Other countries	15 299
Total cash and cash equivalents	475 403

6 Securities

	2000
RR denominated securities	
Bills of exchange	188 385
Federal loan bonds (OFZ)	11 019
Corporate shares	2 171
US dollar denominated securities	
VneshEconBank 3% coupon bonds (VEB)	313
Total securities	201 888

Bills of exchange are debt securities of a major Russian company and Russian banks. These securities are traded in the over-the-counter market and, therefore, prices are fixed when terms of the deals are agreed by a willing buyer and a willing seller. Management has reflected these securities at their estimated fair value at 31 December 2000.

6 Securities (Continued)

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 25-30% 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 the Management using (1) last traded prices; (2) bid prices; and (3) ask prices obtained from the Russian Trade System (RTS) and over-the-counter market.

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 date in 2007 year. VEB bonds are stated at market value.

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

7 Due from Banks

	2000
Term deposits	65 000
Current interbank loans	519 800
Less: Provision for losses on due from banks	(11 696)
Total due to banks	573 104

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

	2000
Provision for losses on due from banks at 1 January	10 576
Charge against profits for losses on due from banks during the year	2 918
Due from banks written off during the year as uncollectable	(26)
Effect of inflation	(1 772)
Provision for losses on due from banks at 31 December	11 696

The weighted average interest rates on due from banks during 2000 was 6.9% on loans granted in Russian Roubles and 6% on loans in foreign currency.

The geographical and currency analysis of due from banks is disclosed in Note 21. The maturity structure of due from banks is detailed in Note 22. The Bank has several placements with related parties. The relevant information on related party balances is disclosed in Note 25.

8 Loans and Advances to Customers

	2000
Current loans	909 794
Rescheduled (current) loans	68 628
Overdue loans	1 578
Less: Provision for losses on loans and advances to customers	(109 729)
Total loans and advances to customers	870 271

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

	2000
Provision for losses on loans and advances to customers at 1 January	84 445
Charge against profits for losses on loans and advances to customers during the year	39 434
Effect of inflation	(14 150)
Provision for losses on loans and advances to customers at 31 December	109 729

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

	2000	
	Amount	%
Trade	561 023	57
Manufacturing	193 717	20
Real estate	128 709	13
Individuals	63 114	6
Insurance	19 275	2
Leasing	8 466	1
Other	5 696	1
Total loans and advances to customers (aggregate amount)	980 000	100

The Bank has 10 borrowers with aggregated loan amounts above RR 30 000 thousand. The aggregate amount of these loans is RR 564 102 thousand or 58% of the loan portfolio.

The weighted average interest rates on loans and advances during 2000 was 31% on loans and advances denominated in Russian Roubles and 17% on loans and advances denominated in foreign currencies.

The geographical and currency analysis of loans and advances to customers is disclosed in Note 21. The maturity structure of the loan portfolio is detailed in Note 22. The Bank has several loans to related parties. The relevant information on related party loans is disclosed in Note 25.

Absolut Bank**Notes to the Financial Statements – 31 December 2000***(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2000 unless otherwise stated - Note 3)***9 Other Investments**

	2000
Investment in associated company	4 788
Total other investments	4 788

Other investments represent 24.8% holding in an associated company “ISK Euro-Polis” which provides insurance services within Russian Federation.

For the year ended 31 December 2000, the associated company has not prepared financial statements in accordance with IAS. The investment is carried at cost and has not been accounted for under the equity method, as the effect would not materially alter the financial position of the Bank as at 31 December 2000 or the results of its operations or cash flows for the year then ended.

10 Other Assets

	2000
Accrued interest income	14 376
Prepaid taxes	9 587
Discount on issued bills of exchange	8 206
Trade debtors and prepayments	4 033
Other	922
Total other assets	37 124

11 Equipment

	Office and computer equipment	Intangible assets	Total
Net book amount at 31 December 1999	8 875	2 065	10 940
Book amount at cost			
Opening balance	15 025	2 559	17 584
Additions	8 763	4 281	13 044
Disposals	(543)	-	(543)
Closing balance	23 245	6 840	30 085
Accumulated depreciation			
Opening balance	6 150	494	6 644
Depreciation charge	3 385	1 172	4 557
Disposals	(107)	-	(107)
Impairment charge	1 180	296	1 476
Closing balance	10 608	1 962	12 570
Net book amount at 31 December 2000	12 637	4 878	17 515

11 Equipment (Continued)

Intangible assets are represented by electronic data processing software used by the Bank.

The impairment charge in 2000 relates mainly to office and computer equipment. The recoverable amount of the impaired assets represents the net selling price, determined by reference to the market price of a similar asset.

12 Due to Banks

	2000
Amounts on "Vostro" accounts of banks:	
-Russian Federation	210 809
-Other countries	189 079
Term deposits from banks:	
-Russian Federation	16 580
-Other countries	247 115
Total due to banks	663 583

The weighted average interest rate on due to banks outstanding during 2000 was: for term deposits in Russian Roubles – 5.5%; in foreign currency – 5.4%; for amounts on "Vostro" accounts – zero.

The geographical and currency analysis of due to banks is disclosed in Note 21. The maturity structure of due to banks is provided in Note 22. The Bank has several balances placed by related parties. The relevant information on related party balances is disclosed in Note 25.

13 Customer Accounts

	2000
Public organisations	
- Current/settlement accounts	276 961
- Term deposits	-
Other legal entities	
- Current/settlement accounts	424 719
- Term deposits	-
Individuals	
- Current/demand accounts	2 315
- Term deposits	28 837
Total customer accounts	732 832

The weighted average interest rate on customer accounts outstanding during 2000 was: for term deposits in Russian Roubles – 7.7%; in foreign currency – 10%; for current and settlement accounts – zero.

The geographical and currency analysis of customer accounts is disclosed in Note 21. The maturity structure of the customer accounts is provided in Note 22. The Bank has several customer accounts of related parties. The relevant information on related party balances is disclosed in Note 25.

Absolut Bank**Notes to the Financial Statements – 31 December 2000***(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2000 unless otherwise stated - Note 3)***13 Customer Accounts (Continued)**

Economic sector concentrations within customer accounts are as follows:

	2000 Amount	%
Public organisations	276 961	38
Trade	262 531	36
Manufacturing	50 927	7
Chemical engineering	39 955	5
Individuals	35 915	5
Financial services	26 883	4
Insurance companies	21 029	3
Services	10 868	1
Other	7 763	1
Total customer accounts	732 832	100

14 Other Liabilities

	2000
Settlements on conversion operations	53 922
Deferred tax liability	11 843
Accrued interest expense	1 879
Other	644
Total other liabilities	68 288

15 Share Capital

Statutory capital authorised, issued and fully paid comprises:

	2000		
	Number of shares	Nominal amount	Inflation adjusted amount
Ordinary shares	42 510 000	425 100	741 743
Total share capital	42 510 000	425 100	741 743

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

In December 2000 the Bank registered and issued 20 000 000 ordinary shares with a nominal value of RR 10 per share, at a price of USD 0.37 per share (RR 10.3452 at the exchange rate on the date when the issue was completed), resulting in a share premium of RR 6 904 thousand.

The Bank paid dividends to the shareholders amounted to RR 1.056 per share.

Absolut Bank**Notes to the Financial Statements – 31 December 2000**

(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2000 unless otherwise stated - Note 3)

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 53 180 thousand.

17 Interest Income and Expense

	2000
Interest income	
Loans and advances to customers	166 669
Due from banks	30 284
Securities	14 347
Total interest income	211 300
Interest expense	
Due to banks	(26 769)
Bills of exchange	(10 027)
Term deposits	(2 856)
Total interest expense	(39 562)
Net interest income	171 648

18 Fee and Commission Income and Expense

	2000
Commission on settlement transactions	8 850
Commission on cash transactions	5 838
Commission on cash collection	1 901
Commission on guarantees issued	1 739
Other	1 621
Total fee and commission income	19 949
Commission on settlement transactions	(4 050)
Commission on cash transactions	(670)
Other	(854)
Total fee and commission expense	(5 574)
Net fee and commission income	14 375

19 Operating Expenses

	2000
Staff costs	59 465
Administrative expenses	20 424
Taxes other than on income	15 860
Depreciation	4 556
Other expenses related to equipment	3 636
Advertising and marketing	2 990
Other	1 629
Total operating expenses	108 560

20 Income Taxes

Income tax expense was comprised of the following:

	2000
Current tax charge	15 477
Deferred tax expense relating to the origination and reversal of temporary differences	13 990
Deferred tax expense relating to the change in tax rates	1 377
Income tax expense for the year	30 844

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 been increased to 43 percent. A reconciliation between the expected and the actual taxation charge is provided below.

	2000
IAS profit before taxation	51 624
Theoretical tax expense at the applicable statutory rate	19 617
Tax effect of items which are not deductible or assessable for taxation purposes:	
- Non temporary elements of monetary gains and losses	21 323
- Other non deductible expenses	8 335
- Income which is exempt from taxation	(3 960)
- Income on government securities taxed at different rates	616
- Other IAS adjustments that have non-temporary nature	(17 054)
Effect on the change in tax rate	1 377
Inflation effect on deferred tax balance at the beginning of the year	590
Income tax expense for the year	30 844

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%.

Absolut Bank**Notes to the Financial Statements – 31 December 2000***(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2000 unless otherwise stated - Note 3)***20 Income Taxes (Continued)**

	1999	Movement	2000
Tax effect of deductible temporary differences			
Mark to market of securities	4 527	4 527	-
Provision for losses on due from banks	2 081	75	2 006
Equipment	980	(516)	1 496
Accruals	554	(254)	808
Gross deferred tax asset	8 142	3 832	4 310
Tax effect of taxable temporary differences			
Provision for losses on loans	(2 623)	4 557	(7 180)
Mark to market of securities	-	1 808	(1 808)
Accruals	(1 363)	4 818	(6 181)
Other	(632)	352	(984)
Gross deferred tax liability	(4 618)	11 535	(16 153)
Total net deferred tax asset/(liabilities)	3 524	15 367	(11 843)

21 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:

	Russia	OECD	Non OECD	Total
Assets				
Cash and cash equivalents	334 274	134 816	6 313	475 403
Mandatory cash balances with the CBRF	53 330	-	-	53 330
Securities	201 888	-	-	201 888
Due from banks	199 920	27 597	345 587	573 104
Loans and advances to customers	866 617	-	3 654	870 271
Other investments	4 788	-	-	4 788
Other assets	35 912	-	1 212	37 124
Equipment	17 515	-	-	17 515
Total assets	1 714 244	162 413	356 766	2 233 423
Liabilities				
Due to banks	227 389	26 696	409 498	663 583
Customer accounts	709 871	173	22 788	732 832
Bills of exchange	249 897	-	16 600	266 497
Other liabilities	14 116	32	54 140	68 288
Total liabilities	1 201 273	26 901	503 026	1 731 200
Net balance sheet position at 31 December 2000	512 971	135 512	(146 260)	502 223

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.

Absolut Bank**Notes to the Financial Statements – 31 December 2000***(in thousands of Russian Roubles expressed in terms of the purchasing power of the Russian Rouble at 31 December 2000 unless otherwise stated - Note 3)***21 Geographical Analysis and Currency Risk (Continued)**

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

	RR	USD	Other currencies	Total
Assets				
Cash and cash equivalents	327 668	128 632	19 103	475 403
Mandatory cash balances with the CBRF	53 330	-	-	53 330
Securities	201 575	313	-	201 888
Due from banks	435 120	137 984	-	573 104
Loans and advances to customers	513 671	356 600	-	870 271
Other investments	4 788	-	-	4 788
Other assets	33 629	3 145	350	37 124
Equipment	17 515	-	-	17 515
Total assets	1 587 296	626 674	19 453	2 233 423
Liabilities				
Due to banks	246 193	412 024	5 366	663 583
Customer accounts	626 195	102 657	3 980	732 832
Bills of exchange	215 896	50 601	-	266 497
Other liabilities	66 471	1 817	-	68 288
Total liabilities	1 154 755	567 099	9 346	1 731 200
Net balance sheet position at 31 December 2000	432 541	59 575	10 107	502 223
Credit commitments	1 270 394	903 406	8 594	2 182 394

22 Interest Rate, Liquidity and Credit Risk

Interest rate risk. A 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.

	RR	USD
Assets		
Cash and cash equivalents	-	6
Securities	34	3
Due from banks	5	7
Loans and advances to customers	31	17
Liabilities		
Due to banks	8	7
Customer accounts	2	5
Bills of exchange	3	7

22 Interest Rate and Liquidity and Credit Risk (Continued)

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 Treasury 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.

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.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Overdue/ no stated maturity	Total
Assets						
Cash and cash equivalents	475 403	-	-	-	-	475 403
Mandatory cash balances with the CBRF	53 330	-	-	-	-	53 330
Securities	201 888	-	-	-	-	201 888
Due from banks	509 404	63 700	-	-	-	573 104
Loans and advances to customers	150 637	259 347	409 928	50 359	-	870 271
Other investments	-	-	-	-	4 788	4 788
Other assets	6 883	19 186	2 409	8 203	443	37 124
Equipment	-	-	-	-	17 515	17 515
Total assets	1 397 545	342 233	412 337	58 562	22 746	2 233 423
Liabilities						
Due to banks	448 159	159 104	56 320	-	-	663 583
Customer accounts	703 995	10 585	8 158	10 094	-	732 832
Bills of exchange	81 083	160 446	8 448	16 520	-	266 497
Other liabilities	55 091	946	408	-	11 843	68 288
Total liabilities	1 288 328	331 081	73 334	26 614	11 843	1 731 200
Net liquidity gap	109 217	11 152	339 003	31 948	10 903	502 223
Cumulative liquidity gap at 31 December 2000	109 217	120 369	459 372	491 320	502 223	

The loans and advances are presented net of the provision for losses on loans. The due from banks are provided net of the provision for losses on due from banks. Overdue liabilities are classified within the “demand and less than 1 month” column. 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 more representative portrayal of its liquidity position. Mandatory cash balances with the CBRF are included within demand and less than one month as the majority of liabilities to which this balance relates to be also included within this category.

22 Interest Rate and Liquidity and Credit Risk (Continued)

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.

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.

23 Contingencies and Commitments

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.

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

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

During 2000 the Bank's activities were reviewed by the tax authorities covering the period from July 1998 to December 2000 with no significant issues identified.

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

	2000
Not later than 1 year	1 279
Later than 1 year and not later than 5 years	506
Total operating lease commitments	1 785

23 Contingencies and Commitments (Continued)

Credit related commitments. The credit related commitments comprise loan commitments 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. The Bank has the right to renegotiate the terms of credit line agreements. Outstanding credit related commitments are as follows:

	2000
Undrawn credit lines	2 105 365
Guarantees issued	77 029
Total credit related commitments	2 182 394

At 31 December 2000, the probability of losses arising in connection with these credit related commitments is considered remote and accordingly no provision has been established.

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:

	2000 Nominal value
Shares in companies held in custody of RK Panorama	62 554
Client VEB bonds securities held on an account with VTB	41 395
Client OFZ securities held on an account with MICEX	25 282
Shares in companies held in custody of Depository Clearing Company	15 383
Shares in companies held in custody of Rosbank	12 185
Shares in companies held in custody of National Depository Centre	5 672
Shares in companies held in custody of other depositories	12 045

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 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 considers that it is difficult to estimate the fair value of loans and advances to customers and term deposits. 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.

24 Fair Value of Financial Instruments (Continued)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.

The fair value of deposit liabilities without a stated maturity is assumed to be the carrying amount (nominal amount). The Bank's bills of exchange are carried at nominal value. As a result of the general market conditions, Management does not believe it is practical to estimate the fair value of these instruments.

25 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 preferential 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:

	2000
Due from banks	
Outstanding balance as at year end	175 000
Provision for losses on due from banks at the year end	(3 500)
Interest income	3 597
Loans and advances to customers	
Outstanding balance as at year end	65 710
Provision for losses on loans and advances to customers at the year end	(1 400)
Interest income	2 544
Due to banks	
Outstanding balance as at year end	256 474
Interest expense	8 847
Customer accounts	
Outstanding balance as at year end	11 998
Bills of exchange issued by the Bank	
Outstanding balance as at year end	123 999
Foreign exchange trading loss	1 209

During 2000 the Bank purchased securities from a related party for the amount of RR 4 224 thousand under agreement to resell ("reverse repo") and recorded these securities within loans and advances to customers. The year-end market value of these securities was RR 31 511 thousand. As at 31 December 2000, the Bank pledged these securities as collateral against a deposit from a non-related bank.