RUSSIAN NATIONAL COMMERCIAL BANK
(open joint stock company)

Financial Statements for the Year Ended 31 December 2006 together with Independent Auditors' Report

BDO Unicon
Auditors and Consultants

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Closed joint-stock company

125, Warshavskoye shosse,
Moscow, 117545, Russia
Tel.: +7 (495) 797 5665
Fax: +7 (495) 797 5660
e-mail: reception@bdo.ru
www.bdo.ru

Independent Auditors' Report

To the Shareholders and the Board of Directors of RUSSIAN NATIONAL COMMERCIAL BANK (open joint stock company)

We have audited the accompanying financial statements of RUSSIAN NATIONAL COMMERCIAL BANK (open joint stock company), which comprise the balance sheet as at 31 December 2006, and the statement of income, statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of RUSSIAN NATIONAL COMMERCIAL BANK (open joint stock company) as at 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Denis A. Taradov
Partner
ACCA

28 June 2007

BDO Unicon Inc.
1/11, 125, Warshavskoye shosse, Moscow, Russian Federation

(in thousands of Russian Roubles)

	Note	2006	2005
Assets			
Cash and cash equivalents	5	45 123	149 357
Mandatory cash balances with the Central Bank of the Russian Federation		18 740	15 610
Financial assets at fair value through profit or loss	6	803 491	594 514
Due from other banks	7	37 190	81 720
Loans to customers	8	344 066	405 762
Financial assets available for sale	9	70 238	40 058
Other assets	10	11 170	4 297
Current tax assets		2 909	-
Premises and equipment and investment property	11	137 768	121 656
Total assets		**1 470 695**	**1 412 974**
Liabilities			
Due to other banks	12	140 023	223 082
Customer accounts	13	615 303	564 680
Debt securities issued	14	2	41
Other liabilities	15	11 743	6 105
Current tax liabilities		-	2 748
Deferred tax liabilities	22	8 732	11 169
Total liabilities		**775 803**	**807 825**
Equity			
Share capital	16	1 133 435	1 133 435
Share premium	17	204 060	204 060
Fair value reserve for financial assets available for sale		-	29
Revaluation reserve for premises and equipment	11	57 522	58 772
Accumulated deficit		(700 125)	(791 147)
Total equity		**694 892**	**605 149**
Total liabilities and equity		**1 470 695**	**1 412 974**

I.V. Kravchenko
President

O.N. Safina
Chief Accountant

28 June 2007

The notes set out on pages 8 to 35 are an integral part of these financial statements.

(in thousands of Russian Roubles)

	Note	2006	2005
Interest income	19	121 285	89 052
Interest expense	19	(27 760)	(25 329)
Net interest income		**93 525**	**63 723**
Provision for impairment of loans to customers	8	563	(3 030)
Net interest income after provision for impairment of loans to customers		**94 088**	**60 693**
Gains less losses arising from financial assets at fair value through profit or loss		55 164	26 120
Gains less losses arising from financial assets available for sale		13 791	6 571
Gains less losses from dealing in foreign currencies		25 370	53 517
Foreign exchange translation gains less losses		(656)	1 636
Fee and commission income	20	129 277	91 976
Fee and commission expense	20	(928)	(1 445)
Provision for impairment of financial assets available for sale	9	(3 116)	(199)
Provision for legal claims	25	-	3 300
Provision for impairment of other assets and credit related commitments	10, 25	179	1 894
Dividends received		176	-
Other operating income		21 222	22 181
Net income		**334 567**	**266 244**
Operating expenses	21	(238 531)	(164 211)
Profit before taxation		**96 036**	**102 033**
Income tax expense	22	(6 659)	(8 286)
Net profit		**89 377**	**93 747**

(in thousands of Russian Roubles)

	2006	2005
Cash flows from operating activities		
Interest received	103 269	83 067
Interest paid	(24 822)	(24 445)
Gains less losses arising from financial assets at fair value through profit or loss and available for sale	68 955	26 659
Gains less losses arising from dealing in foreign currencies	25 370	53 517
Fees and commissions received	129 277	91 976
Fees and commissions paid	(928)	(1 445)
Other operating income	19 786	22 181
Operating expenses paid	(229 747)	(159 493)
Income tax paid	(14 358)	(17 615)
Cash flows from operating activities before changes in operating assets and liabilities	**76 802**	**74 402**
Net (increase)/decrease in operating assets		
Mandatory cash balances with the Central Bank of the Russian Federation	(3 130)	(6 691)
Financial assets at fair value through profit or loss	(192 316)	(217 278)
Due from other banks	44 535	(67 510)
Loans to customers	57 588	(65 814)
Other assets	(4 359)	1 314
Net increase/(decrease) in operating liabilities		
Due to other banks	(83 095)	(105 103)
Customer accounts	56 598	192 438
Debt securities issued	(37)	(97)
Other liabilities	(1 614)	(370)
Net cash flows from operating activities	**(49 028)**	**(194 709)**
Cash flows from investing activities		
Purchase of financial assets available for sale (Note 9)	(32 578)	41 398
Purchase of premises and equipment (Note 11)	(22 404)	(3 799)
Proceeds from sale of premises and equipment	1 436	385
Dividends received	176	-
Net cash flows from investing activities	**(53 370)**	**37 984**
Effect of exchange rate changes on cash and cash equivalents	(1 836)	483
Net change in cash and cash equivalents	**(104 234)**	**(156 242)**
Cash and cash equivalents at the beginning of the year (Note 5)	149 357	305 599
Cash and cash equivalents at the end of the year (Note 5)	**45 123**	**149 357**

(in thousands of Russian Roubles)

	Share capital	Share premium	Fair value reserve for financial assets available for sale	Revaluation reserve for premises and equipment	Accumulated deficit	Total equity
Balance as at 1 January 2005	**1 133 435**	**204 060**	**-**	**60 022**	**(886 539)**	**510 978**
Revaluation at fair value of financial assets available for sale (Note 9)	-	-	29	-	-	29
Depreciation of revaluation reserve for premises and equipment (Note 11)	-	-	-	(1 250)	1 645	395
Net profit for the year 2005	-	-	-	-	93 747	93 747
Balance as at 31 December 2005	**1 133 435**	**204 060**	**29**	**58 772**	**(791 147)**	**605 149**
Revaluation at fair value of financial assets available for sale	-	-	(29)	-		(29)
Depreciation of revaluation reserve for premises and equipment (Note 11)	-	-	-	(1 250)	1 645	395
Net profit for the year 2006	-	-	-	-	89 377	89 377
Balance as at 31 December 2006	**1 133 435**	**204 060**	**-**	**57 522**	**(700 125)**	**694 892**

(in thousands of Russian Roubles)

1. Principal Activities of the Bank

RUSSIAN NATIONAL COMMERCIAL BANK (open joint stock company) (the Bank) is a credit institution set up on 4 July 1997 as an open joint stock company as a result of restructuring of the Russian national commercial bank (limited liability partnership) registered with the Central Bank of the Russian Federation on 25 January 1991.

The Bank operates under General Banking License No. 1354, issued by the Central Bank of the Russian Federation (CBR) on 6 February 2003. The Bank also holds the following licenses:

- General Banking License No. 1354 of 6 February 2003 for banking operations in Russian roubles and foreign currencies;
- License No. 1354 of 6 February 2003 for attraction and placement of precious metals in deposit;
- License No. 177-07515-010000 of 17 March 2004 for dealer activities in the securities market;
- License No. 177-07513-10000 of 17 March 2004 for brokerage transactions in the securities market;
- License No. 177-07520-000100 of 19 March 2004 for depository activities;
- License No. 410 of 25 January 2001 for futures and options transactions at stock markets on the territory of Russia.

The Bank's principal activity comprises commercial and retail banking services on the territory of the Russian Federation.

The Bank has no branches in the Russian Federation.

The Bank's legal address is: 9/5 Krasnoproletarskaya, Moscow, 127030.

Since 24 February 2005 the Bank has been a member of the obligatory deposit insurance system provided by the state corporation Deposit Insurance Agency. The limit of coverage of the Bank's liabilities to private customers is up to RUR 190 thousand (from April 2007 – up to RUR 400 thousand) per each depositor in the event of bankruptcy or withdrawal of the license for banking operations by the Central Bank of Russia.

The average annual number of the Bank's employees in 2006 was 155 (2005: 219).

Below is the information about the Bank's main shareholders.

Shareholders	2006 Ownership (%)	2005 Ownership (%)
JSC Moscow Interrepublican Winery	46.30	46.30
Joint Stock Commercial Bank –Bank of Moscow (Open Joint Stock Company)	20.00	20.00
Shareholders with shareholdings less than 5% of the Bank's share capital	33.70	1.82
Total:	**100.00**	**100.00**

2. Operating Environment of the Bank

General

Over the past decade the Russian Federation has undergone substantial political, economic and social changes. Though since 2002 the Russian economy has been recognised as a market economy and a number of principal reforms aimed at establishment of banking, judicial, tax and legislative systems have been implemented, the business and legislative framework do not possess the same level of stability as in the countries with more developed economy.

Currently, the economy of the Russian Federation continues to display characteristics of an emerging market. These characteristics include:

- relatively high inflation rates during a number of years;
- low level of liquidity on capital markets.

Inflation

Russia continues to experience relatively high levels of inflation. The inflation indices for the last five years are given in the table below:

(in thousands of Russian Roubles)

Year ended:	Inflation for the period
31 December 2006	9.0%
31 December 2005	10.9%
31 December 2004	11.7%
31 December 2003	12.0%
31 December 2002	15.1%

Currency transactions and currency control

Foreign currencies, in particular the US dollar and EUR, play a significant role in measuring economic parameters of many business transactions in Russia.

The table below shows the exchange rates of RUR relative to USD and EUR:

Year ended:	USD	EUR
31 December 2006	26.3311	34.6965
31 December 2005	28.7825	34.1850
31 December 2004	27.7487	37.8104
31 December 2003	29.4545	36.8240
31 December 2002	31.7844	33.1098

In 2006 Russia lifted restrictions that were previously in force on the conversion of Roubles into hard currencies and mandatory requirements for conversion of hard currency revenue to Roubles as well as restrictions on capital transactions abroad.

Financial market transactions

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

International recognition of Russia's investment attractiveness and reduced macroeconomic risks and inflationary expectations were confirmed by the investment ratings awarded to the Russian Federation by the world leading rating agencies: Moody's – 8 September 2005: Baa3 with "positive" outlook, 25 October 2005: Baa2 with "stable" outlook; Fitch Ratings – 25 July 2006: BBB+ with "stable" outlook, Standard & Poor's – 4 September 2006: BBB+ with "stable" outlook.

3. Basis of Presentation

General principles

The Bank's financial statements are prepared in accordance with IFRS, including all previously adopted standards and interpretations. The Bank maintains its records in compliance with the applicable Russian legislation. These financial statements have been prepared on the basis of those accounting records and adjusted as necessary in order to comply, in all material respects, with IFRS.

These financial statements are presented in Russian Roubles which is the Bank's functional and presentation currency.

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Issues that require best estimate and are most significant for the financial statements are disclosed in Note 4.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except that the Bank has adopted the financial guarantee amendment in IAS 39 "Financial Instruments: Recognition and Measurement" on annual periods beginning on or after 1 January 2006. The amendment addresses the treatment of financial guarantee contracts by the issuer. Under revised IAS 39 financial guarantee contracts are recognised initially at fair value and remeasured at the higher of the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised in balance sheet less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 "Revenue".

The adoption of the above amendment has not materially affected the Bank's financial statements.

(in thousands of Russian Roubles)

IFRSs and IFRIC interpretations not yet effective

The Bank has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

IFRS 7 "Financial Instruments: Disclosures" (effective from 1 January 2007);

Amendment to IAS 1 "Presentation of Financial Statements" – Capital Disclosures" (effective from 1 January 2007);

IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies" (effective for annual periods beginning on or after 1 March 2006, i.e. from 1 January 2007);

IFRIC 8 "Scope of IFRS 2" (effective for annual periods beginning on or after 1 May 2006, i.e. from 1 January 2007);

IFRIC 9 "Reassessment of Embedded Derivatives" (effective for annual periods beginning on or after 1 June 2006, i.e. from 1 January 2007);

IFRIC 10 "Interim Financial Reporting and Impairment" (effective for annual periods beginning on or after 1 November 2006, i.e. from 1 January 2007);

IFRIC 11 "IFRS 2: Group and Treasury Share Transactions" (effective for annual periods beginning on or after 1 March 2007, i.e. from 1 January 2007);

IFRIC 12 "Service Concession Arrangements" (effective for annual periods beginning on 1 January 2009).

The Bank expects that the adoption of the pronouncements listed above will have no significant impact on the Bank's financial statements in the period of initial application, except for new disclosures under IFRS 7, which will allow financial statement users to assess the significance of financial instrument transactions for the Bank, the nature and extent of risks arising from financial instruments as well as objectives, policies and procedures used by the Bank for equity management.

The Bank is currently assessing what impact IFRS 7 and the amendments to IAS 1 will have on disclosures in its financial statements.

Correction of errors in the financial statements for the year 2005

As in the year 2006 the Bank discovered some errors in the prior period financial statements the following changes have been made in the corresponding figures for the year 2005:

Items of the balance sheet and statement income	**Amount before changes**	**Amount after changes**	**Comments**
Current tax liabilities	2 353	2 748	Adjustment of the amount of tax liability
Net profit for the year 2005	94 141	93 747	Adjustment of current and deferred tax
Income tax expense	(7 891)	(8 286)	Adjustment of current and deferred tax

The statement of cash flows for the year 2005 was adjusted in compliance with adjustments made in the corresponding figures for the year 2005 in the balance sheet and statement of income.

4. Summary of Significant Accounting Policies

Cash and cash equivalents

Cash and cash equivalents are assets, which can be converted into cash within a day and consist of cash on hand and correspondent and current account balances of the Bank. All short-term interbank placements, other than overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Cash and cash equivalents do not include mandatory cash balances held with the Central Bank of the Russian Federation.

Mandatory cash balances with the Central Bank of the Russian Federation

Mandatory cash balances with the Central Bank of the Russian Federation (CBR) represent mandatory reserve deposits with the CBR, which are not available to finance the Bank's day-to-day operations. Mandatory cash balances with the Central Bank of the Russian Federation are excluded from cash and cash equivalents for the purposes of cash flow statement.

Financial assets

The Bank classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans to customers;
- financial assets available for sale.

The Bank determines the classification of its financial assets at initial recognition. Subsequent reclassifications are allowed only in cases stipulated by IFRS.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets, that require delivery of assets within the period generally established by regulation or market convention.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset, or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party;
- the Bank either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. If the transferee has no practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the transfer, the entity has retained control.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration, that the Bank could be required to repay.

Financial assets at fair value through profit or loss

Financial assets recorded at fair value through profit or loss include trading securities and derivative financial instruments, unless they are designated as hedges.

Trading securities represent securities acquired principally for the purpose of generating a profit from short-term fluctuations in price or trader's margin, or securities included in a portfolio where a pattern of short-term trading exists. The Bank classifies securities as trading securities when it intends to sell them within a short period of time after purchase, i.e. within 12 months. Trading securities are not reclassified out of this category even when the Bank's intentions subsequently change.

Trading securities are initially recognised at cost (which includes transaction costs) and subsequently remeasured at fair value. The fair value of trading securities is calculated either based on their market quotations, or using various valuation procedures based on the assumption that these securities could be sold in future. Published price quotations in an active market are the best evidence of fair value. If the market for a financial instrument is not active, valuation techniques are used which incorporate recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. In determining market value, all trading securities are valued at the last trade price if quoted on an exchange or, if traded over-the-counter, at the last bid price.

All related realised and unrealised gains and losses are recorded within gains less losses arising from financial assets at fair value through profit or loss in the statement of income in the period in which they occur. Interest earned on trading securities is reflected in the statement of income as interest income. Dividends received are recorded in the statement of income as a separate line.

Loans to customers, provision for loan impairment

This category includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available for sale;
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Loans to customers are initially recorded at cost, which is the fair value of the consideration given. Subsequently, they are carried at amortised cost less provision for loan impairment. Amortised cost is based on the fair value of cash consideration given to originate those loans determinable by reference to market interest rates on similar loans in effect at origination date.

Loans to customers are recorded when cash is advanced to borrowers.

Loans originated at interest rates different from market rates are remeasured at origination to their fair values, being future interest payments and principal repayment(s) discounted at market interest rates for similar loans. The difference between the fair value and the nominal value at origination is charged to the statement of income as losses on origination of assets at rates below market. Subsequently, the carrying amount of such loans is adjusted for amortisation of losses on origination and the related income is recorded within the statement of income using the effective interest method. The Bank does not recognise gains on origination of assets at rates above market governed by the prudence concept.

If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed loan, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment.

For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such loans by being indicative of the borrowers' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the loans and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

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

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 losses have been estimated based upon historical patterns of losses in each component, the credit ratings assigned to the borrowers and reflect the current economic environment in which the borrowers operate.

Objective evidence that a loan is impaired includes observable data that comes to the attention of the Bank about one or more of the following events:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from loans since the initial recognition of those loans.

When a loan is uncollectible, it is written off against the related provision for loan impairment established and recorded in the balance sheet. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provision for impairment of loans to customers in the statement of income.

The Bank does not acquire loans from third parties.

Financial assets available for sale

Financial assets available for sale are those non-derivative financial assets that are classified as available for sale and are not included in the above two categories.

Financial assets available for sale are initially recognised at cost (which includes transaction costs) and are subsequently remeasured to fair value based on quoted bid prices. Certain financial assets available for sale for which there is no available independent quotation have been fair valued by the Bank's management on the basis of results of recent sales of similar financial assets to unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies.

Unrealised gains and losses arising from changes in the fair value of financial assets available for sale are included in the statement of changes in equity. When financial assets available for sale are disposed of, the related accumulated unrealised fair value adjustments are included in the statement of income as gains less losses arising from financial assets available for sale. Impairment and recovery of previously impaired value of financial assets available for sale are reported in the statement of income.

A financial asset available for sale is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about one or more of the following events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from financial assets since the initial recognition of those assets.

Interest earned on financial assets available for sale is reflected in the statement of income as interest income. Dividends received are recorded in the statement of income as a separate line.

Promissory notes purchased

Promissory notes purchased are included in financial assets at fair value through profit or loss, financial assets available for sale, due from other banks or loans to customers, depending on their economic substance and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Borrowings

Borrowings, which include due to other banks, customer accounts, debt securities issued and other borrowed funds, are recognised initially at the fair value of consideration received less directly attributable transaction costs. After initial recognition borrowings are stated at amortised cost using the effective interest method.

Borrowings with interest rates different from market rates are measured at their fair value at the date of origination. The fair value represents future interest payments and principal amount, discounted at market rates for similar loans. The difference between the fair value and the nominal value at origination is charged to the statement of income as losses on origination of liabilities at rates above market. Subsequently, the carrying amount of such borrowings is adjusted for amortisation of the losses on origination and the related expenses are recorded as interest expense within the statement of income using the effective yield method. The Bank does not recognise gains on origination of liabilities at rates below market governed by the prudence concept.

Offsetting

Financial assets and liabilities are offset and the net amount is 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.

Repurchase and reverse repurchase agreements and lending of securities

Sale and repurchase agreements (repos) are treated in the financial statements as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the balance sheet. The funds received under these agreements are included in due to other banks or customer accounts. Securities purchased under agreements to resell (reverse repos) are recorded as due from other banks or loans to customers, as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest rate method.

Securities lent to counterparties are retained in the balance sheet. Securities borrowed are not recorded in the balance sheet, unless these are sold to third parties, in which case the purchase and sale are recorded in the statement of income as gains less losses arising from financial assets at fair value through profit or loss and financial assets available for sale. The obligation to return the securities is recorded at fair value as financial liabilities at fair value through profit or loss.

Premises and equipment

Premises and equipment are stated at cost (premises and equipment purchased before 1 January 2003 are stated at cost, restated to the equivalent purchasing power of the Russian Rouble as at 31 December 2002) or at revalued amounts, as indicated below, less accumulated depreciation and impairment provision, where required.

At each reporting date the Bank assesses whether there is any indication of impairment of premises and equipment. If such indication exists, the Bank estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. Where the carrying amount of premises and equipment is greater than their estimated recoverable amount, it is written down to their recoverable amount and the difference is charged as impairment loss to the statement of income.

Land and premises are revalued on a regular basis. The frequency of revaluations depends on changes in the fair value of the assets subjected to revaluation. After initial recognition at cost, premises are carried at a revalued amount, which is the fair value of the items at the date of the revaluation less any subsequent accumulated depreciation and accumulated impairment losses. Revaluations are performed regularly to avoid significant differences between the fair value of the revalued asset and its carrying amount.

Any revaluation surplus is recorded in the statement of changes in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of income, in which case the increase is recognised in the statement of income. A revaluation deficit is recognised in the statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve for premises and equipment.

The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset.

An annual transfer from revaluation reserve for premises and equipment to retained earnings is made for the difference between the depreciation based on the revalued carrying amount of the assets and the depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the decrease in the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Gains and losses on disposal of premises and equipment are determined based on their carrying amount and are recognised in the statement of income as operating expenses. Repairs and maintenance are charged to the statement of income when the expense is incurred.

Construction in progress is carried at cost (items purchased before 1 January 2003 are stated at cost restated to the equivalent purchasing power of the Russian Rouble as at 31 December 2002) less impairment provision, where required. As soon as construction is completed, assets are reclassified as premises and equipment at their carrying value at the date of reclassification. Construction in progress is not depreciated until the asset is available for use.

Depreciation

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

- Premises – 2% per annum;
- Equipment – 16.67% per annum;
- Furniture – 14.29% per annum;
- Motor vehicles – 20% per annum.

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Investment property

Investment property (land, premises) is property held by the Bank to earn rentals or for capital appreciation or both, rather than for: (a) use in the Bank's ordinary course of business, for administrative purposes; or (b) sale in the ordinary course of business. Overall, investment property represents office premises not occupied by the Bank.

Investment property is recognised at cost less accumulated depreciation.

The following amounts are recognised in the statement of income: rental income; direct operating expenses arising from investment property that generates rental income; other direct operating expenses arising from investment property that does not generate rental income.

If the investment property is used by the Bank for its own operating activities, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Finance lease - the Bank as lessee

The Bank recognises finance leases as assets and liabilities in the balance sheet at the date of commencement of the lease term at amounts equal to the fair value of the leased property, or at the present value of the minimum lease payments, if this amount is less than the fair value of the asset. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the Bank's incremental borrowing rate shall be used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are included as part of the amount recognised as an asset under the lease.

Operating lease - the Bank as lessor

The Bank presents assets subject to operating leases in the balance sheet according to the nature of the asset. Lease income from operating leases is recognised in the statement of income on a straight-line basis over the lease term as other operating income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Share premium

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

Dividends

Dividends declared after the balance sheet date are disclosed in the subsequent events note. Net profit of the reporting year reflected in the statutory financial statements is the basis for payment of dividends and other appropriations.

Dividends are accrued upon their approval by the General Meeting of Shareholders and reflected in the financial statements as distribution of profit.

Contingencies

Contingent liabilities are not recognised in the balance sheet but are disclosed in the financial statements unless the possibility of any outflow in settlement is remote. Contingent assets are not recognised in the balance sheet but are disclosed in the financial statements when an inflow of economic benefits is probable.

Credit related commitments

In the normal course of business the Bank enters into credit related commitments, including letters of credit, guarantees and undrawn credit lines. Specific provisions are recorded by the Bank against credit related commitments when losses are considered probable. Credit lines used subject to additional factors are not included in credit related commitments.

Provisions

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

Income tax

Taxation expenses are recorded in the financial statements in accordance with the applicable legislation. The income tax charge/recovery 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 estimated taxable profit for the year, using the tax rates enacted at the balance sheet date. Taxes, other than income tax, are recorded within operating expenses.

Deferred income tax is calculated, using the balance sheet asset and liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets 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 in this period or are substantively enacted at the balance sheet date.

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.

(in thousands of Russian Roubles)

Income and expense recognition

Interest income and expense are recorded in the statement of income for all debt instruments on an accrual basis using the effective interest method based on actual purchase price. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, early repayment), but does not consider future credit losses. The calculation includes all commissions and fees paid or received by the parties to the contract, that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest income includes coupons earned on fixed-income financial assets and accrued discounts and premiums on promissory notes and other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fees, commissions and other income and expense items are generally recorded on an accrual basis over the period the service is provided. Loan origination fees for loans that are not yet provided, but are probable of being drawn down, are recognised within other assets (together with related direct costs) and are subsequently taken into account in calculation of effective yield rate on the loan. Accrued interest income and expense, including accrued coupon and accrued discount, are recorded within the carrying amounts of the related assets and liabilities.

Foreign currency translation

Foreign currency transactions are accounted for at the CBR official exchange rate in effect at the transaction date. Exchange difference arising from foreign currency transactions is reported in the statement of income at the CBR exchange rate current at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated into the Russian Roubles at the CBR official exchange rate ruling at the balance sheet date. Foreign exchange gains and losses resulting from debt securities and other monetary financial assets denominated or repayable in foreign currencies and carried at fair value are included within foreign exchange translation gains less losses.

Fiduciary activities

Assets held by the Bank in its own name, but for the account of third parties under depository, agency, trust management and other similar agreements are not reported in the Bank's balance sheet. Commissions received from such operations are shown within fee and commission income in the statement of income.

Social funds costs

The Bank pays unified social tax (UST) on the territory of the Russian Federation. UST contributions are recorded on an accrual basis. UST comprises contributions to the Russian Federation state pension, social insurance, and obligatory medical insurance funds in respect of the Bank's employees. These expenses are recognised as incurred and included in staff costs. The Bank does not have pension arrangements separate from the state pension system of the Russian Federation or alternative pension plans for its employees.

5. Cash and Cash Equivalents

	2006	2005
Cash on hand	19 053	31 235
Balances with the CBR (other than mandatory reserve deposits)	12 590	95 774
Correspondent accounts and 'overnight' deposits with other banks of:		
- other countries	7 352	7 056
- Russian Federation	5 589	5 496
Participants' accounts with Organised Securities Market settlement centre	539	9 796
Total cash and cash equivalents	**45 123**	**149 357**

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 23.

(in thousands of Russian Roubles)

6. Financial Assets at Fair Value through Profit or Loss

	2006	2005
Rouble-denominated securities		
Corporate bonds	632 055	448 105
Municipal bonds	116 939	105 356
Russian Federation bonds (OFZ)	27 054	11 803
Promissory notes	19 910	19 774
Corporate shares	7 533	9 476
Total financial assets at fair value through profit or loss	**803 491**	**594 514**

Corporate bonds are Rouble-denominated securities issued by large Russian companies (JSC Tulachermet, CJSC TSUN LenSpetsSMU, CJSC Moscow Ochakovo Brewery, JSC Sibirtelecom, LLC Glavmosstroy-Finance, etc.). These bonds in the Bank's portfolio have maturities from February 2007 to June 2011 (2005: from February 2007 to October 2012), coupon rates ranging from 6.95 % to 13.0 % in 2006 (2005: from 7.2 % to 15.5 %).

Municipal bonds are bonds of local authorities (Yaroslavl, Novosibirsk, Irkutsk, Volgograd and Nizniy Novgorod regions, Republic of Sakha (Yakutia), and the cities of Moscow and Novosibirsk). These bonds are issued with a nominal value in the currency of the Russian Federation. As at 31 December 2006, municipal bonds in the Bank's portfolio have maturity dates from August 2007 to June 2010 (2005: from August 2007 to December 2009). Interest rate on these bonds ranges from 8.0% to 11.99% (2005: from 4.95% to 11%).

Russian Federation bonds (OFZ) are Rouble-denominated government securities issued by the Ministry of Finance of the Russian Federation. As at 31 December 2006, these bonds in the Bank's portfolio have maturity dates from January 2010 to January 2019 (2005: August 2016) and coupon rate in 2006 from 7.4 % to 9.0 %, depending on the issue (2005: 9 %).

Promissory notes in the Bank's portfolio represent promissory notes of OJSC Rosselkhozbank with maturity date in January 2007 (2005: January 2006) and yield to maturity of 12.2% (2005: 14.8%).

Corporate shares are Rouble-denominated securities issued by large Russian companies (RAO UES of Russia, JSC Gazprom and JSC LUKOIL).

Financial assets at fair value through profit or loss include assets provided as collateral under repo agreements, whose fair value as at 31 December 2006 amounts to RUR 107 352 thousand (2005: RUR 176 126 thousand).

7. Due from Other Banks

As at the reporting date, current loans and deposits with other banks amounted to RUR 37 190 thousand (2005: RUR 81 720 thousand).

In 2006 and 2005 the Bank did not make provisions for impairment of due from other banks.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 23. The Bank has provided a number of loans to related parties. The relevant information on related party balances is disclosed in Note 26.

8. Loans to Customers

	2006	2005
Current loans	242 488	384 459
Reverse repo agreements with customers	140 163	60 429
Overdue loans	461	483
Total loans to customers (gross)	**383 112**	**445 371**
Less: provision for loan impairment	(39 046)	(39 609)
Total loans to customers	**344 066**	**405 762**

Securities acquired under reverse repo agreements include ordinary shares of JSC Gazprom, JSC Rostelecom at the fair value of RUR 140 163 thousand as at 31 December 2006 (2005: RUR 60 429 thousand).

Movements in the provision for impairment of loans to customers for the year are as follows:

(in thousands of Russian Roubles)

	2006	2005
Provision for loan impairment as at 1 January	**39 609**	**56 081**
Provision/(recovery of provision) for loan impairment during the year	(563)	3 030
Loans to customers written off during the year as uncollectible	-	(19 502)
Provision for loan impairment as at 31 December	**39 046**	**39 609**

Economic sector concentrations within the Bank's loan portfolio are as follows:

	2006		2005	
	Amount	%	Amount	%
Financial services	226 297	59.1	112 897	25.3
Realtor services	86 300	22.5	109 000	24.5
Manufacturing	62 838	16.4	82 030	18.4
Individuals	7 216	1.9	105 367	23.7
Other	461	0.1	36 077	8.1
Total loans to customers (gross)	**383 112**	**100.0**	**445 371**	**100.0**

As at 31 December 2006, the Bank has 3 major borrowers with total amount of loans issued to each of them exceeding RUR 36 500 thousand. The aggregate amount of these loans is RUR 171 612 thousand or 49.9 % of the gross loan portfolio (2005: the Bank had 3 borrowers with total amount of loans issued to each of them over RUR 40 000 thousand. The aggregate amount of these loans was RUR 206 948 thousand or 51.0 % of the gross loan portfolio). Provision for the above loans amounted to RUR 21 054 thousand (2005: RUR 22 694 thousand).

As collateral against loans to customers the Bank accepts items of property (equipment, motor vehicles, goods) totalling RUR 207 419 thousand (2005: RUR 187 216) and shareholdings in the amount of RUR 14 614 thousand (2005: none). The Bank is allowed to sell or transfer the collateral unless this contradicts the contractual provisions.

In addition, the Bank received guarantees from third parties in the amount of RUR 157 101 thousand (2005: RUR 194 216 thousand).

Geographical, currency, maturity and interest rate analyses of loans to customers are disclosed in Note 23. The Bank has provided a number of loans to related parties. The relevant information on loans to related parties is given in Note 26.

9. Financial Assets Available for Sale

	2006	2005
Corporate bonds	50 702	-
Corporate shares	16 959	202
Federal currency bonds	5 889	40 055
Less: provision for impairment of financial assets available for sale	(3 312)	(199)
Total financial assets available for sale	**70 238**	**40 058**

Corporate bonds are represented by Rouble-denominated securities issued by large Russian companies. These bonds in the Bank's portfolio have maturities from April 2008 to December 2009 (2005: none), coupon rates ranging from 10.25% to 12.50% in the year 2006 (2005: none).

Corporate shares are represented by Rouble-denominated securities issued by large Russian companies.

Federal currency bonds of the Russian Federation denominated in US Dollars have maturity dates from November 2007 to March 2030. Interest on these bonds ranges from 3% to 8.25%.

Below is the information on changes in carrying values of financial assets available for sale:

	2006	2005
Carrying value as at 1 January	**40 257**	**84 516**
Change in fair value reserve for financial assets available for sale	(29)	-
Net accrued/(received) interest income	744	(992)
Purchase of financial assets available for sale	66 825	-
Disposal of financial assets available for sale	(34 247)	(41 398)
Exchange differences on monetary assets	-	(1 869)
Carrying value as at 31 December	**73 550**	**40 257**

(in thousands of Russian Roubles)

Movements in the provision for impairment of financial assets available for sale are as follows:

	2006	2005
Provision for impairment of financial assets available for sale as at 1 January	**199**	**-**
Provision for impairment of financial assets available for sale during the year	3 116	199
Financial assets available for sale written off during the year as uncollectible	(3)	-
Provision for impairment of financial assets available for sale as at 31 December	**3 312**	**199**

Geographical, currency, maturity and interest rate analyses of financial assets available for sale are disclosed in Note 23. The Bank has a number of financial assets available for sale issued by related parties. The relevant information on related party balances is disclosed in Note 26.

10. Other Assets

	2006	2005
Accounts receivable and prepayments	11 116	4 304
Prepaid taxes other than income tax	340	122
Other	110	76
Less: provision for impairment of other assets	(396)	(205)
Total other assets	**11 170**	**4 297**

Movements in the provision for impairment of other assets are as follows:

	2006	2005
Provision for impairment of other assets as at 1 January	**205**	**212**
Provision /(recovery of provision) for impairment of other assets during the year	234	(7)
Other assets written off during the year as uncollectible	(43)	-
Provision for impairment of other assets as at 31 December	**396**	**205**

Geographical, currency and maturity analyses of other assets are disclosed in Note 23.

(in thousands of Russian Roubles)

11. Premises and Equipment and Investment Property

	Land and premises	Computers and office equipment	Furniture	Motor vehicles	Investment property	Total
Net book value as at 31 December 2005	**114 160**	**53**	**3 820**	**3 623**	**-**	**121 656**
Cost (or revalued cost)						
Balance as at 1 January 2006	125 320	18 848	51 427	11 404		206 999
Additions		5 106	15 518	1 780		22 404
Recognition in the balance sheet of premises and equipment acquired under finance lease contracts				14 752		14 752
Transfers	(125 320)	-	-	-	125 320	-
Disposals		(11 378)	(36 405)	(1 755)		(49 538)
Balance as at 31 December 2006	**-**	**12 576**	**30 540**	**26 181**	**125 320**	**194 617**
Accumulated depreciation						
Balance as at 1 January 2006	11 160	18 795	47 607	7 781		85 343
Depreciation charge		139	770	1 578	2 506	4 993
Depreciation of premises and equipment acquired under finance lease contracts				3 552		3 552
Transfers	(11 160)	-	-	-	11 160	-
Disposals	-	(11 370)	(24 118)	(1 551)		(37 039)
Balance as at 31 December 2006	**-**	**7564**	**24 259**	**11 360**	**13 666**	**56 849**
Net book value as at 31 December 2006		**5 012**	**6 281**	**14 821**	**111 654**	**137 768**

	Land and premises	Furniture	Office equipment	Motor vehicles	Total
Net book value as at 31 December 2004	**116 666**	**71**	**3 975**	**1 279**	**121 991**
Cost (or revalued cost)					
Balance as at 1 January 2005	125 320	19 259	55 512	7 215	207 306
Additions	-	-	888	2 911	3 799
Recognition in the balance sheet of premises and equipment bought out upon expiration of the finance lease term	-	-	-	4 356	4 356
Disposals	-	(411)	(4 973)	(3 078)	(8 462)
Balance as at 31 December 2005	**125 320**	**18 848**	**51 427**	**11 404**	**206 999**
Accumulated depreciation					
Balance as at 1 January 2005	8 654	19 188	51 537	5 936	85 315
Depreciation charge	2 506	18	953	527	4 004
Depreciation of premises and equipment bought out upon expiration of the finance lease term	-	-	-	4 356	4 356
Disposals	-	(411)	(4 883)	(3 038)	(8 332)
Balance as at 31 December 2005	**11 160**	**18 795**	**47 607**	**7 781**	**85 343**
Net book value as at 31 December 2005	**114 160**	**53**	**3 820**	**3 623**	**121 656**

The Bank did not use its own premises and equipment as collateral for borrowed funds.

(in thousands of Russian Roubles)

The Bank's premises were appraised by independent appraisers as at 31 December 2005. The appraisal was performed by the independent firm CJSC INCOM-Nedvizhimost Corporation operating subject to License for conducting professional appraisal practice No. 008955 issued by the Ministry of Property Relations of the Russian Federation on 1 June 2004 and was based on the market value. As at 31 December 2006, the net book value of premises includes the amount of RUR 57 522 thousand which is a revaluation surplus of the Bank's premises (2004: RUR 58 772 thousand).

As at 31 December 2005, total deferred tax liability of RUR 18 164 thousand (2004: RUR 18 559 thousand) was calculated based on this revaluation and recorded within equity in accordance with IAS 16 "Property, Plant and Equipment".

Premises and equipment in the Bank's balance sheet include long-term leased premises and equipment received by the Bank under finance lease contracts. As at 31 December 2006, the carrying value of premises and equipment received by the Bank under finance lease amounted to RUR 11 200 thousand (2005: none).

12. Due to Other Banks

	2006	2005
Sale and repurchase agreements (repos)	94 987	156 471
Current loans and deposits of other banks	45 036	66 611
Total due to other banks	**140 023**	**223 082**

As at 31 December 2006, securities sold under sale and repurchase agreements include bonds of Nizhniy Novgorod, Irkutsk and Yaroslavl regions, Republic of Sakha (Yakutia), the city of Moscow, LLC Russian Aluminium-Finance, and LLC Uralsvyazinform at the fair value of RUR 107 352 thousand (2005: RUR 176 126 thousand).

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 23. Part of due to other banks is raised from related parties. The relevant information on related party balances is disclosed in Note 26.

13. Customer Accounts

	2006	2005
State and public organisations		
— Term deposits	131 309	-
— Current/settlement accounts	42 320	28 754
Other legal entities		
— Current/settlement accounts	172 883	194 710
— Term deposits	51 206	199 426
Individuals		
— Term deposits	186 581	108 877
— Current /demand accounts	31 004	32 913
Total customer accounts	**615 303**	**564 680**

Economic sector concentrations within customer accounts are as follows:

	2006		2005	
	Amount	**%**	**Amount**	**%**
Individuals	217 585	35.4	141 790	25.1
Financial services	169 912	27.6	195 944	34.7
Real estate	71 593	11.6	85 831	15.2
Trade	41 596	6.8	41 222	7.3
Manufacturing	29 117	4.7	47 433	8.4
Transport and communications	24 884	4.0	4 517	0.8
Other	60 616	9.9	47 943	8.5
Total customer accounts	**615 303**	**100**	**564 680**	**100**

Term deposits include individual deposits of RUR 186 581 thousand (2005: RUR 108 877 thousand). According to the Russian Civil Code, the Bank is obliged to repay deposits to individual depositors at short notice. If a fixed-term deposit is withdrawn by the depositor ahead of term, interest is payable at the rate applied to demand deposits.

As at 31 December 2006, customer accounts of RUR 383 486 thousand or 62.3 % of total customer accounts represented funds of ten major customers of the Bank (2005: RUR 368 294 thousand or 65.2 % of total customer accounts).

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 23. The Bank raised funds from related parties. The related party disclosures are given in Note 26.

(in thousands of Russian Roubles)

14. Debt Securities Issued

	2006	2005
Promissory notes	-	39
Certificates of deposit	2	2
Total debt securities issued	**2**	**41**

Geographical, currency, maturity and interest rate analyses of debt securities issued are disclosed in Note 23.

15. Other Liabilities

	Note	2006	2005
Finance lease commitments		5 560	-
Taxes other than income tax		3 185	2 511
Unused annual leaves of employees		2 492	712
Accounts payable		146	2 433
Provision for credit related commitments	24	-	413
Dividends payable	22	35	36
Other		325	-
Total other liabilities		**11 743**	**6 105**

Geographical, currency, maturity and interest rate analyses of other liabilities are disclosed in Note 23.

16. Share Capital

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

	2006			2005		
	Number of shares	Nominal value	Inflation adjusted value	Number of shares	Nominal value	Inflation adjusted value
Ordinary shares	32 097 200	320 972	1 133 435	32 097 200	320 972	1 133 435
Total share capital	**32 097 200**	**320 972**	**1 133 435**	**32 097 200**	**320 972**	**1 133 435**

All ordinary shares have a nominal value of RUR 10 per share and carry one vote.

17. Share Premium

Share premium represents the excess of contributions over the nominal value of the shares issued. As at 31 December 2006, share premium equalled RUR 204 060 thousand (2005: RUR 204 060 thousand).

18. Retained Earnings according to Russian Accounting Standards

According to Russian legislation only accumulated retained earnings reflected in the Bank's statutory financial statements may be distributed as dividends among the Bank's shareholders. As at 31 December 2006, the Bank's retained earnings amounted to RUR 256 088 thousand (2005: RUR 184 844 thousand).

The retained earnings reflected in the Bank's statutory records include a reserve fund in the amount of RUR 16 049 thousand (2005: RUR 16 049 thousand) that represents funds provided, as required by the regulations of the Russian Federation, in respect of the Bank's general banking risks, including future losses and other unforeseen risks or contingent liabilities.

(in thousands of Russian Roubles)

19. Interest Income and Expense

	2006	2005
Interest income		
Financial assets at fair value through profit or loss	77 449	45 200
Loans to customers	27 777	42 379
Financial assets available for sale	12 728	-
Due from other banks	3 331	1 473
Total interest income	**121 285**	**89 052**
Interest expense		
Deposits of legal entities	14 849	11 569
Deposits of individuals	8 805	7 483
Term deposits of banks	1 418	5 754
Current accounts	263	-
Debt securities issued	-	523
Other	2 425	-
Total interest expense	**27 760**	**23 329**
Net interest income	**93 525**	**63 723**

20. Fee and Commission Income and Expense

	2006	2005
Fee and commission income		
Commission on cash collection	121 105	82 619
Commission on settlement transactions	3 151	3 809
Commission on cash transactions	1 616	1 094
Commission on guarantees issued	43	1 224
Other	3 362	3 230
Total fee and commission income	**129 277**	**91 976**
Fee and commission expense		
Commission on settlement transactions	414	310
Commission on forex transactions	271	228
MICEX commission for repo transactions	243	841
Other	-	66
Total fee and commission expense	**928**	**1 445**
Net fee and commission income	**128 349**	**90 531**

21. Operating Expenses

	Note	2006	2005
Staff costs		91 410	91 969
Rent		-	35 344
Administrative expenses		63 135	891
Professional services (security, communications, etc.)		43 150	11 555
Depreciation of premises and equipment	11	8 545	4 004
Taxes other than income tax		25 288	12 115
Other		7 003	8 333
Total operating expenses		**238 531**	**164 211**

(in thousands of Russian Roubles)

22. Income Tax

Income tax expense comprises the following:

	2006	2005
Current income tax expense	8 701	17 438
Deferred taxation movement due to origination and reversal of temporary differences	(2 437)	(9 547)
Less: deferred taxation charged to equity	395	395
Income tax expense for the year	**6 659**	**8 286**

The current tax rate applicable to the majority of the Bank's profit is 24% (2005: 24%).

Reconciliation between the expected and the actual taxation charge is provided below.

	2006	2005
IFRS profit before taxation	**96 036**	**102 033**
Theoretical tax charge at the applicable statutory rate (2006: 24%; 2005: 24%)	23 049	24 488
Income on state securities taxed at different rates	(1 160)	(354)
Carryforward of unused tax losses	(9 499)	(7 220)
Other differences	(5 731)	(8 628)
Income tax expense for the year	**6 659**	**8 286**

The Bank has tax losses in the amount of RUR 19 262 thousand (2005: RUR 28 761 thousand) that may be offset against future taxable income in the period not later than the year 2011. The tax losses in the amount of RUR 9 499 thousand (2005: RUR 7 220 thousand) were offset against current year's profit in the amount not exceeding 30% of the statutory taxable profit.

Differences between IFRS and statutory taxation regulations of the Russian Federation give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for the Bank's profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24% (2005: 24%), except for income on state securities that is taxed at the rate of 15% (2005: 15%).

	2006	Movement	2005
Tax effect of deductible temporary differences			
Provision for impairment of loans to customers and financial assets available for sale	-	(671)	671
Other	11 768	4 674	7 094
Gross deferred tax assets	**11 768**	**4 003**	**7 765**
Tax effect of taxable temporary differences			
Revaluation of securities at fair value	1 656	1 281	375
Revaluation of premises and equipment	18 164	(395)	18 559
Other	680	680	-
Gross deferred tax liabilities	**20 500**	**1 566**	**18 934**
Total net deferred tax (liability)/asset	**(8 732)**	**2 437**	**(11 169)**

	2005	Movement	2004
Tax effect of deductible temporary differences			
Provision for impairment of loans to customers and financial assets available for sale	671	407	264
Other	7 094	8 868	(1774)
Gross deferred tax asset	**7 765**	**9 275**	**(1 510)**
Tax effect of taxable temporary differences			
Revaluation of securities at fair value	375	123	252
Revaluation of premises and equipment	18 559	(395)	18 954
Gross deferred tax liability	**18 934**	**(272)**	**19 206**
Total net deferred tax liabilities	**(11 169)**	**9 547**	**(20 716)**

(in thousands of Russian Roubles)

In 2006 the deferred tax liability in the amount of RUR 18 164 thousand arising from temporary differences on premises and equipment is recorded within revaluation reserve for premises and equipment (2005: RUR 18 559 thousand).

23. Dividends

	2006	2005
Dividends payable as at 1 January	36	36
Dividends paid during the year	(1)	-
Dividends payable as at 31 December	35	36

24. Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The assessment of exposure to risks also serves as a basis for optimal distribution of risk-adjusted capital, transaction pricing and business performance assessment. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank controls the credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of related borrowers, taking into account geographical regions and industry in which the borrower operates. Such risks are monitored by the Bank on a regular basis, the limits being subject to an annual or more frequent review. Limits on the level of credit risk are approved by the Credit Committee and Executive Board of the Bank.

The exposure to any one borrower including banks and broker companies is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures are monitored against limits daily.

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

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

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

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Executive Board of the Bank sets acceptable risk limits and monitors them on a daily basis. However, the use of this approach does not prevent losses beyond these limits in the event of more significant market movements.

Geographical risk. The geographical concentration of the Bank's assets and liabilities as at 31 December 2006 is set out below:

(in thousands of Russian Roubles)

	Russia	OECD	Other countries	Total
Assets				
Cash and cash equivalents	37 771	6 716	636	45 123
Mandatory cash balances with the Central Bank of the Russian Federation	18 740	-	-	18 740
Financial assets at fair value through profit or loss	803 491	-	-	803 491
Due from other banks	26 618	10 572	-	37 190
Loans to customers	317 735	-	26 331	344 066
Financial assets available for sale	70 238	-	-	70 238
Current tax assets	2 909	-	-	2 909
Other assets	11 170	-	-	11 170
Premises and equipment and investment property	137 768	-	-	137 768
Total assets	**1 426 440**	**17 288**	**26 967**	**1 470 695**
Liabilities				
Due to other banks	140 023	-	-	140 023
Customer accounts	581 279	34 024	-	615 303
Debt securities issued	2	-	-	2
Other liabilities	11 743	-	-	11 743
Deferred tax liabilities	8 732	-	-	8 732
Total liabilities	**741 779**	**34 024**	**-**	**775 803**
Net balance sheet position	**684 661**	**(16 736)**	**26 967**	**694 892**
Credit related commitments	**9 185**	**-**	**-**	**9 185**

Geographical analysis of the Bank's assets and liabilities as at 31 December 2005 is set out below:

	Russia	OECD	Other countries	Total
Assets				
Cash and cash equivalents	142 301	7 056	-	149 357
Mandatory cash balances with the Central Bank of the Russian Federation	15 610	-	-	15 610
Financial assets at fair value through profit or loss	594 514	-	-	594 514
Due from other banks	50 059	31 661	-	81 720
Loans to customers	378 419	-	27 343	405 762
Financial assets available for sale	40 017	-	41	40 058
Other assets	4 297	-	-	4 297
Premises and equipment	121 656	-	-	121 656
Total assets	**1 346 873**	**38 717**	**27 384**	**1 412 974**
Liabilities				
Due to other banks	196 512	26 570	-	223 082
Customer accounts	564 680	-	-	564 680
Debt securities issued	41	-	-	41
Deferred tax liabilities	13 917	-	-	13 917
Other liabilities	6 105	-	-	6 105
Total liabilities	**781 255**	**26 570**	**-**	**807 825**
Net balance sheet position	**565 618**	**12 147**	**27 384**	**605 149**
Credit related commitments	**18 465**	**-**	**-**	**18 465**

Currency risk. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's Executive Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2006. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency.

(in thousands of Russian Roubles)

	RUR	USD	EUR	Other currencies	Total
Assets					
Cash and cash equivalents	23 786	13 427	7 089	821	45 123
Mandatory cash balances with the Central Bank of the Russian Federation	18 740	-	-	-	18 740
Financial assets at fair value through profit or loss	803 491	-	-	-	803 491
Due from other banks	-	37 190	-	-	37 190
Loans to customers	297 529	42 592	3 945	-	344 066
Financial assets available for sale	64 349	5 889	-	-	70 238
Other assets	10 972	198	-	-	11 170
Current tax assets	2 909	-	-	-	2 909
Premises and equipment and investment property	137 768	-	-	-	137 768
Total assets	**1 359 544**	**99 296**	**11 034**	**821**	**1 470 695**
Liabilities					
Due to other banks	140 023	-	-	-	140 023
Customer accounts	441 316	170 199	3 702	86	615 303
Debt securities issued	2	-	-	-	2
Other liabilities	11 666	77	-	-	11 743
Deferred tax liabilities	8 732	-	-	-	8 732
Total liabilities	**601 739**	**170 276**	**3 702**	**86**	**775 803**
Net balance sheet position	**757 805**	**(70 980)**	**7 332**	**735**	**694 892**
Credit related commitments	**9 185**	**-**	**-**	**-**	**9 185**

As at 31 December 2005, the Bank had the following net balance sheet position in currency:

	RUR	USD	EUR	Other currencies	Total
Assets					
Cash and cash equivalents	110 665	30 806	6 522	1 364	149 357
Mandatory cash balances with the Central Bank of the Russian Federation	15 610	-	-	-	15 610
Financial assets at fair value through profit or loss	594 514	-	-	-	594 514
Due from other banks	50 059	31 661	-	-	81 720
Loans to customers	327 787	77 975	-	-	405 762
Financial assets available for sale	3	40 055	-	-	40 058
Other assets	3 354	943	-	-	4 297
Premises and equipment	121 656	-	-	-	121 656
Total assets	**1 223 648**	**181 440**	**6 522**	**1 364**	**1 412 974**
Liabilities					
Due to other banks	196 512	26 570	-	-	223 082
Customer accounts	465 374	98 704	267	335	564 680
Debt securities issued	41	-	-	-	41
Deferred tax liabilities	13 917	-	-	-	13 917
Other liabilities	4 185	1 920	-	-	6 105
Total liabilities	**680 029**	**127 194**	**267**	**335**	**807 825**
Net balance sheet position	**543 619**	**54 246**	**6 255**	**1 029**	**605 149**
Credit related commitments	**18 454**	**11**	**-**	**-**	**18 465**

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

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

(in thousands of Russian Roubles)

The table below shows the assets and liabilities as at 31 December 2006 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 actually have a longer-term duration.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	45 123	-	-	-	-	45 123
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	18 740	18 740
Financial assets at fair value through profit or loss	803 491	-	-	-	-	803 491
Due from other banks	37 190	-	-	-	-	37 190
Loans to customers	125 272	53	5924	212 817	-	344 066
Financial assets available for sale	16 959	-	-	53 279	-	70 238
Current tax assets	2 909	-	-	-	-	2 909
Other assets	-	-	-	-	11 170	11 170
Premises and equipment and investment property	-	-	-	-	137 768	137 768
Total assets	**1 030 944**	**53**	**5 924**	**266 096**	**167 678**	**1 470 695**
Liabilities						
Due to other banks	140 023	-	-	-	-	140 023
Customer accounts	272 744	298 209	44 350	-	-	615 303
Debt securities issued	2	-	-	-	-	2
Other liabilities	492	2 269	1 579	1 220	6 183	11 743
Deferred tax liabilities	-	-	-	-	8 732	8 732
Total liabilities	**413 261**	**300 478**	**1 579**	**45 570**	**14 915**	**775 803**
Net liquidity gap as at 31 December 2006	**617 683**	**(300 425)**	**(40 005)**	**264 876**	**152 763**	**694 892**
Cumulative liquidity gap as at 31 December 2006	**617 683**	**317 258**	**277 253**	**542 129**	**694 892**	
Credit related commitments	**1 409**	**-**	**-**	**7 776**	**-**	**9 185**

(in thousands of Russian Roubles)

The liquidity position of the Bank as at 31 December 2005 is set out below:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	149 357	-	-	-	-	149 357
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	15 610	15 610
Financial assets at fair value through profit or loss	594 514	-	-	-	-	594 514
Due from other banks	71 692	-	-	10 028	-	81 720
Loans to customers	60 476	4 027	3 048	338 211	-	405 762
Financial assets available for sale	-	-	-	40 058	-	40 058
Other assets	516	3 301	-	-	480	4 297
Premises and equipment	-	-	-	-	121 656	121 656
Total assets	**876 555**	**7 328**	**3 048**	**388 297**	**137 746**	**1 412 974**
Liabilities						
Due to other banks	156 471	40 041	-	26 570	-	223 082
Customer accounts	257 437	80 002	152 982	74 259	-	564 680
Debt securities issued	41	-	-	-	-	41
Deferred tax liabilities	-	-	-	-	13 917	13 917
Other liabilities	3 164	41	-	888	2 012	6 105
Total liabilities	**417 113**	**120 084**	**152 982**	**101 717**	**15 929**	**807 825**
Net liquidity gap as at 31 December 2005	**459 442**	**(112 756)**	**(149 934)**	**286 580**	**121 817**	**605 149**
Cumulative liquidity gap as at 31 December 2005	**459 442**	**346 686**	**196 752**	**483 332**	**605 149**	
Credit related commitments	**1 586**	**7 479**	**2 048**	**7 352**	**-**	**18 465**

All financial assets at fair value through profit or loss are classified as "On demand and less than 1 month", as this is a trading portfolio and, in the management's opinion, such approach better reflects liquidity position. Mandatory cash balances with the CBR are included within "No stated maturity" as the Bank is unable to use them for operational management of its liquidity position.

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

Management believes that in spite of a substantial portion of customer accounts being on demand and less than 1 month in total customer accounts, diversification of these deposits by number and type of depositors and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

Liquidity requirements in respect of guarantees are considerably lower than the amount of the related commitment because the Bank does not generally expect a third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credits does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

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

(in thousands of Russian Roubles)

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

The table below summarises the Bank's exposure to interest rate risks as at 31 December 2006. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing	Total
Assets						
Cash and cash equivalents	-	-	-	-	45 123	45 123
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	18 740	18 740
Financial assets at fair value through profit or loss	803 491	-	-	-	-	803 491
Due from other banks	37 190	-	-	-	-	37 190
Loans to customers	125 272	53	5924	212 817	-	344 066
Financial assets available for sale	16 959	-	-	53 279	-	70 238
Current tax assets	-	-	-	-	2 909	2 909
Other assets	-	-	-	-	11 170	11 170
Premises and equipment	-	-	-	-	137 768	137 768
Total assets	**982 912**	**53**	**5 924**	**266 096**	**215 710**	**1 470 695**
Liabilities						
Due to other banks	140 023	-	-	-	-	140 023
Customer accounts	272 744	298 209	44 350	-	-	615 303
Debt securities issued	2	-	-	-	-	2
Other liabilities	492	2 269	1 579	1 220	6 183	11 743
Deferred tax liabilities	-	-	-	-	8 732	8 732
Total liabilities	**413 261**	**300 478**	**45 929**	**1 220**	**14 915**	**775 803**
Net liquidity gap as at 31 December 2006	**569 651**	**(300 425)**	**(40 005)**	**264 876**	**200 795**	**694 892**
Cumulative liquidity gap as at 31 December 2006	**569 651**	**269 226**	**229 221**	**494 097**	**694 892**	

(in thousands of Russian Roubles)

Below is the Bank's interest rate sensitivity analysis as at 31 December 2005 which is based on re-pricing of assets and liabilities.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing	Total
Assets						
Cash and cash equivalents	-	-	-	-	149 357	149 357
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	15 610	15 610
Financial assets at fair value through profit or loss	585 038	-	-	-	9 476	594 514
Due from other banks	71 692	-	-	10 028	-	81 720
Loans to customers	60 476	4 027	3 048	338 211	-	405 762
Financial assets available for sale	-	-	-	40 058	-	40 058
Other assets	-	-	-	-	4 297	4 297
Premises and equipment	-	-	-	-	121 656	121 656
Total assets	**717 206**	**4 027**	**3 048**	**388 297**	**300 396**	**1 412 974**
Liabilities						
Due to other banks	156 471	40 041	-	26 570	-	223 082
Customer accounts	257 437	80 002	152 982	74 259	-	564 680
Debt securities issued	41	-	-	-	-	41
Deferred tax liabilities	-	-	-	-	13 917	13 917
Other liabilities	-	-	-	-	6 105	6 105
Total liabilities	**413 949**	**120 043**	**152 982**	**100 829**	**20 022**	**807 825**
Net liquidity gap as at 31 December 2005	**303 257**	**(116 016)**	**(149 934)**	**287 468**	**280 374**	**605 149**
Cumulative liquidity gap as at 31 December 2005	**303 257**	**187 241**	**37 307**	**324 775**	**605 149**	
Cumulative liquidity gap as at 31 December 2004	**(63 436)**	**(225 585)**	**(152 727)**	**120 178**	**510 978**	

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

	2006				2005			
	RUR	**USD**	**EUR**	**Other currencies**	**RUR**	**USD**	**EUR**	**Other currencies**
Assets								
Financial assets at fair value through profit or loss	10.3	-	-	-	9.9%	-	-	-
Due from other banks	5.2	4.9			2.0%	3.8%	-	-
Loans to customers	12.0	10.0	9.0		10.0%	10.0%	-	-
Financial assets available for sale	-	3.8	-	-		3.2%	-	-
Liabilities								
Due to other banks	6.6	-	-	-	9.5%	3.7%	-	-
Customer accounts								
— current and settlement accounts	0.5%	0.5%	0.5%	-	0.5%	0.5%	0.5%	-
— term deposits	6.3	7.5	5.5	-	6.9%	8.3%	-	-
Debt securities issued	-	-	-	-	1.0%	-	-	-

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

(in thousands of Russian Roubles)

25. Contingent Liabilities and Derivative Financial Instruments

Legal proceedings. In the ordinary course of business the Bank is subject to legal actions and complaints. Management believes that no material losses will be incurred on these legal proceedings and accordingly no provision has been made as in the management's opinion the possibility of material losses is low.

Movements in the provision for legal claims for the year are set out below:

	Note	2006	2005
Provision for legal claims as at 1 January		**-**	**3 300**
Recovery of provision for legal claims during the year		-	(3 300)
Provision for legal claims as at 31 December	**15**	**-**	**-**

Tax legislation. Russian tax legislation is subject to varying interpretations and changes which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional or federal authorities. Recent events in the Russian Federation have shown that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the tax authorities in respect of taxes for three calendar years preceding the year of the review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2006, the Bank's management believes that its interpretation of the relevant legislation is appropriate and the Bank's tax, currency and customs positions will be sustained.

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

	2006	2005
Less than 1 year	16 718	31 820
Total operating lease commitments	**16 718**	**31 820**

Credit related commitments. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of overdrafts. 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. However, as there is a potential risk, a provision for credit related commitments in respect of issued guarantees is made in the balance sheet within other liabilities depending on customer financial position. With respect to credit risk on commitments to extend credit and undrawn credit lines, the Bank is less exposed to the risk of loss since in the case of impairment of loans issued the Bank will not repay the remaining amounts. Therefore, a provision for these credit related commitments is equal to zero.

Outstanding credit related commitments of the Bank are as follows:

	Note	2006	2005
Undrawn credit lines		7 776	7 776
Guarantees issued		1 409	11 102
Less: provision for impairment of credit related commitments	15	-	(413)
Total credit related commitments		**9 185**	**18 465**

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

Movements in the provision for impairment of credit related commitments are as follows:

	Note	2006	2005
Provision for impairment of credit related commitments as at 1 January		413	2 300
Recovery of provision for impairment of credit related commitments during the year		(413)	(1 887)
Provision for impairment of credit related commitments as at 31 December	**15**	**-**	**413**

(in thousands of Russian Roubles)

26. Fair Value of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation". The fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in forced or liquidation sale. As no readily available market exists for major part of the Bank's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realise in a market exchange from the sale of its full holdings of a particular instrument.

Below is the comparison between the carrying and fair values of all categories of financial assets and liabilities which are not reflected at fair value in the Bank's balance sheet.

	2006		2005	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets				
Financial assets at fair value through profit or loss	803 491	803 491	594 514	594 514
Due from other banks	37 190	37 190	81 720	81 720
Loans to customers	344 066	344 066	405 762	405 762
Financial assets available for sale	70 238	70 238	40 058	40 058
Financial liabilities				
Due to other banks	140 023	140 023	223 082	223 082
Customer accounts	615 303	615 303	564 680	564 680
Debt securities issued	2	2	41	41

The Bank uses the following methods and assumptions to estimate the fair value of the following financial instruments:

Due from other banks and loans to customers; due to other banks and customer accounts

For assets and liabilities maturing within one month, fair value approximates the carrying amount due to the relatively short-term maturity of these financial instruments. For longer-term deposits, the estimated fair value is based on discounted cash flows using year-end market interest rates.

Debt securities issued, other borrowed funds

The fair value of actively traded debt securities was based on their market quotations. The fair value of other securities was determined based on the present value of estimated future cash flows discounted at the year-end market rates.

27. Related Party Transactions

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control 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.

In the normal course of business the Bank enters into banking transactions with its major shareholders, directors, and other related parties. These transactions include settlements, issuance of loans, deposit taking, guarantees, trade finance and foreign currency transactions. According to the Bank's policy the terms of related party transactions are equivalent to those that prevail in arm's length transactions.

The outstanding balances at the year end, asset-related transactions and income and expense items for the year with related parties are as follows:

(in thousands of Russian Roubles)

	Directors and key management personnel		Other related parties		Total	
	2006	2005	2006	2005	2006	2005
Loans to customers						
Loans to customers as at 1 January	-	1 138	82 317	196 982	82 317	198 120
Loans to customers issued during the year	-	-	2 193 331	595 949	2 193 331	595 949
Loans to customers repaid during the year	-	(1 138)	(2 205 523)	(710 614)	(2 205 523)	(711 752)
Loans to customers as at 31 December	**-**	**-**	**70 125**	**82 317**	**70 125**	**82 317**
Provisions for impairment of loans to customers						
Provision for impairment of loans to customers as at 1 January	-	11	4 102	951	4 102	962
(Recovery of provision)/ provision for impairment of loans to customers during the year	-	(11)	3 500	3 151	3 500	3 140
Provision for impairment of loans to customers as at 31 December	**-**	**-**	**7 602**	**4 102**	**7 602**	**4102**
Loans to customers as at 1 January (less provision for impairment)	**-**	**1 127**	**78 215**	**196 031**	**78 215**	**197 158**
Loans to customers as at 31 December (less provision for impairment)	**-**	**-**	**62 523**	**78 215**	**62 523**	**78 215**
Interest income on loans to customers	**-**	**-**	**4 242**	**14 456**	**4 242**	**14 456**

Loans to shareholders were issued at interest rates from 9.0% to 10% (2005: 9 – 10%) with maturity period from October 2007 to February 2008.

(in thousands of Russian Roubles)

The outstanding balances at the year end, liability-related transactions and income and expense items for the year with related parties are as follows:

	Directors and key management personnel		Other related parties		Total	
	2006	2005	2006	2005	2006	2005
Borrowed funds						
Borrowed funds as at 1 January	137	162	40 000	285 906	40 137	286 068
Funds borrowed during the year	18 583	14 944	727 217	1 022 585	745 800	1 037 529
Funds repaid during the year	(7 548)	(14 969)	(726 077)	(1 268 491)	(733 625)	(1 283 460)
Borrowed funds as at 31 December	**11 172**	**137**	**41 140**	**40 000**	**52 312**	**40 137**
Interest expense on deposits	**1**	**-**	**208**	**5 143**	**209**	**5 143**
Fee and commission income for the year	**31**	**16**	**344**	**-**	**375**	**16**
Other income	**44**	**37**	**-**	**-**	**44**	**37**
Guarantees issued by the Bank at the end of the year	**-**	**-**	**1 409**	**-**	**1 409**	**-**
Guarantees received by the Bank at the end of the year	**-**	**-**	**1 266**	**-**	**1 266**	**-**

In 2006 the total remuneration and compensation to members of the Board of Directors, Executive Board and management of the Bank amounted to RUR 5 752 thousand (2005: RUR 3 603 thousand).