“Bank "St Petersburg" PLC Group

Consolidated Financial Statements and
Auditors’ Report

31 December 2005
AUDITORS’ REPORT

To the Supervisory Board of “Bank “St Petersburg” PLC:

We have audited the accompanying consolidated balance sheet of “Bank “St Petersburg” PLC and its subsidiary (the “Group”) as at 31 December 2005, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of the Group’s Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2005 and the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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[Signature]

Moscow, Russian Federation
10 May 2005
"Bank "St Petersburg" PLC Group
Consolidated Balance Sheet as at 31 December 2005

In thousands of Russian Roubles

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>Note</th>
<th>31 December 2005</th>
<th>31 December 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>7</td>
<td>4,556,945</td>
<td>1,678,978</td>
</tr>
<tr>
<td>Mandatory cash balances with the Central Bank of the Russian Federation</td>
<td>8</td>
<td>500,453</td>
<td>288,660</td>
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<tr>
<td>Trading securities</td>
<td>9</td>
<td>3,024,055</td>
<td>2,080,419</td>
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<tr>
<td>Other securities at fair value through profit or loss</td>
<td>10</td>
<td>327,488</td>
<td>717,891</td>
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<tr>
<td>Due from other banks</td>
<td>11</td>
<td>2,086,821</td>
<td>320,217</td>
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<tr>
<td>Loans and advances to customers</td>
<td>12</td>
<td>19,044,576</td>
<td>10,395,170</td>
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<tr>
<td>Deferred tax asset</td>
<td>13</td>
<td>1,394,328</td>
<td>914,421</td>
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<tr>
<td>Premises and equipment and intangible assets</td>
<td></td>
<td>198,969</td>
<td>217,615</td>
</tr>
<tr>
<td>Other assets</td>
<td></td>
<td>31,134,742</td>
<td>16,613,361</td>
</tr>
</tbody>
</table>

TOTAL ASSETS

<table>
<thead>
<tr>
<th>LIABILITIES</th>
<th></th>
<th>27,818,108</th>
<th>14,720,348</th>
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</thead>
<tbody>
<tr>
<td>Due to other banks</td>
<td>14</td>
<td>1,293,684</td>
<td>623,833</td>
</tr>
<tr>
<td>Customer accounts</td>
<td>15</td>
<td>23,438,211</td>
<td>11,910,586</td>
</tr>
<tr>
<td>Debt securities in issue</td>
<td>16</td>
<td>2,085,234</td>
<td>2,017,234</td>
</tr>
<tr>
<td>Other borrowed funds</td>
<td>17</td>
<td>35,926</td>
<td>91,232</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>18</td>
<td>154,704</td>
<td>47,569</td>
</tr>
<tr>
<td>Deferred tax liability</td>
<td>24</td>
<td>70,349</td>
<td>29,894</td>
</tr>
</tbody>
</table>

TOTAL LIABILITIES

<table>
<thead>
<tr>
<th>EQUITY</th>
<th></th>
<th>3,316,834</th>
<th>1,893,013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>19</td>
<td>3,284,230</td>
<td>3,281,105</td>
</tr>
<tr>
<td>Share premium</td>
<td>19</td>
<td>2,124,906</td>
<td>1,628,031</td>
</tr>
<tr>
<td>Revaluation reserve for premises and equipment</td>
<td>20</td>
<td>510,909</td>
<td>224,461</td>
</tr>
<tr>
<td>Accumulated deficit</td>
<td>20</td>
<td>(2,603,411)</td>
<td>(3,240,584)</td>
</tr>
</tbody>
</table>

Net assets attributable to the Bank's equity holders

Minority interest

TOTAL EQUITY

| TOTAL LIABILITIES AND EQUITY                |      | 31,134,742      | 16,613,361      |

Approved for issue and signed on behalf of the Supervisory Board on 10 May 2006.

A.V. Saveliev
Chairman of the Board

N.G. Tomilina
Chief Accountant

The notes set out on pages 6 to 56 form an integral part of these consolidated financial statements.
<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>Note</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>21</td>
<td>2,629,314</td>
<td>1,467,106</td>
</tr>
<tr>
<td>Interest expense</td>
<td>21</td>
<td>(941,925)</td>
<td>(575,664)</td>
</tr>
<tr>
<td>Net interest income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for loan impairment</td>
<td>10, 11</td>
<td>1,687,389</td>
<td>891,442</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(476,956)</td>
<td>(190,993)</td>
</tr>
<tr>
<td>Net interest income after provision for loan impairment</td>
<td></td>
<td>1,210,433</td>
<td>700,449</td>
</tr>
<tr>
<td>Gains less losses from trading securities</td>
<td></td>
<td>127,138</td>
<td>79,598</td>
</tr>
<tr>
<td>Gains less losses from other securities at fair value through profit or loss</td>
<td></td>
<td>32,102</td>
<td>30,844</td>
</tr>
<tr>
<td>Gains less losses from trading in foreign currencies</td>
<td></td>
<td>9,320</td>
<td>97,226</td>
</tr>
<tr>
<td>Foreign exchange translation gains less losses / (losses less gains)</td>
<td></td>
<td>109,649</td>
<td>(38,615)</td>
</tr>
<tr>
<td>Fee and commission income</td>
<td>22</td>
<td>418,708</td>
<td>317,484</td>
</tr>
<tr>
<td>Fee and commission expense</td>
<td>22</td>
<td>(25,198)</td>
<td>(18,684)</td>
</tr>
<tr>
<td>Net losses on origination of assets at rates below market</td>
<td>11</td>
<td>(3,922)</td>
<td>(15,665)</td>
</tr>
<tr>
<td>Release of provision for impairment of premises</td>
<td>12</td>
<td>44,827</td>
<td>-</td>
</tr>
<tr>
<td>Provision for losses on credit related commitments</td>
<td>18</td>
<td>(10,466)</td>
<td>(851)</td>
</tr>
<tr>
<td>Loss on disposal of investment in property held for resale</td>
<td>32</td>
<td>-</td>
<td>(18,139)</td>
</tr>
<tr>
<td>Gain on disposal of investments in subsidiaries</td>
<td>32</td>
<td>-</td>
<td>94,937</td>
</tr>
<tr>
<td>Net result from insurance activities</td>
<td></td>
<td>-</td>
<td>(82,513)</td>
</tr>
<tr>
<td>Other operating income</td>
<td>17,220</td>
<td>37,158</td>
<td></td>
</tr>
</tbody>
</table>

| Operating income             |      | 1,929,911   | 1,185,529   |
| Administrative and other operating expenses | 23 | (1,133,463) | (933,314)   |

| Profit before tax            |      | 796,448     | 252,215     |
| Income tax (expense)/credit  | 24   | (168,398)   | 10,010      |

| Profit for the year          |      | 630,050     | 262,225     |

| Profit is attributable to    |      |             |             |
| Equity holders of the Bank   |      | 630,050     | 272,860     |
| Minority interest            |      | -           | (10,635)    |

| Profit for the year          |      | 630,050     | 262,225     |

| Basic profit per share (in Russian Roubles per share) | 25 | 35 | 20 |
### "Bank “St Petersburg” PLC Group
Consolidated Statement of Changes in Equity for the Year Ended 31 December 2005

<table>
<thead>
<tr>
<th>Note</th>
<th>Share capital</th>
<th>Share premium</th>
<th>Revaluation reserve for premises and equipment</th>
<th>Retained earnings</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In thousands of Russian Roubles</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Balance as at 1 January 2004</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premises and equipment:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Release of impairment charge related to revaluation of premises</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income tax recorded in equity</td>
<td>24</td>
<td>-</td>
<td>-</td>
<td>(9 336)</td>
<td>(9 336)</td>
</tr>
<tr>
<td>Net income recorded directly in equity</td>
<td>-</td>
<td>-</td>
<td>29 565</td>
<td>-</td>
<td>29 565</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>272 860</td>
<td>272 860</td>
</tr>
<tr>
<td><strong>Total recognised income for 2004</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share issue</td>
<td>19</td>
<td>3 125</td>
<td>496 875</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Dividends declared</td>
<td>26</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Ordinary shares</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1 528)</td>
<td>(1 528)</td>
</tr>
<tr>
<td>- Preference shares</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(221)</td>
<td>(221)</td>
</tr>
<tr>
<td>Share issue of the subsidiary</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Partial disposal of the subsidiary</td>
<td>32</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disposal of Gaicle Insurance Company</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Negative minority interest in the disposed subsidiary charged to the Group</td>
<td>32</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Balance as at 1 January 2005</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premises and equipment:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Revaluation</td>
<td>12</td>
<td>-</td>
<td></td>
<td>389 702</td>
<td>-</td>
</tr>
<tr>
<td>- Reallocation of revaluation reserve related to disposed premises</td>
<td>12</td>
<td>-</td>
<td></td>
<td>(9 726)</td>
<td>9 726</td>
</tr>
<tr>
<td>Income tax recorded in equity</td>
<td>24</td>
<td></td>
<td></td>
<td>(93 528)</td>
<td>-</td>
</tr>
<tr>
<td>Net income recorded directly in equity</td>
<td>-</td>
<td></td>
<td>286 448</td>
<td>9 726</td>
<td>296 174</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>-</td>
<td></td>
<td></td>
<td>630 050</td>
<td>630 050</td>
</tr>
<tr>
<td><strong>Total recognised income for 2005</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share issue</td>
<td>19</td>
<td>3 125</td>
<td>496 875</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Dividends declared</td>
<td>26</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Ordinary shares</td>
<td></td>
<td></td>
<td></td>
<td>(2 382)</td>
<td>(2 382)</td>
</tr>
<tr>
<td>- Preference shares</td>
<td></td>
<td></td>
<td></td>
<td>(221)</td>
<td>(221)</td>
</tr>
<tr>
<td><strong>Balance as at 31 December 2005</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3 284 230</td>
<td>2 124 906</td>
<td>610 909</td>
<td>(2 603 411)</td>
<td>3 316 634</td>
</tr>
</tbody>
</table>

The notes set out on pages 6 to 56 form an integral part of these consolidated financial statements.
### Cash flows from operating activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income received on loans and advances</td>
<td>2,392,955</td>
<td>1,320,187</td>
</tr>
<tr>
<td>Interest income received on securities</td>
<td>211,211</td>
<td>139,685</td>
</tr>
<tr>
<td>Interest expense paid on deposits</td>
<td>(673,926)</td>
<td>(387,355)</td>
</tr>
<tr>
<td>Interest expense paid on securities issued</td>
<td>(160,115)</td>
<td>(124,915)</td>
</tr>
<tr>
<td>Income received from trading in trading securities</td>
<td>125,684</td>
<td>36,636</td>
</tr>
<tr>
<td>Income received from trading in other securities at fair value through profit or loss</td>
<td>20,220</td>
<td>30,844</td>
</tr>
<tr>
<td>Income received from dealing in foreign currencies</td>
<td>17,179</td>
<td>94,486</td>
</tr>
<tr>
<td>Fees and commissions received</td>
<td>418,708</td>
<td>317,484</td>
</tr>
<tr>
<td>Fees and commissions paid</td>
<td>(25,198)</td>
<td>(18,684)</td>
</tr>
<tr>
<td>Income from insurance activities</td>
<td>-</td>
<td>379,176</td>
</tr>
<tr>
<td>Other operating income received</td>
<td>13,965</td>
<td>32,511</td>
</tr>
<tr>
<td>Operating expenses paid</td>
<td>(915,819)</td>
<td>(563,107)</td>
</tr>
<tr>
<td>Income tax paid</td>
<td>(225,471)</td>
<td>(63,342)</td>
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</table>

### Cash flows from operating activities before changes in operating assets and liabilities

<table>
<thead>
<tr>
<th>Description</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes in operating assets and liabilities</td>
<td>1,199,392</td>
<td>893,606</td>
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</table>

### Changes in operating assets and liabilities

<table>
<thead>
<tr>
<th>Description</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net (increase)/decrease in mandatory cash balances with the Central Bank of the Russian Federation</td>
<td>(211,783)</td>
<td>487,573</td>
</tr>
<tr>
<td>Net increase in trading securities</td>
<td>(910,299)</td>
<td>(977,034)</td>
</tr>
<tr>
<td>Net decrease/(increase) in other securities at fair value through profit or loss</td>
<td>418,560</td>
<td>(230,828)</td>
</tr>
<tr>
<td>Net increase in due from other banks</td>
<td>(1,763,716)</td>
<td>(113,701)</td>
</tr>
<tr>
<td>Net increase in loans and advances to customers</td>
<td>(9,003,430)</td>
<td>(4,414,121)</td>
</tr>
<tr>
<td>Net decrease/(increase) in other assets</td>
<td>22,438</td>
<td>(239,112)</td>
</tr>
<tr>
<td>Net increase in due to other banks</td>
<td>647,870</td>
<td>758</td>
</tr>
<tr>
<td>Net increase in customer accounts</td>
<td>11,419,596</td>
<td>3,766,082</td>
</tr>
<tr>
<td>Net increase in debt securities in issue</td>
<td>802,425</td>
<td>377,658</td>
</tr>
<tr>
<td>Net (decrease)/increase in other liabilities</td>
<td>(8,474)</td>
<td>23,822</td>
</tr>
</tbody>
</table>

### Net cash from / (used in) operating activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash from / (used in) operating activities</td>
<td>2,612,869</td>
<td>(421,197)</td>
</tr>
</tbody>
</table>

### Cash flows from investing activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of premises and equipment and intangible assets</td>
<td>12</td>
<td>(165,111)</td>
</tr>
<tr>
<td>Proceeds from disposal of premises and equipment and intangible assets</td>
<td>156</td>
<td>39,442</td>
</tr>
<tr>
<td>Cash outflow from disposal of share in subsidiaries</td>
<td>32</td>
<td>(139,543)</td>
</tr>
<tr>
<td>Dividend income received</td>
<td>3,137</td>
<td>(1,633)</td>
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</tbody>
</table>

### Net cash used in investing activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash used in investing activities</td>
<td>(161,818)</td>
<td>(208,803)</td>
</tr>
</tbody>
</table>

### Cash flows from financing activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issue of ordinary shares</td>
<td>19</td>
<td>3,125</td>
</tr>
<tr>
<td>- share capital</td>
<td></td>
<td>496,875</td>
</tr>
<tr>
<td>- share premium</td>
<td></td>
<td>(14,424)</td>
</tr>
<tr>
<td>Repayment of other borrowed funds</td>
<td>17</td>
<td>(65,445)</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>26</td>
<td>(2,646)</td>
</tr>
</tbody>
</table>

### Net cash from financing activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash from financing activities</td>
<td>431,909</td>
<td>483,943</td>
</tr>
</tbody>
</table>

### Effect of exchange rate changes on cash and cash equivalents

<table>
<thead>
<tr>
<th>Description</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effect of exchange rate changes on cash and cash equivalents</td>
<td>(4,793)</td>
<td>(18,960)</td>
</tr>
</tbody>
</table>

The notes set out on pages 6 to 56 form an integral part of these consolidated financial statements.
<table>
<thead>
<tr>
<th>Net increase/(decrease) in cash and cash equivalents</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents at the beginning of the period</td>
<td>2,877,967</td>
<td>(165,017)</td>
</tr>
<tr>
<td></td>
<td>1,678,978</td>
<td>1,843,995</td>
</tr>
</tbody>
</table>

| Cash and cash equivalents at the end of the period | 7 | 4,556,945 | 1,678,978 |

Investing and financing transactions that did not require the use of cash and cash equivalents were excluded from the cash flow statement.
1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2005 for Bank "St Petersburg" (the "Bank") and its subsidiary Leasing Company "St Petersburg" (together referred to as the "Group" or "Bank "St Petersburg" PLC Group).

The Bank was formed in 1990 as an open joint stock company under the Laws of the Russian Federation as result of the privatization process of the former Leningrad regional office of Zhisotsbank. The Bank is an open joint stock company limited by shares and was set up in accordance with Russian regulations.

50.2% of the ordinary shares of the Group are ultimately controlled by top management of the Bank headed by Mr. Saveliev. Another 14.9% of the shares are ultimately controlled by Mr. Troitiskii and 15.1% of shares are ultimately controlled by Mr. Krozhkev. 13.8% of the shares are ultimately controlled by "Vozrozhdienie" Group headed by Mr. Bukato. The remaining 6.0% of the shares are widely held.

Principal activity. The Bank's principal business activity is commercial banking operations within the Russian Federation. The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 1997. In 2004 the Bank was accepted to the state deposit insurance scheme, which was introduced by the Federal Law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State deposit insurance scheme implies that the State Deposit Insurance Agency will guarantee repayment of individual deposits up to RR 100 thousand (approximately US Dollars 3 thousand) per individual in case of the withdrawal of a license of a bank being member of deposit insurance scheme or a CBRF imposed moratorium on payments of this bank.

The Bank has 9 branches within the Russian Federation: 8 branches are located in the North-West region of Russia and one branch is located in Moscow.

Registered address and place of business. The Bank's registered address and place of business is: 193167, Russian Federation, Saint Petersburg, Nevskiy prospect, 178.

Presentation currency. These consolidated financial statements are presented in thousands of Russian Roubles ("RR thousands").

2 Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market, including the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, relatively high inflation and economic growth. The banking sector in the Russian Federation is sensitive to adverse fluctuations in confidence and economic conditions. The Russian economy occasionally experiences falls in confidence in the banking sector accompanied by reductions in liquidity. Management is unable to predict economic trends and developments in the banking sector and what effect, if any, a deterioration in the liquidity of or confidence in the Russian banking system could have on the financial position of the Group.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.
3 Basis of Preparation and Significant Accounting Policies

**Basis of Preparation.** These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the revaluation of premises and equipment, available-for-sale financial assets, and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5, Adoption of New or Revised Standards and Interpretations).

**Consolidated financial statements.** Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The Group holds less than 50% of the voting rights in a fully consolidated subsidiary Leasing Company “St Petersburg”. The Group has the power to govern the financial and operating policies of this subsidiary through contractual arrangements with other shareholders of the Leasing Company “St Petersburg” being nominal equity holders of 33% of the shares in the company. The Group directly and indirectly controls in aggregate 52% of ordinary shares of this company.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

The excess of the cost of acquisition over the acquirer’s share of the fair value of the net assets of the acquiree at each exchange transaction is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between the Bank and the subsidiary are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and its subsidiary use uniform accounting policies consistent with the Group’s policies.

Minority interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Minority interest forms a separate component of the Group’s equity.

The minority interest in negative net assets of the subsidiary and any further losses applicable to the minority are allocated against the majority interest of equity holders of the Group. If the subsidiary subsequently reports profits, such profits are allocated to the majority interest until the minority’s share of losses previously absorbed by the majority has been recovered.

**Key measurement terms.** Depending on their classification financial instruments are carried at cost, fair value, or amortised cost as described below.

**Cost** is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. **Transaction costs** are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. **Transaction costs** do not include debt premiums or discounts, financing costs or internal administrative or holding costs.
3 Basis of Preparation and Significant Accounting Policies (Continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm’s length basis.

In other than active markets, the most recent arms length transactions are the basis of current fair values. Recent transaction prices are appropriately adjusted if they do not reflect current fair values, for example because the transaction was a distress sale. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale.

Valuation techniques such as discounted cash flows models and consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount, are not presented separately and are included in the carrying values of related balance sheet items.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial instrument. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in the consolidated statement of income for trading securities, derivatives and other financial assets at fair value through profit or loss; and recognised in equity for assets classified as available for sale.
3 Basis of Preparation and Significant Accounting Policies (Continued)

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash within a day. All short term interbank placements, beyond overnight 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 are carried at fair value.

Mandatory cash balances with the CBRF. Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated cash flow statement.

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within 1 to 6 months. Trading securities are not reclassified out of this category even when the Group's intentions subsequently change.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the consolidated statement of income as interest income. Dividends are included in dividend income in the consolidated statement of income when the Groups right to receive the dividend payment is established. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in the consolidated statement of income as gains and losses from trading securities in the period in which they arise.

Other securities at fair value through profit or loss. Other securities at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Loans originated at interest rates different from market rates are remeasured at origination to their fair value, 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 credited or charged to the consolidated statement of income as gains on origination of assets at rates above market or losses on origination of assets at rates below market. Subsequently, the carrying amount of such loans is adjusted for amortisation of the gains/losses on origination and the related income is recorded as interest income within the consolidated statement of income using the effective yield method.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in the consolidated statement of income when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purposes of a collective evaluation of impairment, financial assets 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 assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.
3 Basis of Preparation and Significant Accounting Policies (Continued)

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets 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.

Impairment losses are recognised through an allowance account to write down the asset’s carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through the consolidated statement of income.

Uncollectable assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

Investment securities available for sale. This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase and reassesses that classification at each subsequent balance sheet date.

Investment securities available for sale are carried at fair value. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost less any impairment losses. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of income when the Group’s right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired, at which time the cumulative gain or loss is removed from equity to consolidated statement of income.

Impairment losses are recognised in the consolidated statement of income when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in consolidated statement of income – is removed from equity and recognised in the consolidated statement of income. Impairment losses on equity instruments are not reversed through the consolidated statement of income.

Sale and repurchase agreements. Sale and repurchase agreements (“repo agreements”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognised. The securities are not reclassified in the consolidated balance sheet unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or customer accounts, as appropriate.
3  Basis of Preparation and Significant Accounting Policies (Continued)

Securities purchased under agreements to resell ("reverse repo agreements") are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of the repo agreements using the effective interest method.

Promissory notes purchased. Promissory notes purchased are recorded in due from other banks or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Derecognition of financial assets. The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Premises and equipment. Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

Premises of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises and equipment being revalued. The revaluation reserve for premises and equipment included in equity is transferred directly to accumulated deficit when the surplus is realised, i.e. either on the retirement or disposal of the asset.

All other items of premises and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to the consolidated statement of income to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the consolidated statement of income.

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives at the following annual rates:

Premises – 2% per annum;
Office and computer equipment – 20% per annum;
Leasehold improvements – over the term of the underlying lease;

The residual value of an asset is the estimated amount that the Group 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 residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.
3 Basis of Preparation and Significant Accounting Policies (Continued)

Intangible assets. All of the Group's intangible assets have a definite useful life and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

Intangible assets are depreciated at 30% per annum.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

Finance leases. Where the Group is a lessor in a lease which does transfer substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the consolidated statement of income.

Impairment losses are recognised in the consolidated statement of income when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost. If the Group purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in other income.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Debt securities in issue. Debt securities in issue include promissory notes and certificates of deposit issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in other income.
3 Basis of Preparation and Significant Accounting Policies (Continued)

Other borrowed funds. Other borrowed funds include liabilities to state or corporate entities and are carried at amortised cost.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, currency futures and swaps, are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in the consolidated statement of income as gains less losses arising from trading in foreign currencies. The Group does not apply hedge accounting.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of income except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost.

Credit related commitments. In the normal course of business, the Group enters into credit related commitments, including letters of credit and guarantees. Specific provisions are recorded against other credit related commitments when losses are considered more likely than not.

Preference shares. Preference shares that are not redeemable and with discretionary dividends, are classified as equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends declared after the balance sheet date and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Group are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.
3 Basis of Preparation and Significant Accounting Policies (Continued)

Income and expense recognition. Interest income and expense are recorded in the consolidated statement of income for all debt instruments on an accruals basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset’s effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accruals basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion.

Foreign currency translation. Functional currency of each of the Group’s consolidated entities is the currency of the primary economic environment in which the entity operates. The Bank’s and its subsidiary’s functional currency and the Group’s presentation currency is the national currency of the Russian Federation, Russian Roubles (“RR”).

Monetary assets and liabilities are translated into each entity’s functional currency at the official exchange rate of the CBRF at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity’s functional currency at period end official exchange rates of the CBRF are recognised in the consolidated statement of income. Translation at period end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

As at 31 December 2005 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 28.7825 (2004: USD 1 = RR 27.7487). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a freely convertible currency in most countries outside of the Russian Federation.

Fiduciary assets. Assets and liabilities held by the Group in its own name, but on the account of third parties, are not reported on the consolidated balance sheet. The relevant balances and transactions are disclosed in Note 29. Commissions received from fiduciary activities are shown in fee and commission income.

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

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 “Financial Reporting in Hyperinflationary Economies” (“IAS 29”). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. It states that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.
3  Basis of Preparation and Significant Accounting Policies (Continued)

The characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current as at 31 December 2002 are the basis for the carrying amounts in these consolidated financial statements. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the period in which the associated services are rendered by the employees of the Group.

Segment reporting. A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Group have been reported separately within these consolidated financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current year. The effect of reclassifications is as follows:

<table>
<thead>
<tr>
<th>In thousand of Russian Roubles</th>
<th>Note</th>
<th>31 December 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adoption of IAS 39 (Revised 2003)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other securities at fair value through profit or loss</td>
<td>5</td>
<td>717,881</td>
</tr>
<tr>
<td>Other assets</td>
<td></td>
<td>11,458</td>
</tr>
<tr>
<td>Decrease in</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment securities available for sale</td>
<td>5</td>
<td>(729,339)</td>
</tr>
</tbody>
</table>

The Group has not reclassified any financial asset to a category measured at amortised cost rather than fair value during 2005 (2004: nil). These financial statements were approved for issue on 10 May 2006 and further changes require approval of the body that gave that authorisation.

4  Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates and judgements are continually evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial period include:
4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

**Impairment losses on loans and advances.** The Group regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in the consolidated statement of income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs by +1/-5 percent, the provision would be estimated RR 58 914 thousand higher or RR 58 914 thousand lower (2004: RR 42 317 thousand higher or RR 42 317 thousand lower).

**Legislation.** Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 29.

**Related party transactions.** In the normal course of business the Group enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

5 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Group from 1 January 2005. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group’s operations and the nature of their impact on the Group’s accounting policies. All changes in accounting policies were applied retrospectively, unless otherwise described below.

**IAS 1 (revised 2003), Presentation of Financial Statements.** Certain new disclosures and changes in presentation required by the revised standard were made in these consolidated financial statements.

**IAS 16 (revised 2003) Property, Plant and Equipment.** The residual value is now defined as the amount that the Group estimates it would receive currently for the asset if the asset were already of the age and in the condition expected at the end of its useful life. The Group’s policy is now not to cease depreciating assets during temporary periods when the assets are idle.

**IAS 17 (revised 2003) Leases.** Initial direct costs incurred in negotiating a finance lease are now deferred as part of the net investment in the lease. Finance leases are now recognised at commencement based on values measured at inception. Commencement is when the lessee can start using the leased asset. Inception is the earlier of the date of the lease agreement and the date of commitment to the principal provisions of the lease. The revised IAS 17 is applied retrospectively to all leases in accordance with the transitional provisions of the standard.

**IAS 24 (revised 2003) Related Party Disclosures.** The definition of related parties was extended and additional disclosures required by the revised standard were made in these consolidated financial statements.

**IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation.** Additional disclosures required by the revised Standard were made in these financial statements.
5 Adoption of New or Revised Standards and Interpretations (Continued)

IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement. The definition of 'originated loans and receivables' was amended to become 'loans and receivables'. This category now comprises originated or purchased loans and receivables that are not quoted in an active market. The Group amended its policies and may designate any financial instrument on initial recognition as one to be measured at fair value, with changes in fair value recognised in the consolidated statement of income. Subsequent reclassifications into or out of the 'at fair value through profit or loss' category are prohibited.

The Group amended its policies for derecognition of financial assets. Under the original IAS 39, several concepts governed derecognition. The revised IAS 39 retains the two main concepts of risks and rewards and control, but clarifies that the evaluation of the transfer of risks and rewards precedes the evaluation of the transfer of control. The Group now applies the guidance added to IAS 39 on how to determine fair values using valuation techniques and how to evaluate impairment in a group of loans or receivables which cannot yet be identified with any individual asset in the group.

In accordance with the standard’s transitional provisions the revised accounting policies are applied retrospectively except for the clarified derecognition rules which are applied prospectively from 1 January 2004. The Group has redesignated quoted debt securities previously included into the ‘available for sale’ category into the ‘at fair value through profit or loss’ category at the date of initial application of the revised IAS 39. Refer to Note 9.

Effect of Adoption of New or Revised Standards. The effect of adoption of the above new or revised standards and interpretations on the Group's financial position as at 31 December 2005 and as at 31 December 2004 and on the results of its operations for the years then ended was not significant.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods and which the Group has not early adopted:

IFRIC 4, Determining whether an Arrangement contains a Lease. IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

IAS 39 (Amendment) – The Fair Value Option. IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in the consolidated statement of income (‘fair value through profit or loss’). The amendment changes the definition of financial instruments ‘at fair value through profit or loss’ and restricts the ability to designate financial instruments as part of this category.

IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures. The IFRS introduces new disclosures to improve the information about financial instruments. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about the level of an entity’s capital and how it manages capital. The Group is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its consolidated financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the consolidated financial statements of the Group.
7 Cash and Cash Equivalents

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on hand</td>
<td>1 136 818</td>
<td>752 612</td>
</tr>
<tr>
<td>Cash balances with the CBRF (other than mandatory reserve deposits)</td>
<td>2 023 956</td>
<td>691 388</td>
</tr>
<tr>
<td>Correspondent accounts and overnight placements with other banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Russian Federation</td>
<td>547 003</td>
<td>63 787</td>
</tr>
<tr>
<td>- Other countries</td>
<td>705 418</td>
<td>153 435</td>
</tr>
<tr>
<td>Settlement accounts with trading systems</td>
<td>143 750</td>
<td>17 756</td>
</tr>
<tr>
<td><strong>Total cash and cash equivalents</strong></td>
<td><strong>4 556 945</strong></td>
<td><strong>1 678 978</strong></td>
</tr>
</tbody>
</table>

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 28. The information on related party balances is disclosed in Note 31.

8 Trading Securities

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal loan bonds (OFZ bonds)</td>
<td>1 554 638</td>
<td>710 733</td>
</tr>
<tr>
<td>Municipal bonds</td>
<td>594 125</td>
<td>723 391</td>
</tr>
<tr>
<td>Russian Federation Eurobonds</td>
<td>550 880</td>
<td>202 800</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>214 823</td>
<td>331 188</td>
</tr>
<tr>
<td>Corporate Eurobonds</td>
<td>90 412</td>
<td></td>
</tr>
<tr>
<td>Corporate shares</td>
<td>19 177</td>
<td>112 307</td>
</tr>
<tr>
<td><strong>Total trading securities</strong></td>
<td><strong>3 024 055</strong></td>
<td><strong>2 080 419</strong></td>
</tr>
</tbody>
</table>

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds have maturity dates from 2 September 2006 to 29 August 2018 (2004: 2 August 2006 to 29 August 2018), coupon rate of approximately 6.3% - 10.0% p.a. in 2005 (2004: 10.0 - 14.0% p.a.) and yield to maturity from 5.1% to 6.8% p.a. as at 31 December 2005, depending on the type of bond issue (from 5.1% to 7.8% p.a. as at 31 December 2004 depending on the type of bond issue).

Municipal bonds are Russian Rouble denominated securities issued by the municipal administrations of St. Petersburg, Volgograd, Moscow and Krasnoyarsk regions. Bonds are issued at a discount to nominal value, have maturity dates from 18 May 2006 to 6 August 2014 (2004: from 18 May 2006 to 6 August 2014), coupon of 9.0 - 12.0% p.a. (2004: 9.0 - 14.5% p.a.) and yield to maturity from 6.3% to 11.5% p.a. as at 31 December 2005, depending on the type of bond issue (from 7.1% to 10.3% p.a. as at 31 December 2004, depending on the type of bond issue).

Russian Federation Eurobonds are interest bearing securities denominated in USD, issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. These bonds have maturity dates from 31 March 2010 to 31 March 2030 (2004: 31 March 2010), coupon rate of 5.0 - 8.3% p.a. (2004: 8.3% p.a.) and yield to maturity from 4.8% to 5.6% p.a. as at 31 December 2005, depending on the type of bond issue (4.7% p.a. as at 31 December 2004).

Corporate bonds are interest bearing Rouble denominated securities issued by Russian companies, and are freely tradable at the Russian market. These bonds have maturity dates from 20 March 2008 to 22 April 2010 (2004: from 18 January 2007 to 19 April 2007), coupon rate of 11.5% - 15.5% p.a. in 2005 (2004: 8.0 - 10.0% p.a.) and yield to maturity from 5.3% to 12.7% p.a. as at 31 December 2005, depending on the type of bond issue (from 7.4% to 10.7% p.a. as at 31 December 2004, depending on the type of bond issue).
8 Trading Securities (Continued)

Corporate Eurobonds are interest bearing securities denominated in USD issued by Russian companies, and are freely tradable internationally. These bonds have maturity dates from 20 April 2008 to 24 February 2009, coupon rate of 8.5% - 8.6% p.a. in 2005 and yield to maturity from 7.5% to 8.5% p.a. as at 31 December 2005, depending on the type of bond issue (2004: no corporate Eurobonds).

Corporate shares are shares of Russian companies.

As at 31 December 2005 included in trading securities are securities pledged under sale and repurchase agreements whose fair value is RR 466 582 thousand (31 December 2004: RR 427 298 thousand). Refer to Notes 15 and 29.

Geographical, currency, maturity and interest rate analyses of trading securities are disclosed in Note 28.

The Bank is licensed by the Federal Service for Financial Markets for trading in securities.

9 Other Securities at Fair Value through Profit or Loss

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>VneshEconBank 3% coupon bonds (VEB)</td>
<td>327 488</td>
<td>717 881</td>
</tr>
<tr>
<td><strong>Total other securities at fair value through profit or loss</strong></td>
<td>327 488</td>
<td>717 881</td>
</tr>
</tbody>
</table>

Upon application of the revised version of IAS 39 in 2005 the Group has redesignated the above securities previously included in available for sale category into other securities at fair value through profit and loss at the date of the initial application of the revised IAS 39. The reclassification is irrevocable and has been applied retroactively. Refer to Note 5.

VEB bonds are interest bearing securities denominated in USD issued by the Ministry of Finance of the Russian Federation. The bonds are purchased at a discount to nominal value and carry an annual coupon of 3.0% p.a. The bonds have maturity dates from 14 May 2008 to 14 May 2011 (2004: from 14 May 2008 to 14 May 2011) and a yield to maturity from 5.0% to 5.2% p.a. as at 31 December 2005, depending on the type of bond issue (from 5.2% to 5.9% p.a. as at 31 December 2004, depending on the type of bond issue).

Geographical, currency, maturity and interest rate analyses of other securities at fair value through profit or loss are disclosed in Note 28.

10 Due from Other Banks

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current term placements with other banks</td>
<td>2 098 951</td>
<td>321 683</td>
</tr>
<tr>
<td>Overdue placements with other banks</td>
<td>2 843</td>
<td>3 752</td>
</tr>
<tr>
<td>Net investment in lease</td>
<td>232</td>
<td>1 611</td>
</tr>
<tr>
<td>Less: Provision for loan impairment</td>
<td>(15 205)</td>
<td>(6 829)</td>
</tr>
<tr>
<td><strong>Total due from other banks</strong></td>
<td>2 086 821</td>
<td>320 217</td>
</tr>
</tbody>
</table>


10 Due from Other Banks (Continued)

Movements in the provision for impairment of due from other banks are as follows:

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision for loan impairment as at 1 January</td>
<td>6 829</td>
<td>6 958</td>
</tr>
<tr>
<td>Provision for/(recovery of) loan impairment during the year</td>
<td>9 275</td>
<td>(129)</td>
</tr>
<tr>
<td>Loans to banks written off during the year as uncollectible</td>
<td>(999)</td>
<td>-</td>
</tr>
<tr>
<td>Provision for loan impairment as at 31 December</td>
<td>15 205</td>
<td>6 829</td>
</tr>
</tbody>
</table>

As at 31 December 2005 the estimated fair value of due from other banks was RR 2 083 992 thousand (2004: RR 320 217 thousand). Refer to Note 30.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 28. The information on related party balances is disclosed in Note 31.

11 Loans and Advances to Customers

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current loans</td>
<td>18 930 334</td>
<td>10 971 203</td>
</tr>
<tr>
<td>Reverse sale and repurchase agreements</td>
<td>918 102</td>
<td>75 532</td>
</tr>
<tr>
<td>Net investment in lease</td>
<td>210 223</td>
<td>111 370</td>
</tr>
<tr>
<td>Overdue loans</td>
<td>164 187</td>
<td>83 399</td>
</tr>
<tr>
<td>Less: Provision for loan impairment</td>
<td>(1 178 270)</td>
<td>(846 334)</td>
</tr>
<tr>
<td>Total loans and advances to customers</td>
<td>19 044 576</td>
<td>10 395 170</td>
</tr>
</tbody>
</table>

During 2005 a loss on origination of loans to customers at rates below market in the amount of RR 3 922 thousand was recorded in the consolidated statement of income (2004: RR 15 665 thousand).

As at 31 December 2005 loans and advances to customers in amount of RR 918 102 thousand (31 December 2004: RR 75 532 thousand) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of RR 967 747 thousand (31 December 2004: RR 84 922 thousand), for all of which the Group has a right to sell or repledge. These sale and repurchase deals were settled in January 2006.

Movements in provision for loan impairment are as follows:

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision for loan impairment as at 1 January</td>
<td>846 334</td>
<td>747 240</td>
</tr>
<tr>
<td>Provision for loan impairment during the year</td>
<td>457 581</td>
<td>191 122</td>
</tr>
<tr>
<td>Loans and advances to customers written off during the year as uncollectible</td>
<td>(135 645)</td>
<td>(92 028)</td>
</tr>
<tr>
<td>Provision for loan impairment as at 31 December</td>
<td>1 178 270</td>
<td>846 334</td>
</tr>
</tbody>
</table>
## Loans and Advances to Customers (Continued)

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

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>2005</th>
<th></th>
<th>2004</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>3 563 308</td>
<td>17.6</td>
<td>2 105 258</td>
<td>18.7</td>
</tr>
<tr>
<td>Heavy machinery and ship-building</td>
<td>3 444 567</td>
<td>17.0</td>
<td>2 487 904</td>
<td>22.1</td>
</tr>
<tr>
<td>Trade</td>
<td>3 263 736</td>
<td>16.1</td>
<td>2 542 381</td>
<td>22.6</td>
</tr>
<tr>
<td>Real estate operations</td>
<td>3 008 856</td>
<td>14.9</td>
<td>480 881</td>
<td>4.3</td>
</tr>
<tr>
<td>Leasing and financial services</td>
<td>2 280 320</td>
<td>11.3</td>
<td>833 808</td>
<td>7.4</td>
</tr>
<tr>
<td>Consumer goods and food industry</td>
<td>1 591 288</td>
<td>7.9</td>
<td>355 068</td>
<td>3.2</td>
</tr>
<tr>
<td>Energy</td>
<td>591 571</td>
<td>2.9</td>
<td>189 382</td>
<td>1.5</td>
</tr>
<tr>
<td>Individuals</td>
<td>450 519</td>
<td>2.2</td>
<td>148 273</td>
<td>1.3</td>
</tr>
<tr>
<td>Forestry</td>
<td>275 732</td>
<td>1.4</td>
<td>66 004</td>
<td>0.6</td>
</tr>
<tr>
<td>Chemical industry</td>
<td>259 073</td>
<td>1.3</td>
<td>214 471</td>
<td>1.9</td>
</tr>
<tr>
<td>Project financing</td>
<td>153 640</td>
<td>0.8</td>
<td>459 665</td>
<td>4.1</td>
</tr>
<tr>
<td>Mass media</td>
<td>106 000</td>
<td>0.5</td>
<td>62 297</td>
<td>0.6</td>
</tr>
<tr>
<td>Transport</td>
<td>60 037</td>
<td>0.3</td>
<td>19 288</td>
<td>0.2</td>
</tr>
<tr>
<td>City administrations and municipalities</td>
<td>419 580</td>
<td>3.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>1 164 199</td>
<td>5.8</td>
<td>877 219</td>
<td>7.8</td>
</tr>
<tr>
<td><strong>Total loans and advances to customers (before impairment)</strong></td>
<td>20 222 846</td>
<td>100.0</td>
<td>11 241 504</td>
<td>100.0</td>
</tr>
</tbody>
</table>

As at 31 December 2005 the Group has 12 borrowers with aggregated loan amounts above 10% of consolidated equity of the Group as at this date. The aggregate amount of these loans was RR 7 007 824 thousand or 35% of the gross loan portfolio before impairment.

As at 31 December 2004 the Group had 12 borrowers with aggregated loan amounts above 10% of consolidated equity of the Group as at this date. The aggregate amount of these loans was RR 3 680 918 thousand or 33% of the gross loan portfolio before impairment.

As at 31 December 2005 the estimated fair value of loans and advances to customers was RR 19 015 996 thousand (2004: RR 10 183 522 thousand). Refer to Note 30.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 28. The information on related party balances is disclosed in Note 31.
## 12 Premises, Equipment and Intangible Assets

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>Note</th>
<th>Premises</th>
<th>Office and computer equipment</th>
<th>Construction in progress</th>
<th>Intangible assets</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost as at 1 January 2003</td>
<td></td>
<td>879 738</td>
<td>265 948</td>
<td>36 771</td>
<td>13 846</td>
<td>1 196 303</td>
</tr>
<tr>
<td>Accumulated depreciation and provision for impairment</td>
<td>(141 808)</td>
<td>(138 325)</td>
<td>-</td>
<td>(7 708)</td>
<td>(287 841)</td>
<td></td>
</tr>
<tr>
<td>Net book amount as at 1 January 2004</td>
<td></td>
<td>737 930</td>
<td>127 623</td>
<td>36 771</td>
<td>6 138</td>
<td>908 462</td>
</tr>
<tr>
<td>Additions</td>
<td></td>
<td>21 574</td>
<td>82 325</td>
<td>9 441</td>
<td>14</td>
<td>113 354</td>
</tr>
<tr>
<td>Transfers between categories</td>
<td></td>
<td>-</td>
<td>7 971</td>
<td>(7 971)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Disposals</td>
<td></td>
<td>(1 797)</td>
<td>(2 975)</td>
<td>(26 149)</td>
<td>-</td>
<td>(30 921)</td>
</tr>
<tr>
<td>Depreciation charge</td>
<td>23</td>
<td>(21 646)</td>
<td>(42 238)</td>
<td>-</td>
<td>(2 538)</td>
<td>(66 422)</td>
</tr>
<tr>
<td>Release of impairment through equity</td>
<td></td>
<td>38 901</td>
<td>-</td>
<td>-</td>
<td>38 901</td>
<td></td>
</tr>
<tr>
<td>Disposal of subsidiaries</td>
<td>32</td>
<td>(21 933)</td>
<td>(24 635)</td>
<td>(2 371)</td>
<td>(14)</td>
<td>(48 953)</td>
</tr>
<tr>
<td>Net book amount as at 31 December 2004</td>
<td></td>
<td>753 029</td>
<td>148 071</td>
<td>9 721</td>
<td>3 600</td>
<td>914 421</td>
</tr>
<tr>
<td>Cost as at 31 December 2004</td>
<td></td>
<td>876 647</td>
<td>314 609</td>
<td>9 721</td>
<td>13 846</td>
<td>1 214 823</td>
</tr>
<tr>
<td>Accumulated depreciation and provision for impairment</td>
<td>(123 618)</td>
<td>(166 538)</td>
<td>-</td>
<td>(10 246)</td>
<td>(300 402)</td>
<td></td>
</tr>
<tr>
<td>Net book amount as at 31 December 2004</td>
<td></td>
<td>753 029</td>
<td>148 071</td>
<td>9 721</td>
<td>3 600</td>
<td>914 421</td>
</tr>
<tr>
<td>Additions</td>
<td></td>
<td>7 443</td>
<td>144 785</td>
<td>9 001</td>
<td>3 882</td>
<td>165 111</td>
</tr>
<tr>
<td>Transfers between categories</td>
<td></td>
<td>-</td>
<td>9 717</td>
<td>(9 717)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Disposals</td>
<td></td>
<td>(38 916)</td>
<td>(588)</td>
<td>-</td>
<td>(2)</td>
<td>(39 606)</td>
</tr>
<tr>
<td>Depreciation charge</td>
<td>23</td>
<td>(21 070)</td>
<td>(56 082)</td>
<td>-</td>
<td>(3 075)</td>
<td>(80 227)</td>
</tr>
<tr>
<td>Revaluation</td>
<td>20</td>
<td>389 702</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>389 702</td>
</tr>
<tr>
<td>Release of impairment through profit and loss</td>
<td></td>
<td>44 927</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>44 927</td>
</tr>
<tr>
<td>Net book amount as at 31 December 2005</td>
<td></td>
<td>1 135 115</td>
<td>245 803</td>
<td>9 005</td>
<td>4 405</td>
<td>1 394 328</td>
</tr>
<tr>
<td>Cost as at 31 December 2005</td>
<td></td>
<td>1 168 681</td>
<td>449 702</td>
<td>9 005</td>
<td>17 726</td>
<td>1 645 114</td>
</tr>
<tr>
<td>Accumulated depreciation and provision for impairment</td>
<td>(33 566)</td>
<td>(203 399)</td>
<td>-</td>
<td>(13 321)</td>
<td>(250 786)</td>
<td></td>
</tr>
<tr>
<td>Net book amount as at 31 December 2005</td>
<td></td>
<td>1 135 115</td>
<td>245 803</td>
<td>9 005</td>
<td>4 405</td>
<td>1 394 328</td>
</tr>
</tbody>
</table>

Construction in progress consists mainly of construction and refurbishment of branch premises. Upon completion, assets are transferred to premises and equipment.
12 Premises, Equipment and Intangible Assets (Continued)

The premises of the Group have been revalued as at 31 December 2005. The revaluation has been performed by an independent professional real estate appraisal company, which is registered in St. Petersburg. The basis for the appraisal was market value. The fair value was calculated on the basis of three approaches to valuation: comparison approach, income approach and replacement approach.

- The comparison approach is based on the direct comparison of the revalued object with other objects sold or offered for sale. The market value of premises is determined by the price which an independent party would pay for an object similar by its quality and use. The market value of premises was estimated on the basis of the comparison approach based on information on sales of the comparable objects that took place in the market.

- When determining the value of the property on the basis of the income approach, the discounted cash flows method was applied. The basic principle used as a basis for this approach was the assumption that upon acquiring any property an investor expects to generate income from commercial operation of such property.

- The replacement cost approach represents a set of methods of valuation of property based on determination of costs required to recover or replace an object taking into account its depreciation. The basis of the cost approach is the principle of replacement, under which a buyer will not pay for an object an amount exceeding the cost of creation within a reasonable time of an object with equal utility.

The above carrying value includes revaluation of the Group's premises in the amount of RR 672,247 thousand, including RR 389,702 thousand recognized as a result of revaluation of the Group's premises as at 31 December 2005. As at 31 December 2005 the Group has recorded a deferred tax liability of RR 161,338 thousand related to this amount. Refer to Note 24. Release of impairment charge in the amount of RR 44,927 thousand has been recorded by the Group in the consolidated statement of income in 2005 as a result of a revaluation in respect of the building for which the Group earlier recorded a provision for impairment through profit and loss in the consolidated statement of income. If the assets have been recorded at cost less accumulated depreciation and impairment provision, the net book value of premises as at 31 December 2005 would have been RR 435,580 thousand compared to their fair value of RR 1,135,115 thousand.

As at 31 December 2005 no premises and equipment are pledged as collateral. As at 31 December 2004 included in premises and equipment are premises with net book value of RR 87,182 thousand pledged to guarantee the payments related to the court ruling.

13 Other Assets

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>Note</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivables and advance payments</td>
<td></td>
<td>71,699</td>
<td>24,844</td>
</tr>
<tr>
<td>Tax advance payments</td>
<td></td>
<td>31,608</td>
<td>17,708</td>
</tr>
<tr>
<td>Receivables on plastic cards transactions</td>
<td></td>
<td>29,043</td>
<td>15,141</td>
</tr>
<tr>
<td>Receivables on sale of investments in property for resale</td>
<td></td>
<td>17,831</td>
<td>132,672</td>
</tr>
<tr>
<td>Investment securities available for sale</td>
<td></td>
<td>11,368</td>
<td>11,458</td>
</tr>
<tr>
<td>Deferred expenses</td>
<td></td>
<td>9,953</td>
<td>-</td>
</tr>
<tr>
<td>Settlements on conversion operations</td>
<td></td>
<td>4,946</td>
<td>596</td>
</tr>
<tr>
<td>Fair value of derivative financial instruments</td>
<td>29</td>
<td>4,112</td>
<td>5,101</td>
</tr>
<tr>
<td>Debtors on sale of investments in subsidiaries</td>
<td>32</td>
<td>18,409</td>
<td>3,958</td>
</tr>
<tr>
<td>Total other assets</td>
<td></td>
<td>198,969</td>
<td>217,615</td>
</tr>
</tbody>
</table>

Geographical, currency and maturity analyses of other assets are disclosed in Note 28.
14 Due to Other Banks

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Correspondent accounts and overnight placements of other banks</td>
<td>11 929</td>
<td>19 660</td>
</tr>
<tr>
<td>Current term placements of other banks</td>
<td>1 281 755</td>
<td>604 153</td>
</tr>
<tr>
<td><strong>Total due to other banks</strong></td>
<td><strong>1 293 684</strong></td>
<td><strong>623 833</strong></td>
</tr>
</tbody>
</table>

As at 31 December 2005 the fair value of due to other banks was approximately RR 1 293 684 thousand (2004: RR 623 833 thousand).

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 28.

15 Customer Accounts

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State and public organisations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Current/settlement accounts</td>
<td>63 646</td>
<td>133 611</td>
</tr>
<tr>
<td>- Term deposits</td>
<td>740 000</td>
<td>5 073</td>
</tr>
<tr>
<td><strong>Other legal entities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Current/settlement accounts</td>
<td>9 029 504</td>
<td>5 315 915</td>
</tr>
<tr>
<td>- Term deposits</td>
<td>4 217 631</td>
<td>1 160 237</td>
</tr>
<tr>
<td>- Sale and repurchase agreements</td>
<td>434 269</td>
<td>409 770</td>
</tr>
<tr>
<td><strong>Individuals</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Current/demand accounts</td>
<td>1 791 028</td>
<td>882 209</td>
</tr>
<tr>
<td>- Term deposits</td>
<td>7 162 133</td>
<td>4 003 771</td>
</tr>
<tr>
<td><strong>Total customer accounts</strong></td>
<td><strong>23 438 211</strong></td>
<td><strong>11 910 586</strong></td>
</tr>
</tbody>
</table>

State and public organizations exclude government owned profit oriented business.

Economic sector concentrations within customer accounts are as follows:

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>%</td>
</tr>
<tr>
<td>Individuals</td>
<td>8 953 161</td>
<td>38.2</td>
</tr>
<tr>
<td>Financial services</td>
<td>2 692 378</td>
<td>11.5</td>
</tr>
<tr>
<td>Construction</td>
<td>2 308 038</td>
<td>9.8</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1 984 581</td>
<td>8.5</td>
</tr>
<tr>
<td>Trade</td>
<td>1 425 077</td>
<td>6.1</td>
</tr>
<tr>
<td>Real estate</td>
<td>1 402 752</td>
<td>6.0</td>
</tr>
<tr>
<td>Transport</td>
<td>1 310 827</td>
<td>5.6</td>
</tr>
<tr>
<td>Public utilities</td>
<td>905 367</td>
<td>3.9</td>
</tr>
<tr>
<td>Art, science and education</td>
<td>800 266</td>
<td>3.4</td>
</tr>
<tr>
<td>Cities and municipalities</td>
<td>793 767</td>
<td>3.4</td>
</tr>
<tr>
<td>Medical institutions</td>
<td>202 416</td>
<td>0.9</td>
</tr>
<tr>
<td>Communications</td>
<td>102 884</td>
<td>0.4</td>
</tr>
<tr>
<td>Energy</td>
<td>39 932</td>
<td>0.2</td>
</tr>
<tr>
<td>Others</td>
<td>516 765</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>Total customer accounts</strong></td>
<td><strong>23 438 211</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>
15 Customer Accounts (continued)

As at 31 December 2005 the Group has 6 customers with total balances above 10% of the consolidated equity of the Group as at this date. The aggregate balance of these customers was RR 3 729 030 thousand or 15.9% of total customer accounts.

As at 31 December 2004 the Group had 2 customers with total balances above 10% of the consolidated equity of the Group as at this date. The aggregate balance of these customers was RR 762 815 thousand or 6.4% of total customer accounts.

As at 31 December 2005 included in customer accounts are sale and repurchase agreements with legal entities in the amount of RR 434 269 thousand (31 December 2004: RR 409 770 thousand). Securities sold under these sale and repurchase agreements are municipal bonds with the fair value of RR 466 582 thousand (2004: RR 427 298 thousand). As at 31 December 2005 and 31 December 2004 these securities had been recorded in the consolidated balance sheet as municipal bonds within trading securities. Refer to Notes 8 and 29.

The Group does not have deposits held as collateral for irrevocable commitments under import letters of credit. Refer to Note 29.

As at 31 December 2005 the fair value of customer accounts was approximately RR 23 438 211 thousand (2004: RR 11 910 586 thousand). Refer to Note 30.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 28. The information on related party balances is disclosed in Note 31.

16 Debt Securities in Issue

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promissory notes</td>
<td>2 586 036</td>
<td>1 501 556</td>
</tr>
<tr>
<td>Deposit certificates</td>
<td>239 198</td>
<td>515 678</td>
</tr>
<tr>
<td>Total debt securities in issue</td>
<td>2 825 234</td>
<td>2 017 234</td>
</tr>
</tbody>
</table>

As at 31 December 2005 the fair value of debt securities in issue was approximately RR 2 825 234 thousand (2004: RR 2 017 234 thousand). Refer to Note 30.

Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 28.

17 Other Borrowed Funds

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funds attracted from Ministry of Finance and Ministry of Construction of the Russian Federation under Housing facility program</td>
<td>30 657</td>
<td>41 684</td>
</tr>
<tr>
<td>Funds attracted from Ministry of Finance of the Russian Federation under FIDP facility</td>
<td>5 269</td>
<td>7 521</td>
</tr>
<tr>
<td>Subordinated loan</td>
<td>-</td>
<td>41 947</td>
</tr>
<tr>
<td>Total other borrowed funds</td>
<td>35 926</td>
<td>91 232</td>
</tr>
</tbody>
</table>
17 Other Borrowed Funds (Continued)

As at 31 December 2005 the Group had USD 1,065 thousand, equivalent of RR 30,657 thousand (2004: USD 1,501 thousand, equivalent of RR 41,864 thousand) of funds attracted from the Ministry of Finance and the Ministry of Construction of the Russian Federation under a facility of the International Bank for Reconstruction and Development. The facility was provided for financing construction of houses and development of construction industry in Russia in 1996. As at 31 December 2005 the loan carried variable interest rates from 5.56% to 6.70% p.a. depending on the tranche (2004: from 8.53% to 10.87% p.a. depending on the tranche) and should be repaid by 15 January 2006 in equal semi-annual instalments starting July 1998.

As at 31 December 2005 the Group has USD 275 thousand, equivalent of RR 5,269 thousand (2004: USD 275 thousand, equivalent of RR 7,621 thousand) of funds attracted from the Ministry of Finance of the Russian Federation. These funds were provided to the Group under Financial Institution Development Program in 1995. The funds obtained under this facility bear variable interest rate from 5.01% to 6.96% p.a. as at 31 December 2005 depending on the tranche (2004: from 5.01% to 6.27% p.a. depending on the tranche) and should be repaid by 15 July 2007 in equal instalments starting from July 1999 semi-annually.

As at 31 December 2005 the fair value of other borrowed funds was approximately RR 35,926 thousand (2004: RR 91,232 thousand). Refer to Note 30.

Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 28.

18 Other Liabilities

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>Note</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued employee benefit costs</td>
<td>32</td>
<td>95,736</td>
<td>-</td>
</tr>
<tr>
<td>Due to construction company</td>
<td>29</td>
<td>12,053</td>
<td>1,587</td>
</tr>
<tr>
<td>Fair value of derivative financial instruments</td>
<td>29</td>
<td>9,139</td>
<td>2,269</td>
</tr>
<tr>
<td>Plastic cards creditors</td>
<td>26</td>
<td>6,705</td>
<td>4,007</td>
</tr>
<tr>
<td>Taxes payable, other than profit tax</td>
<td>1,804</td>
<td>6,449</td>
<td>5,231</td>
</tr>
<tr>
<td>Trade creditors</td>
<td>1,804</td>
<td>1,192</td>
<td>1,549</td>
</tr>
<tr>
<td>Dividends payable</td>
<td>395</td>
<td>3,400</td>
<td>3,156</td>
</tr>
<tr>
<td>Other</td>
<td>395</td>
<td>3,400</td>
<td>3,156</td>
</tr>
<tr>
<td><strong>Total other liabilities</strong></td>
<td></td>
<td><strong>154,704</strong></td>
<td><strong>47,569</strong></td>
</tr>
</tbody>
</table>

Movements in provision for credit related commitments are as follows:

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrying amount at 1 January</td>
<td>1,587</td>
<td>736</td>
</tr>
<tr>
<td>Provision for losses on credit related commitments during the period</td>
<td>10,466</td>
<td>851</td>
</tr>
<tr>
<td><strong>Carrying amount at 31 December</strong></td>
<td><strong>12,053</strong></td>
<td><strong>1,587</strong></td>
</tr>
</tbody>
</table>

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 28.
### Share Capital

<table>
<thead>
<tr>
<th></th>
<th>Number of outstanding shares (thousand)</th>
<th>Ordinary shares</th>
<th>Share premium</th>
<th>Preference shares</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>In thousands of Russian Roubles</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 January 2004</td>
<td>15,900</td>
<td>3,118,619</td>
<td>1,131,156</td>
<td>159,361</td>
<td>4,409,136</td>
</tr>
<tr>
<td>New shares issued</td>
<td>3,125</td>
<td>3,125</td>
<td>496,875</td>
<td>-</td>
<td>500,000</td>
</tr>
<tr>
<td>At 31 December 2004</td>
<td>19,025</td>
<td>3,121,744</td>
<td>1,628,031</td>
<td>159,361</td>
<td>4,909,136</td>
</tr>
<tr>
<td>New shares issued</td>
<td>3,125</td>
<td>3,125</td>
<td>496,875</td>
<td>-</td>
<td>500,000</td>
</tr>
<tr>
<td>At 31 December 2005</td>
<td>22,150</td>
<td>3,124,869</td>
<td>2,124,906</td>
<td>159,361</td>
<td>5,409,136</td>
</tr>
</tbody>
</table>

Nominal registered amount of the Bank's issued share capital prior to restatement of capital contributions made before 1 January 2003 to the purchasing power of the Russian Rouble at 31 December 2002 is RR 22,150 thousand (31 December 2004: RR 19,025 thousand). At 31 December 2005, all of the Bank's outstanding shares were authorised, issued and fully paid in.

All ordinary shares have a nominal value of RR 1 per share (2004: RR 1 per share) and rank equally. Each share carries one vote.

Preference shares have a nominal value of RR 1 (2004: RR 1) and carry no voting rights, but rank ahead of the ordinary shares in the event of liquidation of the Bank. The preference shares are not redeemable. Preference share dividends are set at 11% p.a. and rank above ordinary dividends. If preference dividends are not declared by ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until such time that the dividend is paid. Dividend payments on preference shares for the periods where preference shares were given the right to vote are not subsequently compensated from future profit of the Bank.

On 30 September 2005 the Central Bank of Russian Federation registered the issue of 3,125,000 ordinary shares of the Bank. The shares were sold for RR 160 each resulting in an increase of share capital in the amount of RR 3,125 thousand and a share premium in the amount of RR 496,875 thousand. This increase in share capital was received in cash.

On 28 December 2004 the Central Bank of Russian Federation registered the issue of 3,125,000 ordinary shares of the Bank. The shares were sold for RR 160 each resulting in an increase of share capital in the amount of RR 3,125 thousand and a share premium in the amount of RR 496,875 thousand. This increase in share capital was received in cash.

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

Revaluation reserve for Premises and equipment

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>Premises and equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 January 2004</td>
<td>194,896</td>
</tr>
<tr>
<td>Release of provision for impairment of premises and equipment</td>
<td>38,901</td>
</tr>
<tr>
<td>Income tax recorded directly in equity</td>
<td>(9,336)</td>
</tr>
<tr>
<td>At 31 December 2004</td>
<td>224,461</td>
</tr>
<tr>
<td>Revaluation</td>
<td>389,702</td>
</tr>
<tr>
<td>Income tax effect</td>
<td>(93,528)</td>
</tr>
<tr>
<td>Reallocation of revaluation reserve related to disposed premises</td>
<td>(9,726)</td>
</tr>
<tr>
<td>At 31 December 2005</td>
<td>510,909</td>
</tr>
</tbody>
</table>

Revaluation reserve for premises and equipment is transferred to retained earnings when realised through impairment, sale or other disposal of the assets.

During 2005, revaluation reserve for premises and equipment was reduced by the amount of RR 9,726 thousand representing the revaluation increment (net of tax) relating to a disposed building and increased by the recognition of a revaluation increment representing the current period revaluation in the amount of RR 389,702 thousand.

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules at 31 December 2005 are RR 1,551,134 thousand (2004, RR 816,248 thousand).
### 21 Interest Income and Expense

**In thousands of Russian Roubles**

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>2,349,093</td>
<td>1,280,122</td>
</tr>
<tr>
<td>Trading debt securities</td>
<td>202,016</td>
<td>121,627</td>
</tr>
<tr>
<td>Due from other banks</td>
<td>51,812</td>
<td>35,663</td>
</tr>
<tr>
<td>Other debt securities at fair value through profit or loss</td>
<td>21,242</td>
<td>25,324</td>
</tr>
<tr>
<td>Correspondent accounts with other banks</td>
<td>5,151</td>
<td>4,370</td>
</tr>
<tr>
<td><strong>Total interest income</strong></td>
<td><strong>2,629,314</strong></td>
<td><strong>1,467,106</strong></td>
</tr>
<tr>
<td><strong>Interest expense</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Term deposits of individuals</td>
<td>477,252</td>
<td>290,086</td>
</tr>
<tr>
<td>Term deposits of legal entities</td>
<td>200,604</td>
<td>72,622</td>
</tr>
<tr>
<td>Debt securities in issue</td>
<td>162,426</td>
<td>140,012</td>
</tr>
<tr>
<td>Current/settlement accounts</td>
<td>49,227</td>
<td>33,705</td>
</tr>
<tr>
<td>Due to other banks</td>
<td>41,233</td>
<td>29,517</td>
</tr>
<tr>
<td>Other borrowed funds</td>
<td>11,183</td>
<td>9,722</td>
</tr>
<tr>
<td><strong>Total interest expense</strong></td>
<td><strong>941,925</strong></td>
<td><strong>575,664</strong></td>
</tr>
<tr>
<td><strong>Net interest income</strong></td>
<td><strong>1,687,389</strong></td>
<td><strong>891,442</strong></td>
</tr>
</tbody>
</table>

### 22 Fee and Commission Income and Expense

**In thousands of Russian Roubles**

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fee and commission income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commission on settlement transactions</td>
<td>202,781</td>
<td>158,279</td>
</tr>
<tr>
<td>Commission on plastic cards &amp; cheques settlements</td>
<td>82,369</td>
<td>58,422</td>
</tr>
<tr>
<td>Commission on cash transactions</td>
<td>65,829</td>
<td>47,648</td>
</tr>
<tr>
<td>Commission on cash collection</td>
<td>30,328</td>
<td>26,627</td>
</tr>
<tr>
<td>Commission on guarantees issued</td>
<td>19,680</td>
<td>6,218</td>
</tr>
<tr>
<td>Commission on transactions with foreign currency</td>
<td>11,012</td>
<td>14,534</td>
</tr>
<tr>
<td>Commission on safekeeping operations</td>
<td>5,573</td>
<td>4,368</td>
</tr>
<tr>
<td>Other</td>
<td>1,136</td>
<td>1,388</td>
</tr>
<tr>
<td><strong>Total fee and commission income</strong></td>
<td><strong>418,708</strong></td>
<td><strong>317,484</strong></td>
</tr>
<tr>
<td><strong>Fee and commission expense</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commission on settlement transactions</td>
<td>13,121</td>
<td>3,669</td>
</tr>
<tr>
<td>Commission on plastic cards &amp; cheques settlements</td>
<td>9,576</td>
<td>10,325</td>
</tr>
<tr>
<td>Commission on banknote transactions</td>
<td>1,402</td>
<td>4,119</td>
</tr>
<tr>
<td>Commission on cash collection and cash transactions</td>
<td>7,866</td>
<td>298</td>
</tr>
<tr>
<td>Other</td>
<td>333</td>
<td>273</td>
</tr>
<tr>
<td><strong>Total fee and commission expense</strong></td>
<td><strong>25,198</strong></td>
<td><strong>18,684</strong></td>
</tr>
<tr>
<td><strong>Net fee and commission income</strong></td>
<td><strong>393,510</strong></td>
<td><strong>298,800</strong></td>
</tr>
</tbody>
</table>
23 Administrative and Other Operating Expenses

<table>
<thead>
<tr>
<th>Description</th>
<th>Note</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff costs</td>
<td></td>
<td>550,236</td>
<td>381,750</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td></td>
<td>108,237</td>
<td>193,291</td>
</tr>
<tr>
<td>Other expenses related to premises and equipment</td>
<td></td>
<td>86,743</td>
<td>42,829</td>
</tr>
<tr>
<td>Depreciation of premises and equipment</td>
<td>12</td>
<td>80,227</td>
<td>66,422</td>
</tr>
<tr>
<td>Maintenance expenses</td>
<td></td>
<td>67,641</td>
<td>36,292</td>
</tr>
<tr>
<td>Taxes other than on income</td>
<td></td>
<td>57,447</td>
<td>49,022</td>
</tr>
<tr>
<td>Property rent expenses</td>
<td></td>
<td>53,915</td>
<td>53,353</td>
</tr>
<tr>
<td>Security expenses</td>
<td></td>
<td>44,524</td>
<td>35,195</td>
</tr>
<tr>
<td>Contribution to deposit insurance scheme</td>
<td></td>
<td>29,644</td>
<td>-</td>
</tr>
<tr>
<td>Advertising and marketing</td>
<td></td>
<td>10,618</td>
<td>15,099</td>
</tr>
<tr>
<td>Professional services</td>
<td></td>
<td>4,551</td>
<td>2,691</td>
</tr>
<tr>
<td>Charity expenses</td>
<td></td>
<td>4,316</td>
<td>2,198</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>35,364</td>
<td>55,172</td>
</tr>
</tbody>
</table>

**Total administrative and operating expenses**                 |      | 1,133,463| 933,314  |

24 Income Taxes

Income tax expense/(credit) comprises the following:

<table>
<thead>
<tr>
<th>Description</th>
<th></th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current tax</td>
<td></td>
<td>220,578</td>
<td>57,521</td>
</tr>
<tr>
<td>Deferred tax</td>
<td></td>
<td>(54,180)</td>
<td>(67,531)</td>
</tr>
</tbody>
</table>

**Income tax expense/(credit) for the year**                    |      | 166,398 | (10,010)|

The income tax rate applicable to the majority of the Group's income is 24% (2004: 24%). A reconciliation between the expected and the actual taxation charge is provided below.

<table>
<thead>
<tr>
<th>Description</th>
<th></th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS profit before tax</td>
<td></td>
<td>796,448</td>
<td>252,215</td>
</tr>
</tbody>
</table>

Theoretical tax charge at the applicable statutory rate (2005: 24%; 2004: 24%)

<table>
<thead>
<tr>
<th>Description</th>
<th></th>
<th>191,148</th>
<th>60,532</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax effect of items which are not deductible or assessable for taxation purposes:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Income which is exempt from taxation</td>
<td></td>
<td>(13,112)</td>
<td>(26,820)</td>
</tr>
<tr>
<td>- Non deductible expenses</td>
<td></td>
<td>3,260</td>
<td>3,533</td>
</tr>
<tr>
<td>- Non-taxable gain on disposal of subsidiaries</td>
<td></td>
<td>-</td>
<td>(38,841)</td>
</tr>
<tr>
<td>- Income on government securities taxed at different rates</td>
<td></td>
<td>(14,439)</td>
<td>(11,991)</td>
</tr>
<tr>
<td>- Other non temporary differences</td>
<td></td>
<td>-</td>
<td>3,577</td>
</tr>
<tr>
<td>- Utilisation of previously unrecognised tax losses</td>
<td></td>
<td>(459)</td>
<td>-</td>
</tr>
</tbody>
</table>

**Income tax expense/(credit) for the year**                    |      | 166,398 | (10,010)|
### Income Taxes (Continued)

In 2005, a deferred tax liability in the amount of RR 93,528 thousand has been recorded directly in equity in respect of the revaluation of the Group’s premises. Refer to Notes 12 and 20.

In 2004, a deferred tax liability of RR 9,336 thousand has been recorded directly in equity in respect of release of provision on impairment of premises. Refer to Note 20.

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 24% (2004: 24%), except for income on state securities that is taxed at 15% (2004: 15%).

<table>
<thead>
<tr>
<th>Tax effect of deductible temporary differences</th>
<th>31 December 2004</th>
<th>Charged/credited to profit or loss</th>
<th>Charged/credited directly to equity</th>
<th>31 December 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan impairment provision</td>
<td>37,518</td>
<td>102,481</td>
<td>-</td>
<td>139,999</td>
</tr>
<tr>
<td>Accrued income/expense</td>
<td>28,399</td>
<td>3,765</td>
<td>-</td>
<td>32,164</td>
</tr>
<tr>
<td>Premises and equipment; depreciation and impairment provision</td>
<td>29,394</td>
<td>(13,440)</td>
<td>-</td>
<td>15,954</td>
</tr>
<tr>
<td>Loss on disposal of investment in property held for resale</td>
<td>36,968</td>
<td>(36,968)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Gain on sale of subsidiaries</td>
<td>16,057</td>
<td>(16,057)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fair valuation of loans to customers</td>
<td>3,523</td>
<td>(2,669)</td>
<td>-</td>
<td>854</td>
</tr>
<tr>
<td>Other</td>
<td>778</td>
<td>6,910</td>
<td>-</td>
<td>7,688</td>
</tr>
<tr>
<td><strong>Net deferred tax asset</strong></td>
<td><strong>152,637</strong></td>
<td><strong>44,022</strong></td>
<td>-</td>
<td><strong>196,659</strong></td>
</tr>
<tr>
<td>Less offsetting with deferred tax liability</td>
<td>(152,637)</td>
<td>(42,915)</td>
<td>-</td>
<td>(195,552)</td>
</tr>
<tr>
<td><strong>Recognised deferred tax asset</strong></td>
<td>-</td>
<td>1,107</td>
<td>-</td>
<td>1,107</td>
</tr>
</tbody>
</table>

### Tax effect of taxable temporary differences

<table>
<thead>
<tr>
<th>Tax effect of taxable temporary differences</th>
<th>31 December 2004</th>
<th>Charged/credited to profit or loss</th>
<th>Charged/credited directly to equity</th>
<th>31 December 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revaluation of premises and equipment</td>
<td>(166,331)</td>
<td>4,022</td>
<td>(93,528)</td>
<td>(255,837)</td>
</tr>
<tr>
<td>Fair valuation of securities</td>
<td>(10,441)</td>
<td>1,755</td>
<td>-</td>
<td>(8,686)</td>
</tr>
<tr>
<td>Fair valuation of loans to banks</td>
<td>(1,689)</td>
<td>330</td>
<td>-</td>
<td>(1,359)</td>
</tr>
<tr>
<td>Fair valuation of attracted funds</td>
<td>(1,933)</td>
<td>1,933</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>(2,137)</td>
<td>2,118</td>
<td>-</td>
<td>(19)</td>
</tr>
<tr>
<td><strong>Gross deferred tax liability</strong></td>
<td><strong>182,531</strong></td>
<td><strong>10,158</strong></td>
<td><strong>(93,528)</strong></td>
<td><strong>265,901</strong></td>
</tr>
<tr>
<td>Less offsetting with deferred tax liability</td>
<td>152,637</td>
<td>42,915</td>
<td>-</td>
<td>195,552</td>
</tr>
<tr>
<td><strong>Recognised deferred tax liability</strong></td>
<td><strong>29,894</strong></td>
<td><strong>53,073</strong></td>
<td><strong>(93,528)</strong></td>
<td><strong>(70,349)</strong></td>
</tr>
</tbody>
</table>

31
24 Income Taxes (Continued)

<table>
<thead>
<tr>
<th>Description</th>
<th>31 December 2003</th>
<th>Charged / (credited) to profit or loss</th>
<th>Disposal of subsidiaries</th>
<th>Charged / (credited) directly to equity</th>
<th>31 December 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tax effect of deductible temporary differences</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan impairment provision</td>
<td>62 369</td>
<td>(24 851)</td>
<td>-</td>
<td>-</td>
<td>37 518</td>
</tr>
<tr>
<td>Loss on disposal of investment in property held for resale</td>
<td>33 095</td>
<td>3 873</td>
<td>-</td>
<td>-</td>
<td>36 968</td>
</tr>
<tr>
<td>Premises and equipment: depreciation and impairment provision</td>
<td>38 219</td>
<td>511</td>
<td>-</td>
<td>(9 336)</td>
<td>29 394</td>
</tr>
<tr>
<td>Accrued income</td>
<td>-</td>
<td>27 356</td>
<td>1 043</td>
<td>-</td>
<td>28 399</td>
</tr>
<tr>
<td>Gain on sale of subsidiaries</td>
<td>-</td>
<td>16 057</td>
<td>-</td>
<td>-</td>
<td>16 057</td>
</tr>
<tr>
<td>Fair valuation of loans to customers</td>
<td>-</td>
<td>3 817</td>
<td>(294)</td>
<td>-</td>
<td>3 523</td>
</tr>
<tr>
<td>Fair valuation of securities</td>
<td>8 032</td>
<td>(8 032)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Insurance reserves</td>
<td>-</td>
<td>55 989</td>
<td>(55 989)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>2 616</td>
<td>305</td>
<td>(2 143)</td>
<td>-</td>
<td>778</td>
</tr>
<tr>
<td><strong>Net deferred tax asset</strong></td>
<td>144 331</td>
<td>75 025</td>
<td>(57 383)</td>
<td>(9 336)</td>
<td>152 637</td>
</tr>
<tr>
<td><strong>Less offsetting with deferred tax liability</strong></td>
<td>(144 331)</td>
<td>(75 025)</td>
<td>57 383</td>
<td>9 336</td>
<td>(152 637)</td>
</tr>
<tr>
<td><strong>Recognised deferred tax asset</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

**Tax effect of taxable temporary differences**

<table>
<thead>
<tr>
<th>Description</th>
<th>(163 160)</th>
<th>(3 171)</th>
<th>-</th>
<th>-</th>
<th>(165 331)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revaluation of premises and equipment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair valuation of securities</td>
<td>-</td>
<td>(10 515)</td>
<td>74</td>
<td>-</td>
<td>(10 441)</td>
</tr>
<tr>
<td>Fair valuation of attracted funds</td>
<td>(2 691)</td>
<td>758</td>
<td>-</td>
<td>-</td>
<td>(1 833)</td>
</tr>
<tr>
<td>Fair valuation of loans to banks</td>
<td>(3 960)</td>
<td>2 271</td>
<td>-</td>
<td>-</td>
<td>(1 689)</td>
</tr>
<tr>
<td>Other</td>
<td>(5 300)</td>
<td>3 163</td>
<td>-</td>
<td>-</td>
<td>(2 137)</td>
</tr>
</tbody>
</table>

**Gross deferred tax liability**

| (175 111)                                               | (7 494)         | 74                                     | -                        | (182 531)                              |
|---------------------------------------------------------|------------------|----------------------------------------|--------------------------|----------------------------------------|------------------|
| **Less offsetting with deferred tax asset**             | 144 331          | 75 025                                 | (57 383)                 | (9 336)                                | 152 637          |

**Recognised deferred tax liability**

| (30 780)                                               | 67 531          | (57 309)                               | (9 336)                  | (29 894)                               |
25 Earnings per Share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

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

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>Note</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit attributable to equity holders of the Bank</td>
<td>26</td>
<td>630 050</td>
<td>272 860</td>
</tr>
<tr>
<td>Less: preference dividends</td>
<td></td>
<td>(221)</td>
<td>(221)</td>
</tr>
<tr>
<td>Profiit attributable to the Bank’s ordinary shareholders</td>
<td></td>
<td>629 829</td>
<td>272 639</td>
</tr>
<tr>
<td>Weighted average number of ordinary shares in issue (thousands)</td>
<td>19</td>
<td>17 803</td>
<td>13 916</td>
</tr>
<tr>
<td>Basic and diluted earnings per share (expressed in RR per share)</td>
<td>35</td>
<td>20</td>
<td></td>
</tr>
</tbody>
</table>

26 Dividends

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends payable as at 1 January</td>
<td>438</td>
<td>322</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Dividends declared during the year</td>
<td>2 382</td>
<td>1 528</td>
<td>221</td>
<td>221</td>
</tr>
<tr>
<td>Dividends paid during the year</td>
<td>(2 425)</td>
<td>(1 412)</td>
<td>(221)</td>
<td>(221)</td>
</tr>
<tr>
<td>Dividends payable as at 31 December</td>
<td>395</td>
<td></td>
<td>438</td>
<td>-</td>
</tr>
<tr>
<td>Dividends per share declared during the year (RR per share)</td>
<td>0.14</td>
<td>0.11</td>
<td>0.11</td>
<td>0.11</td>
</tr>
</tbody>
</table>

All dividends are declared and paid in Russian Roubles.
27 Segment Analysis

The Group's primary format for reporting segment information is business segments and the secondary format is geographical segments.

Business Segments. The Group is organised on a basis of three main business segments:

- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency transactions with commercial and state entities.

- Operations on financial markets – representing financial instruments trading, loans and deposits in the interbank market, dealing in foreign exchange and derivative financial instruments.

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages for individuals.

Transactions between the business segments are on commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the market interest rates. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of assets and liabilities of the Group but excluding some premises, equipment and intangible assets, other assets and liabilities and taxation. Internal charges and transfer pricing adjustments have been reflected in the performance of each business segment.
27 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Group for the years ended 31 December 2005 and 31 December 2004 is set out below:

<table>
<thead>
<tr>
<th></th>
<th>Corporate banking</th>
<th>Operations on financial markets</th>
<th>Retail banking</th>
<th>Unallocated</th>
<th>Eliminations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>in thousands of Russian Roubles</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External revenues</td>
<td>2 705 642</td>
<td>425 723</td>
<td>212 086</td>
<td></td>
<td></td>
<td>3 343 451</td>
</tr>
<tr>
<td>Revenues from other segments</td>
<td>977 532</td>
<td>1 808 317</td>
<td>883 971</td>
<td></td>
<td>(3 669 820)</td>
<td></td>
</tr>
<tr>
<td>Total revenues</td>
<td>3 683 174</td>
<td>2 234 040</td>
<td>1 096 057</td>
<td>(3 669 820)</td>
<td>3 343 451</td>
<td></td>
</tr>
<tr>
<td>Total revenues comprise:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Interest income</td>
<td>3 276 276</td>
<td>2 088 538</td>
<td>934 320</td>
<td>(3 669 820)</td>
<td>2 629 314</td>
<td></td>
</tr>
<tr>
<td>- Net gains from operations with securities</td>
<td>-</td>
<td>159 240</td>
<td>-</td>
<td>-</td>
<td>159 240</td>
<td></td>
</tr>
<tr>
<td>- Net gains from trading in foreign currencies</td>
<td>32 442</td>
<td>(125 274)</td>
<td>102 152</td>
<td>-</td>
<td>9 320</td>
<td></td>
</tr>
<tr>
<td>- Net gains from translation of foreign currency</td>
<td>-</td>
<td>109 649</td>
<td>-</td>
<td>-</td>
<td>109 649</td>
<td></td>
</tr>
<tr>
<td>- Fee and commission income</td>
<td>370 461</td>
<td>1 768</td>
<td>46 479</td>
<td>-</td>
<td>418 708</td>
<td></td>
</tr>
<tr>
<td>- Other operating income</td>
<td>3 995</td>
<td>119</td>
<td>13 108</td>
<td>-</td>
<td>17 220</td>
<td></td>
</tr>
<tr>
<td>Segment result</td>
<td>788 201</td>
<td>303 851</td>
<td>146 438</td>
<td>-</td>
<td>1 238 490</td>
<td>(442 042)</td>
</tr>
<tr>
<td>Unallocated costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit before tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>796 448</td>
</tr>
<tr>
<td>Income tax expense</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>630 050</td>
</tr>
<tr>
<td>Segment assets</td>
<td>20 497 916</td>
<td>8 877 404</td>
<td>1 102 672</td>
<td>656 750</td>
<td>-</td>
<td>31 134 742</td>
</tr>
<tr>
<td>Segment liabilities</td>
<td>17 312 322</td>
<td>1 329 610</td>
<td>8 953 161</td>
<td>223 015</td>
<td>-</td>
<td>27 818 108</td>
</tr>
<tr>
<td>Other segment items</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>(26 503)</td>
<td>(1 121)</td>
<td>(67 817)</td>
<td>(69 670)</td>
<td>-</td>
<td>(165 111)</td>
</tr>
<tr>
<td>Depreciation and amortisation expense</td>
<td>(12 909)</td>
<td>(544)</td>
<td>(32 938)</td>
<td>(33 836)</td>
<td>-</td>
<td>(80 227)</td>
</tr>
<tr>
<td>Reversals of impairment losses though profit or loss</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>44 927</td>
<td>-</td>
<td>44 927</td>
</tr>
<tr>
<td>Provision for loans impairments</td>
<td>(461 089)</td>
<td>(9 375)</td>
<td>(6 492)</td>
<td>-</td>
<td>-</td>
<td>(476 956)</td>
</tr>
<tr>
<td>Other non-cash expenses</td>
<td>(41 227)</td>
<td>(280)</td>
<td>(95 296)</td>
<td>(75 742)</td>
<td>-</td>
<td>(212 545)</td>
</tr>
</tbody>
</table>
27  Segment Analysis (Continued)

<table>
<thead>
<tr>
<th></th>
<th>Corporate banking</th>
<th>Operations on financial markets</th>
<th>Retail banking</th>
<th>Unallocated</th>
<th>Eliminations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>in thousands of Russian Roubles</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External revenues</td>
<td>1,642,706</td>
<td>174,229</td>
<td>174,166</td>
<td>-</td>
<td>-</td>
<td>1,991,101</td>
</tr>
<tr>
<td>Revenues from other segments</td>
<td>598,692</td>
<td>1,132,662</td>
<td>489,941</td>
<td>-</td>
<td>(2,221,295)</td>
<td>-</td>
</tr>
<tr>
<td>Total revenues</td>
<td>2,241,398</td>
<td>1,306,891</td>
<td>664,107</td>
<td>-</td>
<td>(2,221,295)</td>
<td>1,991,101</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total revenues comprise:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Interest income</td>
<td>1,876,133</td>
<td>1,302,428</td>
<td>509,840</td>
<td>-</td>
<td>(2,221,295)</td>
<td>1,467,106</td>
</tr>
<tr>
<td>- Net gains from operations with securities</td>
<td>-</td>
<td>110,742</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>110,742</td>
</tr>
<tr>
<td>- Net gains from trading in foreign currencies</td>
<td>44,387</td>
<td>(67,991)</td>
<td>120,830</td>
<td>-</td>
<td>-</td>
<td>97,226</td>
</tr>
<tr>
<td>- Net gains from translation of foreign currency</td>
<td>-</td>
<td>(38,615)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(38,615)</td>
</tr>
<tr>
<td>- Fee and commission income</td>
<td>284,219</td>
<td>327</td>
<td>32,938</td>
<td>-</td>
<td>-</td>
<td>317,484</td>
</tr>
<tr>
<td>- Other operating income</td>
<td>38,659</td>
<td>-</td>
<td>499</td>
<td>-</td>
<td>-</td>
<td>37,158</td>
</tr>
<tr>
<td>Segment result</td>
<td>321,075</td>
<td>38,847</td>
<td>47,488</td>
<td>-</td>
<td>-</td>
<td>407,410</td>
</tr>
<tr>
<td>Unallocated costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(155,195)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit before tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>252,215</td>
</tr>
<tr>
<td>Income tax credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>10,010</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>262,225</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Segment assets</td>
<td>11,512,885</td>
<td>4,061,158</td>
<td>519,463</td>
<td>519,855</td>
<td>-</td>
<td>16,613,361</td>
</tr>
<tr>
<td>Segment liabilities</td>
<td>9,053,259</td>
<td>715,065</td>
<td>4,885,979</td>
<td>66,045</td>
<td>-</td>
<td>14,720,348</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other segment items</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>(17,397)</td>
<td>(822)</td>
<td>(44,004)</td>
<td>(51,131)</td>
<td>-</td>
<td>(113,354)</td>
</tr>
<tr>
<td>Depreciation and amortisation expense</td>
<td>(14,573)</td>
<td>(444)</td>
<td>(23,775)</td>
<td>(27,629)</td>
<td>-</td>
<td>(66,422)</td>
</tr>
<tr>
<td>Reversals of impairment losses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>through equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for loan impairment</td>
<td>(164,235)</td>
<td>129</td>
<td>(26,887)</td>
<td>-</td>
<td>-</td>
<td>(190,993)</td>
</tr>
<tr>
<td>Other non-cash expenses</td>
<td>(104,911)</td>
<td>(16)</td>
<td>(32,585)</td>
<td>(1,025)</td>
<td>-</td>
<td>(138,537)</td>
</tr>
</tbody>
</table>
27 Segment Analysis (Continued)

Geographical segments. Segment information for the main geographical segments of the Group is set out below for the years ended 31 December 2005 and 31 December 2004.

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>North-West Region</th>
<th>Moscow</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Segment assets</td>
<td>27 005 624</td>
<td>4 129 118</td>
<td>31 134 742</td>
</tr>
<tr>
<td>External revenues</td>
<td>3 025 083</td>
<td>318 368</td>
<td>3 343 451</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>164 645</td>
<td>466</td>
<td>165 111</td>
</tr>
<tr>
<td>Credit related commitments</td>
<td>814 955</td>
<td>101 044</td>
<td>915 999</td>
</tr>
<tr>
<td>2004</td>
<td>14 992 405</td>
<td>1 620 956</td>
<td>16 613 361</td>
</tr>
<tr>
<td>External revenues</td>
<td>1 771 884</td>
<td>219 217</td>
<td>1 991 101</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>112 120</td>
<td>1 234</td>
<td>113 354</td>
</tr>
<tr>
<td>Credit related commitments</td>
<td>97 810</td>
<td>-</td>
<td>97 810</td>
</tr>
</tbody>
</table>

External revenues and assets, other than as detailed below, and credit related commitments have generally been allocated based on domicile of the counterparty. Cash on hand, premises and equipment and capital expenditure have been allocated based on the country in which they are physically held.

28 Financial Risk Management

The risk management function within the Group 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 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 Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay all amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, borrower and industry sector are approved regularly by the Credit Committee or Management Board of the Bank.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored 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, in part, by obtaining collateral and corporate and personal guarantees.

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

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group 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.
28 Financial Risk Management (Continued)

**Market risk.** The Group 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 Asset and Liability Management Committee of the Bank sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

**Geographical risk.** The geographical concentration of the Group’s assets and liabilities as at 31 December 2005 is set out below:

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>Russia</th>
<th>OECD countries</th>
<th>Non-OECD countries</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>3 854 204</td>
<td>700 347</td>
<td>2 394</td>
<td>4 556 945</td>
</tr>
<tr>
<td>Mandatory cash balances with the Central Bank of the Russian Federation</td>
<td>500 453</td>
<td></td>
<td>500 453</td>
<td></td>
</tr>
<tr>
<td>Trading securities</td>
<td>3 024 055</td>
<td></td>
<td>3 024 055</td>
<td></td>
</tr>
<tr>
<td>Other securities at fair value through profit or loss</td>
<td>327 488</td>
<td></td>
<td>327 488</td>
<td></td>
</tr>
<tr>
<td>Due from other banks</td>
<td>1 886 543</td>
<td>200 278</td>
<td>2 086 821</td>
<td></td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>19 006 871</td>
<td>37 705</td>
<td>19 044 576</td>
<td></td>
</tr>
<tr>
<td>Deferred tax asset</td>
<td>1 107</td>
<td></td>
<td>1 107</td>
<td></td>
</tr>
<tr>
<td>Premises, equipment and intangible assets</td>
<td>1 394 328</td>
<td></td>
<td>1 394 328</td>
<td></td>
</tr>
<tr>
<td>Other assets</td>
<td>198 969</td>
<td></td>
<td>198 969</td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>30 194 018</td>
<td>938 330</td>
<td>2 394</td>
<td>31 134 742</td>
</tr>
</tbody>
</table>

| **Liabilities**                |            |                |                     |           |
| Due to other banks             | 1 293 684  |                | 1 293 684          |           |
| Customer accounts              | 23 389 764 | 27 402         | 21 045             | 23 438 211|
| Debt securities in issue       | 2 825 234  |                | 2 825 234          |           |
| Other borrowed funds           | 5 271      | 30 655         | 35 926             |           |
| Other liabilities              | 154 704    |                | 154 704            |           |
| Deferred tax liability         | 70 349     |                | 70 349             |           |
| **Total liabilities**          | 27 739 006 | 58 057         | 21 045             | 27 818 108|

| **Net balance sheet position** |            |                |                     |           |
| 2 455 012                      | 880 273    | (18 651)       | 3 316 634          |           |

| Credit related commitments (Note 29) | 915 999 |

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.
28  Financial Risk Management (Continued)

The geographical concentration of the Group’s assets and liabilities as at 31 December 2004 is set out below:

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>Russia</th>
<th>OECD countries</th>
<th>Non-OECD countries</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>1 525 543</td>
<td>151 925</td>
<td>1 510</td>
<td>1 678 978</td>
</tr>
<tr>
<td>Mandatory cash balances with the Central Bank of the Russian Federation</td>
<td>288 660</td>
<td>-</td>
<td>-</td>
<td>288 660</td>
</tr>
<tr>
<td>Trading securities</td>
<td>2 080 419</td>
<td>-</td>
<td>-</td>
<td>2 080 419</td>
</tr>
<tr>
<td>Other securities at fair value through profit or loss</td>
<td>717 881</td>
<td>-</td>
<td>-</td>
<td>717 881</td>
</tr>
<tr>
<td>Due from other banks</td>
<td>297 941</td>
<td>22 276</td>
<td>-</td>
<td>320 217</td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>10 395 170</td>
<td>-</td>
<td>-</td>
<td>10 395 170</td>
</tr>
<tr>
<td>Premises, equipment and intangible assets</td>
<td>914 421</td>
<td>-</td>
<td>-</td>
<td>914 421</td>
</tr>
<tr>
<td>Other assets</td>
<td>217 615</td>
<td>-</td>
<td>-</td>
<td>217 615</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>16 437 650</td>
<td>174 201</td>
<td>1 510</td>
<td>16 613 361</td>
</tr>
</tbody>
</table>

| **Liabilities**                         |        |                |                    |           |
| Due to other banks                      | 19 680 | 360 135        | 244 018            | 623 833   |
| Customer accounts                       | 11 820 526 | 44 722        | 45 338             | 11 910 586 |
| Debt securities in issue                | 2 017 234 | -              | -                  | 2 017 234 |
| Other borrowed funds                    | 49 568 | 41 664         | -                  | 91 232    |
| Other liabilities                       | 47 569 | -              | -                  | 47 569    |
| Deferred tax liability                  | 29 894 | -              | -                  | 29 894    |
| **Total liabilities**                   | 13 984 471 | 446 521        | 289 356            | 14 720 348 |

| **Net balance sheet position**          |        |                |                    |           |
|                                         | 2 453 179 | (272 320)      | (287 846)          | 1 893 013 |

| Credit related commitments (Note 29)    | 97 810 | -              | -                  | 97 810    |
28 Financial Risk Management (Continued)

Currency risk. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Asset and Liability Management Committee of the Bank 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 Group’s exposure to foreign currency exchange rate risk as at 31 December 2005.

In thousands of Russian Roubles

<table>
<thead>
<tr>
<th>Assets</th>
<th>RR</th>
<th>USD</th>
<th>Euro</th>
<th>Other currencies</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>3 519 302</td>
<td>669 431</td>
<td>340 183</td>
<td>28 029</td>
<td>4 556 945</td>
</tr>
<tr>
<td>Mandatory cash balances with the Central Bank of the Russian Federation</td>
<td>500 453</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>500 453</td>
</tr>
<tr>
<td>Trading securities</td>
<td>2 382 764</td>
<td>641 231</td>
<td>-</td>
<td>-</td>
<td>3 024 055</td>
</tr>
<tr>
<td>Other securities at fair value through profit or loss</td>
<td>-</td>
<td>327 488</td>
<td>-</td>
<td>-</td>
<td>327 488</td>
</tr>
<tr>
<td>Due from other banks</td>
<td>1 667 952</td>
<td>418 869</td>
<td>-</td>
<td>-</td>
<td>2 086 821</td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>14 252 458</td>
<td>4 657 745</td>
<td>134 373</td>
<td>-</td>
<td>19 044 576</td>
</tr>
<tr>
<td>Deferred tax asset</td>
<td>1 107</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1 107</td>
</tr>
<tr>
<td>Premises, equipment and intangible assets</td>
<td>1 394 328</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1 394 328</td>
</tr>
<tr>
<td>Other assets</td>
<td>191 429</td>
<td>3 454</td>
<td>4 076</td>
<td>-</td>
<td>198 959</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>23 909 793</td>
<td>6 718 288</td>
<td>478 632</td>
<td>28 029</td>
<td>31 134 742</td>
</tr>
</tbody>
</table>

| Liabilities | | | | | |
| Due to other banks | 278 519 | 975 238 | 38 375 | 1 552 | 1 293 684 |
| Customer accounts | 18 806 563 | 3 551 578 | 1 077 286 | 2 784 | 23 438 211 |
| Debt securities in issue | 2 544 127 | 192 736 | 68 371 | - | 2 825 234 |
| Other borrowed funds | - | 35 926 | - | - | 35 926 |
| Other liabilities | 152 355 | 1 556 | 793 | - | 154 704 |
| Deferred tax liability | 70 349 | - | - | - | 70 349 |
| **Total liabilities** | 21 851 913 | 4 757 034 | 1 204 825 | 4 336 | 27 818 108 |

| Net balance sheet position | 2 057 880 | 1 961 254 | (726 193) | 23 693 | 3 316 634 |

| Currency derivatives (Note 29) | 1 588 714 | (2 260 348) | 666 607 | - | (5 027) |

| Net balance sheet position excluding currency derivatives | 3 646 594 | (299 094) | (59 586) | 23 693 | 3 311 607 |

| Credit related commitments (Note 29) | 445 596 | 208 300 | 262 103 | - | 915 999 |
28  Financial Risk Management (Continued)

As at 31 December 2004, the Group has the following positions in currencies:

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>RR</th>
<th>USD</th>
<th>Euro</th>
<th>Other currencies</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>1,296,514</td>
<td>241,638</td>
<td>100,445</td>
<td>40,381</td>
<td>1,678,978</td>
</tr>
<tr>
<td>Mandatory cash balances with the Central Bank of the Russian Federation</td>
<td>288,660</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>288,660</td>
</tr>
<tr>
<td>Trading securities</td>
<td>1,877,619</td>
<td>202,800</td>
<td>-</td>
<td>-</td>
<td>2,080,419</td>
</tr>
<tr>
<td>Other securities at fair value through profit or loss</td>
<td>-</td>
<td>717,891</td>
<td>-</td>
<td>-</td>
<td>717,891</td>
</tr>
<tr>
<td>Due from other banks</td>
<td>258,260</td>
<td>61,957</td>
<td>-</td>
<td>-</td>
<td>320,217</td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>7,668,660</td>
<td>2,477,215</td>
<td>249,295</td>
<td>-</td>
<td>10,395,170</td>
</tr>
<tr>
<td>Premises, equipment and intangible assets</td>
<td>914,421</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>914,421</td>
</tr>
<tr>
<td>Other assets</td>
<td>82,676</td>
<td>134,633</td>
<td>306</td>
<td>-</td>
<td>217,615</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>12,386,810</td>
<td>3,836,124</td>
<td>350,046</td>
<td>40,381</td>
<td>16,613,361</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due to other banks</td>
<td>91,403</td>
<td>530,120</td>
<td>1,053</td>
<td>1,257</td>
<td>623,833</td>
</tr>
<tr>
<td>Customer accounts</td>
<td>8,969,596</td>
<td>2,077,215</td>
<td>842,693</td>
<td>21,082</td>
<td>11,910,586</td>
</tr>
<tr>
<td>Debt securities in issue</td>
<td>1,670,354</td>
<td>314,219</td>
<td>32,661</td>
<td>-</td>
<td>2,017,234</td>
</tr>
<tr>
<td>Other borrowed funds</td>
<td>41,947</td>
<td>49,285</td>
<td>-</td>
<td>-</td>
<td>91,232</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>29,738</td>
<td>17,831</td>
<td>-</td>
<td>-</td>
<td>47,569</td>
</tr>
<tr>
<td>Deferred tax liability</td>
<td>29,894</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>29,894</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>10,832,932</td>
<td>2,988,670</td>
<td>876,407</td>
<td>22,339</td>
<td>14,720,348</td>
</tr>
<tr>
<td><strong>Net balance sheet position</strong></td>
<td>1,553,878</td>
<td>847,454</td>
<td>(526,361)</td>
<td>18,042</td>
<td>1,893,013</td>
</tr>
<tr>
<td>Currency derivatives (Note 29)</td>
<td>458,379</td>
<td>(909,271)</td>
<td>453,724</td>
<td>-</td>
<td>2,832</td>
</tr>
<tr>
<td><strong>Net balance sheet position excluding currency derivatives</strong></td>
<td>2,012,257</td>
<td>(618,817)</td>
<td>(72,637)</td>
<td>18,042</td>
<td>1,895,845</td>
</tr>
<tr>
<td>Credit related commitments (Note 29)</td>
<td>97,810</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>97,810</td>
</tr>
</tbody>
</table>

The currency derivatives position in each column represents the fair value, at the balance sheet date, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount). The amounts by currency are presented gross as stated in Note 29. The net total represents fair value of the derivatives.

The Group 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.
28 Financial Risk Management (Continued)

**Liquidity risk.** Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group 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. Liquidity risk is managed by the Assets and Liabilities Management Committee of the Bank.

The table below shows assets and liabilities as at 31 December 2005 by their remaining contractual maturity, unless there is evidence that any of these assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement is used. Some of the assets, however, may be of a longer term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer term duration.

Overdue assets are allocated based on their expected maturity. The entire portfolio of trading securities is classified within demand and less than one month based on management’s assessment of portfolio’s realisability and their view that it is a fairer portrayal of the Group’s liquidity position. Mandatory cash balances with the CBRF are included within demand and less than one month as the requirement is to maintain as a reserve a specified percentage of certain liabilities which are also included within this category.
28 Financial Risk Management (Continued)

The liquidity position of the Group as at 31 December 2005 is set out below.

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>Demand and less than 1 month</th>
<th>From 1 to 6 months</th>
<th>From 6 to 12 months</th>
<th>More than 1 year</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>4 556 945</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4 556 945</td>
</tr>
<tr>
<td>Mandatory cash balances</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>with the Central Bank of the Russian Federation</td>
<td>500 453</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>500 453</td>
</tr>
<tr>
<td>Trading securities</td>
<td>3 024 055</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3 024 055</td>
</tr>
<tr>
<td>Other securities at fair value through profit or loss</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>327 488</td>
<td>327 488</td>
</tr>
<tr>
<td>Due from other banks</td>
<td>1 664 177</td>
<td>142 521</td>
<td>-</td>
<td>280 123</td>
<td>2 046 821</td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>2 149 740</td>
<td>7 030 079</td>
<td>6 959 962</td>
<td>2 904 795</td>
<td>19 044 576</td>
</tr>
<tr>
<td>Deferred tax asset</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1 107</td>
<td>1 107</td>
</tr>
<tr>
<td>Premises, equipment and intangible assets</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1 394 328</td>
<td>1 394 328</td>
</tr>
<tr>
<td>Other assets</td>
<td>137 381</td>
<td>15 732</td>
<td>7 672</td>
<td>38 184</td>
<td>198 969</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>12 032 751</td>
<td>7 188 332</td>
<td>6 967 634</td>
<td>4 946 025</td>
<td>31 134 742</td>
</tr>
</tbody>
</table>

| **Liabilities**                |                             |                    |                     |                 |       |
| Due to other banks             | 669 971                     | 623 713            | -                   | -               | 1 293 684 |
| Customer accounts              | 12 489 501                  | 5 476 489          | 1 393 246           | 4 078 975       | 23 438 211 |
| Debt securities in issue      | 1 609 530                   | 846 928            | 364 886             | 3 890           | 2 825 234 |
| Other borrowed funds           | -                           | -                  | -                   | 35 926          | 35 926 |
| Other liabilities             | 33 182                      | 103 683            | -                   | 17 839          | 154 704 |
| Deferred tax liability        | -                           | -                  | -                   | 70 349          | 70 349 |
| **Total liabilities**          | 14 802 184                  | 7 050 813          | 1 758 132           | 4 206 979       | 27 818 108 |

| **Net liquidity gap**          | (2 769 433)                 | 137 519            | 5 209 502           | 739 046         | 3 316 634 |

| **Cumulative liquidity gap as at 31 December 2005** | (2 769 433) | (2 631 914) | 2 577 588 | 3 316 634 |
### 28 Financial Risk Management (Continued)

The liquidity position of the Group as at 31 December 2004 is set out below.

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>Demand and less than 1 month</th>
<th>From 1 to 6 months</th>
<th>From 6 to 12 months</th>
<th>More than 1 year</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>1 678 978</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1 678 978</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>288 660</td>
</tr>
<tr>
<td>Mandatory cash balances</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2 080 419</td>
</tr>
<tr>
<td>with the Central Bank of the Russian Federation</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2 080 419</td>
</tr>
<tr>
<td>Trading securities</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1 057 526</td>
</tr>
<tr>
<td>Other securities at fair value through profit or loss</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>717 881</td>
<td>717 881</td>
</tr>
<tr>
<td>Due from other banks</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>320 217</td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>1 057 526</td>
<td>3 486 421</td>
<td>3 758 225</td>
<td>2 092 998</td>
<td>10 395 170</td>
</tr>
<tr>
<td>Premises, equipment and intangible assets</td>
<td>45 665</td>
<td>154 355</td>
<td>6 137</td>
<td>-</td>
<td>217 615</td>
</tr>
<tr>
<td>Other assets</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>914 421</td>
</tr>
<tr>
<td>Total assets</td>
<td>5 471 465</td>
<td>3 640 776</td>
<td>3 764 362</td>
<td>3 736 758</td>
<td>16 613 361</td>
</tr>
</tbody>
</table>

| Liabilities                    | 95 374                        | 528 459            | -                   | -                | 623 833 |
| Due to other banks             | 8 866 605                     | 2 907 524          | 136 320             | 137              | 11 910 586 |
| Customer accounts              | 8 866 605                     | 2 907 524          | 136 320             | 137              | 11 910 586 |
| Debt securities in issue       | 589 126                       | 1 138 014          | 290 094             | -                | 2 017 234 |
| Other borrowed funds           | 1 290                         | -                  | 41 947              | 47 995           | 91 232 |
| Other liabilities              | 12 375                        | 35 179             | 15                  | -                | 47 569 |
| Deferred tax liability         | -                              | -                  | -                   | 29 894           | 29 894 |
| Total liabilities              | 9 564 770                     | 4 609 176          | 468 376             | 78 026           | 14 720 348 |

Net liquidity gap               | (4 093 305)                   | (968 400)          | 3 295 986           | 3 658 732        | 1 893 013 |

**Cumulative liquidity gap as at 31 December 2004**

|                  | (4 093 305) | (5 061 705) | (1 765 719) | 1 893 013 |
28  Financial Risk Management (Continued)

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Management of the Group. 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 Group and its exposure to changes in interest and exchange rates.

The Group has a contractual roll-over option for the majority of loans and advances to customers, with the maturity of roll-over stated in the loan agreement. The customers are allowed to extend maturity of the loan upon approval of the Management Board of the Bank. The contractual roll-over option is usually exercised by most borrowers. The approximate expected maturity of loans and advances to customers and the resulting cumulative liquidity gap of the Group based on expected loan repayment dates, provided that all roll-over options are exercised upon approval of the Management Board of the Bank, as at 31 December 2005 are as follows:

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>Demand and less than 1 month</th>
<th>From 1 to 6 months</th>
<th>From 6 to 12 months</th>
<th>More than 1 year</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans and advances to customers</td>
<td>1,430,564</td>
<td>5,021,799</td>
<td>6,065,030</td>
<td>6,527,183</td>
<td>19,044,576</td>
</tr>
<tr>
<td><strong>Net liquidity gap</strong></td>
<td><strong>(3,488,609)</strong></td>
<td><strong>(1,870,761)</strong></td>
<td><strong>4,314,570</strong></td>
<td><strong>4,361,434</strong></td>
<td><strong>3,316,634</strong></td>
</tr>
</tbody>
</table>

Cumulative liquidity gap as at 31 December 2005

|                                | (3,488,609) | (5,359,370) | (1,044,800) | 3,316,634 |

The impact of the roll-over option on the cumulative liquidity gap of the Group as at 31 December 2004 was not significant.

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

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

**Interest rate risk.** The Group 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 table below summarises the Group’s exposure to interest rate risks as at 31 December 2005. Included in the table are the Group’s assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.
### Financial Risk Management (Continued)

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>Demand and less than 1 month</th>
<th>From 1 to 6 months</th>
<th>From 6 to 12 months</th>
<th>More than 1 year</th>
<th>Non-interest bearing</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>4,556,945</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4,556,945</td>
</tr>
<tr>
<td>Mandatory cash balances</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>500,453</td>
</tr>
<tr>
<td>with the Central Bank of the Russian Federation</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>19,177</td>
<td>3,024,055</td>
</tr>
<tr>
<td>Trading securities</td>
<td>3,004,878</td>
<td>-</td>
<td>-</td>
<td>19,177</td>
<td>3,024,055</td>
<td></td>
</tr>
<tr>
<td>Other securities at fair value through profit or loss</td>
<td>-</td>
<td>-</td>
<td>327,488</td>
<td>-</td>
<td>327,488</td>
<td></td>
</tr>
<tr>
<td>Due from other banks</td>
<td>1,664,177</td>
<td>142,521</td>
<td>280,123</td>
<td>-</td>
<td>2,086,821</td>
<td></td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>2,149,740</td>
<td>7,030,079</td>
<td>6,959,962</td>
<td>2,904,795</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Deferred tax asset</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,107</td>
<td>1,107</td>
<td></td>
</tr>
<tr>
<td>Premises, equipment and intangible assets</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,394,328</td>
<td>1,394,328</td>
<td></td>
</tr>
<tr>
<td>Other assets</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>198,969</td>
<td>198,969</td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>11,876,193</td>
<td>7,172,600</td>
<td>6,959,962</td>
<td>3,512,406</td>
<td>1,613,581</td>
<td>31,134,742</td>
</tr>
</tbody>
</table>

| **Liabilities**               |                               |                   |                   |                 |                     |       |
| Due to other banks            | 669,971                       | 623,713           | -                 | -               | 1,293,684           |       |
| Customer accounts             | 12,489,501                    | 5,476,489         | 1,393,246         | 4,078,975       | 23,438,211          |       |
| Debt securities in issue      | 1,609,530                     | 846,928           | 364,886           | 3,890           | 2,825,234           |       |
| Other borrowed funds          | -                             | -                 | 35,926            | -               | 35,926              |       |
| Other liabilities             | -                             | -                 | -                 | 154,704         | 154,704             |       |
| Deferred tax liability        | -                             | -                 | -                 | 70,349          | 70,349              |       |
| **Total liabilities**         | 14,769,002                    | 6,947,130         | 1,758,132         | 4,118,791       | 225,053             | 27,818,108 |

| **Net sensitivity gap**       | (2,892,809)                   | 225,470           | 5,201,830         | (606,385)       | 1,388,528           | 3,316,634 |

| **Cumulative sensitivity gap as at 31 December 2005** | (2,892,809) | (2,667,339) | 2,534,491 | 1,928,106 | 3,316,634 |
28 Financial Risk Management (Continued)

The following table summarises the Group's exposure to interest rate risks at 31 December 2004.

<table>
<thead>
<tr>
<th>In thousands of Russian</th>
<th>Demand and less than 1 month</th>
<th>From 1 to 6 months</th>
<th>From 6 to 12 months</th>
<th>More than 1 year</th>
<th>Non-interest bearing</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>1 678 978</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1 678 978</td>
</tr>
<tr>
<td>Mandatory cash balances with the Central Bank of the Russian Federation</td>
<td>288 660</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>288 660</td>
</tr>
<tr>
<td>Trading securities</td>
<td>1 968 112</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>112 307</td>
<td>2 080 419</td>
</tr>
<tr>
<td>Other securities at fair value through profit or loss</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>717 881</td>
<td>-</td>
<td>717 881</td>
</tr>
<tr>
<td>Due from other banks</td>
<td>320 217</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>320 217</td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>1 057 526</td>
<td>3 486 421</td>
<td>3 785 225</td>
<td>2 092 998</td>
<td>-</td>
<td>10 395 170</td>
</tr>
<tr>
<td>Premises, equipment and intangible assets</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>914 421</td>
<td>914 421</td>
</tr>
<tr>
<td>Other assets</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>217 615</td>
<td>217 615</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>5 313 493</td>
<td>3 486 421</td>
<td>3 785 225</td>
<td>2 810 879</td>
<td>1 244 343</td>
<td>16 613 361</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Due to other banks</td>
<td>95 374</td>
<td>528 459</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>623 833</td>
</tr>
<tr>
<td>Customer accounts</td>
<td>8 866 605</td>
<td>2 907 524</td>
<td>136 320</td>
<td>137</td>
<td>-</td>
<td>11 910 586</td>
</tr>
<tr>
<td>Debt securities in issue</td>
<td>589 126</td>
<td>1 138 014</td>
<td>290 094</td>
<td>-</td>
<td>-</td>
<td>2 017 234</td>
</tr>
<tr>
<td>Other borrowed funds</td>
<td>1 290</td>
<td>-</td>
<td>41 947</td>
<td>47 995</td>
<td>-</td>
<td>91 232</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>47 569</td>
<td>47 569</td>
</tr>
<tr>
<td>Deferred tax liability</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>29 894</td>
<td>29 894</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>9 552 395</td>
<td>4 573 997</td>
<td>468 361</td>
<td>48 132</td>
<td>77 463</td>
<td>14 720 348</td>
</tr>
</tbody>
</table>

| Net sensitivity gap | (4 238 902) | (1 087 576) | 3 289 864 | 2 762 747 | 1 166 880 | 1 893 013 |

| Cumulative sensitivity gap as at 31 December 2004 | (4 238 902) | (5 326 478) | (2 036 614) | 726 133 | 1 893 013 |

The Group 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 that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Asset and Liability Management Committee of the Bank sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions.

The table below summarises the effective interest rates by major currencies for major debt instruments. The analysis has been prepared based on period-end effective rates used for amortisation of the respective assets/liabilities.
28 Financial Risk Management (Continued)

<table>
<thead>
<tr>
<th>% p.a.</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RR</td>
<td>USD</td>
</tr>
<tr>
<td>Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>0.58</td>
<td>2.29</td>
</tr>
<tr>
<td>Debt trading securities</td>
<td>7.07</td>
<td>5.78</td>
</tr>
<tr>
<td>Other securities at fair value through profit or loss</td>
<td>-</td>
<td>5.32</td>
</tr>
<tr>
<td>Due from other banks</td>
<td>7.73</td>
<td>5.25</td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>13.69</td>
<td>13.76</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due to other banks</td>
<td>3.41</td>
<td>6.08</td>
</tr>
<tr>
<td>Customer accounts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- current and settlement accounts</td>
<td>0.61</td>
<td>0.12</td>
</tr>
<tr>
<td>- term deposits</td>
<td>8.80</td>
<td>7.50</td>
</tr>
<tr>
<td>Debt securities in issue</td>
<td>6.27</td>
<td>9.36</td>
</tr>
<tr>
<td>Other borrowed funds</td>
<td>-</td>
<td>4.43</td>
</tr>
</tbody>
</table>

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

29 Contingencies, Commitments and Derivative Financial Instruments

**Legal proceedings.** From time to time and in the normal course of business, claims may be received from third parties against companies within the Group. On the basis of own estimates and in-house professional legal advice the Management is of the opinion that no material losses will be incurred and, accordingly, no provision has been made in these consolidated financial statements.

**Tax legislation.** Russian tax, currency and customs 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 Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest 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 authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

The tax consequence of transactions for Russian taxation purposes is frequently determined by the form in which transactions are documented and the underlying accounting treatment prescribed by Russian Accounting Rules. Accordingly, the Group structures certain transactions so as to take advantage of such form driven determinations to reduce the overall effective tax rate of the Group. The consolidated income statement as presented in these consolidated financial statements includes reclassifications to reflect the underlying economic substance of those transactions. The effect of these reclassifications does not have an effect on the Group’s profit before taxation or the tax charge recorded in these consolidated financial statements.
29 Contingencies, Commitments and Derivative Financial Instruments (Continued)

The Management of the Group believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2005 no provision for potential tax liabilities had been recorded (2004: no provision).

**Capital commitments.** As at 31 December 2005 the Group has no significant capital commitments. (2004: nil)

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

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not later than 1 year</td>
<td>13 209</td>
<td>8 066</td>
</tr>
<tr>
<td>Later than 1 year and not later than 5 years</td>
<td>7 661</td>
<td>13 238</td>
</tr>
<tr>
<td><strong>Total operating lease commitments</strong></td>
<td><strong>20 870</strong></td>
<td><strong>21 304</strong></td>
</tr>
</tbody>
</table>

**Credit related commitments.** The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to credit risk at the year end in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guarantees issued</td>
<td>372 607</td>
<td>39 397</td>
</tr>
<tr>
<td>Undrawn credit lines</td>
<td>274 355</td>
<td>-</td>
</tr>
<tr>
<td>Import letters of credit</td>
<td>201 690</td>
<td>-</td>
</tr>
<tr>
<td>Letters of credit for settlements between residents</td>
<td>79 900</td>
<td>60 000</td>
</tr>
<tr>
<td><strong>Less: Provision for losses on credit related commitments</strong></td>
<td><strong>(12 053)</strong></td>
<td><strong>(1 587)</strong></td>
</tr>
<tr>
<td><strong>Total credit related commitments</strong></td>
<td><strong>915 999</strong></td>
<td><strong>97 810</strong></td>
</tr>
</tbody>
</table>

The total outstanding contractual amount of letters 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. Fair value of credit related commitments was approximately RR 915 999 thousand at 31 December 2005 (2004: RR 97 810 thousand).
29  Contingencies, Commitments and Derivative Financial Instruments (Continued)

Fiduciary assets. These assets are not included in the Group’s consolidated balance sheet as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of respective securities. In accordance with the common business practices no insurance cover was provided for these fiduciary assets. The fiduciary assets fall into the following categories:

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>2005 Nominal value</th>
<th>2004 Nominal value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate shares held in custody of:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Petersburg Central Registration Company</td>
<td>14 430</td>
<td>34 473</td>
</tr>
<tr>
<td>- Depository Clearing Company</td>
<td>68</td>
<td>82</td>
</tr>
<tr>
<td>- National Depository Center</td>
<td>68</td>
<td>70</td>
</tr>
<tr>
<td>- other registrars and depositories</td>
<td>12 036</td>
<td>8 137</td>
</tr>
<tr>
<td>- registers of share issuers</td>
<td>171 176</td>
<td>171 083</td>
</tr>
<tr>
<td>OFZ held in custody of:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- National Depository Center</td>
<td>-</td>
<td>403</td>
</tr>
<tr>
<td>MKO held in custody of:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- St. Petersburg Settlement Depository Center</td>
<td>59</td>
<td>227</td>
</tr>
<tr>
<td>Russian Federation Eurobonds held in custody of:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- National Depository Center</td>
<td>29</td>
<td>28</td>
</tr>
</tbody>
</table>

Assets pledged and restricted. As at 31 December 2005 the Group had the following assets pledged as collateral:

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>Notes</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Asset pledged</td>
<td>Related liability</td>
</tr>
<tr>
<td>Trading securities</td>
<td>8, 15</td>
<td>466 582</td>
<td>434 269</td>
</tr>
<tr>
<td>Premises and equipment</td>
<td>12</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>466 582</td>
<td>434 269</td>
</tr>
</tbody>
</table>

Also, mandatory cash balances with the CBRF in the amount of RR 500 453 thousand (2004: RR 288 660 thousand) represent a mandatory reserve deposit which is not available to finance the Group’s day to day operations.
29 Contingencies, Commitments and Derivative Financial Instruments (Continued)

**Derivative financial instruments.** The table below sets out fair values, at the balance sheet date, on currencies receivable or payable under foreign exchange forwards and futures contracts entered into by the Group. This table reflects gross position before the netting of any counterparty position by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2005. These contracts are short term in nature.

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Net asset</td>
<td>Net liability</td>
</tr>
<tr>
<td></td>
<td>forwards</td>
<td>forwards</td>
</tr>
<tr>
<td>Foreign exchange forwards: fair values, at the balance sheet date, of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- USD receivable on settlement (+)</td>
<td>345 426</td>
<td>85 189</td>
</tr>
<tr>
<td>- USD payable on settlement (-)</td>
<td>(459 289)</td>
<td>(951 852)</td>
</tr>
<tr>
<td>- Euros receivable on settlement (+)</td>
<td>170 925</td>
<td>922 995</td>
</tr>
<tr>
<td>- Euros payable on settlement (-)</td>
<td>(341 850)</td>
<td>(85 463)</td>
</tr>
<tr>
<td>- RR receivable on settlement (+)</td>
<td>287 900</td>
<td>19 992</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Net asset</td>
<td>Net liability</td>
</tr>
<tr>
<td></td>
<td>futures</td>
<td>futures</td>
</tr>
<tr>
<td>Foreign exchange futures: fair values, at the balance sheet date, of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- USD receivable on settlement (+)</td>
<td>34 539</td>
<td>57 565</td>
</tr>
<tr>
<td>- USD payable on settlement (-)</td>
<td>(561 259)</td>
<td>(811 667)</td>
</tr>
<tr>
<td>- RR receivable on settlement (+)</td>
<td>561 259</td>
<td>811 667</td>
</tr>
<tr>
<td>- RR payable on settlement (-)</td>
<td>(34 539)</td>
<td>(57 565)</td>
</tr>
</tbody>
</table>

Net fair value of foreign exchange derivative financial instruments 13,18 4 112 (9 139) 5 101 (2 269)

For these deals the Group has recorded a net loss of RR 5 027 thousand (2004: net gain of RR 2 832 thousand) which is included within gains less losses arising from dealing in foreign currencies in the consolidated statement of income.
30  Fair Value of Financial Instruments

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

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may not be reflective of the values for financial instruments, which would be determined in an efficient, active market involving willing buyers and willing sellers. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Financial instruments carried at fair value. Cash and cash equivalents, trading securities, other securities at fair value through profit or loss, derivative financial instruments and investment securities available for sale are carried on the consolidated balance sheet at their fair value.

Fair values were determined based on quoted market prices except for certain investment securities available for sale for which there were no available external independent market price quotations. These securities have been fair valued by the Group on the basis of consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies. Valuation techniques required certain assumptions that were not supported by observable market data. Changing any such used assumptions to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities.

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and ranged from 12.0 % to 16.5 % per annum (2004: 12.5 % to 18.0 % per annum). Refer to Notes 10 and 11 for the estimated fair values of due from other banks and loans and advances to customers, respectively.

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate and stated maturity instruments without a quoted market price is based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 14, 15, 16 and 17 for the estimated fair values of due to other banks, customer accounts, debt securities in issue and other borrowed funds, respectively.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Refer to Notes 29 and 3.
31 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. New disclosures are made below for transactions with state and other state controlled entities due to an amendment of IAS 24, Related Party Disclosures. The amended standard has been applied retrospectively and the new disclosures are also provided for the comparative period.

Banking transactions are entered into in the normal course of business with companies controlled by shareholders of the Group, directors and companies controlled by the shareholders and management of the Group. These transactions include settlements, loans, deposit taking, guarantees, trade finance and other transactions. These transactions are priced predominantly at market rates.

At 31 December 2005, the outstanding balances with related parties were as follows:

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>Shareholders</th>
<th>Management of the Group</th>
<th>Companies under common control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Correspondent accounts and overnight placements with other banks</td>
<td>-</td>
<td>-</td>
<td>264</td>
</tr>
<tr>
<td>Due from other banks (contractual interest rate: 9.0-11.0%)</td>
<td>-</td>
<td>-</td>
<td>268 746</td>
</tr>
<tr>
<td>Impairment provision for due to other banks</td>
<td>-</td>
<td>-</td>
<td>(12 362)</td>
</tr>
<tr>
<td>Loans and advances to customers (contractual interest rate: 12.0-21.0%)</td>
<td>79 427</td>
<td>3 155</td>
<td>12 905</td>
</tr>
<tr>
<td>Impairment provision for loans and advances to customers</td>
<td>(6 662)</td>
<td>-</td>
<td>(1 027)</td>
</tr>
<tr>
<td>Customer accounts (contractual interest rate: 5.5-11.3%)</td>
<td>103 331</td>
<td>50 020</td>
<td>471 142</td>
</tr>
</tbody>
</table>

The income and expense items with related parties for year 2005 were as follows:

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>Shareholders</th>
<th>Management of the Group</th>
<th>Companies under common control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>6 967</td>
<td>365</td>
<td>21 357</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(3 962)</td>
<td>(3 841)</td>
<td>(12 098)</td>
</tr>
<tr>
<td>Recovery of provision for loan impairment</td>
<td>246</td>
<td>231</td>
<td>47 540</td>
</tr>
<tr>
<td>Fee and commission income</td>
<td>67</td>
<td>-</td>
<td>947</td>
</tr>
</tbody>
</table>

Aggregate amounts lent to and repaid by related parties during 2005 were:

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>Shareholders</th>
<th>Management of the Group</th>
<th>Companies under common control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts lent to related parties during the period</td>
<td>67 227</td>
<td>4 223</td>
<td>15 633 938</td>
</tr>
<tr>
<td>Amounts repaid by related parties during the period</td>
<td>43 238</td>
<td>5 429</td>
<td>15 925 855</td>
</tr>
</tbody>
</table>
# 31 Related Party Transactions (Continued)

At 31 December 2004, the outstanding balances with related parties were as follows:

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>Shareholders</th>
<th>Management of the Group</th>
<th>Companies under common control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Correspondent accounts and overnight placements with other banks</td>
<td>-</td>
<td>-</td>
<td>34 476</td>
</tr>
<tr>
<td>Due from other banks (contractual interest rate: 9.0-11.0%)</td>
<td>-</td>
<td>-</td>
<td>153 848</td>
</tr>
<tr>
<td>Impairment provision for due to other banks</td>
<td>-</td>
<td>-</td>
<td>(3 077)</td>
</tr>
<tr>
<td>Loans and advances to customers (contractual interest rate: 1.0-21.0%)</td>
<td>55 438</td>
<td>4 361</td>
<td>419 720</td>
</tr>
<tr>
<td>Impairment provision for loans and advances to customers</td>
<td>(6 908)</td>
<td>(231)</td>
<td>(57 852)</td>
</tr>
<tr>
<td>Due to other banks (contractual interest rate: 0.0%)</td>
<td>-</td>
<td>-</td>
<td>9 723</td>
</tr>
<tr>
<td>Customer accounts (contractual interest rate: 11.0-13.0%)</td>
<td>47 387</td>
<td>28 613</td>
<td>15 879</td>
</tr>
<tr>
<td>Guarantees received by the Group as at the year end</td>
<td>-</td>
<td>-</td>
<td>28 728</td>
</tr>
</tbody>
</table>

The income and expense items with related parties for year 2004 were as follows:

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>Shareholders</th>
<th>Management of the Group</th>
<th>Companies under common control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>6 452</td>
<td>560</td>
<td>12 815</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(4 844)</td>
<td>(2 815)</td>
<td>(4 656)</td>
</tr>
<tr>
<td>(Provision) / recovery of provision for loan impairment</td>
<td>(2 645)</td>
<td>1 436</td>
<td>(14 060)</td>
</tr>
<tr>
<td>Fee and commission income</td>
<td>163</td>
<td>-</td>
<td>79</td>
</tr>
<tr>
<td>Losses on origination of assets at rates below market</td>
<td>-</td>
<td>-</td>
<td>(14 440)</td>
</tr>
</tbody>
</table>

Aggregate amounts lent to and repaid by related parties during 2004 were:

<table>
<thead>
<tr>
<th>In thousands of Russian Roubles</th>
<th>Shareholders</th>
<th>Management of the Group</th>
<th>Companies under common control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts lent to related parties during the period</td>
<td>43 900</td>
<td>4 485</td>
<td>13 431 077</td>
</tr>
<tr>
<td>Amounts repaid by related parties during the period</td>
<td>31 092</td>
<td>23 158</td>
<td>13 445 087</td>
</tr>
</tbody>
</table>

In 2005, remuneration of members of the Supervisory Board and the Management Board of the Bank including pension contributions and discretionary bonuses amounted to RR 103 900 thousand (2004: RR 24 534 thousand).
32 Disposals

On 31 December 2004 the Group disposed of the entire shareholding in Insurance Company “Gaide”and “General Insurance Company” and 48% of shares of Leasing Company “St Petersburg”. The disposed subsidiaries contributed operating loss of RR 173,998 thousand to the Group (net of minority interest) for the period from 1 January 2004 to 31 December 2004 which is reflected within the consolidated statement of income for the year ended 31 December 2004. The details of the assets and liabilities of subsidiaries at the date of disposal of shares and disposal consideration are as follows:

<table>
<thead>
<tr>
<th>Note</th>
<th>&quot;General Insurance Company&quot;</th>
<th>Gaide Insurance Company</th>
<th>Leasing company &quot;St Petersburg&quot;</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>96 890</td>
<td>42 654</td>
<td>2 057</td>
<td>141 601</td>
</tr>
<tr>
<td>Due from other banks</td>
<td>5 901</td>
<td>5 095</td>
<td>111 881</td>
<td>122 877</td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>123 320</td>
<td>27 062</td>
<td>-</td>
<td>150 382</td>
</tr>
<tr>
<td>Trading securities</td>
<td>-</td>
<td>9 874</td>
<td>-</td>
<td>9 874</td>
</tr>
<tr>
<td>Other securities at fair value through profit or loss</td>
<td>8 899</td>
<td>13 675</td>
<td>-</td>
<td>22 574</td>
</tr>
<tr>
<td>Other assets</td>
<td>35 013</td>
<td>13 940</td>
<td>97</td>
<td>49 050</td>
</tr>
<tr>
<td>Deferred tax asset</td>
<td>130 329</td>
<td>38 190</td>
<td>10 901</td>
<td>179 420</td>
</tr>
<tr>
<td>Due to other banks</td>
<td>48 065</td>
<td>9 243</td>
<td>-</td>
<td>57 308</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>(535 884)</td>
<td>(157 759)</td>
<td>(130 393)</td>
<td>(824 036)</td>
</tr>
</tbody>
</table>

| Net assets/(liabilities) of subsidiary | (87 467) | 1 974 | (5 457) | (90 950) |
| Less: disposed minority interest | - | (686) | - | (686) |

Total carrying amount of assets / (liabilities) disposed | (87 467) | 1 288 | (2 620) | (88 799) |

Total disposal consideration | 684 | 5 453 | 1 | 6 138 |
| Less: fair value of receivable arising on disposal | (684) | (5 453) | - | (6 137) |
| Less: cash and cash equivalents in subsidiary disposed | (96 890) | (42 654) | - | (139 544) |

Cash inflow/(outflow) on disposal | (96 890) | (42 654) | 1 | (139 543) |

The Group has recorded net gain from disposal of its share in subsidiaries in the amount of RR 94,937 thousand in the consolidated income statement for the year ended 31 December 2004. The balance of negative minority in the amount of RR 2,620 thousand was recorded as part of consolidated shareholder’s equity of the Group. Receivables arising on disposal in total amount of RR 6,137 thousand has been repaid in June 2005.

At the end of 2004 a joint venture, created by the Group and one of its shareholders, disposed of investment in property held for resale. Based on the agreement between the venturers, the revenue received from the sale was used to settle the amount due to the constructor of the property and the remaining financial result was divided between the Group and its shareholder in the agreed proportion. As a result, the Group has recognised its part of the loss on sale of investment in property in the joint venture in the amount of RR 16,139 thousand in the consolidated statement of income for the year ended 31 December 2004.
32 Disposals (Continued)

The Group has reflected its proportional share of the assets and liabilities of the joint venture in the consolidated balance sheet as at 31 December 2004. Accordingly, trade debt on sale of investment in property held for resale is disclosed within other assets in the amount of RR 132 672 thousand. The corresponding liability representing the balances due to the constructor in the amount of RR 17 831 thousand is disclosed within other liabilities. A substantial part of receivables arising from disposal of investments in property held for resale was repaid in June 2005. The remaining part of receivables and payables to the construction company in equal amounts of RR 17 831 thousand were repaid in February 2006. Refer to Notes 13 and 18.

33 Subsequent events

On 22 March 2006 Central Bank of Russian Federation registered the Bank's issue of non-convertible interest bearing bonds with nominal value RR 1 000 000 thousand.