BANK FOR FOREIGN TRADE

Consolidated Financial Statements and Auditors' Report

For the years ended 31 December 2005, 2004 and 2003

CONTENTS

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of the Bank for Foreign Trade:

We have audited the accompanying consolidated balance sheets of the Bank for Foreign Trade ("the Bank") and its subsidiaries (together "the Group") as of 31 December 2005, 2004 and 2003, and the related consolidated statements of income, cash flows, and changes in shareholders' equity for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Bank for Foreign Trade and its subsidiaries at 31 December 2005, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young Vneshaudit

25 April 2006

(expressed in millions of US dollars)

	Note	2005	2004 (restated) – Note 3	2003 (restated) – Note 3
Assets				
Cash and short-term funds	6	2,692	1,520	1,030
Mandatory cash balances with local central banks		404	232	382
Financial assets at fair value through profit or loss	7	5,267	2,566	2,040
Securities pledged under repurchase agreements	8	1,352	340	302
Due from other banks	9	4,141	2,023	1,905
Loans and advances to customers	10	19,925	10,169	4,866
Assets of disposal group held for sale	33	337	–	–
Financial assets available-for-sale	11	665	190	114
Investments in associates	12, 40	118	77	41
Investment securities held-to-maturity	13	7	7	7
Other assets	14	252	189	176
Premises and equipment	15	832	321	250
Investment property	16	198	–	–
Intangible assets	17	451	102	32
Deferred tax asset	30	82	74	83
Total assets		**36,723**	**17,810**	**11,228**
Liabilities				
Due to other banks	18	6,629	3,254	1,822
Customer accounts	19	12,767	6,024	4,286
Liabilities of disposal group held for sale	33	*199*	–	–
Other borrowed funds	20	2,937	1,729	707
Debt securities issued	21	7,241	3,948	1,746
Other liabilities	23	358	145	177
Deferred tax liability	30	162	1	12
Total liabilities before subordinated debt		***30,293***	***15,101***	***8,750***
Subordinated debt	22	1,161	–	–
Total liabilities		**31,454**	**15,101**	**8,750**
Equity				
Share capital	24, 39	2,500	2,153	2,153
Share premium	24, 39	1,513	34	34
Unrealized gain on financial assets available-for-sale	11	89	58	–
Currency translation difference		86	184	135
Fixed assets revaluation reserve	15	72	–	–
Retained earnings		660	199	51
Equity attributable to shareholders of the parent		**4,920**	**2,628**	**2,373**
Minority interest		349	81	105
Total equity		**5,269**	**2,709**	**2,478**
Total liabilities and equity		**36,723**	**17,810**	**11,228**

Approved for issue by the Management Board and signed on its behalf on 25 April 2006.

A.L. Kostin
President - Chairman of the Management Board

N.V. Tsekhomsky
Chief Financial Officer

(expressed in millions of US dollars, except earnings per share data)

	Note	2005	2004 (restated) – Note 3	2003 (restated) – Note 3
Interest income	25	1,759	1,049	693
Interest expense	25	(920)	(475)	(345)
Net interest income		**839**	**574**	**348**
Provision for loan impairment	29	(103)	(196)	(106)
Net interest income after provision for loan impairment		**736**	**378**	**242**
Gains less losses arising from financial assets at fair value through profit or loss:		332	4	234
Gains less losses arising from dealing in foreign currencies		8	31	34
Foreign exchange translation gains less losses		(8)	114	22
Fee and commission income	26	190	118	74
Fee and commission expense	26	(22)	(12)	(6)
Gains from extinguishment of liabilities	10,18,19	14	100	–
Share in income of associates		24	2	–
Other operating income	27	241	189	143
Net non-interest income		**779**	**546**	**501**
Operating income		**1,515**	**924**	**743**
Operating expenses	28	(850)	(628)	(473)
Reversal of allowance for other assets and provisions	29	8	5	–
Excess of fair value of acquired net assets over cost	39	30	–	–
Profit before taxation		**703**	**301**	**270**
Income tax expense	30	(195)	(93)	17
Profit after taxation from continuing operations		**508**	**208**	**287**
Profit of discontinued operations	33	3	–	–
Net profit		**511**	**208**	**287**
Net profit attributable to:				
Shareholders of the parent		**499**	**205**	**264**
Minority interest		**12**	**3**	**23**
Basic and diluted earnings per share	31	11.8	4.9	6.3
Basic and diluted earnings per share – continuing operations, in USD (expressed in USD per share)		11.7	4.9	6.3
Basic and diluted earnings per share – discontinued operations, in USD (expressed in USD per share)		0.1	–	–

(expressed in millions of US dollars)

	Note	2005	2004 (restated) – Note 3	2003 (restated) – Note 3
Cash flows from operating activities				
Interest received		1,763	978	650
Interest paid		(888)	(411)	(289)
Income received on operations with securities		301	65	421
Income received on dealing in foreign currency		8	31	39
Fees and commissions received		190	118	74
Fees and commissions paid		(22)	(12)	(6)
Other operating income received		193	47	46
Operating expenses paid		(759)	(429)	(366)
Income tax paid		(91)	(98)	(119)
Cash flows from operating activities before changes in operating assets and liabilities		**695**	**289**	**450**
Net decrease (increase) in operating assets				
Net (increase) decrease in mandatory cash balances with local central banks		(85)	179	(146)
Net increase in restricted cash		(14)	(35)	69
Net increase in trading securities		(1,494)	(1,172)	(712)
Net (increase) decrease in due from banks		(9)	85	(585)
Net increase in loans and advances to customers		(5,327)	(4,856)	(1,734)
Net increase in other assets		(5)	(26)	(60)
Net (decrease) increase in operating liabilities				
Net increase in due to banks		101	1,201	443
Net increase in customer accounts		3,676	1,667	1,659
Net increase in promissory notes and certificates of deposits issued		80	302	820
Net increase (decrease) in other liabilities		10	(24)	11
Net cash (used in) from operating activities		**(2,372)**	**(2,390)**	**215**
Cash flows from investing activities				
Proceeds from sales or maturities of investment securities available-for-sale		251	4	–
Purchases of investment securities available-for-sale		(73)	(3)	–
Purchase of subsidiaries, net of cash acquired		(39)	84	(40)
Purchase of disposal group held for sale		(133)	–	–
Disposal of subsidiary, net of cash disposed		–	33	(1)
Purchases of investment securities held-to-maturity		–	(5)	(7)
Purchases of premises and equipment		(166)	(97)	(99)
Proceeds from sales of premises and equipment		68	–	2
Purchases of intangible assets		(5)	–	–
Net cash (used in) from investing activities		**(97)**	**16**	**(145)**

(expressed in millions of US dollars)

	Note	2005	2004 (restated) – Note 3	2003 (restated) – Note 3
Cash flows from financing activities				
Dividends paid		(61)	(57)	(53)
Contribution from the controlling shareholder		63	–	–
Cash arising from contribution of subsidiaries		181	–	–
Increase in Central Bank of the Russian Federation funding		–	701	–
Decrease in Central Bank of the Russian Federation funding		–	–	(380)
Proceeds from other borrowed funds		295	–	144
Repayment of other borrowed funds		(146)	(2)	(86)
Cash proceeds from issue of bonds denominated in RUR		521	185	66
Cash paid in redemption of bonds denominated in RUR		–	(32)	–
Proceeds from issuance of eurobonds		2,200	1,656	300
Repayment of eurobonds		(525)	–	–
Proceeds from issuance of debentures (Schuldscheindarlehen)		157	–	–
Proceeds from syndicated loan		993	883	455
Repayment of syndicated loan		(730)	(560)	(120)
Proceeds from subordinated debt		745	–	–
Net cash provided by financing activities		**3,693**	**2,774**	**326**
Effect of exchange rate changes on cash and cash equivalents		**(66)**	**54**	**46**
Net increase in cash and cash equivalents		**1,158**	**454**	**442**
Cash and cash equivalents at beginning of the year	6	1,383	929	487
Cash and cash equivalents at the end of the period	6	**2,541**	**1,383**	**929**

(expressed in millions of US dollars)

	Attributable to shareholders of the parent								
	Share capital	**Share premium**	**Unrealized gain on financial assets available-for-sale**	**Fixed assets revaluation reserve**	**Currency translation difference**	**Retained earnings (Accumulated deficit)**	**Total**	**Minority interest**	**Total equity**
Balance at 31 December 2002	**2,153**	**34**	**–**	**–**	**91**	**(160)**	**2,118**	**76**	**2,194**
Effect of translation	–	–	–	–	44	–	**44**	6	**50**
Total income and expense recognized directly in equity	–	–	–	–	**44**	–	**44**	**6**	**50**
Net profit (restated) (Note 3)	–	–	–	–	–	264	**264**	23	**287**
Total income and expense for the period	–	–	–	–	**44**	**264**	**308**	**29**	**337**
Dividends declared	–	–	–	–	–	(53)	**(53)**		**(53)**
Balance at 31 December 2003	**2,153**	**34**	**–**	**–**	**135**	**51**	**2,373**	**105**	**2,478**
Unrealized gain on financial assets available-for-sale (restated) (Note 3)	–	–	58	–	–	–	**58**	–	**58**
Effect of translation	–	–	–	–	49	–	**49**	9	**58**
Total income and expense recognized directly in equity	–	–	**58**	–	**49**	–	**107**	9	**116**
Net profit (restated) (Note 3)	–	–	–	–	–	**205**	**205**	3	**208**
Total income and expense for the period	–	–	**58**	–	**49**	**205**	**312**	**12**	**324**
Dividends declared	–	–	–	–	–	(57)	**(57)**	–	**(57)**
Disposal of subsidiary	–	–	–	–	–	–	–	(36)	**(36)**
Balance at 31 December 2004 (restated) (Note 3)	**2,153**	**34**	**58**	**–**	**184**	**199**	**2,628**	**81**	**2,709**
Unrealized gain on financial assets available-for-sale	–	–	31	–	–	–	**31**	–	**31**
Fixed assets revaluation (Note 15)	–	–	–	72	–	–	**72**	–	**72**
Effect of translation	–	–	–	–	(98)	–	**(98)**	(5)	**(103)**
Total income and expense recognized directly in equity	–	–	**31**	**72**	**(98)**	–	**5**	**(5)**	**–**
Net profit	–	–	–	–	–	499	**499**	12	**511**
Total income and expense for the period	**–**	**–**	**31**	**72**	**(98)**	**499**	**504**	**7**	**511**
Contribution of subsidiaries by controlling shareholder (Notes 24, 39)	347	1,479	–	–	–	23	**1,849**	85	**1,934**
Dividends declared (Note 32)	–	–	–	–	–	(61)	**(61)**	–	**(61)**
Acquisition of subsidiaries	–	–	–	–	–	–	–	156	**156**
Increase in share capital of subsidiaries	–	–	–	–	–	–	–	20	**20**
Balance at 31 December 2005	**2,500**	**1,513**	**89**	**72**	**86**	**660**	**4,920**	**349**	**5,269**

1. Principal Activities

The Bank for Foreign Trade and its subsidiaries (the "Group") comprise Russian and foreign commercial banks, and other companies and entities controlled by the Group.

The Bank for Foreign Trade, more commonly known as Vneshtorgbank (the "Bank", "Vneshtorgbank", or "VTB"), was formed as Russia's foreign trade bank under the laws of the Russian Federation on 17 October 1990. In 1998, following several reorganisations, VTB was reorganised into an open joint stock company.

On 2 January 1991, VTB received a general banking licence (number 1000) from the Central Bank of Russia (the "CBR"). In addition, VTB holds licences required for trading and holding securities and engaging in other securities-related activities, including acting as a broker, a dealer and a custodian, and providing asset management and special depositary services. VTB and other Russian Group banks are regulated and supervised by the CBR and the Federal Service for Financial Markets. Foreign Group banks operate under the bank regulatory regimes of their respective countries.

On 29 December 2004, the Bank became a member of the obligatory deposit insurance system provided by the State Corporation "Agency for Deposits Insurance". The main retail subsidiary is also a member of the obligatory deposit insurance system provided by the State Corporation "Agency for Deposits Insurance" since 22 February 2005. The State deposit insurance scheme implies that the State Corporation "Agency for Deposits Insurance" guarantees repayment of individual deposits up to 100 thousand Russian Roubles (RUR) (approximately US Dollars 3 thousand) per individual in case of the withdrawal of a license of a bank or a CBR imposed moratorium on payments.

On 5 October 2005, VTB re-registered its legal address to 29 Bolshaya Morskaya Street, Saint-Petersburg 190000, Russian Federation. VTB's Head Office is located in Moscow. A full list of subsidiaries and associates included in these consolidated financial statements is provided in Note 40.

The Group operates predominantly in the commercial banking sector. This includes deposit taking and commercial lending in freely convertible currencies and in Russian Roubles, support of clients' export/import transactions, foreign exchange, securities trading, and trading in derivative financial instruments. The Group's operations are conducted in both Russian and international markets. The Group's operations are not subject to seasonal fluctuations. The Group conducts its banking business in Russia through 1 associated and 4 subsidiary banks with its network of 151 branches, including 55 branches of VTB, 42 branches of CJSC "VTB Retail Services" and 54 branches of OJSC "Industry & Construction Bank", located in major Russian regions. The Group operates outside Russia through 10 bank subsidiaries of VTB, located in the Commonwealth of Independent States ("CIS") (Armenia, Georgia, Ukraine), Western Europe (Austria, Cyprus, Switzerland, Germany, Luxembourg, France) and Great Britain and through 5 representative offices located in India, Italy, China, Byelorussia and Ukraine.

The Group's majority shareholder is the State of Russian Federation, acting through the Federal Property Agency, which holds 99.9% of VTB's issued and outstanding shares.

The number of employees of the Group at 31 December 2005 was 23,145 (31 December 2004: 13,132; 31 December 2003: 6,892).

Unless otherwise noted herein, all amounts are expressed in millions of US dollars.

2. Operating Environment of the Group

The Group operates primarily within the Russian Federation. The Russian economy while deemed to be of market status continues to display certain characteristics consistent with that of a market in transition. These characteristics include, but are not limited to, relatively high inflation and the existence of currency controls which cause the national currency to be illiquid outside of Russia. The stability of the Russian economy will be significantly impacted by the government's policies and actions with regard to supervisory, legal, and economic reforms.

3. Basis of Preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Bank and its subsidiaries and associates maintain their accounting records in accordance with regulations applicable in their country of registration. These consolidated financial statements are based on those accounting books and records, as adjusted and reclassified to comply with IFRS.

These consolidated financial statements have been prepared 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.

The national currency of the Russian Federation, where the Bank is domiciled, is RUR. However, the Bank's assets and liabilities are mostly denominated in United States dollars ("US dollars" or "USD"). The US dollar is used to a significant extent in, and has a significant impact on the operations of the Bank, and the Bank's cash flows are primarily denominated in US dollars. Also, the US dollar is the currency in which Management of the Bank manages the business risks and exposures, and measures the performance of the Bank's business. Based upon these and other factors, the functional currency of the Bank is considered to be the US dollar. The Bank's accounting records provide sufficient accounting information regarding the original US dollar equivalent of transactions executed in other currencies.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted those new/revised standards mandatory for financial years beginning on or after January 1, 2005.

The changes in accounting policies result from adoption of the following new or revised standards:

IFRS 2 "Share-Based Payment";
IFRS 3 "Business Combinations", IAS 36 (revised) "Impairment of Assets" and IAS 38 (revised) "Intangible Assets";
IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations";
IAS 1 (revised) "Presentation of Financial Statements";
IAS 2 (revised) "Inventories";
IAS 8 (revised) "Accounting Policies, Changes in Accounting Estimates and Errors";
IAS 10 (revised) "Events after the Balance Sheet Date";
IAS 16 (revised) "Property, Plant and Equipment";
IAS 17 (revised) "Leases";
IAS 21 (revised) "The Effects of Changes in Foreign Exchange Rates";
IAS 24 (revised) "Related Party Disclosures";
IAS 27 (revised) "Consolidated and Separate Financial Statements";
IAS 28 (revised) "Investments in Associates";
IAS 31 (revised) "Interests in Joint Ventures";
IAS 32 (revised) "Financial Instruments: Presentation and Disclosure";
IAS 33 (revised) "Earnings per Share";
IAS 39 (revised) "Financial Instruments: Recognition and Measurement"; and
IAS 40 (revised) "Investment property".

The principal effects of these changes in policies are discussed below.

3. Basis of Preparation (continued)

Changes in accounting policies (continued)

IFRS 3 "Business Combinations" and IAS 36 "Impairment of Assets" and IAS 38 "Intangible Assets"

IFRS 3 applies to accounting for business combinations for which the agreement date is on or after 31 March 2004. Upon acquisition the Group initially measures the identifiable assets, liabilities and contingent liabilities acquired at their fair values as at the acquisition date hence causing any minority interest in the acquiree to be stated at the minority proportion of the net fair values of those items.

The goodwill acquired in a business combination is recognized as an asset and initially is measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized in accordance with IFRS 3.

Goodwill relating to acquisitions from 31 March 2004 is not amortized but is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. As at the acquisition date, any goodwill acquired in acquisitions from 31 March 2004 is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized.

Additionally, for business combinations for which the agreement date is before 31 March 2004, the adoption of IFRS 3 and IAS 36 has resulted in the Group ceasing goodwill amortization and to test for impairment annually at the cash generating unit level from 1 January 2005 (unless an event occurs during the year, which requires the goodwill to be tested more frequently).

According to the transitional provisions of IFRS 3, the Group eliminated the carrying amount of the accumulated amortization of USD 6 million with a corresponding entry to goodwill as at 1 January 2005.

Acquisition of subsidiaries from parties under common control

Purchases of subsidiaries from parties under common control are accounted for using the purchase accounting method. Previously, the Bank accounted for transactions under common control by applying the uniting of interest method. The Bank changed its accounting policy for transactions under common control since the purchase method results in the financial statements providing reliable and more relevant information about the effects of such transactions on the Bank's financial position and financial performance. Implementation of the new accounting policy did not have a material impact on the corresponding figures for 2004.

IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations"

IFRS 5 specifies accounting for discontinued operations and assets and disposal groups held for sale. The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

The sale qualifies as highly probable if the Bank's management is committed to a plan to sell the non-current asset (or disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset (or disposal group) must have been actively marketed for sale at a price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as completed within one year from the date of classification of the non-current asset (or disposal group) as held for sale.

Assets and liabilities of a disposal group classified as held for sale are recorded in the consolidated balance sheet separately from other assets.

The Group measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

3. Basis of Preparation (continued)

Changes in accounting policies (continued)

IAS 1 (revised) "Presentation of Financial Statements" and IAS 27 "Consolidated and Separate Financial Statements"

Minority interests in net assets of the Group's subsidiaries are presented within equity, separately from parent shareholders' equity. Previously, minority interests were presented separately from liabilities and equity in the Group's consolidated balance sheet. In addition, the Group discloses on the face of the consolidated income statement, the allocation of the result for the year between profit for the year attributable to shareholders of the Group and profit for the year attributable to minority interest.

IAS 24 "Related Party Disclosures" (amended 2004)

Starting 1 January 2005, IAS 24 (revised) removed the exemption for state-controlled entities from the requirement to disclose transactions with other state-controlled entities. Since the Bank is a state-owned entity, all the state-owned entities are considered to be related parties of the Bank. Accordingly, starting from 2005, the Group discloses outstanding balances and transactions with such entities in the notes to the consolidated financial statements. Comparative figures are amended accordingly (see Note 38).

IAS 39 "Financial Instruments: Recognition and Measurement" (amended 2004)

Financial assets and liabilities at fair value through profit or loss

A new category of financial instruments has been introduced, "Financial assets and liabilities at fair value through profit or loss". This category includes trading financial assets and liabilities as well as any financial assets and liabilities designated into this category at initial recognition. These assets and liabilities are measured at fair value with recognition of gains or losses on re-measurement to fair value in net profit or loss.

Management of the Bank and its subsidiaries which were acquired prior to 2005 decided to designate as "financial assets at fair value through profit or loss" on 1 January 2005 all debt and equity securities, except for investments in equity instruments that do not have a quoted market price in an active market, loans and receivables and held-to-maturity instruments. Such designation is performed at initial recognition of the respective assets.

The financial assets at fair value through profit or loss are initially recognised at fair value and subsequently re-measured at fair value based on their market value. In determining market value, all financial assets at fair value through profit or loss are valued at the last bid price.

Financial assets available-for-sale

The gains and losses on re-measurement of financial assets available-for-sale to fair value are recognized as a separate component of equity. Transitional provisions of IAS 39 allow the Group to redesignate any financial assets and liabilities as "at fair value through profit or loss" when the Standard is first applied. Accordingly, as at 1 January 2005 the Bank and its subsidiaries which were acquired prior to 2005 re-designated part of its available-for-sale financial assets as "at fair value through profit or loss" and reclassified securities pledged under repurchase agreements separately from other assets (securities pledged under repurchase agreements are classified separately from other assets only if the transferee has the right to sell or repledge them). Comparative figures are amended accordingly. As noted, subsidiaries acquired by the Bank in 2005 classified investment securities depending upon the intent of management at the time of the purchase.

A gain or loss on an available-for-sale financial asset shall be recognised directly in equity (including reversal of impairment losses for equity instruments and foreign exchange gains and losses for non-monetary items), through the statement of changes in equity, except for impairment losses and foreign exchange gains and losses for monetary items, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity shall be recognised in profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the entity's right to receive payment is established.

(expressed in millions of US dollars)

3. Basis of Preparation (continued)

Changes in accounting policies (continued)

Securities pledged under repurchase agreements

In accordance with IAS 39 (amended 2004), the Group reclassified securities pledged under repurchase agreements, which the transferee has the right to sell or repledge, separately from other assets in the balance sheet. Comparative figures are amended accordingly.

The Group also made certain reclassifications within the balance sheet as of 31 December 2004 to conform to the 2005 presentation. The effect of the application of the new and revised standards and the reclassifications on the balance sheet as at 31 December 2004 is as follows:

	As previously reported	As previously reported after reclassifications	Effect of adoption of IAS 39 (amended 2004)	As adjusted
Investment securities available-for-sale	885	895	(895)	–
Financial assets available-for-sale	–	–	190	190
Financial assets designated as at fair value through profit or loss	–	–	549	549
Trading securities	2,155	2,201	(2,201)	–
Due from other banks	2,012	2,023	–	2,023
Current loans and advances	10,254	10,281	–	10,281
Reverse sale and repurchase agreements with customers	–	76	–	76
Overdue loans and advances	158	190	91	281
Less: Allowance for loan impairment	(462)	(462)	(91)	(553)
Financial assets held for trading	–	–	2,017	2,017
Premises and equipment	335	321	–	321
Intangible assets	–	102	–	102
Accrued interest income and other assets	479	189	–	189
Securities pledged under repurchase agreements	–	–	340	340
Due to other banks	3,244	3,254	–	3,254
Customer accounts	5,956	6,024	–	6,024
Other borrowed funds	1,723	1,729	–	1,729
Debt securities issued	3,923	3,948	–	3,948
Accrued interest payable and other liabilities	254	145	–	145
Unrealized gain from financial assets available-for-sale	–	–	58	58
Retained earnings	441	257	(58)	199

The Group also made certain reclassifications within the balance sheet as of 31 December 2003 to conform to the 2005 presentation. The effect of the application of the new and revised standards and reclassifications on the balance sheet as at 31 December 2003 is as follows:

	As previously reported	As previously reported after reclassifications	Effect of adoption of IAS 39 (amended 2004)	As adjusted
Investment securities available-for-sale	1,133	1,137	(1,137)	–
Financial assets available-for-sale	–	–	114	114
Financial assets designated as at fair value through profit or loss	–	–	721	721
Trading securities	1,270	1,319	(1,319)	–
Due from other banks	1,895	1,905	–	1,905
Current loans and advances	4,925	4,996	–	4,996
Overdue loans and advances	202	202	38	240
Less: Allowance for loan impairment	(432)	(432)	(38)	(470)
Financial assets held for trading	–	–	1,319	1,319
Securities pledged under repurchase agreements	–	–	302	302
Accrued interest receivable and other assets	330	176	–	176
Intangible assets	–	32	–	32
Premises and equipment	262	250	–	250
Due to other banks	1,812	1,822	–	1,822
Customer accounts	4,259	4,286	–	4,286
Debt securities issued	1,738	1,746	–	1,746
Accrued interest payable and other liabilities	222	177	–	177
Currency translation difference	–	135	–	135
Retained earnings	186	51	–	51

(expressed in millions of US dollars)

3. Basis of Preparation (continued)

Changes in accounting policies (continued)

The Group also made certain reclassifications within the statement of income for the year ended 31 December 2004 to conform to the 2005 presentation. The effect of the application of the new and revised standards and reclassifications on the statement of income for the year ended 31 December 2004 is as follows:

	As previously reported	As previously reported after reclassifications	Effect of adoption of IAS 39 (amended 2004)	As adjusted
Interest income	996	996	53	1,049
Net interest income	521	521	53	574
Provision for loan impairment	(143)	(143)	(53)	(196)
Gains less losses arising from trading securities	46	–	–	–
Gains less losses arising from investment securities available-for-sale	29	–	–	–
Gains less losses from derivative financial instruments	5	–	–	–
Other operating income	73	189	–	189
Gains less losses arising from financial assets at fair value through profit or loss	–	80	(76)	4
Operating income	889	1,000	(76)	924
Operating expenses	(514)	(628)	–	(628)
Reversal of allowance for other assets and provisions	7	5	–	5
Profit before taxation	375	377	(76)	301
Income tax expense	(111)	(111)	18	(93)
Profit after taxation	264	266	(58)	208
Net profit	263	266	(58)	208
Net profit attributable to:				
Shareholders of the parent	263	263	(58)	205

The Group also made certain reclassifications within the statement of income for the year ended 31 December 2003 to conform to the 2005 presentation. The effect of the application of the new and revised standards and reclassifications on the statement of income for the year ended 31 December 2003 is as follows:

	As previously reported	As previously reported after reclassifications	Effect of adoption of IAS 39 (amended 2004)	As adjusted
Interest income	665	665	28	693
Net interest income	320	320	28	348
Provision for loan impairment	(78)	(78)	(28)	(106)
Gains less losses arising from financial assets at fair value through profit or loss	–	234	–	234
Gains less losses arising from trading securities	105	–	–	–
Gains less losses arising from investment securities available-for-sale	105	–	–	–
Gains less losses from derivative financial instruments	24	–	–	–
Other operating income	61	143	–	143
Operating income	661	743		
Other operating expenses	391	473	–	473
Net profit	264	287	–	287
Net profit attributable to:			–	
Shareholders of the parent	264	264	–	264

The adoption of the new and revised standards did not have an impact on the Group's equity as at 31 December 2003 except for including minority interest as an equity component to conform to 2005 presentation.

The adoption of the new and revised standards did not have an impact on the amount of Group's equity as at 31 December 2004 except for including minority interest as an equity component to conform to the 2005 presentation.

(expressed in millions of US dollars)

3. Basis of Preparation (continued)

Reclassifications

The following reclassifications on the balance sheet as of 31 December 2004 and the statement of income for the year ended 31 December 2004 have been made to conform to the 2005 presentation:

Amount	As previously reported	As reclassified
46	Accrued interest receivable and other assets	Financial assets held for trading
11	Accrued interest receivable and other assets	Due from other banks
103	Accrued interest receivable and other assets	Current loans and advances
32	Accrued interest receivable and other assets	Overdue loans and advances
10	Accrued interest receivable and other assets	Financial assets designated as at fair value through profit or loss
10	Accrued interest payable and other liabilities	Due to other banks
68	Accrued interest payable and other liabilities	Customer accounts
6	Accrued interest payable and other liabilities	Other borrowed funds
25	Accrued interest payable and other liabilities	Debt securities issued
88	Accrued interest receivable and other liabilities	Intangible assets
14	Premises and equipment	Intangible assets
114	Other operating income	Other operating expenses
2	Reversal (impairment) of other assets and provisions	Other operating income
184	Retained earnings	Currency translation difference

The following reclassifications on the balance sheet as of 31 December 2003 and the statement of income for the year ended 31 December 2003 have been made to conform to the 2005 presentation:

Amount	As previously reported	As reclassified
49	Accrued interest receivable and other assets	Financial assets held for trading
10	Accrued interest receivable and other assets	Due from other banks
71	Accrued interest receivable and other assets	Loan and advances to customers, net
4	Accrued interest receivable and other assets	Financial assets designated as at fair value through profit or loss
20	Accrued interest receivable and other assets	Intangible assets
12	Premises and equipment	Intangible assets
10	Accrued interest payable and other liabilities	Due to other banks
27	Accrued interest payable and other liabilities	Customer accounts
8	Accrued interest payable and other liabilities	Debt securities issued
135	Retained earnings	Currency translation difference
82	Other operating income	Other operating expenses

The Group also made certain reclassifications within the statement of cash flows for the year ended 31 December 2004 and 2003 to conform to the 2005 presentation.

IFRSs and IFRIC interpretations not yet effective

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

IAS 19 (amended 2004) “Employee Benefits”;
IAS 21 (amended 2005) “The Effects of Changes in Foreign Exchange Rates”;
IAS 39 (amended 2005) “Financial Instruments: Recognition and Measurement”;
IFRS 7 “Financial Instruments: Disclosures”;
IFRIC 4 “Determining whether an Arrangement contains a Lease”;

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group’s financial statements in the period of initial application, except for a possible need to de-designate certain financial assets currently designated as at fair value through profit or loss in accordance with transitional provisions of IAS 39 (amended 2005).

4. Summary of Principal Accounting Policies

Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Acquisition of subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of purchase consideration over the fair value of the Group's share of identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Group's share of identifiable net assets of the subsidiary acquired the difference is recognised directly in the statement of income.

Minority interest is the interest in subsidiaries not held by the Group. Minority interest at the balance sheet date represents the minority shareholders' portion of the fair value of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination. Minority interest is presented as a separate component within the Group's equity.

Increases in ownership interests in subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases are charged or credited to retained earnings.

Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in the statement of income, and its share of movements in reserves is recognised in equity. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

4. Summary of Principal Accounting Policies (continued)

Financial assets

Financial assets in the scope of IAS 32 and IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All regular way purchases and sales of financial assets are recognised on the settlement date i.e. the date that the asset is delivered to or by the Group. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the statement of income.

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. 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 income statement as interest income. Dividends are included in dividend income within other operating income when the Group's 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 statement of income as gains less losses from trading securities in the period in which they arise.

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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Loans and receivables of acquired subsidiaries are initially recorded in the consolidated balance sheet at their estimated fair value at the date of acquisition.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the statement of income when the investments are redeemed or impaired, as well as through the amortisation process.

Held-to-maturity investments of acquired subsidiaries are initially recorded in the consolidated balance sheet at their estimated fair value at the date of acquisition.

4. Summary of Principal Accounting Policies (continued)

Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the statement of income. However, interest calculated using the effective interest method is recognised in the statement of income.

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement and has no obligation to pay amounts to eventual recipients unless it collects equivalent amounts from the original assets; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

Financial liabilities in the scope of IAS 32 and IAS 39 are classified as either financial liabilities at fair value through profit or loss, or other financial liabilities, as appropriate. The Group determines the classification of its financial liabilities at recognition. Other financial liabilities are carried at amortised cost.

Financial liabilities of acquired subsidiaries are initially recorded in the consolidated balance sheet at their estimated fair value at the date of acquisition not taking into consideration any measurement requirements in the scope of IAS 39.

Financial liabilities at fair value through profit or loss are classified as financial liabilities at fair value through profit and loss if they are acquired for the purpose of selling or closing them in the near term. They normally contain trade financial liabilities or "short" positions in securities. Derivatives with negative fair value are also classified as financial liabilities at fair value through profit and loss unless they are designated as effective hedging instruments. Gains or losses on financial liabilities at fair value through profit and loss are recognised in the statement of income.

4. Summary of Principal Accounting Policies (continued)

Financial liabilities (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of income.

Offsetting

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

Cash and cash equivalents

Cash and cash equivalents are items which can be converted into cash within a day. All short term interbank placements, including 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 amortised cost which approximates fair value except for the cash and cash equivalents of acquired subsidiaries which are to be valued at fair value on the date of acquisition.

Mandatory cash balances with local Central banks

Mandatory cash balances with the CBR and other Central banks 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 statement cash flows.

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 less allowance for impairment.

Repurchase and reverse repurchase agreements and lending of securities

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 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 securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

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 repo agreements using the effective interest method.

Securities lent to counterparties are retained in the consolidated financial statements in their original balance sheet category unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value through profit or loss in other borrowed funds.

4. Summary of Principal Accounting Policies (continued)

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of income as gains less losses from trading securities or gains less losses from foreign currencies dealing, depending on the nature of the instrument.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealised gains and losses reported in income. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

Promissory notes purchased

Promissory notes purchased are included in trading securities, or 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.

Leases

Finance – Group as lessor. The Group presents leased assets as lease receivable equal to the net investment in the lease included in loans and advances to customers. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding and is presented as interest income. Initial direct costs are included in the initial measurement of the lease receivables.

Operating – Group as lessee. Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under operating lease are recognised as expenses on a straight-line basis over the lease-term and included into operating expenses.

Allowances for impairment of financial assets

Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss 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.

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.

4. Summary of Principal Accounting Policies (continued)

Allowances for impairment of financial assets (continued)

Impairment of financial assets carried at amortised cost (continued)

Impairment losses are recognised through an allowance account to reduce 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 profit or loss.

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

Impairment of Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement on income, is transferred from equity to the statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the statement of income. Reversals of impairment losses on debt instruments are reversed through the statement of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Investment property

Investment property is property held by one of the subsidiaries of the Group to earn rental income or for capital appreciation and which is not occupied by the Group.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value based on its market value. Market value of the Group's investment property is obtained from reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in profit or loss within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss and presented separately.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Premises and equipment

Premises and equipment are stated at cost or revalued amounts less accumulated depreciation and allowance for impairment where required. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is recognised in the consolidated statement of income. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Premises and equipment of acquired subsidiaries are initially recorded in the consolidated balance sheet at their estimated fair value at the date of acquisition. No accumulated depreciation on the premises and equipment acquired during the business combination process is presented in the consolidated financial statements on the date of acquisition.

4. Summary of Principal Accounting Policies (continued)

Premises and equipment (continued)

Premises of the Group are subject to revaluation on a regular basis, approximately every three to five years. The frequency of revaluation depends upon the change in the fair values. When the fair value of a revalued asset differs materially from it's carrying amount further revaluation is performed.

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

The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Premises have been revalued to market value at 31 December 2005. The revaluation was performed based on the reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category.

Construction in progress is carried at cost less allowance for impairment in value, if any. Upon completion, assets are transferred to premises and equipment at their carrying value. Construction in progress is not depreciated until the asset is available for use.

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 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 disposal of premises and equipment are determined by reference to their carrying amount and are taken into account in determining profit or loss. Repairs and maintenance are charged to the consolidated statement of income when the expense is incurred.

Depreciation

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

	Useful life	Depreciation rates
Premises	40 years	2.5% per annum
Equipment	4 – 20 years	5 – 25% per annum

Estimated useful lives and residual values are reassessed annually.

Goodwill

Goodwill acquired in a business combination represents the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

4. Summary of Principal Accounting Policies (continued)

Goodwill (continued)

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Other intangible assets

Other intangible assets include computer software, licences and other indentifiable intangible assets acquired in business combinations.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Core deposit intangible

Core deposit intangible relates to the acquisition in OJSC "Industry & Construction Bank" of customer current accounts and identified as an intangible asset. The identification was based on examination of the banks' customer base. It was concluded that the bank had a well-established and long-dated relationship with its major customers and that demand deposits actual maturity was significantly longer than contract maturity. The useful life of core deposit intangible was estimated as five years and it is amortized over its useful life.

Computer software

Costs associated with maintaining computer software programmes are recorded as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Group which will generate economic benefits exceeding cots beyond one annual reporting period are recognized as intangible assets. Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognized as a capital improvement and added to the original cost of the software. Computer software development costs recognized as intangible assets are amortized using the straight-line method.

4. Summary of Principal Accounting Policies (continued)

Assets (disposal group) classified as held for sale

Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the balance sheet as 'Non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction within twelve months after the balance sheet date. Both financial and non-financial assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year and (d) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's balance sheet are not reclassified or re-presented in the comparative balance sheet to reflect the classification at the end of the current period.

A disposal group are assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the balance sheet date. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale premises and equipment, investment properties, intangible assets, or disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale premises, equipment, and intangible assets are not depreciated or amortised. The Group recognises an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. Reclassified non-current financial instruments, deferred taxes and investment properties held at fair value are not subject to the write down to the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the balance sheet.

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 gains or losses arising from early retirement of debt in the consolidated statement of income.

Customer accounts

Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost. Customer accounts include both demand and term accounts. Interest expense is recognized in the consolidated statement of income over the period of deposits using effective interest method.

Debt securities issued

Debt securities in issue include promissory notes, certificates of deposit, eurobonds and debentures 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 the consideration paid is included in gains arising from early retirement of debt in the consolidated statement of income.

Other borrowed funds

Other borrowed funds include some specific borrowings which differ from the above items of liabilities such as deposits from central banks, syndicated loans, revolving and other credit lines. Other borrowed funds are carried at amortised cost. Interest expense is recognized in the consolidated statement of income over the period of other borrowed funds using effective interest method.

4. Summary of Principal Accounting Policies (continued)

Taxation

Taxation has been provided for in the consolidated financial statements in accordance with taxation legislation currently in force in the respective territories that the Group operates. The income tax charge in the consolidated statement of income comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted at the balance sheet date or substantively enacted by the balance sheet date. The income tax charge/credit comprises current tax and deferred tax and is recognised in the consolidated income statement 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 or losses 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 liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

Russia also has various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other operating expenses.

Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are recorded 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.

Credit related commitments

In the normal course of business, the Group enters into credit related commitments, including letters of credit and guarantees. Commitments to provide loans at a below-market interest rate are initially recognised at fair value, and subsequently measured at the higher of (i) the unamortized balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Specific provisions are recorded against other credit related commitments when losses are considered more likely than not.

Share premium

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

4. Summary of Principal Accounting Policies (continued)

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 Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

Income and expense recognition

Interest income and expense are recognised on an accrual basis calculated using the effective interest method. Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Fee and commission income is mostly paid by debiting customers accounts upon provision of services. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Salary costs

The Group's contributions to the State and Group pension schemes, social insurance, and obligatory medical insurance funds in respect of its employees are expensed as incurred and included in staff costs within operating expenses.

Foreign currency translation

Monetary assets and liabilities originally denominated in USD are stated at their original USD amounts. Monetary assets and liabilities in other currencies have been translated into USD using the exchange rate at the balance sheet date. Non-monetary assets and liabilities, which are denominated in currencies other than USD, have been translated into USD at the exchange rates in effect at the date of the transaction. Income and expenses, which were earned and incurred in currencies other than USD, have been translated into USD using a basis that approximates the rate of exchange at the date of the transaction.

Gains and losses arising from the translation of monetary assets and liabilities into USD are reflected in the consolidated statement of income as foreign exchange translation gains less losses.

The consolidated financial statements are presented in USD, which is the Bank's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of income as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into USD at the rate of exchange ruling at the balance sheet date and, their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognised in equity relating to that particular entity is recognised in the statement of income.

At 31 December 2005, the principal rate of exchange used for translating balances in Russian Roubles to USD was USD 1 to RUR 28.7825 (at 31 December 2004: USD 1 to RUR 27.7487; at 31 December 2003: USD 1 to RUR 29.4545) and the principal rate of exchange used for translating balances in Euro was USD 1 to EURO 0.8420 (at 31 December 2004: USD 1 to EURO 0.7339; at 31 December 2003: USD 1 to EURO 0.7999).

4. Summary of Principal Accounting Policies (continued)

Fiduciary assets

Assets held by the Group in its own name, but for the account of third parties, are not reported in the consolidated balance sheet. Commissions received from such operations are shown within fee and commission income within the consolidated statement of income.

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, net profit or assets are ten per cent or more of all the segments are reported separately. Geographical segments of the Group have been reported separately based on the ultimate domicile of the subsidiary.

5. Significant Accounting Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Allowance for impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the 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 group of loans and receivables. The Group uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value un use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2005 was USD 270 million (31 December 2004: USD 88 million; 31 December 2003: USD 20 million). More details are provided in Note 17.

Taxation

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 are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, 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.

As at 31 December 2005 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

(expressed in millions of US dollars)

6. Cash and Short-Term Funds

	31 December 2005	31 December 2004	31 December 2003
Cash on hand	568	271	165
Cash balances with local central banks (other than mandatory reserve deposits)	995	485	408
Correspondent accounts with other banks			
- Russian Federation	576	358	195
- Other countries	553	406	262
Total cash and short-term funds	**2,692**	**1,520**	**1,030**
Less: restricted cash	(151)	(137)	(101)
Total cash and cash equivalents	**2,541**	**1,383**	**929**

Restricted cash balances were placed in foreign banks and represent the balances on escrow accounts in amount of USD 52 million (31 December 2004: USD 56 million; 31 December 2003: USD 51 million) from which USD 48 million in freely convertible currencies and USD 4 million in non-freely convertible currencies (31 December 2004: USD 51 million and USD 5 million, accordingly; 31 December 2003: USD 47 million and USD 4 million, accordingly), and other balances in non-freely convertible currencies in amount of USD 99 million (31 December 2004: USD 81 million; 31 December 2003: USD 50 million). Restricted cash balances were collateralized by USD 143 million (31 December 2004: USD 132 million; 31 December 2003: USD 101 million). For the purposes of the consolidated statement of cash flows, restricted cash is not considered to be cash and cash equivalents.

7. Financial Assets at Fair Value Through Profit or Loss

	31 December 2005	31 December 2004	31 December 2003
Financial assets held for trading	3,558	2,017	1,319
Financial assets designated as at fair value through profit or loss	1,709	549	721
Total financial assets at fair value through profit or loss	**5,267**	**2,566**	**2,040**

Management of the Bank and its subsidiaries which were acquired prior to 2005 decided to designate as "financial assets at fair value through profit or loss" on 1 January 2005 all debt and equity securities, except for investments in equity instruments that do not have a quoted market price in an active market, loans and receivables and held-to-maturity instruments. Such designation is performed at initial recognition of the respective assets. The same approach was applied to securities purchased during 2005, except for the securities held by subsidiaries acquired by the Bank in 2005.

(expressed in millions of US dollars)

7. Financial Assets at Fair Value Through Profit or Loss (continued)

Financial assets held for trading

	31 December 2005	31 December 2004	31 December 2003
USD denominated securities			
Russian corporate Eurobonds	290	258	90
Bonds issued by foreign companies and banks	234	79	10
Equity securities	60	11	–
Bonds issued by foreign governments	65	–	–
Promissory notes	–	452	63
Eurobonds of the Russian Federation	59	12	2
MinFin bonds (OVGVZ)	34	43	512
RR denominated securities			
Promissory notes and debentures	1,460	781	435
Equity securities	530	138	56
Federal loan bonds (OFZ)	606	114	93
Bonds of the Central Bank of the Russian Federation	7	85	–
Securities denominated in other currencies			
Foreign corporate bonds	103	14	13
Equity securities	74	4	2
Russian corporate Eurobonds	13	4	15
Bonds issued by foreign governments	–	3	3
Balances arising from derivative financial instruments	23	19	25
Total	**3,558**	**2,017**	**1,319**

Russian corporate Eurobonds are US dollar denominated interest-bearing securities issued by major Russian corporations and banks, which are freely tradable internationally. The bonds have maturities ranging from September 2006 to January 2012 (31 December 2004: from May 2005 to April 2014; 31 December 2003: from April 2004 to March 2013) and coupon ranging from 7% to 11% (31 December 2004: 8% to 13%; 31 December 2003: 8% to 13%).

In 2004, the Bank purchased USD denominated credit linked notes with fair value of USD 35 million and USD 32 million issued by Deutsche Bank Luxemburg S.A. and Dresdner Bank A.G., respectively. As collateral of the performance, these notes are linked to VTB Eurobonds. These notes pay 10.7% and 9.7%, respectively, and mature in March 2007 and December 2008, respectively. In October 2005, the Bank purchased USD denominated credit linked notes with fair value of USD 20 million issued by Dresdner Bank A.G. also linked to VTB Eurobonds with coupon rate of 10.05%. Though the notes are linked to VTB Eurobonds, there is no legal right to offset these instruments. The above credit-linked notes are included in “Bonds issued by foreign companies and banks” of USD denominated securities. At 31 December 2005, bonds issued by foreign companies and banks also include USD 51 million of credit notes linked to Eurobonds of a major Russian gas company (31 December 2004: USD 10 million; 31 December 2003: USD 10 million) with maturities from June 2008 to March 2015 (31 December 2004: June 2008; 31 December 2003: June 2008) and coupon rates ranging from 10.6% to 17.3% (31 December 2004: 17.3%; 31 December 2003: 17.3%). Included in USD denominated “Bonds issued by foreign companies and banks” are USD 86 million of notes linked to Eurobonds of Russian Federation (31 December 2004: nil; 31 December 2003: nil) with maturities ranging from October 2007 to October 2014 and coupon rates ranging from 5.53% to 9.6%.

7. Financial Assets at Fair Value Through Profit or Loss (continued)

Financial assets held for trading (continued)

USD denominated equity securities are securities issued by foreign companies (US and European).

Bonds of foreign governments represent securities issued by the Government of the USA with maturities in August 2015 and February 2031 and coupons of 4% and 5%.

Eurobonds of the Russian Federation are US dollar denominated securities issued by the Ministry of Finance of the Russian Federation, which are freely tradable internationally. The Group's portfolio of Eurobonds as of 31 December 2005 consists of 4 tranches of securities with maturities ranging from June 2007 to March 2030 (31 December 2004: 4 tranches with maturity dates from June 2007 to March 2030). The annual coupon rates on these bonds vary from 5% to 12.75% p.a. (31 December 2004: from 5% to 12.75% p.a.) and interest is payable semi-annually.

MinFin bonds (OVGVZ) are interest bearing securities denominated in USD, which carry the guarantee of 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%. The bonds have maturity dates ranging from May 2006 to May 2011 (31 December 2004: from May 2006 to May 2011; 31 December 2003: from November 2007 to May 2011) and yields to maturity ranging from 5% to 6% (31 December 2004: from 5% to 6%; 31 December 2003: from 5% to 7%).

Promissory notes and debentures represent securities denominated in RUR (31 December 2004 and 2003: in USD and RUR) and are issued primarily by Russian banks, large manufacturing, telecom and oil and gas companies, and local authorities. The promissory notes and debentures have maturities ranging from January 2006 to August 2014 (31 December 2004: from February 2005 to August 2014; 31 December 2003: from January 2004 to February 2009) and coupon ranging from 4% to 17% (31 December 2004: from 4% to 17%; 31 December 2003: from 6% to 20%).

At 31 December 2005, included in "Equity securities" of RUR denominated securities are corporate shares of Russian "blue chip" companies involved in banking, telecommunication and energy sectors with fair value of USD 43 million, USD 101 million, USD 310 million, respectively (at 31 December 2004: USD 67 million, USD 6 million, USD 57 million, respectively; at 31 December 2003: USD 33 million, USD 4 million, USD 11 million, respectively).

Federal loan bonds (OFZ) are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. These OFZ bonds are issued at a discount to their nominal value, have maturity dates ranging from February 2006 to August 2018 (31 December 2004: March 2005 to August 2018; 31 December 2003: January 2004 to August 2012), coupon rates ranging from 6% to 10% (31 December 2004: from 6% to 12%; 31 December 2003: from 8% to 12%).

Bonds of the Central Bank of the Russian Federation ("CBR") are Russian Rouble denominated securities with maturity in June 2009 (at 31 December 2004: December 2005) issued at discount to their nominal value.

Foreign corporate bonds are issued in EURO and have maturities from July 2006 to December 2030 and interest rates ranging from 1.6% to 3.9%.

Equity securities denominated in other currencies are issued by major European companies and banks.

(expressed in millions of US dollars)

7. Financial Assets at Fair Value Through Profit or Loss (continued)

Financial assets designated as at fair value through profit or loss

	31 December 2005	31 December 2004	31 December 2003
Bonds of Russian companies and banks	618	129	60
Eurobonds of the Russian Federation	451	242	421
Bonds issued by foreign governments	252	19	57
Bonds issued by foreign companies and banks	123	98	58
MinFin bonds (OVGVZ)	109	9	82
Promissory notes of foreign companies and banks	100	–	–
Municipal bonds	22	38	21
Promissory notes of Russian companies and banks	16	12	22
Other	18	2	–
Total	**1,709**	**549**	**721**

Bonds of Russian companies and banks included in financial assets designated as at fair value through profit or loss are mainly Eurobonds of large Russian companies and banks, which are freely tradable internationally. These bonds have maturity dates ranging from March 2006 to December 2015 (31 December 2004: from June 2006 to November 2014; 31 December 2003: from March 2004 to March 2013) and have both floating and fixed rates.

Eurobonds of the Russian Federation are US dollar denominated securities issued by the Ministry of Finance of the Russian Federation, which are freely tradable internationally. The Group's portfolio of Eurobonds as of 31 December 2005 consists of 5 tranches of securities with maturities ranging from June 2007 to March 2030 (31 December 2004: 4 tranches with maturity dates from June 2007 to March 2030; 31 December 2003: 8 tranches with maturity dates from March 2004 to March 2030). The annual coupon rates on these bonds vary from 5% to 12.75% p.a. (31 December 2004: from 5% to 12.75% p.a.; 31 December 2003: from 5% to 12.75% p.a.) and interest is payable semi-annually.

At 31 December 2005 bonds issued by foreign government in financial assets designated as at fair value through profit or loss represent mostly USD and Euro denominated securities with maturity dates ranging from January 2006 till December 2038 and coupon rates ranging from 2% to 9%.

Bonds of foreign companies and banks included in financial assets designated as at fair value through profit or loss are held by a foreign subsidiary of the Group and represent bonds of local issuers involved predominantly in banking and other industries and have maturities from January 2006 to March 2025 and have coupon rates from 1.25% to 18% (31 December 2004: from 6 month EURIBOR + 0.53% to 10.4%; 31 December 2003: from 6 month EURIBOR + 0.53% to 6.75%).

MinFin bonds (OVGVZ) are interest bearing securities denominated in USD, which carry the guarantee of 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%. The bonds have maturity dates ranging from May 2006 to May 2011 (31 December 2004: from May 2006 to May 2011; 31 December 2003: from November 2007 to May 2011) and yields to maturity ranging from 5% to 6% (31 December 2004: 5% to 6%; 31 December 2003: 5% to 7%).

Promissory notes of foreign companies and banks include corporate promissory notes issued in USD with maturity in June 2006.

(expressed in millions of US dollars)

8. Securities Pledged under Repurchase Agreements

	31 December 2005	31 December 2004	31 December 2003
Bonds issued by foreign companies and banks	375	–	–
Eurobonds of Russian Federation and MinFin Bonds	303	146	84
Foreign government bonds	281	17	65
Municipal bonds	170	116	–
Equity securities	118	1	–
Russian corporate Eurobonds	67	60	153
Federal loan bonds (OFZ)	38	–	–
Total securities pledged under repurchase agreements	**1,352**	**340**	**302**

Bonds issued by foreign companies and banks represent securities denominated in GBP, Euro and USD and have maturities ranging from January 2006 to November 2010 and coupon ranging from 2.3% to 4.8%.

Eurobonds of Russian Federation and MinFin Bonds are described in Note 7.

Foreign government bonds represent bonds issued by the government of the United Kingdom (31 December 2004: Austria; 31 December 2003: Austria) with maturity in March 2007 (31 December 2004: March 2013; 31 December 2003: January 2004) and coupon rate of 4.5% (31 December 2004: 3.8%; 31 December 2003: 5.5%).

Municipal bonds represent securities denominated in Russian Roubles and issued by regional authorities of the Russian Federation. They have maturities ranging from June 2008 to August 2014 (31 December 2004: from March 2005 to October 2010) and coupon ranging from 9% to 14% (31 December 2004: from 10% to 14%).

Equity securities represent securities issued primarily by one of the largest Russian banks.

Russian corporate Eurobonds are bonds issued by Russian banks and companies with maturity in October 2006 (31 December 2004: the same; 31 December 2003: from April 2005 to March 2013) and rate of 3 month LIBOR + 1.75% (31 December 2004: 3 month LIBOR + 1.75%; 31 December 2003: from 3 month LIBOR + 1.75% to 12.75%).

9. Due from Other Banks

	31 December 2005	31 December 2004	31 December 2003
Current term placements with other banks	3,558	1,860	1,802
Reverse sale and repurchase agreements with other banks	590	174	112
Overdue placements with other banks	–	100	113
	4,148	**2,134**	**2,027**
Less: Allowance for loan impairment	(7)	(111)	(122)
Total due from other banks	**4,141**	**2,023**	**1,905**

At 31 December 2004 and 31 December 2003, due from other banks included rouble-denominated loans to a Russian bank totaling USD 100 million. At 31 December 2004 the allowance for impairment on these loans comprised USD 100 million (31 December 2003: USD 96 million). These loans were written-off against the allowance in the third quarter of 2005. Movements in allowance for loan impairment are disclosed in Note 29.

(expressed in millions of US dollars)

10. Loans and Advances to Customers

	31 December 2005	31 December 2004	31 December 2003
Current loans and advances	19,078	10,281	4,996
Reverse sale and repurchase agreements with customers	1,168	76	–
Rescheduled loans and advances	60	84	100
Overdue loans and advances	227	281	240
	20,533	**10,722**	**5,336**
Less: Allowance for loan impairment	(608)	(553)	(470)
Total loans and advances to customers	**19,925**	**10,169**	**4,866**

At 31 December 2005, included in current loans and advances are lease receivables of USD 141 million (31 December 2004: USD 18 million; 31 December 2003: USD 8 million), equal to the net investment in the lease.

At 31 December 2003, included in overdue loans was a deposit of USD 100 million placed with a foreign bank for the purpose of financing Russian fishing enterprises. The Group treated this amount as loans to customers as the fishing enterprises were the ultimate borrowers under the loans and created a 100% allowance for loan impairment against these loans. The loans were originally financed by deposits from a state-owned Russian bank, which are included in due to other banks. In December 2004, the Group favorably negotiated the extinguishment of debt related to these deposits, thus resulting in the recognition of a gain from extinguishment of a liability of USD 100 million in the Group's income statement for 2004. The respective loans were written off during the 2004 as uncollectible. Movements in the allowance for loan impairment are presented in Note 29.

The finance lease receivables may be analyzed as follows:

	31 December 2005	31 December 2004	31 December 2003
Gross investment in leases	165	23	9
Less: Unearned finance lease income	(24)	(5)	(1)
Net investment in leases before allowance	**141**	**18**	**8**
Less: allowance for uncollectible finance lease receivables	(1)	–	–
Net investment in leases	**140**	**18**	**8**

Future minimum lease payments to be received by the Group:

	31 December 2005	31 December 2004	31 December 2003
Within 1 year	56	1	5
From 1 to 5 years	109	22	4
Minimum lease payments receivable	**165**	**23**	**9**

(expressed in millions of US dollars)

10. Loans and Advances to Customers (continued)

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

	31 December 2005		31 December 2004		31 December 2003	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Manufacturing	4,231	20	3,311	32	2,001	37
Finance	3,970	19	1,709	16	541	10
Trade and commerce	3,000	15	1,576	15	780	15
Building construction	1,605	8	365	3	221	4
Mining	1,041	5	175	2	189	4
Government bodies	959	5	511	5	129	2
Oil and Gas	888	4	553	5	362	7
Individuals	851	4	130	1	34	1
Energy	706	3	670	6	155	3
Chemical	652	3	235	2	205	4
Food and agriculture	523	3	432	4	209	4
Transport	382	2	350	3	161	3
Telecommunications and media	360	2	351	3	164	3
Other	1,365	7	354	3	185	3
Total loans and advances to customers	**20,533**	**100**	**10,722**	**100**	**5,336**	**100**

At 31 December 2005, the total amount of outstanding loans issued to 10 largest groups of interrelated borrowers by the Group comprise USD 4,049 million or 20% of the gross loan portfolio (31 December 2004: USD 3,712 million or 35%; 31 December 2003: USD 1,593 million or 30%). At 31 December 2003 included in loans and advances were loans to a large corporate customer totaling USD 322 million (6% of the loan portfolio) with maturity dates from March 2005 to March 2006 and a fixed rate of 8.4% per annum.

At 31 December 2005, total amount of outstanding loans issued under reverse repos with 4 major customers represent USD 595 million, or 3% of gross loan portfolio (2004 and 2003: no significant deals).

At 31 December 2005 and at 31 December 2004 included in loans and advances was a loan to a large corporate customer totaling USD 1,000 million (5% of the loan portfolio) with maturity in 2009 and interest rate of 9.6% per annum. The Group has a cash collateral of USD 550 million in respect of this loan, therefore its net exposure is USD 450 million, which is also collateralized by the shares of a large Russian metal company. The fair value of these shares exceeds the loan carrying amount. The Group has transferred this USD 450 million participation in the loan to a third party, which is not a related party to the Group. Additionally the Group has written a put option on the transferred asset executable in 3 years. As a result of this transaction, the Group has retained credit risk but transferred certain other risks on the USD 450 million participation and has retained control over this asset. Accordingly, the Group has continued to recognize the above participation in the whole amount of USD 450 million and recognized the associated liability in the amount of USD 464 million within customer accounts and additional receivable of put option premium of USD 14 million in other assets.

(expressed in millions of US dollars)

11. Financial Assets Available-for-Sale

	31 December 2005	31 December 2004	31 December 2003
OJSC "KAMAZ" shares	132	92	16
OJCS "International Moscow Bank" (Russia) shares	146	–	–
OJSC "Avtovaz" shares	–	84	85
Other equity investments with share smaller 20%	81	14	13
Bonds issued by foreign companies and banks	168	–	–
Russian corporate Eurobonds	45	–	–
Promissory notes	39	–	–
Bonds issued by foreign governments	26	–	–
Eurobonds of the Russian Federation	13	–	–
MinFin bonds (OVGVZ)	12	–	–
Russian corporate bonds	3	–	–
Total financial assets available-for-sale	**665**	**190**	**114**

Included in financial assets available-for-sale are corporate shares of an automobile production company OJCS "KAMAZ" with fair value of USD 132 million (31 December 2004: USD 92 million; 31 December 2003: USD 16 million). On 29 December 1999, the Group restructured a previously issued loan to OJSC "KAMAZ" by receiving OJSC "KAMAZ" shares in lieu of repayment of the loan. On 27 February 2006, Group sold all share of OJCS "KAMAZ" for RUR 3.8 billion (equivalent of USD 135 million at the exchange rate as on the date of sale or USD 132 million at the exchange rate as of 31 December, 2005).

At 31 December 2004, the Group had investment in another automobile production company, OJSC "Avtovaz", with a fair value of USD 84 million (31 December 2003: USD 85 million) which was disposed of in early 2005 at its fair value.

As a result of acquisition of BCEN-Eurobank, at 31 December 2005 the Group also obtained 19.8% of total shares of OJSC "International Moscow Bank" ("IMB") domiciled in Russia with fair value of USD 146 million. At 31 December 2005, the Group's percentage of voting ordinary shares in IMB amounted to 15.9%.

Bonds issued by foreign companies and banks include securities with maturities ranging from December 2006 to August 2045 and coupon rates from 3% to 10%.

12. Investments in Associates

			31 December 2005		31 December 2004		31 December 2003	
	Country of registration	Industry	Amount	Equity controlled	Amount	Equity controlled	Amount	Equity controlled
"Eurofinance Mosnarbank", OJSC	Russia	Banking	92	32.65%	–	–	–	–
"Halladale PLC"	Great Britain	Property	23	23.00%	–	–	–	–
"Management Company ICB", limited	Russia	Finance	3	30.91%	–	–	–	–
"East-West United Bank", S.A.	Luxemburg	Banking	–	50.74%	29	34.00%	–	53.00%
"Ost -West Handelsbank", AG	Germany	Banking	–	83.54%	48	31.90%	41	31.90%
Total investments in associates			**118**		**77**		**41**	

At 23 June 2004, the Bank sold 5% of East-West United Bank shares. As a result of this transaction, the Bank's participation in East-West Bank decreased from 53% to 48% effective 23 June 2004. At 14 December 2004, the Bank sold additional 14% of East-West United Bank shares. At 31 December 2004, the Bank's share in East-West United Bank was 34%. Therefore, as from 23 June 2004 such investment is accounted for sing the equity method. The carrying value at 31 December 2004 amounted to USD 29 million.

(expressed in millions of US dollars)

12. Investments in Associates (continued)

As part of contribution made by the controlling shareholder to the share capital of VTB at the end of December 2005 the Group obtained additional 17% of East-West United Bank shares increasing its stake to 51% and additional 52% of Ost-West Handelsbank shares increasing its stake to 84% (see Note 39). These banks became subsidiaries of VTB and were consolidated in accompanying financial statements as at 31 December 2005.

The following table illustrates summarised aggregated financial information of the associates:

	31 December 2005	31 December 2004	31 December 2003
Assets	1,836	1,479	923
Liabilities	1,485	1,257	798
Net assets	351	222	125
Revenue	222	55	34
Profit	40	6	–

13. Investment Securities Held-to-Maturity

Investment securities held-to-maturity include securities issued by foreign governments with maturities ranging from April 2006 to August 2010.

14. Other Assets

	31 December 2005	31 December 2004	31 December 2003
Trade debtors and prepayments	84	84	43
Taxes recoverable	64	21	53
Settlements on conversion operations	14	15	3
Receivable of put option premium	14	–	–
Precious metals	4	11	10
Unsettled transactions	14	10	30
Inventories	13	16	–
Deferred expenses	28	9	–
Other assets	17	23	37
Total	**252**	**189**	**176**

(expressed in millions of US dollars)

15. Premises and Equipment

	Premises	Office and computer equipment	Construction in progress	Total
Net book amount at 31 December 2002	**86**	**37**	**–**	**123**
Cost or revalued amount, net of impairment				
Opening balance at 1 January 2003	**95**	**71**	**–**	**166**
Acquisitions of subsidiaries	11	36	2	49
Additions	71	21	13	105
Disposals	(9)	(8)	(5)	(22)
Translation difference	3	6	–	9
Closing balance at 31 December 2003	**171**	**126**	**10**	**307**
Accumulated depreciation				
Opening balance at 1 January 2003	**9**	**34**	**–**	**43**
Depreciation charge	4	16	–	20
Disposals	(1)	(4)	–	(5)
Translation difference	1	(2)	–	(1)
Closing balance at 31 December 2003	**13**	**44**	**–**	**57**
Net book amount at 31 December 2003	**158**	**82**	**10**	**250**
Cost or revalued amount, net of impairment				
Opening balance at 1 January 2004	**171**	**126**	**10**	**307**
Acquisitions of subsidiaries	15	18	2	35
Disposal of subsidiaries	(8)	(1)	–	(9)
Additions	22	57	17	96
Disposals	(4)	(5)	(4)	(13)
Translation difference	3	6	–	9
Closing balance at 31 December 2004	**199**	**201**	**25**	**425**
Accumulated depreciation				
Opening balance at 1 January 2004	**13**	**44**	**–**	**57**
Disposal of subsidiaries	–	(1)	–	(1)
Depreciation charge	6	43	–	49
Disposals	(1)	(2)	–	(3)
Translation difference	–	2	–	2
Closing balance at 31 December 2004	**18**	**86**	**–**	**104**
Net book amount at 31 December 2004	**181**	**115**	**25**	**321**
Cost or revalued amount, net of impairment				
Opening balance at 1 January 2005	**199**	**201**	**25**	**425**
Acquisitions of subsidiaries	258	37	24	319
Disposal of subsidiaries	(1)	–	–	(1)
Additions	63	52	51	166
Disposals	(15)	(22)	(24)	(61)
Revaluation	91	–	–	91
Translation difference	–	(1)	–	(1)
Closing balance at 31 December 2005	**595**	**267**	**76**	**938**
Accumulated depreciation				
Opening balance at 1 January 2005	**18**	**86**	**–**	**104**
Disposal of subsidiaries	(1)	–	–	(1)
Depreciation charge	10	28	–	38
Disposals	(3)	(11)	–	(14)
Revaluation	(21)	–	–	(21)
Closing balance at 31 December 2005	**3**	**103**	**–**	**106**
Net book amount at 31 December 2005	**592**	**164**	**76**	**832**

(expressed in millions of US dollars)

15. Premises and Equipment (continued)

The Group engaged an independent appraiser to determine the fair value of its buildings. Fair value is determined by reference to market-based evidence. The date of the revaluation was 31 December 2005. If the buildings were measured using the cost model, the carrying amounts would be as follows:

	2005	2004	2003
Cost	504	199	171
Accumulated depreciation and impairment	(24)	(18)	(13)
Net carrying amount	**480**	**181**	**158**

The Bank's premises were revalued at 31 December 2005. The valuation was carried out by an independent firm of valuers, Neo Centre. The basis used for the appraisal was primarily open market value. Additional value amounted to USD 112 million: USD 27 million of additional value were posted to other income as a reversal of negative revaluation of fixed assets, which carried out from 2000 valuation; USD 6 million was recorded as negative revaluation and recognised in operating expenses; and USD 91 million were posted to fixed assets revaluation reserve within the shareholders' equity net of deferred income tax in the amount USD 19 million.

16. Investment Property

As result of acquisition of ICB in December 2005 the Bank also obtained investment property of ICB with a fair value of USD 198 million at 31 December 2005 (see Note 39).

At 31 December 2005, included in investment property are buildings and business-centres for leasing of USD 96 million (located in St. Petersburg region and Ekaterinburg) and land for capital appreciation and resale of USD 102 million (located in St. Petersburg region and Moscow region).

(expressed in millions of US dollars)

17. Intangible Assets

The movements in intangible assets were as follows:

	Goodwill	Core deposit intangible	Computer software	Total
Net book amount at 31 December 2002	**–**	**–**	**6**	**6**
Cost				
Opening balance at 1 January 2003	**–**	**–**	**15**	**15**
Additions	–	–	7	7
Acquisition through business combinations	22	–	–	22
Translation difference	–	–	3	3
Closing balance at 31 December 2003	**22**	**–**	**25**	**47**
Accumulated amortization and impairment allowance				
Opening balance at 1 January 2003	**–**	**–**	**9**	**9**
Amortisation charge	2	–	4	6
Closing balance at 31 December 2003	**2**	**–**	**13**	**15**
Net book amount at 31 December 2003	**20**	**–**	**12**	**32**
Cost				
Opening balance at 1 January 2004	**22**	**–**	**25**	**47**
Additions	–		1	1
Acquisition through business combinations	75	–	3	78
Translation difference	(3)			(3)
Closing balance at 31 December 2004	**94**	**–**	**29**	**123**
Accumulated amortization and impairment allowance				
Opening balance at 1 January 2004	**2**	**–**	**13**	**15**
Amortisation charge	4		2	6
Closing balance at 31 December 2004	**6**	–	**15**	**21**
Net book amount at 31 December 2004	**88**	**–**	**14**	**102**
Cost				
Opening balance at 1 January 2005	**94**	**–**	**29**	**123**
Elimination of accumulated depreciation of goodwill according to IFRS 3	(6)	–	–	(6)
Additions	–		5	5
Acquisition through business combinations	182	154	17	353
Disposals	–	–	(9)	(9)
Closing balance at 31 December 2005	**270**	**154**	**42**	**466**
Accumulated amortization and impairment allowance				
Opening balance at 1 January 2005	**6**	**–**	**15**	**21**
Elimination of accumulated depreciation of goodwill according to IFRS 3	(6)	–	–	(6)
Amortisation charge	–		2	2
Disposals	–	–	(2)	(2)
Closing balance at 31 December 2005	**–**	–	**15**	**15**
Net book amount at 31 December 2005	**270**	**154**	**27**	**451**

(expressed in millions of US dollars)

17. Intangible Assets (continued)

Carrying amount of goodwill and core deposit intangible allocated to each of the following cash-generating units:

	31 December 2005			31 December 2004			31 December 2003		
	Carrying amount of goodwill	**Carrying amount of core deposit intangible**	**Total**	**Carrying amount of goodwill**	**Carrying amount of core deposit intangible**	**Total**	**Carrying amount of goodwill**	**Carrying amount of core deposit intangible**	**Total**
"VTB Retail Services", CJSC	71	–	**71**	71	–	**71**	–	–	–
"Industry & Construction Bank", OJSC	182	154	**336**	–	–	**–**	–	–	–
"Armsavingsbank", CJSC	4	–	**4**	4	–	**4**	–	–	–
"Almaz-Press", CJSC	13	–	**13**	13	–	**13**	20	–	**20**
	270	**154**	**424**	**88**	**–**	**88**	**20**	–	**20**

Management of the Group believes that CJSC VTB Retail Services as a whole represents the appropriate level within the Group, at which the goodwill is monitored for management purposes and therefore should be considered as a cash-generating unit for impairment testing purposes. The recoverable amount of a cash-generating unit has been determined based on a value in use calculation projections based on the operating cash flow forecast for 2006 approved by the management of CJSC VTB Retail Services. The discount rate applied to cash flow projections is 15% (2004 – 16%) and the estimated future cash flows are based on the conservative approach beyond the one-year period are estimated to be equal to the cash flows of the year 2006.

The recoverable amount of OJSC Industry & Construction Bank was based on the market quotes of its shares at 31 December 2005, which amounted to USD 1,040 million.

18. Due to Other Banks

	31 December 2005	**31 December 2004**	**31 December 2003**
Term loans and deposits	3,787	2,608	1,061
Correspondent accounts and overnight deposits of other banks	1,554	465	512
Sale and repurchase agreements with other banks	1,288	181	249
Total due to other banks	**6,629**	**3,254**	**1,822**

Securities pledged under sale and repurchase agreements are financial assets through profit or loss with a fair value of USD 1,349 million at 31 December 2005 (31 December 2004: USD 340 million; 31 December 2003: USD 302 million).

At 31 December 2003, included in due to other banks are USD 100 million collateral deposits placed by a state-owned Russian bank in relation to a deposit placed by the Group with a foreign bank for a purpose of financing Russian fishing enterprises. In December 2004 the Group has favorably negotiated the extinguishment of debt relating to these deposits, thus resulting in the recognition of the gain from extinguishment of liability of USD 100 million in the Group's income statement for 2004.

(expressed in millions of US dollars)

19. Customer Accounts

	31 December 2005	31 December 2004	31 December 2003
State and public organizations			
Current/settlement accounts	574	609	276
Term deposits	563	337	257
Other legal entities			
Current/settlement accounts	3,863	1,575	1,332
Term deposits	2,585	1,392	1,433
Individuals			
Current/settlement accounts	1,010	312	169
Term deposits	4,170	1,799	819
Sale and repurchase agreements	2	–	–
Total customer accounts	**12,767**	**6,024**	**4,286**

Included in customer accounts are:

- Restricted deposits amounting to USD 77 million (31 December 2004: USD 80 million; 31 December 2003: USD 52 million), where matching deposits were placed by the Group in escrow accounts (Note 6).
- Deposits of USD 55 million (31 December 2004: USD 60 million; 31 December 2003: USD 60 million) were held as collateral against irrevocable commitments under import letters of credit and guarantees.

Securities pledged under sale and repurchase agreements are financial assets through profit or loss with a fair value of USD 3 million at 31 December 2005 (31 December 2004: nil; 31 December 2003: nil).

In December 2005, the Group purchased a deposit placed with the Group at a price lower than its carrying value. As a result, the Group recognized a gain from extinguishment of liability within its income statement amounting to USD 14 million which represents a difference between the carrying value of the deposit and its purchase price.

	31 December 2005		31 December 2004		31 December 2003	
	Amount	%	Amount	%	Amount	%
Individuals	5,180	41	2,111	35	988	23
Finance	2,087	16	758	12	638	15
Metals	1,440	11	615	10	470	11
Manufacturing	944	7	350	6	355	8
Oil and Gas	748	6	183	3	152	4
Trade and commerce	586	5	649	10	794	18
Telecommunications and media	427	3	69	1	41	1
Government bodies	343	3	466	8	174	4
Building construction	233	2	105	2	52	1
Energy	156	1	158	3	173	4
Aircraft	155	1	40	1	–	–
Transport	114	1	–	–	67	2
Others	354	3	520	9	382	9
Total customer accounts	**12,767**	**100**	**6,024**	**100**	**4,286**	**100**

(expressed in millions of US dollars)

20. Other Borrowed Funds

	31 December 2005	31 December 2004	31 December 2003
CBR deposit	982	694	–
Syndicated loans	1,426	885	560
Revolving credit lines	8	146	147
Non-revolving credit lines	521	4	–
Total other borrowed funds	**2,937**	**1,729**	**707**

Syndicated loans at 31 December 2005 comprise the following:

	Interest rate	Maturity	Carrying amount	Total amount of loan facility available
Syndicated unsecured loan arranged by BTM (EUROPE) Limited and Sumitomo Mitsui Finance (Dublin) Ltd	LIBOR + 0.15%	February 2006	501	500
Syndicated unsecured loan arranged by ABN AMRO Bank NV, Citibank NA London, ING Bank NV	LIBOR + 1.2%	April 2008	452	450
Syndicated unsecured loan arranged by Societe Generale (Marches de Capitaux)	6-month LIBOR+3.2%	August 2012	14	27
Syndicated unsecured loan arranged by SKB Banka, Bank Austria Creditanstalt, Slovenska Izvozna Druzba	LIBOR + 1.2%	March 2016	26	33
Syndicated unsecured loan arranged by ABN AMRO Bank NV, Citibank NA London, ING Bank NV and JP Morgan plc	LIBOR + 1.6%	November 2007	151	300
JPY-denominated syndicated unsecured loan arranged by Japan Bank for International Cooperation jointly with three Japanese banks	From 2.54% to 2.64%	From February 2006 to February 2007	4	10
Syndicated loan arranged by Raiffeisen ZentralBank Österreich Aktiengesellschaft and ZAO RaiffeisenBank Austria	LIBOR + 3.25%	From April 2005 to October 2006	46	45
Syndicated loan arranged by the Bank of Tokyo-Mitsubishi, Ltd., Commerzbank Aktiengesellschaft и Standard Bank London Limited	LIBOR + 2.95%	From February 2005 to February 2006	92	90
Syndicated loan arranged by Natexis Banques Populaires	LIBOR + 1%	From April 2005 to July 2007	140	140
Total syndicated loans			**1,426**	**1,595**

(expressed in millions of US dollars)

20. Other Borrowed Funds (continued)

Syndicated loans at 31 December 2004 comprise the following:

	Interest rate	Maturity	Carrying amount	Total amount of loan facility available
Syndicated unsecured loan arranged by ABN AMRO Bank NV, Citibank NA London, ING Bank NV and JP Morgan plc	LIBOR plus 1.6%	November 2007	301	300
Syndicated unsecured loan arranged by ABN AMRO Bank NV, Citibank NA London, ING Bank NV	LIBOR plus 1.0%	March 2005	300	300
Syndicated unsecured loan arranged by HSBC Bank plc, London, United Kingdom	LIBOR plus 1.4%	June 2005	275	275
JPY-denominated syndicated unsecured loan arranged by Japan Bank for International Cooperation jointly with three Japanese banks	From 2.54% to 2.82%	From August 2005 to February 2007	9	9
Total syndicated loans			**885**	**884**

Syndicated loans at 31 December 2003 comprise the following:

	Interest rate	Maturity	Carrying amount	Total amount of loan facility available
Syndicated unsecured loan arranged by Citibank, N.A., London and Deutsche Bank AG, London – 1 tranche	LIBOR plus 1.5%	December 2004	270	270
Syndicated unsecured loan arranged by Citibank, N.A., London and Deutsche Bank AG, London – 2 tranche	LIBOR plus 2.65%	June 2004	105	105
Syndicated unsecured loan arranged by group of thirteen major international financial institutions	LIBOR plus 1.5%	September 2004	175	175
JPY-denominated syndicated unsecured loan arranged by Japan Bank for International Cooperation jointly with three Japanese banks	From 2.54% to 2.93%	From February 2006 to February 2008	10	10
Total syndicated loans			**560**	**560**

Revolving credit lines at 31 December 2005 consist of credit lines taken by VTB from a number of foreign banks for trade financing purposes of VTB's customers. Revolving credit lines at 31 December 2004 include the following:

	Interest rate	Maturity	Carrying amount	Total amount of loan facility available
Revolving unsecured credit line from EBRD	LIBOR plus 1.0-2.5%.	From March 2005 to December 2005	146	146

Revolving credit lines at 31 December 2003 include the following:

	Interest rate	Maturity	Carrying amount	Total amount of loan facility available
Revolving unsecured credit line from EBRD	LIBOR plus 1.5-2%.	From July 2004 to October 2005	147	155

(expressed in millions of US dollars)

20. Other Borrowed Funds (continued)

Non-revolving credit lines at 31 December 2005 include the following:

	Interest rate	Maturity	Carrying amount	Total amount of loan facility available
BANCO BILBAO VIZCAYA ARGENTARIA S.A.	from 6m LIBOR + 0.6 % to 3.46%	from August 2008 till May 2008	4	4
BNP- PARIBAS SA (FORMERLY BANQUE NATIONALE DE PARIS	from 6m EURIBOR + 0.65 % till 6m EURIBOR + 2.5 %	from November 2007 till December 2011	30	30
Calyon Corporate and Investment Bank	from EURIBOR + 2.1% to 3.74%	from July 2010 till May 2014	26	26
HSBC BANK PLC, LONDON, UNITED KINGDOM	6m LIBOR + 0.095%	from May 2009 till November 2009	17	17
Industrial and Commercial Bank of China	5.84%	from October 2009 to April 2011	26	26
Mediobanca	from 4.8% to 5.8%	from June 2008 till March 2012	55	55
NORDEA BANK FINLAND PLC.	from EURIBOR + 0.5% to EURIBOR + 2.25%	from August 2007 till February 2010	8	8
RAIFFEISEN ZENTRALBANK OESTERREICH AG	from 6m EURIBOR + 0.75% to 6m EURIBOR + 0.9%	from August 2009 till April 2011	8	8
UBS AG (FORMER UBS)	from 2.237% to EUR LIBOR + 0.4%	from April 2006 to October 2010	34	34
AKA Ausfuhrkredit Gmbh	from EURIBOR + 0.5% to EURIBOR + 0.875%	from December 2006 till March 2011	82	82
AKA Ausfuhrkredit Gmbh	LIBOR + 0.875%	July 2009	6	6
Nordic Investment Bank	EURIBOR (LIBOR) + 3.25%	February 2014	12	12
BAWAG (former Interbanka), Prague	EURIBOR + 1.85%	July 2008	6	6
International Finance Corporation	LIBOR + 4%	July 2007	6	6
"Emporic" Bank	LIBOR+2 %	September 2008	12	12
Other special financing for Group's client trading operations (mainly denominated in EUR and USD)	from 3.0% to 8.8% p.a.	from January 2006 to August 2010	189	189
Total non-revolving credit lines			**521**	**521**

(expressed in millions of US dollars)

20. Other Borrowed Funds (continued)

In connection with acquisition of Guta Bank (now named CJSC "VTB Retail Services") by the Group in July 2004, the CBR placed a USD 700 million special purpose deposit with VTB at one-year LIBOR, maturing in July 2005 (see Note 39). The deposit is available to maintain Guta Bank's liquidity and for the use in its operations. In July 2005, the term of the deposit has been prolonged to 20 July 2006 at a fixed rate of 4.07%. The Group has initially recognized the CBR deposit at its fair value, calculated based on market rates for similar deposits. The gain on initial recognition is reflected in the goodwill arising from the Guta Bank acquisition.

In December 2005, Moscow Narodny Bank Limited also received a USD 75 million deposit from the CBR maturing in January 2006 which bore interest of 4.495%. In January 2006, this deposit was paid back to the CBR.

21. Debt Securities Issued

	31 December 2005	31 December 2004	31 December 2003
Promissory notes	1,736	1,521	1,160
Bonds	5,060	2,227	397
Deposit certificates	288	200	189
Debentures	157	–	–
Total debt securities issued	**7,241**	**3,948**	**1,746**

Promissory notes issued include both discount and interest bearing promissory notes denominated mainly in US Dollars with maturity ranging from demand to December 2012 (31 December 2004 and 2003: the same). Effective interest rates range from 0% to 10% (31 December 2004: from 0% to 16%; 31 December 2003: from 0% to 16%).

Debentures issued include EUR 130 million of bonds issued in January 2005 under rules of the German regulator ("Schuldscheindarlehen") maturing in January 2006 with interest rate of six month EURIBOR + 1.15% p.a. payable semi-annually.

As of 31 December 2005 bonds comprise the following:

	Interest rate	Maturity	Face value	Carrying value	Market price, % of face value
USD denominated Eurobonds issued by VTB under Medium Term Note borrowings program of USD 10,000 million:					
Series 1 issued in December 2003 and March 2004	6.875% payable semi-annually	December 2008	539	539	102.9%
Series 3 issued in July 2004	3 month LIBOR plus 2.9% payable quarterly	July 2007	300	304	103.2%
Series 4 issued in October 2004	7.5% payable semi-annually	October 2011	420	420	107.3%
Series 5 issued in December 2004	3 month LIBOR plus 1.35% payable quarterly	June 2006	350	350	100.2%
Series 6 issued in June 2005	6.25% payable semi-annually	June 2035	1,000	1,000	102.4%
Series 8 issued in December 2005	3 month LIBOR plus 0.75% payable quarterly	September 2007	1,000	1,000	100.2%
USD denominated Eurobonds issued by "Industry & Construction Bank", OJSC:					
Series 1 issued in July 2005	6.875% payable semi-annually	July 2008	286	287	101.3%

(expressed in millions of US dollars)

21. Debt Securities Issued (continued)

	Interest rate	Maturity	Face value	Carrying value	Market price, % of face value
USD denominated Eurobonds issued by "Moscow Narodny Bank Limited":					
Series 1 issued in June 2003	4.3% payable semi-annually	June 2008	144	144	96.9%
Series 2 issued in December 2003	5.9% payable semi-annually	December 2006	20	20	100.0%
Series 3 issued in October 2004	5.1% payable annually	October 2007	200	203	101.9%
Subtotal USD denominated Eurobonds			**4,259**	**4,267**	
EURO denominated Eurobonds issued by "Moscow Narodny Bank Limited":					
Series 4 issued in January 2005	3.4% payable semi-annually	January 2008	59	60	100.0%
Subtotal EURO denominated Eurobonds			**59**	**60**	
RUR denominated bonds issued by VTB:					
3rd tranche of Russian Rouble denominated debentures issued in February 2003	From 14% to 15.5% payable annually	February 2006	72	72	101.1%
4th tranche of Russian Rouble denominated debentures issued in March 2004	From 5.43% to 5.6% payable semi-annually	March 2009	140	140	99.6%
5th tranche of Russian Rouble denominated debentures issued in October 2005	6.2% payable quarterly	October 2013	521	521	99.5%
Subtotal RUR denominated bonds			**733**	**733**	
Total Bonds			**5,051**	**5,060**	

As of 31 December 2004 bonds comprise the following:

	Interest rate	Maturity	Face value	Carrying value	Market price, % of face value
USD denominated Eurobonds issued by VTB under Medium Term Note borrowings program of USD 3,000 million:					
Series 1 issued in December 2003 and March 2004	6.875% payable semi-annually	December 2008	550	545	104.8%
Series 2 issued in April 2004	LIBOR plus 2% payable quarterly	April 2005	325	326	100.2%
Series 3 issued in July 2004	LIBOR plus 2.9% payable quarterly	July 2007	300	302	103.5%
Series 4 issued in October 2004	7.5% payable semi-annually	October 2011	450	446	107.0%
Series 5 issued in December 2004	LIBOR plus 1.35% payable quarterly	June 2006	350	350	100.1%
Subtotal USD denominated Eurobonds			**1,975**	**1,969**	
RUR denominated bonds issued by VTB:					
3rd tranche of Russian Rouble denominated debentures	From 14% to 15.5%	February 2006	72	76	108.0%
4th tranche of Russian Rouble denominated debentures	5.43%	March 2009	180	182	99.0%
Subtotal RUR denominated bonds			**252**	**258**	
Total Bonds			**2,227**	**2,227**	

(expressed in millions of US dollars)

21. Debt Securities Issued (continued)

As of 31 December 2003 bonds comprise the following:

	Interest rate	Maturity	Face value	Carrying value	Market price, % of face value
USD denominated Eurobonds issued under Euro Medium Term Note borrowings programme of USD 2,000 million:					
Series 1 issued in December 2003	6.875% payable semi-annually	December 2008	300	298	101%
Subtotal USD denominated Eurobonds			**300**	**298**	
RUR denominated bonds issued by VTB:					
2nd tranche of Russian Rouble denominated debentures	16%	April 2004	33	31	98%
3rd tranche of Russian Rouble denominated debentures	From 14% to 15.5%	February 2006	68	68	108%
Subtotal RUR denominated bonds			**101**	**99**	
Total Bonds			**401**	**397**	

In December 2005, VTB increased its Programme for the issuance of loan participation notes (Eurobonds) (the “Programme”) from USD 3 billion to USD 10 billion.

In April 2005, VTB redeemed Series 2 USD-denominated floating rate Eurobonds with face value of USD 325 million.

On 30 June 2005, VTB issued USD 1 billion of 6.25 per cent Series 6 Loan Participation Notes due 2035 under the Programme. On 30 June 2005, an unlisted Series 7 of Notes, with principal amount of USD 200 million, a floating rate of interest and a term of three months, were issued under the same Program. In September 2005, VTB redeemed Series 7 of Notes.

Deposit certificates are denominated in RUR with maturity ranging from demand to December 2006 (31 December 2004: from demand to December 2005; 31 December 2003: from demand to June 2004). Interest rates on deposit certificates range between 0% and 10% (31 December 2004: between 0% and 6%; 31 December 2003: between 1.6% and 15%).

22. Subordinated Debt

On 4 February 2005, VTB Capital S.A., a Luxembourg based special purpose entity of the Group used for issuance of Eurobonds, issued USD 750 million of Eurobonds (with a call option for early repayment on the fifth anniversary of such date) due February 2015, the proceeds of which financed a subordinated loan to VTB. The Eurobonds bear interest at 6.315% per annum payable semi-annually, with an interest rate step-up in 2010, and matures in 2015. At 31 December 2005, the carrying amount of this subordinated debt was USD 766 million. The Bank’s management expects to settle the debt in 2010 before the interest rate step-up.

On 27 December 2000, OJSC “Industry & Construction Bank” obtained RUR 220 million of subordinated funds due in December 2016 with interest at 10.0% per annum payable semi-annually. At 31 December 2005, the carrying amount of this subordinated debt was USD 8 million.

On 29 September 2005, OJSC “Industry & Construction Bank” issued USD 400 million of subordinated Eurobonds due in September 2015 with a call option on 1 October 2010 at nominal value. The Eurobonds bear interest at 6.3% per annum payable semi-annually, with an interest rate step-up in 2010. The transaction was structured as an issue of notes by Or-ICB S.A. (Luxemburg) under Regulation S for the purpose of financing a subordinated loan to the Bank. At 31 December 2005, the carrying amount of this subordinated debt was USD 387 million.

(expressed in millions of US dollars)

23. Other Liabilities

	31 December 2005	31 December 2004	31 December 2003
Trade creditors and prepayments	58	36	41
Provisions for credit related commitments	–	18	10
Settlements on conversion operations	36	–	–
Dividends payable	6	–	–
Liabilities on pension plans	46	23	6
Provisions on insurance payments	7	1	–
Deferred income	18	5	–
Unsettled transactions	17	14	13
Balances arising from derivative financial instruments	36	14	1
Obligation to deliver securities	43	–	–
Liabilities to pay taxes	25	20	72
Other liabilities	66	14	34
Total other liabilities	**358**	**145**	**177**

24. Share Capital

Authorized, issued, and fully paid share capital of the Group comprises:

	31 December 2005		31 December 2004		31 December 2003	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Ordinary shares	52,111,124	2,500	42,137,236	2,153	42,137,236	2,153
Total share capital	**52,111,124**	**2,500**	**42,137,236**	**2,153**	**42,137,236**	**2,153**

Contributions to the Bank's share capital were originally made in Roubles, foreign currency, and gold bullion. All ordinary shares have a nominal value of RR 1 thousand per share, rank equally and carry one vote. The Bank also has 26,112 authorized ordinary shares with a par value of RR 1 thousand each, which are currently unissued.

In October 2002, the CBR transferred its 99.9% shareholding in the Bank to the Ministry of Property Relations of the Russian Federation. In March 2004 the Ministry of Property Relations was abolished and succeeded by the Federal Property Management Agency.

On 26 December 2005, the Central Bank of Russia registered the results of VTB's share capital issue of 9,973,888 shares at par value 1,000 roubles amounting to RUR 9,974 million (USD 347 million at exchange rate as of 26 December 2005). The price per share was RUR 3,760 (USD 130.6 at exchange rate as of 26 December 2005). Refer to Note 39.

(expressed in millions of US dollars)

25. Interest Income and Expense

	2005	2004	2003
Interest income			
Loans and advances to customers	1,377	773	482
Securities	268	214	139
Due from other banks	114	62	72
Total interest income	**1,759**	**1,049**	**693**
Interest expense			
Customer accounts	(334)	(159)	(154)
Debt securities issued	(309)	(209)	(121)
Due to banks and other borrowed funds	(277)	(107)	(70)
Total interest expense	**(920)**	**(475)**	**(345)**
Net interest income	**839**	**574**	**348**

26. Fee and Commission Income and Expense

	2005	2004	2003
Commission on settlement transactions	74	34	28
Commission on cash transactions	29	23	12
Commission on guarantees issued	48	25	16
Commission on operations with securities	12	8	4
Other	27	28	14
Total fee and commission income	**190**	**118**	**74**
Commission on settlement transactions	(5)	(3)	(2)
Commission on cash transactions	(6)	(5)	(2)
Commission on guarantees issued	(2)	(1)	–
Commission on loans received	(2)	(1)	–
Other	(7)	(2)	(2)
Total fee and commission expense	**(22)**	**(12)**	**(6)**
Net fee and commission income	**168**	**106**	**68**

27. Other Operating Income

	2005	2004	2003
Income arising from non-banking activities	155	141	122
Dividends received	2	1	2
Fines and penalties received	8	1	–
Reversal of negative revaluation of fixed assets	27	–	–
Income arising from disposal of property	21	–	–
Other	28	46	19
Total other operating income	**241**	**189**	**143**

(expressed in millions of US dollars)

28. Operating Expenses

	2005	2004	2003
Staff costs	334	213	148
Defined pension contribution expense	30	23	17
Administrative expenses, depreciation and other expenses related to premises and equipment	94	107	78
Leasing and rent expenses	48	34	20
Taxes other than on income	50	36	40
Advertising expenses	40	12	9
Professional services	22	18	7
Charity	19	14	6
Security expenses	20	12	10
Insurance	14	1	–
Post and telecommunication expenses	17	8	6
Impairment and amortization of goodwill	–	4	2
Transport expenses	9	11	–
Negative revaluation of fixed assets	6	–	–
Operating expenses arising from non-banking activities	111	114	116
Other	36	21	14
Total operating expenses	**850**	**628**	**473**

29. Allowances for Impairment and Provisions

The movements in allowances for impairment of interest earning assets were as follows:

	Due from other banks	Loans and advances to customers	Total
31 December 2002	**119**	**372**	**491**
(Reversal of provision) provision for loan impairment during the period	3	103	**106**
Write-offs	–	(5)	**(5)**
31 December 2003	**122**	**470**	**592**
Provision for loan impairment during the period	11	185	196
Write-offs	–	(102)	(102)
Deconsolidation of subsidiary	(22)	–	(22)
31 December 2004	**111**	**553**	**664**
(Reversal of provision) provision for loan impairment during the period	(7)	110	103
Write-offs	(97)	(55)	(152)
31 December 2005	**7**	**608**	**615**

The movements in allowances for other assets and provisions were as follows:

	Other assets	Credit related commitments	Total
31 December 2002	–	**10**	**10**
(Reversal of provision) provision for loan impairment during the period	–	–	–
31 December 2003	**–**	**10**	**10**
Reversal of provision for impairment during the period	–	(5)	(5)
Purchase of subsidiaries	–	13	13
31 December 2004	**–**	**18**	**18**
(Reversal of provision) provision for impairment during the period	10	(18)	(8)
Write-offs	(10)	–	(10)
31 December 2005	**–**	**–**	**–**

(expressed in millions of US dollars)

29. Allowances for Impairment and Provisions (continued)

Allowances for impairment of assets are deducted from the carrying amounts of the related assets. Provisions for claims, guarantees and commitments are recorded in liabilities. In accordance with the Russian legislation, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

30. Income Tax Expense

Income tax expense comprises the following:

	2005	2004	2003
Current tax charge	90	124	81
Deferred taxation movement due to the origination and reversal of temporary differences	105	(31)	(98)
Income tax expense for the year	**195**	**93**	**(17)**

The income tax rate applicable to the majority of the Group's income is 24%. The income tax rate applicable to subsidiaries income ranges from 4.25% to 25% (2004: 4.25% to 34%). The change in upper level of tax rate from 34% to 25% relates to change in income tax rate in Austria in 2005. A reconciliation between the expected and the actual taxation charge is provided below.

	2005	2004	2003
IFRS profit before taxation	**703**	**301**	**270**
Theoretical tax charge at the applicable statutory rate of each company within the Group	166	83	76
Tax effect of items which are not deductible or assessable for taxation purposes:			
- Non deductible expenses	37	42	38
- Changes in value of investment in shares	–	(12)	–
- Income which is exempt from taxation	(2)	(4)	(6)
- Effect of change in tax rates	(7)	14	12
- Other non-temporary differences	4	11	9
- Tax losses utilized	(23)	(11)	(14)
- Translation effect	13	(30)	(33)
- Change in allowance for deferred taxes	12	–	–
- Previously unrecorded tax losses now recognised	(9)	–	(99)
- Other	4	–	
Income tax (benefit) expense for the year	**195**	**93**	**(17)**

Differences between IFRS and taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for profits tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate from 4.25% to 41% (31 December 2004 and 2003: from 4.25% to 34%). Change in upper level of tax rate from 34% to 41% relates to high tax rate of new subsidiary Ost -West Handelsbank, AG, purchased in December 2005, which is registered in Germany. The Bank and its subsidiaries have no right to set off current tax assets and tax liabilities between legal entities, so that deferred tax assets and deferred tax liabilities are separately assessed for each entity.

(expressed in millions of US dollars)

	2002	Origination and reversal of temporary differences: In the statement of income	Origination and reversal of temporary differences: Directly in equity	2003	Origination and reversal of temporary differences: In the statement of income	Origination and reversal of temporary differences: Directly in equity	2004	Origination and reversal of temporary differences: In the statement of income	Origination and reversal of temporary differences: Directly in equity	Effect of business combination (Note 27)	2005
Tax effect of deductible temporary differences:											
Allowances for impairment and provisions for other losses	31	17	–	48	(19)	–	29	8	–	2	39
Tax losses carried forward	–	78	–	78	(29)	–	49	12	–	34	95
Accrued expenses	15	(14)	–	1	19	–	20	(5)	–	3	18
Other	9	(3)	–	6	14	–	20	(16)	–	18	22
Gross deferred tax assets	55	78	–	133	(15)	–	118	(1)	–	57	174
Unrecognised deferred tax assets	–	–	–	–	–	–	–	(12)	–	–	(12)
Gross deferred tax asset	**55**	**78**	**–**	**133**	**(15)**	**–**	**118**	**(13)**	**–**	**57**	**162**
Tax effect of taxable temporary differences:											
Fair value measurement of securities	(67)	19	–	(48)	52	(29)	(25)	(59)	8	(2)	(78)
Property and equipment	(6)	(8)	–	(14)	(1)	–	(15)	(37)	(19)	(60)	(131)
Other	(9)	9	–	–	(5)	–	(5)	4	–	(32)	(33)
Gross deferred tax liability	**(82)**	**20**	**–**	**(62)**	**46**	**(29)**	**(45)**	**(92)**	**(11)**	**(94)**	**(242)**
Deferred tax asset net	**–**	**83**	**–**	**83**	**(9)**	**–**	**74**	**(24)**	**–**	**32**	**82**
Deferred tax liability net	**(27)**	**15**	**–**	**(12)**	**40**	**(29)**	**(1)**	**(81)**	**(11)**	**(69)**	**(162)**

At 31 December 2005, Donau Bank and Ost -West Handelsbank, AG had unused tax losses of USD 419 million (31 December 2004 and 2003: USD 238 million and USD203 million, respectively) , for which no deferred tax asset was recognized due to uncertainty that these banks will have sufficient future taxable profits against which unused tax losses can be utilised.

31. Basic and Diluted Earnings per Share

Basic earning per share are calculated by dividing the net profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Group and held as treasury shares.

The Group has no diluted potential ordinary shares; therefore, the diluted earnings per share are equal to basic earning per share.

	2005	2004	2003
Net profit attributable to shareholders of the parent *(in millions of US dollars)*	499	205	264
Weighted average number of ordinary shares in issue	42,301,190	42,137,236	42,137,236
Basic and diluted earnings per share (expressed in USD per share)	**11.8**	**4.9**	**6.3**

32. Dividends

VTB does not have a formal policy for payment of dividends. The amount of dividends to be declared and paid is decided at VTB's annual shareholders' meeting on the basis of VTB's net profit for the previous fiscal year determined in accordance with Russian Accounting Legislation on a stand-alone basis. In 2004, VTB declared and paid USD 57 million (at the exchange rate of RUR 27.75 per USD 1.00) in dividends for 2003 (USD 1.35 per share). On 30 June 2005, VTB's shareholders approved a dividend of RUR 1.7 billion (USD 61 million at the exchange rate of RUR 27.87 per USD 1.00) for 2004 (USD 1.45 per share), which was paid on 16 August 2005.

In 2003, the Bank declared and paid dividends in the amount of USD 53 million (at the exchange rate of RUR 30.35 per USD 1.00) for the year ended 31 December 2002 (USD 1.26 per share).

33. Disposal Group Held for Sale

At the end of June 2005, a subsidiary of Guta Bank (now named CJSC "VTB Retail Services") purchased a 100% interest in CJSC "Sales", a holding company for a number of Russian companies involved in aircraft engine manufacturing. The current management intention is to sell this investment within twelve months therefore the Bank applied IFRS 5 for its accounting. The Bank has calculated provisional fair value numbers of the CJSC "Sales" consolidated assets and liabilities at acquisition date amounting to USD 334 million and USD 201 million, respectively. Provisional accounting was used, as explicit fair values are being calculated. No negative goodwill has arisen from this acquisition. CJSC "Sales" holding was classified as a disposal group held for sale under provisions of IFRS 5 and included into geographical segment "Russia and CIS".

As of 31 December 2005 consolidated assets and liabilities of CJSC "Sales" were USD 337 million and USD 199 million, respectively. Net profit of discontinued operations relating to the disposal group held for sale from the date of acquisition to 31 December 2005 was USD 3 million.

34. Contingencies, Commitments, and Derivative Financial Instruments

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees that 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 and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by cash deposits and therefore carry less risk than direct borrowings.

(expressed in millions of US dollars)

34. Contingencies, Commitments, and Derivative Financial Instruments (continued)

Starting January 2005 the Bank is a member of the obligatory deposit insurance system. The system operates under the Federal laws and regulations and is governed by the State Corporation "Agency for Deposits Insurance". Insurance covers Bank's liabilities to individual depositors for the amount up to RR 100 thousand (USD 3,472) for each individual in case of business failure and revocation of the CBR banking license.

Commitments to extend credit represent unused portions of authorizations 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 loss 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.

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

Outstanding credit related commitments are as follows:

	31 December 2005	31 December 2004	31 December 2003
Guarantees issued	2,040	1,908	1,514
Undrawn credit lines	2,828	995	718
Import letters of credit	559	389	157
Commitments to extend credit	1,023	477	162
Other credit related commitments	10	510	500
Less: allowance for losses on credit related commitments	–	(18)	(10)
Total credit related commitments	**6,460**	**4,261**	**3,041**

The Bank has also received export letters of credit for further advising to its customers. Total amount outstanding as of 31 December 2005 was USD 1,829 million (31 December 2004: USD 2,005 million; 31 December 2003: USD 1,345 million). Commitments under import letters of credit and guarantees are collateralized by customer deposits of USD 55 million (31 December 2004 and 2003: USD 60 million).

At 31 December 2005, included in guarantees issued above are guarantees issued for one Russian company of USD 445 million (23% of the guarantees issued) (31 December 2004: USD 930 million, 49% of the guarantees issued; 31 December 2003: USD 932 million, 62% of the guarantees issued). The guarantee was secured by promissory notes issued by VTB and by customers' accounts with total nominal amount of USD 93 million (31 December 2004: USD 517 million; 31 December 2003: USD 577 million).

At 31 December 2004, included in other credit related commitments above is a commitment of the Group to guarantee the repayment of a loan issued to a Russian company in the amount of USD 500 million. This commitment expired and was cancelled in February 2005.

Movements in the allowance for losses on credit related commitments are disclosed in Note 29.

(expressed in millions of US dollars)

34. Contingencies, Commitments, and Derivative Financial Instruments (continued)

Commitments under operating lease. As of December 31, the Group's commitments under operating lease comprised the following:

Remaining contractual maturity	31 December 2005	31 December 2004	31 December 2003
Not later than 1 year	22	1	1
Later than 1 year but not later than 5 years	50	2	1
Later than 5 years	3	–	1
Total operating lease commitments	**75**	**3**	**3**

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

The principal amounts of certain types of financial instruments provide a basis for comparison with instruments recognized in the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or principal amount of derivative financial instruments on hand, the extent to which instruments are favorable or unfavorable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The principal or agreed amounts and fair values of derivative instruments held are set out in the following table. 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 were mainly entered into in December 2005 and settled early in January 2006.

The table below includes contracts outstanding at 31 December 2005:

	Domestic			Foreign		
	Notional amount	Negative fair value	Positive fair value	Notional amount	Negative fair value	Positive fair value
Term						
- sale of foreign currency	671	(3)	1	10	–	–
- purchase of foreign currency	1,881	(4)	7	370	(11)	–
- exchange of foreign currency	–	–	–	22	–	–
- sale of precious metals	–	–	–	203	–	9
- sale of securities	48	–	–	–	–	–
- purchase of securities	8	–	–	61	(1)	–
Swap						
- sale of foreign currency	77	–	–	70	–	1
- purchase of foreign currency	40	–	–	314	(8)	–
- exchange of foreign currency	64	–	1	644	(4)	2
- credit default swaps	–	–		185	–	2
- purchase of securities	–	–	–	17	(5)	–
Options						
- call buy of precious metals	–	–	–	5	–	–
Options						
- put sell of foreign currency	–	–	–	474	–	–
- put buy of foreign currency	–	–	–	65	–	–
- call buy of foreign currency	–	–	–	18	–	–
Options						
- put sell of securities	–	–	–	83	–	–
- call sell of securities	–	–	–	59	–	–
- call buy of securities	–	–	–	84	–	–
- put buy of securities	5	–	–	–	–	–
Total	**2,794**	**(7)**	**9**	**2,684**	**(29)**	**14**

(expressed in millions of US dollars)

34. Contingencies, Commitments, and Derivative Financial Instruments (continued)

The table below includes contracts outstanding at 31 December 2004. These contracts were mainly entered into in December 2004 and settled early in January 2005.

	Domestic			Foreign		
	Notional amount	Negative fair value	Positive fair value	Notional amount	Negative fair value	Positive fair value
Forward contracts						
- sale of foreign currency	25	–	–	69	–	–
- purchase of foreign currency	135	(1)	–	458	(11)	1
- sale of precious metals	–	–	–	1	–	–
- sale of securities	88	–	–	31	(1)	–
- purchase of securities	72	–	–	10	–	–
Swap contracts						
- sale of foreign currency	20	–	–	16	(1)	–
- purchase of foreign currency	203	–	–	896	–	18
Total	**543**	**(1)**	**–**	**1,481**	**(13)**	**19**

The table below includes contracts outstanding at 31 December 2003.

	Domestic			Foreign		
	Notional amount	Negative fair value	Positive fair value	Notional amount	Negative fair value	Positive fair value
Forward contracts						
- sale of securities	25	–	–	–	–	–
- purchase of securities	–	–	–	1	–	–
Swap contracts						
- sale of foreign currency	98	–	–	–	–	–
- purchase of foreign currency	17	–	–	565	(1)	25
Total	**140**	**–**	**–**	**566**	**(1)**	**25**

Purchase commitments. As of 31 December 2005 the Group had USD 249 million outstanding commitments for purchase of precious metals (31 December 2004: USD 285 million; 31 December 2003: USD 119 million). As the price of these contracts is linked to the fair value of the precious metals at the date of delivery, no gain or loss is recognized on these contracts.

(expressed in millions of US dollars)

35. Analysis by Segment

In accordance with IAS 14, "Segment Reporting", the Group's primary format for reporting segment information is geographical segments and the secondary format is business segments. Geographical segment information is based on geographical location of assets and liabilities and related revenues of entities within the Group. Segment information for the two main reportable geographical segments of the Group, Russia and CIS and Europe, is set out below for the year ended 31 December 2005:

	Russia and CIS	Europe	Total before Intercompany eliminations	Intercompany eliminations	Total
Revenues from:					
External customers	**2,094**	**450**	2,544	–	**2,544**
Other segments	**82**	**8**	**90**	**(90)**	**–**
Total revenues	**2,176**	**458**	**2,634**	**(90)**	**2,544**
Segment results	613	90	703	–	**703**
Taxation					**(195)**
Profit after taxation from continuing operations					**508**
Segment assets as of 31 December 2005 less tax assets	28,475	10,766	39,241	(2,664)	36,577
Tax assets	71	75	146	–	146
Segment assets as of 31 December 2005	28,546	10,841	39,387	(2,664)	**36,723**
Segment liabilities as of 31 December 2005 less tax liabilities	25,287	8,644	33,931	(2,664)	31,267
Tax liabilities	164	23	187	–	187
Segment liabilities as of 31 December 2005	25,451	8,667	34,118	(2,664)	**31,454**
Share in income of associated companies	22	2	24		**24**
Capital expenses	170	1	171		**171**
Depreciation and amortization	39	1	40		**40**
Provision for loan impairment	(105)	2	(103)		**(103)**
Reversal of allowance for other assets and provision	8	–	8		**8**

(expressed in millions of US dollars)

35. Analysis by Segment (continued)

Segment information for the two main reportable geographical segments of the Group, Russia and CIS and Europe, at 31 December 2004 is set out below:

	Russia and CIS	Europe	Total before Intercompany eliminations	Intercompany eliminations	Total
Revenues from:					
External customers	**1,504**	**101**	1,605	–	**1,605**
Other segments	**44**	**20**	**64**	**(64)**	**–**
Total revenues	**1,548**	**121**	**1,669**	**(64)**	**1,605**
Segment results	276	25	301	–	**301**
Taxation					**(93)**
Profit after taxation from continuing operations					**208**
Segment assets as of 31 December 2004 less tax assets	15,608	3,695	19,303	(1,588)	17,715
Tax assets	50	45	95	–	95
Segment assets as of 31 December 2004	15,658	3,740	19,398	(1,588)	**17,810**
Segment liabilities as of 31 December 2004 less tax liabilities	13,460	3,208	16,668	(1,588)	15,080
Tax liabilities	19	2	21	–	21
Segment liabilities as of 31 December 2004	13,479	3,210	16,689	(1,588)	**15,101**
Share in income of associated companies	–	2	2		**2**
Capital expenses	95	2	97		**97**
Depreciation and amortization	49	2	51		**51**
Provision for loan impairment	(200)	4	(196)		**(196)**
Reversal of allowance for other assets and provision	5	–	5		**5**

Segment information for the two main reportable geographical segments of the Group, Russia and CIS and Europe, at 31 December 2003 is set out below:

	Russia and CIS	Europe	Total before Intercompany eliminations	Intercompany eliminations	Total
Revenues from:					
External customers	**861**	**235**	**1,096**	**–**	**1,096**
Other segments	**1**	**–**	**1**	**(1)**	–
Total revenues	**862**	**235**	**1,097**	**(1)**	**1,096**
Segment results	**156**	**114**	**270**	**–**	**270**
Taxation					**17**
Profit after taxation from continuing operations					**287**
Segment assets as of 31 December 2003 less tax assets	8,815	3,096	11,911	(819)	11,092
Tax assets	82	54	136	–	136
Segment assets as of 31 December 2003	8,897	3,150	12,047	(819)	**11,228**
Segment liabilities as of 31 December 2003 less tax liabilities	6,912	2,573	9,485	(819)	8,666
Tax liabilities	69	15	84	–	84
Segment liabilities as of 31 December 2003	6,981	2,588	9,569	(819)	**8,750**
Capital expenses	107	5	112		**112**
Depreciation and amortization	22	1	23		**23**
Provision for loan impairment	(105)	(1)	(106)		**(106)**

VTB has predominantly one business segment, commercial banking therefore no business segment disclosure is presented.

(expressed in millions of US dollars)

36. Financial Risk Management

Geographical concentration

Geographical concentration information is based on geographical location of Group's counterparts. The geographical concentration of Group's monetary assets and liabilities is set out below:

	2005			
	Russia	**OECD**	**CIS and other foreign countries**	**Total**
Assets				
Cash and short-term funds	1,874	406	412	**2,692**
Mandatory cash balances with local central banks	344	18	42	**404**
Financial assets at fair value through profit or loss	4,049	928	290	**5,267**
Securities pledged under repurchase agreements	696	656	-	**1,352**
Due from other banks	1,666	1,933	542	**4,141**
Loans and advances to customers	16,378	653	2,894	**19,925**
Financial assets available-for-sale	299	244	122	**665**
Assets of disposal group held for sale	337	–	–	**337**
Investments in associates	80	36	2	**118**
Investment securities held-to-maturity	–	5	2	**7**
Other assets	208	35	9	**252**
Premises and equipment	656	108	68	**832**
Investment property	198	–	–	**198**
Intangible assets	450	1	–	**451**
Deferred tax asset	9	73	–	**82**
Total assets	**27,244**	**5,096**	**4,383**	**36,723**
Liabilities				
Due to other banks	3,336	2,508	785	**6,629**
Customer accounts	11,245	653	869	**12,767**
Other borrowed funds	1,262	1,345	330	**2,937**
Debt securities issued	2,812	4,352	77	**7,241**
Liabilities of disposal group held for sale	199	–	–	**199**
Other liabilities	245	80	33	**358**
Deferred tax liability	146	16	–	**162**
Subordinated debt	7	1,140	14	**1,161**
Total liabilities	**19,252**	**10,094**	**2,108**	**31,454**
Net balance sheet position	**7,992**	**(4,998)**	**2,275**	**5,269**
Off-BS Credit Related Commitments	**5,615**	**354**	**491**	**6,460**
Net derivative position	**–**	**(13)**	**–**	**(13)**

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

	2004			
	Russia	**OECD**	**CIS and other foreign countries**	**Total**
Assets				
Cash and short-term funds	598	319	603	**1,520**
Mandatory cash balances with local central banks	217	11	4	**232**
Financial assets at fair value through profit or loss	2,317	238	11	**2,566**
Securities pledged under repurchase agreements	322	18	–	**340**
Due from other banks	678	1,100	245	**2,023**
Loans and advances to customers	8,088	1,887	194	**10,169**
Financial assets available-for-sale	190	–	–	**190**
Investments in associates	–	77	–	**77**
Investment securities held-to-maturity	–	7	–	**7**
Other assets	124	62	3	**189**
Premises and equipment	300	12	9	**321**
Intangible assets	98	–	4	**102**
Deferred tax asset	40	34	–	**74**
Total assets	**12,972**	**3,765**	**1,073**	**17,810**
Liabilities				
Due to other banks	1,877	974	403	**3,254**
Customer accounts	5,336	332	356	**6,024**
Other borrowed funds	700	1,029	–	**1,729**
Debt securities issued	1,851	2,097	–	**3,948**
Other liabilities	109	36	–	**145**
Deferred tax liability	1	–	–	**1**
Total liabilities	**9,874**	**4,468**	**759**	**15,101**
Net balance sheet position	**3,098**	**(703)**	**314**	**2,709**
Off-BS Credit Related Commitments	**4,060**	**170**	**31**	**4,261**
Net derivative position	**(1)**	**6**	**–**	**5**

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

	2003			
	Russia	OECD	CIS and other foreign countries	Total
Assets				
Cash and short-term funds	776	195	59	**1,030**
Mandatory cash balances with local central banks	370	12	–	**382**
Financial assets at fair value through profit or loss	1,894	117	29	**2,040**
Securities pledged under repurchase agreements	237	63	2	**302**
Due from other banks	1,195	532	178	**1,905**
Loans and advances to customers	4,312	228	326	**4,866**
Financial assets available-for-sale	114	–	–	**114**
Investments in associates	–	41	–	**41**
Investment securities held-to-maturity	1	6	–	**7**
Other assets	83	45	48	**176**
Premises and equipment	219	18	13	**250**
Intangible assets	32	–	–	**32**
Deferred tax asset	34	49	–	**83**
Total assets	**9,267**	**1,306**	**655**	**11,228**
Liabilities				
Due to other banks	593	1,008	221	**1,822**
Customer accounts	3,077	212	997	**4,286**
Other borrowed funds	–	707	–	**707**
Debt securities issued	1,448	298	–	**1,746**
Other liabilities	128	35	14	**177**
Deferred tax liability	1	11	–	**12**
Total liabilities	**5,247**	**2,271**	**1,232**	**8,750**
Net balance sheet position	**4,020**	**(965)**	**(577)**	**2,478**
Off-BS Credit Related Commitments	**2,978**	**59**	**4**	**3,041**
Net derivative position	**(7)**	**30**	**1**	**24**

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Currency risk

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management Board sets limits on the level of exposure by currencies (primarily USD), by branches and in total. These limits also comply with the minimum requirements of the Central Bank of Russia. As at 31 December 2005 the Group's exposure to foreign currency exchange rate risk is as follows:

	USD	RUR	EURO	Other currencies	Total
Assets					
Cash and short-term funds	1,002	1,348	186	156	**2,692**
Mandatory cash balances with local central banks	–	344	18	42	**404**
Financial assets at fair value through profit or loss	2,044	2,722	471	30	**5,267**
Securities pledged under repurchase agreements	490	327	33	502	**1,352**
Due from other banks	2,025	1,023	991	102	**4,141**
Loans and advances to customers	9,593	9,408	793	131	**19,925**
Assets of disposal group held for sale	–	337	–	–	**337**
Financial assets available-for-sale	386	182	83	14	**665**
Investments in associates	–	94	–	24	**118**
Investment securities held-to-maturity	–	–	–	7	**7**
Other assets	89	130	19	14	**252**
Premises and equipment	2	656	88	86	**832**
Investment property	–	198	–	–	**198**
Intangible assets	–	451	–	–	**451**
Deferred tax asset	–	10	43	29	**82**
Total assets	**15,631**	**17,230**	**2,725**	**1,137**	**36,723**
Liabilities					
Due to other banks	3,564	1,127	1,230	708	**6,629**
Customer accounts	4,685	6,425	1,242	415	**12,767**
Other borrowed funds	2,325	4	384	224	**2,937**
Debt securities issued	4,913	2,261	67	–	**7,241**
Subordinated debt	1,113	48	–	–	**1,161**
Liabilities of disposal group held for sale	67	132	–	–	**199**
Deferred tax liability	–	147	15	–	**162**
Other liabilities	124	151	80	3	**358**
Total liabilities	**16,791**	**10,295**	**3,018**	**1,350**	**31,454**
Net balance sheet position	**(1,160)**	**6,935**	**(293)**	**(213)**	**5,269**
Off-BS Credit Related Commitments	**3,658**	**1,609**	**1,044**	**149**	**6,460**
Net derivative position	**(51)**	**(1,121)**	**604**	**555**	**(13)**

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Currency risk (continued)

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

	USD	RR	Euro	Other currencies	Total
Assets					
Cash and short-term funds	530	750	134	106	**1,520**
Mandatory cash balances with local central banks	–	217	11	4	**232**
Financial assets at fair value through profit or loss	1,276	1,235	55	–	**2,566**
Securities pledged under repurchase agreements	205	116	19	–	**340**
Due from other banks	984	732	286	21	**2,023**
Loans and advances to customers	5,115	4,531	483	40	**10,169**
Financial assets available-for-sale	–	190	–	–	**190**
Investments in associates	–	–	77	–	**77**
Investment securities held–to-maturity	–	1	–	6	**7**
Other assets	16	89	72	12	**189**
Premises and equipment	1	300	9	11	**321**
Intangible assets	–	102	–	–	**102**
Deferred tax asset	–	40	34	–	**74**
Total assets	**8,127**	**8,303**	**1,180**	**200**	**17,810**
Liabilities					
Due to other banks	2,124	438	569	123	**3,254**
Customer accounts	2,301	2,741	905	77	**6,024**
Other borrowed funds	1,714	–	7	8	**1,729**
Debt securities issued	2,542	1,378	28	–	**3,948**
Deferred tax liability	–	1	–	–	**1**
Other liabilities	55	66	18	6	**145**
Total liabilities	**8,736**	**4,624**	**1,527**	**214**	**15,101**
Net balance sheet position	**(609)**	**3,679**	**(347)**	**(14)**	**2,709**
Off-BS Credit Related Commitments	**2,840**	**853**	**537**	**31**	**4,261**
Net derivative position	**(242)**	**(681)**	**844**	**84**	**5**

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Currency risk (continued)

At 31 December 2003, the Group has the following positions in currencies:

	USD	RR	Euro	Other currencies	Total
Assets					
Cash and short-term funds	352	508	106	64	**1,030**
Mandatory cash balances with local central banks	–	371	11	–	**382**
Financial assets at fair value through profit or loss	1,261	572	193	14	**2,040**
Securities pledged under repurchase agreements	279	–	23	–	**302**
Due from other banks	1,317	315	231	42	**1,905**
Loans and advances to customers	2,945	1,748	143	30	**4,866**
Financial assets available-for-sale	–	114	–	–	**114**
Investments in associates	–	–	41	–	**41**
Investment securities held–to-maturity	–	1	–	6	**7**
Other assets	79	37	47	13	**176**
Premises and equipment	1	231	16	2	**250**
Intangible assets	–	12	20	–	**32**
Deferred tax asset	–	34	49	–	**83**
Total assets	**6,234**	**3,943**	**880**	**171**	**11,228**
Liabilities					
Due to other banks	1,109	251	370	92	**1,822**
Customer accounts	2,119	1,712	440	15	**4,286**
Other borrowed funds	689	–	8	10	**707**
Debt securities issued	1,158	582	6	–	**1,746**
Deferred tax liability	–	–	12	–	**12**
Other liabilities	22	111	35	9	**177**
Total liabilities	**5,097**	**2,656**	**871**	**126**	**8,750**
Net balance sheet position	**1,137**	**1,287**	**9**	**45**	**2,478**
Off-BS Credit Related Commitments	**2,443**	**373**	**183**	**42**	**3,041**
Net derivative position	**(578)**	**(39)**	**481**	**160**	**24**

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 derivatives. 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. The liquidity risk is managed by the Asset/Liability Committee and the Treasury department.

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Liquidity risk (continued)

The table below shows assets and liabilities at 31 December 2005 by their remaining contractual maturity.

	On demand and up to 1 month	From 1 month to 6 months	From 6 months to 1 year	More than 1 year	Overdue, maturity undefined	Total
Assets						
Cash and short-term funds	2,691	–	–	–	1	**2,692**
Mandatory cash balances with local central banks	217	90	47	50	–	**404**
Financial assets at fair value through profit or loss	5,267	–	–	–	–	**5,267**
Securities pledged under repurchase agreements	1,352	–	–	–	–	**1,352**
Due from other banks	2,813	633	188	503	4	**4,141**
Loans and advances to customers	1,682	5,663	4,281	8,076	223	**19,925**
Assets of disposal group held for sale	–	337	–	–	–	**337**
Financial assets available-for-sale	10	22	18	425	190	**665**
Investments in associates	–	–	–	–	118	**118**
Investment securities held-to-maturity	–	1	2	4	–	**7**
Other assets	25	36	8	104	79	**252**
Premises and equipment	–	–	–	–	832	**832**
Investment property	–	–	–	–	198	**198**
Intangible assets	–	–	–	–	451	**451**
Deferred tax asset	–	–	–	–	82	**82**
Total assets	**14,057**	**6,782**	**4,544**	**9,162**	**2,178**	**36,723**
Liabilities						
Due to other banks	3,676	1,130	238	1,577	8	**6,629**
Customer accounts	7,202	2,693	1,565	1,290	17	**12,767**
Other borrowed funds	104	736	905	1,192	–	**2,937**
Debt securities issued	364	870	819	5,177	11	**7,241**
Subordinated debt	4	6	7	1,144	–	**1,161**
Liabilities of disposal group held for sale	–	199	–	–	–	**199**
Deferred tax liability	–	–	–	–	162	**162**
Other liabilities	54	40	18	45	201	**358**
Total liabilities	**11,404**	**5,674**	**3,552**	**10,425**	**399**	**31,454**
Net liquidity gap	**2,653**	**1,108**	**992**	**(1,263)**	**1,779**	**5,269**
Cumulative liquidity gap	**2,653**	**3,761**	**4,753**	**3,490**	**5,269**	

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Liquidity risk (continued)

The table below shows assets and liabilities at 31 December 2004 by their remaining contractual maturity.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Overdue, maturity undefined	Total
Assets						
Cash and short-term funds	1,383	–	–	–	137	**1,520**
Mandatory cash balances with local central banks	77	66	33	56	–	**232**
Financial assets at fair value through profit or loss	2,566	–	–	–	–	**2,566**
Securities pledged under repurchase agreements	340	–	–	–	–	**340**
Due from other banks	1,065	359	317	206	76	**2,023**
Loans and advances to customers	1,193	3,069	2,079	3,687	141	**10,169**
Financial assets available-for-sale	190	–	–	–	–	**190**
Investments in associates	–	–	–	–	77	**77**
Investment securities held-to-maturity	–	–	2	5	–	**7**
Other assets	85	49	24	6	25	**189**
Premises and equipment	–	–	–	–	321	**321**
Intangible assets	–	–	–	–	102	**102**
Deferred tax asset	–	–	–	–	74	**74**
Total assets	**6,899**	**3,543**	**2,455**	**3,960**	**953**	**17,810**
Liabilities						
Due to banks	1,163	895	465	727	4	**3,254**
Customer accounts	3,266	1,682	635	440	1	**6,024**
Other borrowed funds	6	580	835	308	–	**1,729**
Debt securities issued	67	833	656	2,390	2	**3,948**
Other liabilities	39	41	4	18	43	**145**
Deferred tax liability	–	–	–	–	1	**1**
Total liabilities	**4,541**	**4,031**	**2,595**	**3,883**	**51**	**15,101**
Net liquidity gap	**2,358**	**(488)**	**(140)**	**77**	**902**	**2,709**
Cumulative liquidity gap	**2,358**	**1,870**	**1,730**	**1,807**	**2,709**	

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Liquidity risk (continued)

The table below shows assets and liabilities at 31 December 2003 by their remaining contractual maturity.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Overdue, maturity undefined	Total
Assets						
Cash and short-term funds	923	–	–	–	107	**1,030**
Mandatory cash balances with local central banks	274	70	28	10	–	**382**
Financial assets at fair value through profit or loss	2,040	–	–	–	–	**2,040**
Securities pledged under repurchase agreements	302	–	–	–	–	**302**
Due from other banks	1,169	354	77	305	–	**1,905**
Loans and advances to customers	552	1,427	1,200	1,613	74	**4,866**
Financial assets available-for-sale	114	–	–	–	–	**114**
Investments in associates	–	–	–	–	41	**41**
Investment securities held-to-maturity	–	–	–	7	–	**7**
Other assets	70	17	40	3	46	**176**
Premises and equipment	–	–	–	–	250	**250**
Intangible assets	–	–	–	–	32	**32**
Deferred tax asset	–	–	–	–	83	**83**
Total assets	**5,444**	**1,868**	**1,345**	**1,938**	**633**	**11,228**
Liabilities						
Due to banks	1,152	440	92	137	1	**1,822**
Customer accounts	2,857	878	361	190	–	**4,286**
Other borrowed funds	6	120	562	19	–	**707**
Debt securities issued	182	537	121	905	1	**1,746**
Other liabilities	17	16	34	7	103	**177**
Deferred tax liability	–	–	–	–	12	**12**
Total liabilities	**4,214**	**1,991**	**1,170**	**1,258**	**117**	**8,750**
Net liquidity gap	**1,230**	**(123)**	**175**	**680**	**516**	**2,478**
Cumulative liquidity gap	**1,230**	**1,107**	**1,282**	**1,962**	**2,478**	

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 or diminished profitability. 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.

Management believes that in spite of the fact that the majority of the Group's security portfolio matures after one year in accordance with the terms of issue, the majority of these securities are freely traded on the market and as such securities represent a hedge against potential liquidity risks. As such, the Group has included the securities in the "on demand and less than one month" category.

Further, Management believes that although a substantial portion of customer deposits are on demand and mature in less than one month, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these deposits provide a long-term and stable source of funding for the Group.

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates in 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 interest rate risk is managed by the Asset/Liability Committee and the Treasury department.

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. In practice, interest rates are generally fixed on a short-term basis. Also, in some cases interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions. In the absence in fact of any available hedging instruments, the Group normally seeks to establish its interest rate positions at optimal profitability/risk level taken decisions if necessary in respect of the operations changing the asset/liabilities maturity structure.

The table below summarises the Group's exposure to interest rate risks 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.

	On demand and up to 1 month	From 1 month to 6 months	From 6 months to 1 year	More than 1 year	No stated maturity/ overdue/ non-interest bearing	Total
Assets						
Cash and short-term funds	2,691	–	–	–	1	**2,692**
Mandatory cash balances with local central banks	221	92	45	46	–	**404**
Financial assets at fair value through profit or loss	44	509	292	3,758	664	**5,267**
Securities pledged under repurchase agreements	17	165	87	965	118	**1,352**
Due from other banks	3,253	643	169	62	14	**4,141**
Loans and advances to customers	3,382	5,721	3,938	6,631	253	**19,925**
Assets of disposal group held for sale	132	–	205	–	–	**337**
Financial assets available-for-sale	–	32	26	248	359	**665**
Investments in associates	–	–	–	–	118	**118**
Investment securities held-to-maturity	–	1	2	4	–	**7**
Other assets	19	7	6	102	118	**252**
Premises and equipment	–	–	–	–	832	**832**
Investment property	–	–	–	–	198	**198**
Intangible assets	–	–	–	–	451	**451**
Deferred tax asset	–	–	–	–	82	**82**
Total assets	**9,759**	**7,170**	**4,770**	**11,816**	**3,208**	**36,723**
Liabilities						
Due to other banks	3,921	1,295	104	1,261	48	**6,629**
Customer accounts	7,238	2,694	1,550	1,265	20	**12,767**
Other borrowed funds	2,298	373	169	95	2	**2,937**
Debt securities issued	619	870	963	4,771	18	**7,241**
Subordinated debt	4	6	7	1,144	–	**1,161**
Liabilities of disposal group held for sale	94	65	–	–	40	**199**
Deferred tax liability	–	–	–	–	162	**162**
Other liabilities	16	31	16	39	256	**358**
Total liabilities	**14,190**	**5,334**	**2,809**	**8,575**	**546**	**31,454**
Net repricing gap	**(4,431)**	**1,836**	**1,961**	**3,241**	**2,662**	**5,269**

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Interest rate risk (continued)

The table below summarises the Group's exposure to interest rate risks at 31 December 2004. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity/ overdue/ non-interest bearing	Total
Assets						
Cash and short-term funds	1,383	–	–	–	137	**1,520**
Mandatory cash balances with local central banks	77	66	33	56	–	**232**
Financial assets at fair value through profit or loss	4	27	684	1,698	153	**2,566**
Securities pledged under repurchase agreements	–	60	–	279	1	**340**
Due from other banks	1,075	359	307	206	76	**2,023**
Loans and advances to customers	1,172	3,936	2,078	2,842	141	**10,169**
Financial assets available-for-sale	–	–	–	–	190	**190**
Investments in associates	–	–	–	–	77	**77**
Investment securities held–to-maturity	–	–	–	7	–	**7**
Other assets	85	49	24	6	25	**189**
Premises and equipment	–	–	–	–	321	**321**
Intangible assets	–				102	**102**
Deferred tax asset	–	–	–	–	74	**74**
Total assets	**3,796**	**4,497**	**3,126**	**5,094**	**1,297**	**17,810**
Liabilities						
Due to banks	1,182	943	405	720	4	**3,254**
Customer accounts	3,266	1,682	635	440	1	**6,024**
Other borrowed funds	581	306	835	7	–	**1,729**
Debt securities issued	692	858	656	1,740	2	**3,948**
Other liabilities	39	41	4	18	43	**145**
Deferred tax liability	–	–	–	–	1	**1**
Total liabilities	**5,760**	**3,830**	**2,535**	**2,925**	**51**	**15,101**
Net repricing gap	**(1,964)**	**667**	**591**	**2,169**	**1,246**	**2,709**

The table below summarises the Group's exposure to interest rate risks at 31 December 2003. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Interest rate risk (continued)

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity/ overdue/ non-interest bearing	Total
Assets						
Cash and short-term funds	923	–	–	–	107	**1,030**
Mandatory cash balances with local central banks	274	70	28	10	–	**382**
Financial assets at fair value through profit or loss	105	209	18	1,650	58	**2,040**
Securities pledged under repurchase agreements	108	–	16	178	–	**302**
Due from other banks	1,169	354	77	305	–	**1,905**
Loans and advances to customers	552	1,454	1,333	1,453	74	**4,866**
Financial assets available-for-sale	–	–	–	–	114	**114**
Investments in associates	–	–	–	–	41	**41**
Investment securities held-to-maturity	–	–	–	7	–	**7**
Other assets	70	17	40	3	46	**176**
Premises and equipment	–	–	–	–	250	**250**
Intangible assets	–				32	**32**
Deferred tax asset	–	–	–	–	83	**83**
Total assets	**3,201**	**2,104**	**1,512**	**3,606**	**805**	**11,228**
Liabilities						
Due to banks	1,152	440	92	137	1	**1,822**
Customer accounts	2,857	878	361	190	–	**4,286**
Other borrowed funds	6	690	5	6	–	**707**
Debt securities issued	182	537	121	905	1	**1,746**
Other liabilities	17	16	34	7	103	**177**
Deferred tax liability	–	–	–	–	12	**12**
Total liabilities	**4,214**	**2,561**	**613**	**1,245**	**117**	**8,750**
Net repricing gap	**(1,013)**	**(457)**	**899**	**2,361**	**688**	**2,478**

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Interest rate risk (continued)

The table below summarizes the effective interest rates by major currencies for major monetary financial instruments. The analysis has been prepared using effective contractual rates.

	31 December 2005				31 December 2004				31 December 2003			
	USD	RR	Euro	Other curren-cies	USD	RR	Euro	Other curren-cies	USD	RR	Euro	Other curren-cies
Assets												
Cash and short term funds	2%	1%	1%	1%	1%	1%	1%	1%	1%	–	1%	1%
Financial assets at fair value through profit or loss	7%	7%	4%	4%	7%	6%	5%	–	4%	10%	8%	4%
Securities pledged under repurchase agreements	5%	6%	2%	5%	4%	1%	4%	–	5%	3%	3%	–
Due from other banks	4%	8%	3%	3%	6%	9%	3%	1%	5%	8%	3%	1%
Loans and advances to customers	9%	13%	8%	11%	8%	13%	8%	7%	9%	14%	7%	2%
Debt investment securities available-for-sale	4%	2%	1%	2%	–	3%	–	–	8%	2%	6%	–
Investment securities held-to-maturity	–	–	–	3%	–	5%	–	3%	–	5%	–	3%
Liabilities												
Due to other banks	5%	5%	3%	5%	4%	4%	5%	1%	5%	6%	2%	1%
Customer accounts	4%	4%	4%	3%	4%	4%	5%	4%	4%	6%	4%	4%
Other borrowed funds	5%	4%	4%	2%	3%	–	4%	3%	3%	–	4%	3%
Debt securities issued	6%	6%	3%	–	6%	6%	4%	–	8%	12%	3%	–
Subordinated debt	6%	6%	–	–	–	–	–	–	–	–	–	–

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

37. Fair Values of Financial Instruments

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

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation has shown signs of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Financial instruments carried at fair value. Cash and short-term funds, financial assets at fair value through profit or loss, securities pledged under repurchase agreements and financial assets available-for-sale are carried on the balance sheet at their fair value. The fair value of these assets was determined by Management on the basis of market quotations.

The estimated fair value of investment into International Moscow Bank (IMB) was calculated by using the market approach, namely the comparable companies method and the comparable transactions method. Calculations within the comparable transactions method were adjusted for a minority interest discount of 40%, whilst a lack of marketability discount (of 15%) was applied to the market approach valuation results for IMB. The Group's management believes that a change in the above assumptions to a reasonably possible alternative would not result in a significantly different fair value.

Due from other banks. Management has estimated that at 31 December 2005, 2004 and 2003 the fair value of due from other banks was not materially different from their respective carrying value. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

(expressed in millions of US dollars)

37. Fair Values of Financial Instruments (continued)

Loans and advances to customers. Management has estimated that at 31 December 2005, 2004 and 2003 the fair value of loans and advances to customers was not materially different from respective carrying value. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

Investment securities held-to-maturity. Market values have been used to determine the fair value of investment securities held-to-maturity traded on an active market. For securities that are not traded on an active market, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

Borrowings. Management has estimated that at 31 December 2005, 2004 and 2003 the fair values of borrowings which include amounts due to other banks, customer accounts, and other borrowed funds were not materially different from their respective carrying values. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

Debt securities issued. The fair value of debt securities which include debt securities issued and subordinated debt was determined by Management on the basis of market quotations.

	31 December 2005		31 December 2004		31 December 2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets						
Cash and short-term funds	2,692	2,692	1,520	1,520	1,030	1,030
Financial assets at fair value through profit or loss	5,267	5,267	2,566	2,566	2,040	2,040
Securities pledged under repurchase agreements	1,352	1,352	340	340	302	302
Due from other banks	4,141	4,141	2,023	2,023	1,905	1,905
Loans and advances to customers	19,925	19,926	10,169	10,169	4,866	4,866
Financial assets available-for-sale	665	665	190	190	114	114
Investment securities held-to-maturity	7	7	7	7	7	7
Financial liabilities						
Due to other banks	6,629	6,629	3,254	3,254	1,822	1,822
Customer accounts	12,767	12,767	6,024	6,024	4,286	4,286
Other borrowed funds	2,937	2,937	1,729	1,729	707	707
Debt securities issued	7,241	7,315	3,948	4,021	1,746	1,758
Subordinated debt	1,161	1,173	–	–	–	–

(expressed in millions of US dollars)

38. 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 or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Commencing 1 January 2005, the revised IAS 24 removed the exemption for state-controlled entities from the requirement to disclose transactions with other state-controlled entities. Since the Bank is a state-owned entity, the Bank introduced a policy in accordance with which it discloses transactions and outstanding balances, as well details of guarantees given to or received from directly and indirectly state-owned entities.

Transactions with related parties entered by the Bank during the period ended 31 December 2005, 2004 and 2003 were made in the normal course of business and mostly on an arm-length basis.

Transactions and balances with related parties comprise transactions and balances with directly and indirectly state-owned entities and associates and are stated in the table below:

	31 December 2005		31 December 2004		31 December 2003	
	State-owned companies	Associates	State-owned companies	Associates	State-owned companies	Associates
Assets						
Cash and short-term funds	1,212	–	195	20	488	7
Mandatory cash balances with local central banks	329	–	232	–	364	–
Due from other banks	354	–	326	12	183	–
Financial assets at fair value through profit or loss	3,012	–	1,365	–	1,495	–
Securities pledged under repurchase agreements	454	–	322	–	194	–
Financial assets available-for-sale	162	–	176	–	–	–
Loans to customers	4,429	–	2,599	–	2,171	–
Allowance for loan impairment	(99)	–	(134)	–	(168)	–
Liabilities						
Due to other banks	1,242	–	556	10	174	10
Customer accounts	1,973	2	1,613	–	2,118	–
Other borrowed funds	982	–	694	–	–	–
Credit Related Commitments						
Guarantees issued	1,044	–	1,026	–	1,074	–
Undrawn credit lines	501	–	157	–	426	–
Import letters of credit	79	–	27	–	68	–
Commitments to extend credit	183	–	85	–	53	–

Income Statement

	2005	2004	2003
Interest income			
Loans and advances to customers	293	198	215
Securities	109	129	100
Due from other banks	22	10	7
Interest expense			
Customer accounts	58	60	76
Due to banks	85	11	7
Gains from extinguishment of liabilities	–	100	–
Reversal of allowance (provision) for impairment	35	34	(32)

38. Related Party Transactions (continued)

For the period ended 31 December 2005, the total remuneration of the directors and key management personnel, including pension contributions and discretionary compensation amounted to USD 9.7 million (31 December 2004: USD 7.6 million; 31 December 2003: USD 11 million). Pension contributions of the directors and key management personnel included in the above remuneration amounted to USD 0.3 million (31 December 2004: USD 0.2 million; 31 December 2003: 0.4 USD million).

39. Business Combination

Acquisitions of Banks from the Central Bank of Russian Federation

Based on a decision of Russian Federation authorities the CBR sold shares in five European Banks to VTB. At the end of December 2005, VTB purchased from the CBR 89% of ordinary shares of Moscow Narodny Bank (London), 87% of ordinary shares of BCEN-Eurobank (Paris), 15% of ordinary shares of Donau-bank (thus increasing its stake to 100%), 15% in East-West United Bank (increasing its stake to 51%, since 2% is held by BCEN-Eurobank) for USD 5 million and 52% in Ost-West Handelsbank (Frankfurt; thus increasing its stake to 84%).

The acquisitions were completed by the end of December 2005. Additionally it was agreed to transfer certain deposits of the CBR in the above banks to VTB. The amount of consideration paid by VTB for the acquired shares in net assets and purchased deposits was based on the carrying amount of the above assets and deposits in the accounting records of the CBR, which is less than the fair value of these net assets at the date of the sale.

To finance the above transaction, on 26 December 2005 Russian Federation Government (the controlling shareholder of VTB) contributed cash in the amount of USD 1,303 million to the capital of VTB. On 26 December 2005, VTB paid the purchase consideration for the shares and deposits in the above five banks to the CBR in the total amount of USD 1,240 million.

Management of VTB believes that the above transaction represents, in substance, contribution in kind of shares and deposits in certain banks by the controlling shareholder. Therefore, VTB has recorded the contribution in kind as an increase in equity at the Group's share in the fair value of the banks contributed, which comprised USD 1,763 million. Additionally, the difference between the cash contributed by the Government and the cash paid to the CBR in the amount of USD 63 million was recorded as a contribution from the controlling shareholder.

Management of VTB considers the acquisition of Moscow Narodny Bank, BCEN-Eurobank, East-West United Bank and Ost-West Handelsbank a business combination under common control, as both the seller (the CBR) and the acquirer (VTB) are state-controlled entities. VTB has accounted for these acquisitions under the purchase method.

(expressed in millions of US dollars)

39. Business Combination (continued)

Acquisitions of Banks from the Central Bank of Russian Federation (continued)

The aggregated fair value of identifiable assets, liabilities and contingent liabilities of Moscow Narodny Bank, BCEN-Eurobank, East-West United Bank and Ost-West Handelsbank as at the date of acquisition were:

	Fair value	Carrying value
Assets		
Cash and short-term funds	180	180
Mandatory cash balances with local central banks	9	9
Financial assets at fair value through profit or loss	405	405
Securities pledged under repurchase agreements	710	710
Due from other banks	1,929	1,937
Loans and advances to customers	1,877	1,877
Financial assets available-for-sale	580	526
Investments in associates	25	23
Premises and equipment	132	113
Deferred tax assets	39	36
Other assets	21	21
Total assets	**5,907**	**5,837**
Liabilities		
Due to other banks	3,134	3,134
Customer accounts	303	303
Other borrowed funds	422	422
Debt securities issued	425	425
Subordinated debt	354	354
Deferred tax liabilities	22	14
Provision on contingent liabilities losses	2	2
Other liabilities	109	109
Total liabilities	**4,771**	**4,763**
Fair value of net assets	**1,136**	
Contribution of deposits	688	
Less: minority interests	(169)	
Group's share of the fair value of net assets	**1,655**	
Increase in equity attributable to shareholders of the parent (contribution of business: Group's share in fair values of contributed banks, including revaluation of share of associate plus cash difference)	**1,849**	
Existing interest before acquisitions	67	
Less: revaluation of investment in associate	(23)	
Less: minority interest in Donau Bank	(84)	
Less: cash difference, including deposit in Donau Bank	(154)	
Group's share of fair value of net assets contributed	**1,655**	

The amount of profit and loss of the acquired banks from the acquisition dates to December 31, 2005 is immaterial. The Group's share in the fair value of the banks contributed approximates the fair value of the net assets of these banks, thus no goodwill was recorded as a result of this transaction.

The increase of share in Donau Bank from 85% to 100% was accounted for as the increase of share in the previously consolidated subsidiary with necessary reallocations between minority interest and retained earnings in the Balance Sheet (IAS 27).

(expressed in millions of US dollars)

39. Business Combination (continued)

Acquisition of OJSC "Industry & Construction Bank" (ICB)

In March 2005, VTB acquired a 25% plus one share of initial interest in OJSC "Industry & Construction Bank" (ICB), a major corporate and retail bank of the Russian North West located in St. Petersburg, in exchange for a cash payment of approximately USD 97 million.

On December 28, 2005 VTB purchased 630,488,500 ordinary shares of ICB with par value of 1 RUR per share for USD 480 million. As a result of this transaction, VTB's ownership percentage increased from 25% plus one share to 75% plus three shares of the share capital of ICB. VTB hired an independent appraiser to determine the fair value of identifiable assets, liabilities and contingent liabilities of ICB as of the acquisition date and allocate the cost of business combination at each acquisition date. The amount of profit and loss of ICB from the acquisition date to December 31, 2005 is immaterial.

As a result of the first acquisition of 25% plus one share in ICB, there was an excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost in the amount of USD 30 million. This excess was recognised in the consolidated income statement. As a result of the additional acquisition of 50% in ICB, goodwill in the amount of USD 182 million arose. This goodwill was recognised as an intangible asset at 31 December 2005.

The fair value and carrying value of the identifiable assets and liabilities of ICB as at 31 March 2005 were:

	Fair value	Carrying value
Assets		
Cash and short-term funds	377	377
Mandatory cash balances with local central banks	74	74
Financial assets at fair value through profit or loss	603	603
Due from other banks	375	375
Loans and advances to customers	1,944	1,927
Other assets	35	35
Premises and equipment	179	130
Investment property	71	68
Intangible assets	148	6
Deferred tax asset	1	1
Total assets	**3,807**	**3,596**
Liabilities		
Due to other banks	232	231
Customer accounts	2,292	2,287
Other borrowed funds	359	356
Debt securities issued	282	288
Other liabilities	34	33
Deferred tax liability	49	–
Total liabilities before subordinated debt	**3,248**	**3,195**
Subordinated debt	46	44
Total liabilities	**3,294**	**3,239**
Fair value of net assets	**513**	
Initial acquisition share	25%	
Fair value of initial acquisition of net assets	127	
Contribution paid	97	
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost	(30)	

(expressed in millions of US dollars)

39. Business Combination (continued)

Acquisition of OJSC "Industry & Construction Bank" (ICB) (continued)

The fair value and carrying value of identifiable assets and liabilities of ICB as at 31 December 2005 were:

	Fair value	Carrying value
Assets		
Cash and short-term funds	451	451
Mandatory cash balances with local central banks	87	87
Financial assets at fair value through profit or loss	960	960
Securities pledged under repurchase agreements	241	241
Due from other banks	217	217
Loans and advances to customers	2,780	2,762
Financial assets available-for-sale	3	3
Investments in associates	2	2
Other assets	45	45
Premises and equipment	189	138
Investment property	198	198
Intangible assets	154	–
Total assets	**5,327**	**5,104**
Liabilities		
Due to other banks	389	389
Customer accounts	2,978	2,976
Other borrowed funds	330	328
Debt securities issued	529	533
Other liabilities	40	40
Deferred tax liability	53	–
Total liabilities before subordinated debt	**4,319**	**4,266**
Subordinated debt	410	409
Total liabilities	**4,729**	**4,675**
Fair value of net assets	**598**	
Additional acquisition share	50%	
Fair value of additional acquisition of net assets	298	
Contribution paid	480	
Goodwill	182	

From the date of acquisition of 25% share to 31 December 2005, ICB bank incurred USD 108 million net profit, which was included in the Group's consolidated income statement for the year ended 31 December 2005. If the acquisition of 25% share had taken place at the beginning of the year, the net profit of the Group would have been USD 516 million and operating income would have been USD 1,520 million. If the acquisition of 75% share had taken place at the beginning of the year, the net profit of the Group would have been USD 597 million and operating income would have been USD 1,601 million.

Acquisition of Guta Bank (renamed to Vneshtorgbank Retail Services)

In July 2004, VTB purchased 85.8% ordinary voting shares in Guta Bank for a cash payment of approximately RUR 1 million (USD 34 thousand at the exchange rate of RUR 29.077 per USD 1). In connection with the acquisition of Guta Bank, the CBR placed a USD 700 million special purpose deposit with VTB at the LIBOR rate for one year. The deposit is available to maintain Guta Bank's liquidity and for the use in the Bank's operations. The term of the deposit may be prolonged with the agreement of VTB and the CBR. VTB has extended a credit line to Guta Bank of RUR 10,000 million (USD 344 million at the exchange rate of RUR 29.077 per USD 1) maturing in one year and bearing interest rate of 6% p.a. with interest payment at maturity, which is secured by Guta Bank's loan portfolio. As of 31 December 2004, the amount drawn down by Guta Bank under this credit line was RUR 6,900 million (USD 249 million at the exchange rate of RUR 27.7487 per USD 1). As of the date of its acquisition by VTB, Guta Bank had a net loan exposure of approximately USD 240 million to companies related to its former shareholders.

(expressed in millions of US dollars)

39. Business Combination (continued)

Acquisition of Guta Bank (renamed to Vneshtorgbank Retail Services) (continued)

The fair value and carrying value of identifiable assets and liabilities of Guta bank as at the acquisition date were:

	Fair value	Carrying value
Assets		
Cash and short-term funds	31	31
Mandatory cash balances with local central banks	22	22
Due from other banks	15	15
Loans and advances to customers, net	506	506
Available-for-sale securities	50	46
Accrued interest receivable and other assets	14	13
Premises and equipment	28	28
	666	**661**
Liabilities		
Due to other banks	96	97
Customer accounts	426	428
Debt securities issued	207	209
Accrued interest payable and other liabilities	18	18
	747	**752**
Fair value of net assets	**(81)**	
Fair value adjustment of deposit received from the CBR in connection with the acquisition of Guta bank	10	
Goodwill	71	
Costs associated with the acquisition:		
Cash paid, RUR	1,000,000	
Cash paid, USD million	–	

From the date of acquisition to 31 December 2004, Guta bank incurred USD 17 million net loss, which was included in the Group's consolidated income statement for the year ended 31 December 2004. If the acquisition had taken place at the beginning of the year, the net profit of the Group would have been USD 199 million and operating income would have been USD 934 million.

During 2005 the Group had business combinations with UGB and Armsberbank, which did not have a material effect on the Group, thus the are not separately disclosed (Note 40).

40. Consolidated Subsidiaries and Associates

The subsidiaries and associates included in these consolidated financial statements are presented in the table below:

			Percentage of ownership		
Name	**Activity**	**Country of registration**	**31 December 2005**	**31 December 2004**	**31 December 2003**
Subsidiaries					
"Donau-bank Aktiengesellschaft, Wien"	Banking	Austria	100.00%	85.00%	85.00%
"Russian Commercial Bank (Cyprus) Limited"	Banking	Cyprus	100.00%	100.00%	100.00%
"Russian Commercial Bank Ltd"	Banking	Switzerland	100.00%	100.00%	100.00%
"Vneshtorgbank (Ukraine)", CJSC	Banking	Ukraine	100.00%	–	–
"Armsavingsbank", CJSC	Banking	Armenia	70.00%	70.00%	–
"United Georgian Bank" Corporation	Banking	Georgia	50.00%	–	–
"Vneshtorgbank Retail Services", CJSC	Banking	Russia	92.19%	85.80%	–
Bank "Zabaikalsky" , OJSC	Banking	Russia	99.80%	99.80%	99.80%
"Novosibirskvneshtorgbank", CJSC	Banking	Russia	97.60%	97.60%	97.60%
"East-West United Bank", S.A.	Banking	Luxembourg	50.74%	34.00%	53.00%
"Ost -West Handelsbank", AG	Banking	Germany	83.54%	31.90%	31.90%
"Industry & Construction Bank", OJSC	Banking	Russia	75.00%	–	–
"BCEN-Eurobank"	Banking	France	87.04%	–	–
"Moscow Narodny Bank Limited"	Banking	Great Britain	89.10%	–	–
Bank "Pvolzhskiy", CJSC	Banking	Russia	–	60.40%	60.40%

(expressed in millions of US dollars)

40. Consolidated Subsidiaries and Associates (continued)

			Percentage of ownership		
Name	**Activity**	**Country of registration**	**31 December 2005**	**31 December 2004**	**31 December 2003**
"Multicarta", Ltd	Plastic cards	Russia	100.00%	100.00%	100.00%
"Euroleasing", GMBH	Leasing	Germany	63.00%	60.00%	60.00%
"Rafinco Co.", , Inc.	Trading	USA	100.00%	100.00%	100.00%
"I.T.C. Consultants (Cyprus)", Ltd	Finance	Cyprus	100.00%	100.00%	100.00%
"VB-Service", Ltd	Commerce	Russia	100.00%	100.00%	100.00%
"Trading House VTB", Ltd	Commerce	Russia	100.00%	100.00%	100.00%
"Non-state Pension Fund of Vneshtorgbank"	Insurance	Russia	100.00%	100.00%	100.00%
"Konobeevo", OJSC	Recreation	Russia	89.99%	89.99%	89.99%
"Insurance Capital" , Ltd	Insurance	Russia	100.00%	69.80%	69.80%
"Almaz-Press", CJSC	Publishing	Russia	100.00%	100.00%	100.00%
"Almaz-Print", CJSC	Publishing	Russia	100.00%	100.00%	100.00%
"Rassvet-Expo", CJSC	Publishing	Russia	100.00%	100.00%	100.00%
"Rasters", CJSC	Publishing	Russia	100.00%	100.00%	100.00%
"Dom Rybaka", Ltd	Recreation	Russia	100.00%	100.00%	–
"VTB-Leasing", OJSC	Leasing	Russia	100.00%	100.00%	100.00%
"Vympel-B", Ltd	Security	Russia	–	–	100.00%
"Binex", CJSC	Oil	Russia	–	–	51.00%
"Embassy Development Limited"	Finance	Jersey	100.00%	–	–
"VTB-Capital", CJSC	Finance	Russia	55.00%	–	–
"VTB Trading", Ltd	Finance	Cyprus	99.99%	–	–
"MNB Strategic Investments Limited"	Investment	England	89.10%	–	–
"Moscow Narodny Finance", B.V.	Finance	Netherlands	89.10%	–	–
"Business-Finance", Ltd	Finance	Russia	92.19%	–	–
"Baltiyskaya Trade Industrial Company", CJSC	Commerce	Russia	75.00%	–	–
"ICB Finance B.V."	Finance	Netherlands	75.00%	–	–
"ICB Finance", Ltd	Finance	Russia	75.00%	–	–
"Uralpromstroyleasing" , Ltd	Leasing	Russia	75.00%	–	–
"ICB-Invest Group", OJSC	Finance	Russia	74.25%	–	–
"Korsar", Ltd	Commerce	Russia	75.00%	–	–
"Adamas", Ltd	Real estate	Russia	75.00%	–	–
"Derzhava", Ltd	Real estate	Russia	75.00%	–	–
"Korpus 104", Ltd	Real estate	Russia	75.00%	–	–
"Prestizh", Ltd	Real estate	Russia	63.75%	–	–
Subsidiaries within disposal group:					
"Sistema Plus", CJSC	Finance	Russia	92.19%	–	–
"Sales", CJSC	Finance	Russia	92.19%	–	–
"Tekhnoinvest", CJSC	Trading	Russia	92.19%	–	–
"PM-Nedvigimost", CJSC	Trading	Russia	92.19%	–	–
"Remos-PM", CJSC	Manufacturing	Russia	92.19%	–	–
"Instrumentalniy zavod - Permskie Motory", CJSC	Manufacturing	Russia	92.19%	–	–
"Energetic-PM", OJSC	Energy	Russia	90.90%	–	–
"Reduktor-PM", OJSC	Manufacturing	Russia	74.96%	–	–
"Kaskad-PM", CJSC	Manufacturing	Russia	80.48%	–	–
"Gheleznodoroghnik-PM", CJSC	Transport	Russia	92.19%	–	–
"Nedvighimost-PM", Ltd	Leasing	Russia	91.27%	–	–
"Permskiy Motorniy zavod", OJSC	Manufacturing	Russia	66.04%	–	–
"Metallist-PM", CJSC	Manufacturing	Russia	78.86%	–	–
"Perm-Energy", CJSC	Engineering	Russia	78.36%	–	–
"PM-Upravlenie", CJSC	Leasing	Russia	68.26%	–	–
"Obscheghitie-PM", OJSC	Service	Russia	42.26%	–	–
"Usluga-PM", Ltd	Service	Russia	61.15%	–	–
Associates					
"Eurofinance Mosnarbank", OJSC	Bank	Russia	32.65%	–	–
"Halladale PLC"	Property	Great Britain	23.00%	–	–
"Management Company ICB", Ltd	Finance	Russia	30.91%	–	–
Associates within disposal group:					
"UK PMK"	Finance	Russia	32.52%	–	–
'Permskie Motory", OJSC	Manufacturing	Russia	26.70%	–	–

40. Consolidated Subsidiaries and Associates (continued)

In April 2003 the Group acquired 100% of CJSC "Almaz-Press" share capital for cash payment of USD 41 million and recognised goodwill in amount of USD 20 million.

In July and August 2003 the Group has made two cash contributions to the share capital of OJSC "VTB-Leasing" of RR 310 million each (USD equivalent is USD 20 million). The share of the Group in the share capital of OJSC "VTB-Leasing" comprised 100%.

In April 2004, the Group acquired 70% of the share capital of CJSC Armsavingsbank located in Armenia in exchange for cash payment of USD 9 million. As of 31 December 2004, its financial statements are consolidated into the Group's financial statements. As a result of this acquisition, the Group has recognized positive goodwill of USD 4 million in accordance with IFRS 3 "Business Combination". In 2005, CJSC Armsavingsbank increased its equity by issuing additional shares of USD 10 million. VTB purchased 70% additional shares in the amount of USD 7 million, and consequently VTB's share in capital of CJSC Armsavingsbank not was changed.

In January 2005, VTB acquired a 50% plus one share interest in United Georgian Bank ("UGB") in Tbilisi, Georgia, for approximately USD 7 million.

On 21 January 2005, the National Bank of Ukraine registered CJSC "Vneshtorgbank (Ukraine)", a wholly-owned subsidiary of VTB. CJSC "Vneshtorgbank (Ukraine)" began operations on 18 March 2005 and initially focused on providing international settlement services, loans and trade financing. Its initial share capital, contributed by VTB, is 80 million hryvnas (approximately USD 15 million). On the 10 June 2005, extraordinary meeting of shareholders approved an increase of share capital by 195 million hryvnas (USD 38 million).

On 6 June 2005, Guta Bank's shareholders changed its name to VTB Retail Services. The Group plans to restructure its retail operations, combining the retail and small business banking operations of VTB and VTB Retail Services. Starting in autumn of 2005, VTB began to gradually transfer to VTB Retail Services its retail and small business operations, along with the related assets and liabilities. The Group expects that the restructuring will be completed by August 2007. In August 2005, VTB Retail began offering retail and small business banking services in Moscow and Russian regions under the "Vneshtorgbank 24" brand.

In November 2005 CJSC "Vneshtorgbank Retail Services" (VTB Retail) issued 2,740,500 shares at par value RUR 1,000. On 30 November 2005, VTB purchased all shares issued by VTB Retail at RUR 3,284 per share. As a result, the share capital of VTB Retail increased by RUR 8,999,999 thousand. As a result of this transaction, VTB's ownership percentage in VTB Retail increased from 85.8% to 92.2%.

In December 2005 VTB sold its 62.4% owned subsidiary, Bank "Povolzhskiy", CJSC located in Ulyanovsk to a third parties for USD 1.5 million.

41. Capital Adequacy

The CBR requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on Russian accounting legislation on a stand-alone basis. At December 31, 2005, 2004 and 2003, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

The Group's international risk-based capital adequacy ratio, computed in accordance with the Basle Accord guidelines issued in 1988, with subsequent amendments including the amendment to incorporate market risks, at December 31, 2005, 2004 and 2003, was 14.1%, 12.0% and 19.6% respectively. These ratios exceeded the minimum ratio of 8% recommended by the Basle Accord.

42. Subsequent Events

In January 2006, VTB issued EUR 200 million debentures under rules of the German regulator (Schuldscheindarlehen) under 1 month EURIBOR+0.3% p.a. payable semi-annually and maturity of January 2007.

In February 2006, VTB issued EUR 500 million Series 9 Eurobonds under the EMTN Program with a fixed rate of 4.25% p.a. The issue has 10-year maturity (February 2016) and may be redeemed in February 2011 at the option of noteholders (5-year put option).

In February 2006, VTB redeemed Series 3 RUR denominated bonds with face value of USD 72 million.

In January 2006, VTB redeemed EUR denominated debentures issued under rules of the German regulator (Schuldscheindarlehen) with face value of USD 154 million.

On 24 March 2006, VTB purchased for USD 70 million 1,312,802,167 of ordinary shares (98% of the share capital) of the Bank "Mriya" located in Ukraine with 26 branches and 154 outlets. The amount of profit and loss of Mriya from the acquisition date to 31 March 2006 is immaterial. VTB has hired an independent appraiser to determine the fair value of identifiable assets, liabilities and contingent liabilities of Mriya as of the acquisition date. It is impracticable to disclose other information, required by IFRS 3, because the Group is in the process of performing the purchase price allocation.

At the end of 2005, VTB approved increase of share capital of Trading House VTB. The new issue of shares was purchased in January 2006 by the third party, thus decreasing the share of the Group in Trading House VTB to 50%. This transaction has not yet been finalized, however, the Group expects to retain control over Trading House VTB.

In the first quarter of 2006, UGB issued additional share capital in the amount of 20 million of Georgian Lari (approximately USD 11 million). VTB remained a majority shareholder and slightly increased it's ownership share in UGB.