

**“Bank “St Petersburg” PLC Group  
Consolidated Financial Statements and  
Auditors’ Report  
31 December 2005**

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## Auditors' Report

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## AUDITORS' REPORT

To the Supervisory Board of "Bank "St Petersburg" PLC:

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

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

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

*ZAO PricewaterhouseCoopers Audit*

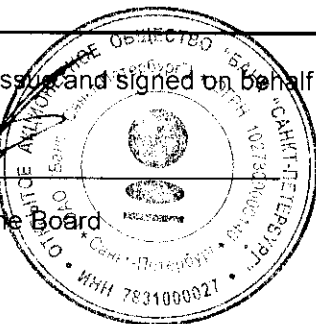
Moscow, Russian Federation  
10 May 2006

**"Bank "St Petersburg" PLC Group**  
**Consolidated Balance Sheet as at 31 December 2005**

<i>In thousands of Russian Roubles</i>	Note	31 December 2005	31 December 2004
<b>ASSETS</b>			
Cash and cash equivalents	7	4 556 945	1 678 978
Mandatory cash balances with the Central Bank of the Russian Federation		500 453	288 660
Trading securities	8	3 024 055	2 080 419
Other securities at fair value through profit or loss	9	327 488	717 881
Due from other banks	10	2 086 821	320 217
Loans and advances to customers	11	19 044 576	10 395 170
Deferred tax asset	24	1 107	-
Premises and equipment and intangible assets	12	1 394 328	914 421
Other assets	13	198 969	217 615
<b>TOTAL ASSETS</b>		<b>31 134 742</b>	<b>16 613 361</b>
<b>LIABILITIES</b>			
Due to other banks	14	1 293 684	623 833
Customer accounts	15	23 438 211	11 910 586
Debt securities in issue	16	2 825 234	2 017 234
Other borrowed funds	17	35 926	91 232
Other liabilities	18	154 704	47 569
Deferred tax liability	24	70 349	29 894
<b>TOTAL LIABILITIES</b>		<b>27 818 108</b>	<b>14 720 348</b>
<b>EQUITY</b>			
Share capital	19	3 284 230	3 281 105
Share premium	19	2 124 906	1 628 031
Revaluation reserve for premises and equipment	20	510 909	224 461
Accumulated deficit	20	(2 603 411)	(3 240 584)
<b>Net assets attributable to the Bank's equity holders</b>		<b>3 316 634</b>	<b>1 893 013</b>
Minority interest		-	-
<b>TOTAL EQUITY</b>		<b>3 316 634</b>	<b>1 893 013</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>31 134 742</b>	<b>16 613 361</b>

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

A.V. Saveliev  
Chairman of the Board



  
N.G. Tomilina  
Chief Accountant

**"Bank "St Petersburg" PLC Group**  
**Consolidated Statement of Income for the Year Ended 31 December 2005**

<i>In thousands of Russian Roubles</i>	<b>Note</b>	<b>2005</b>	<b>2004</b>
Interest income	21	2 629 314	1 467 106
Interest expense	21	(941 925)	(575 664)
<b>Net interest income</b>		<b>1 687 389</b>	<b>891 442</b>
Provision for loan impairment	10, 11	(476 956)	(190 993)
<b>Net interest income after provision for loan impairment</b>		<b>1 210 433</b>	<b>700 449</b>
Gains less losses from trading securities		127 138	79 898
Gains less losses from other securities at fair value through profit or loss		32 102	30 844
Gains less losses from trading in foreign currencies		9 320	97 226
Foreign exchange translation gains less losses / (losses less gains)		109 649	(38 615)
Fee and commission income	22	418 708	317 484
Fee and commission expense	22	(25 198)	(18 684)
Net losses on origination of assets at rates below market	11	(3 922)	(15 665)
Release of provision for impairment of premises	12	44 927	-
Provision for losses on credit related commitments	18	(10 466)	(851)
Loss on disposal of investment in property held for resale	32	-	(16 139)
Gain on disposal of investments in subsidiaries	32	-	94 937
Net result from insurance activities		-	(82 513)
Other operating income		17 220	37 158
<b>Operating income</b>		<b>1 929 911</b>	<b>1 185 529</b>
Administrative and other operating expenses	23	(1 133 463)	(933 314)
<b>Profit before tax</b>		<b>796 448</b>	<b>252 215</b>
Income tax (expense)/credit	24	(166 398)	10 010
<b>Profit for the year</b>		<b>630 050</b>	<b>262 225</b>
<b>Profit is attributable to</b>			
Equity holders of the Bank		630 050	272 860
Minority interest		-	(10 635)
<b>Profit for the year</b>		<b>630 050</b>	<b>262 225</b>
<b>Basic profit per share (in Russian Roubles per share)</b>	25	<b>35</b>	<b>20</b>

**"Bank "St Petersburg" PLC Group**  
**Consolidated Statement of Changes in Equity for the Year Ended 31 December 2005**

In thousands of Russian Roubles	Note	Attributable to equity holders of the Bank				Total	Minority interest	Total equity
		Share capital	Share premium	Revaluation reserve for premises and equipment	Retained earnings			
<b>Balance as at 1 January 2004</b>		<b>3 277 980</b>	<b>1 131 156</b>	<b>194 896</b>	<b>(3 509 075)</b>	<b>1 094 957</b>	<b>8 611</b>	<b>1 103 568</b>
Premises and equipment:								
- Release of impairment charge related to revaluation of premises		-	-	38 901	-	38 901	-	38 901
Income tax recorded in equity	24	-	-	(9 336)	-	(9 336)	-	(9 336)
Net income recorded directly in equity		-	-	29 565	-	29 565	-	29 565
Profit for the year		-	-	-	272 860	272 860	(10 635)	262 225
Total recognised income for 2004		-	-	29 565	272 860	302 425	(10 635)	291 790
Share issue	19	3 125	496 875	-	-	500 000	-	500 000
Dividends declared	26							
- Ordinary shares		-	-	-	(1 528)	(1 528)	-	(1 528)
- Preference shares		-	-	-	(221)	(221)	-	(221)
Share issue of the subsidiary		-	-	-	-	-	2 710	2 710
Partial disposal of the subsidiary	32	-	-	-	-	-	(2 620)	(2 620)
Disposal of Gaide Insurance Company	32	-	-	-	-	-	(686)	(686)
Negative minority interest in the disposed subsidiary charged to the Group	32	-	-	-	(2 620)	(2 620)	2 620	-
<b>Balance as at 1 January 2005</b>		<b>3 281 105</b>	<b>1 628 031</b>	<b>224 461</b>	<b>(3 240 584)</b>	<b>1 893 013</b>	<b>-</b>	<b>1 893 013</b>
Premises and equipment:								
- Revaluation	12	-	-	389 702	-	389 702	-	389 702
- Reallocation of revaluation reserve related to disposed premises	12	-	-	(9 726)	9 726	-	-	-
Income tax recorded in equity	24	-	-	(93 528)	-	(93 528)	-	(93 528)
Net income recorded directly to equity		-	-	286 448	9 726	296 174	-	296 174
Profit for the year		-	-	-	630 050	630 050	-	630 050
Total recognised income for 2005		-	-	286 448	639 776	926 224	-	926 224
Share issue	19	3 125	496 875	-	-	500 000	-	500 000
Dividends declared								
- Ordinary shares	26	-	-	-	(2 382)	(2 382)	-	(2 382)
- Preference shares	26	-	-	-	(221)	(221)	-	(221)
<b>Balance as at 31 December 2005</b>		<b>3 284 230</b>	<b>2 124 906</b>	<b>510 909</b>	<b>(2 603 411)</b>	<b>3 316 634</b>	<b>-</b>	<b>3 316 634</b>

**"Bank "St Petersburg" PLC Group**  
**Consolidated Statement of Cash Flows for the Year Ended 31 December 2005**

<i>In thousands of Russian Roubles</i>	<b>2005</b>	<b>2004</b>
<b>Cash flows from operating activities</b>		
Interest income received on loans and advances	2 392 955	1 320 187
Interest income received on securities	211 211	139 685
Interest expense paid on deposits	(673 926)	(387 355)
Interest expense paid on securities issued	(160 116)	(124 915)
Income received from trading in trading securities	125 684	36 636
Income received from trading in other securities at fair value through profit or loss	20 220	30 844
Income received from dealing in foreign currencies	17 179	94 486
Fees and commissions received	418 708	317 484
Fees and commissions paid	(25 198)	(18 684)
Income from insurance activities	-	379 176
Other operating income received	13 965	32 511
Operating expenses paid	(915 819)	(863 107)
Income tax paid	(225 471)	(63 342)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>1 199 392</b>	<b>893 606</b>
<b>Changes in operating assets and liabilities</b>		
Net (increase)/decrease in mandatory cash balances with the Central Bank of the Russian Federation	(211 793)	487 673
Net increase in trading securities	(910 299)	(977 034)
Net decrease/(increase) in other securities at fair value through profit or loss	418 560	(230 828)
Net increase in due from other banks	(1 763 716)	(113 701)
Net increase in loans and advances to customers	(9 003 430)	(4 414 121)
Net decrease/(increase) in other assets	22 438	(235 112)
Net increase in due to other banks	647 870	758
Net increase in customer accounts	11 419 696	3 766 082
Net increase in debt securities in issue	802 425	377 658
Net (decrease)/increase in other liabilities	(8 474)	23 822
<b>Net cash from / (used in) operating activities</b>	<b>2 612 669</b>	<b>(421 197)</b>
<b>Cash flows from investing activities</b>		
Acquisition of premises and equipment and intangible assets	12 (165 111)	(113 354)
Proceeds from disposal of premises and equipment and intangible assets	156	39 442
Cash outflow from disposal of share in subsidiaries	32 -	(139 543)
Dividend income received	3 137	4 652
<b>Net cash used in investing activities</b>	<b>(161 818)</b>	<b>(208 803)</b>
<b>Cash flows from financing activities</b>		
Issue of ordinary shares	19	
- share capital	3 125	3 125
- share premium	496 875	496 875
Repayment of other borrowed funds	17 (65 445)	(14 424)
Dividends paid	26 (2 646)	(1 633)
<b>Net cash from financing activities</b>	<b>431 909</b>	<b>483 943</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(4 793)</b>	<b>(18 960)</b>

The notes set out on pages 6 to 56 form an integral part of these consolidated financial statements.

**"Bank "St Petersburg" PLC Group**  
**Consolidated Statement of Cash Flows for the Year Ended 31 December 2005**

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<i>In thousands of Russian Roubles</i>	2005	2004
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>2 877 967</b>	<b>(165 017)</b>
Cash and cash equivalents at the beginning of the period	1 678 978	1 843 995
<b>Cash and cash equivalents at the end of the period</b>	<b>4 556 945</b>	<b>1 678 978</b>

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



## **1 Introduction**

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

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

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

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

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

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

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

## **2 Operating Environment of the Group**

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

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

### **3 Basis of Preparation and Significant Accounting Policies**

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

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

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

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

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

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

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

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

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

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

### **3 Basis of Preparation and Significant Accounting Policies (Continued)**

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

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

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

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

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

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

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

### **3 Basis of Preparation and Significant Accounting Policies (Continued)**

**Cash and cash equivalents.** Cash and cash equivalents are items which can be converted into cash within a day. All short term interbank placements, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents. Cash and cash equivalents are carried at fair value.

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

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

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the consolidated statement of income as interest income. Dividends are included in dividend income in the consolidated statement of income when the 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 consolidated 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.** Other securities at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

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

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

Loans originated at interest rates different from market rates are remeasured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar loans. The difference between the fair value and the nominal value at origination is credited or charged to the consolidated statement of income as gains on origination of assets at rates above market or losses on origination of assets at rates below market. Subsequently, the carrying amount of such loans is adjusted for amortisation of the gains/losses on origination and the related income is recorded as interest income within the consolidated statement of income using the effective yield method.

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

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

### **3 Basis of Preparation and Significant Accounting Policies (Continued)**

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

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

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

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

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

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

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

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

### **3 Basis of Preparation and Significant Accounting Policies (Continued)**

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

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

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

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

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

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

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

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

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

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

Premises – 2% per annum;

Office and computer equipment – 20% per annum;

Leasehold improvements – over the term of the underlying lease;

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

### **3 Basis of Preparation and Significant Accounting Policies (Continued)**

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

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

Intangible assets are depreciated at 30% per annum.

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

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

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

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

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

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

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

### **3 Basis of Preparation and Significant Accounting Policies (Continued)**

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

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

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

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

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

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

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

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

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

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

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



### **3 Basis of Preparation and Significant Accounting Policies (Continued)**

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

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

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

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

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

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

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

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

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

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

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

### **3 Basis of Preparation and Significant Accounting Policies (Continued)**

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

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

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

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

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

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

### **4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies**

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

#### **4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)**

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

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

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

#### **5 Adoption of New or Revised Standards and Interpretations**

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

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

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

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

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

**IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation.** Additional disclosures required by the revised Standard were made in these financial statements.

## **5 Adoption of New or Revised Standards and Interpretations (Continued)**

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

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

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

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

## **6 New Accounting Pronouncements**

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

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

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

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

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

## **7 Cash and Cash Equivalents**

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

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

## **8 Trading Securities**

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

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

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

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

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

## **8 Trading Securities (Continued)**

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

Corporate shares are shares of Russian companies.

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

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

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

## **9 Other Securities at Fair Value through Profit or Loss**

<i>In thousands of Russian Roubles</i>	<b>2005</b>	<b>2004</b>
VneshEconomBank 3% coupon bonds (VEB)	327 488	717 881
<b>Total other securities at fair value through profit or loss</b>	<b>327 488</b>	<b>717 881</b>

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

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

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

## **10 Due from Other Banks**

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

**10 Due from Other Banks (Continued)**

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

<i>In thousands of Russian Roubles</i>	<b>2005</b>	<b>2004</b>
<b>Provision for loan impairment as at 1 January</b>	<b>6 829</b>	<b>6 958</b>
Provision for/(recovery of) loan impairment during the year	9 375	(129)
Loans to banks written off during the year as uncollectible	(999)	-
<b>Provision for loan impairment as at 31 December</b>	<b>15 205</b>	<b>6 829</b>

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

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

**11 Loans and Advances to Customers**

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

During 2005 a loss on origination of loans to customers at rates below market in the amount of RR 3 922 thousand was recorded in the consolidated statement of income (2004: RR 15 665 thousand). As at 31 December 2005 loans and advances to customers in amount of RR 918 102 thousand (31 December 2004: RR 75 532 thousand) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of RR 967 747 thousand (31 December 2004: RR 84 922 thousand), for all of which the Group has a right to sell or repledge. These sale and repurchase deals were settled in January 2006.

Movements in provision for loan impairment are as follows:

<i>In thousands of Russian Roubles</i>	<b>2005</b>	<b>2004</b>
<b>Provision for loan impairment as at 1 January</b>	<b>846 334</b>	<b>747 240</b>
Provision for loan impairment during the year	467 581	191 122
Loans and advances to customers written off during the year as uncollectible	(135 645)	(92 028)
<b>Provision for loan impairment as at 31 December</b>	<b>1 178 270</b>	<b>846 334</b>

## **11 Loans and Advances to Customers (Continued)**

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

<i>In thousands of Russian Roubles</i>	<b>2005</b>		<b>2004</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Construction	3 563 308	17.6	2 105 258	18.7
Heavy machinery and ship-building	3 444 567	17.0	2 487 904	22.1
Trade	3 263 736	16.1	2 542 381	22.6
Real estate operations	3 008 856	14.9	480 881	4.3
Leasing and financial services	2 288 320	11.3	833 808	7.4
Consumer goods and food industry	1 591 288	7.9	355 068	3.2
Energy	591 571	2.9	169 382	1.5
Individuals	450 519	2.2	148 278	1.3
Forestry	275 732	1.4	66 004	0.6
Chemical industry	259 073	1.3	214 471	1.9
Project financing	153 640	0.8	459 665	4.1
Mass media	108 000	0.5	62 297	0.6
Transport	60 037	0.3	19 298	0.2
City administrations and municipalities	-	-	419 590	3.7
Other	1 164 199	5.8	877 219	7.8
<b>Total loans and advances to customers (before impairment)</b>	<b>20 222 846</b>	<b>100.0</b>	<b>11 241 504</b>	<b>100.0</b>

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

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

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

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



**12 Premises, Equipment and Intangible Assets**

	Note	Premises	Office and computer equipment	Construction in progress	Intangible assets	Total
<i>In thousands of Russian Roubles</i>						
Cost as at 1 January 2003		879 738	265 948	36 771	13 846	1 196 303
Accumulated depreciation and provision for impairment		(141 808)	(138 325)	-	(7 708)	(287 841)
<b>Net book amount as at 1 January 2004</b>		<b>737 930</b>	<b>127 623</b>	<b>36 771</b>	<b>6 138</b>	<b>908 462</b>
Additions		21 574	82 325	9 441	14	113 354
Transfers between categories		-	7 971	(7 971)	-	-
Disposals		(1 797)	(2 975)	(26 149)	-	(30 921)
Depreciation charge	23	(21 646)	(42 238)	-	(2 538)	(66 422)
Release of impairment through equity		38 901	-	-	-	38 901
Disposal of subsidiaries	32	(21 933)	(24 635)	(2 371)	(14)	(48 953)
<b>Net book amount as at 31 December 2004</b>		<b>753 029</b>	<b>148 071</b>	<b>9 721</b>	<b>3 600</b>	<b>914 421</b>
Cost as at 31 December 2004		876 647	314 609	9 721	13 846	1 214 823
Accumulated depreciation and provision for impairment		(123 618)	(166 538)	-	(10 246)	(300 402)
<b>Net book amount as at 31 December 2004</b>		<b>753 029</b>	<b>148 071</b>	<b>9 721</b>	<b>3 600</b>	<b>914 421</b>
Additions		7 443	144 785	9 001	3 882	165 111
Transfers between categories		-	9 717	(9 717)	-	-
Disposals		(38 916)	(688)	-	(2)	(39 606)
Depreciation charge	23	(21 070)	(56 082)	-	(3 075)	(80 227)
Revaluation	20	389 702	-	-	-	389 702
Release of impairment through profit and loss		44 927	-	-	-	44 927
<b>Net book amount as at 31 December 2005</b>		<b>1 135 115</b>	<b>245 803</b>	<b>9 005</b>	<b>4 405</b>	<b>1 394 328</b>
Cost as at 31 December 2005		1 168 681	449 702	9 005	17 726	1 645 114
Accumulated depreciation and provision for impairment		(33 566)	(203 899)	-	(13 321)	(250 786)
<b>Net book amount as at 31 December 2005</b>		<b>1 135 115</b>	<b>245 803</b>	<b>9 005</b>	<b>4 405</b>	<b>1 394 328</b>

Construction in progress consists mainly of construction and refurbishment of branch premises. Upon completion, assets are transferred to premises and equipment.

## 12 Premises, Equipment and Intangible Assets(Continued)

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

- The *comparison* approach is based on the direct comparison of the revalued object with other objects sold or offered for sale. The market value of premises is determined by the price which an independent party would pay for an object similar by its quality and use. The market value of premises was estimated on the basis of the comparison approach based on information on sales of the comparable objects that took place in the market.
- When determining the value of the property on the basis of the *income* approach, the discounted cash flows method was applied. The basic principle used as a basis for this approach was the assumption that upon acquiring any property an investor expects to generate income from commercial operation of such property.
- The *replacement cost* approach represents a set of methods of valuation of property based on determination of costs required to recover or replace an object taking into account its depreciation. The basis of the cost approach is the principle of replacement, under which a buyer will not pay for an object an amount exceeding the cost of creation within a reasonable time of an object with equal utility.

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

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

## 13 Other Assets

In thousands of Russian Roubles	Note	2005	2004
Receivables and advance payments		71 699	24 844
Tax advance payments		31 608	17 708
Receivables on plastic cards transactions		29 043	15 141
Receivables on sale of investments in property for resale		17 831	132 672
Investment securities available for sale		11 368	11 458
Deferred expenses		9 953	-
Settlements on conversion operations		4 946	596
Fair value of derivative financial instruments	29	4 112	5 101
Debtors on sale of investments in subsidiaries	32	-	6 137
Other		18 409	3 958
<b>Total other assets</b>		<b>198 969</b>	<b>217 615</b>

Geographical, currency and maturity analyses of other assets are disclosed in Note 28.

#### 14 Due to Other Banks

<i>In thousands of Russian Roubles</i>	2005	2004
Correspondent accounts and overnight placements of other banks	11 929	19 680
Current term placements of other banks	1 281 755	604 153
<b>Total due to other banks</b>	<b>1 293 684</b>	<b>623 833</b>

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

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

#### 15 Customer Accounts

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

State and public organizations exclude government owned profit oriented business.

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of Russian Roubles</i>	2005		2004	
	Amount	%	Amount	%
Individuals	8 953 161	38.2	4 885 980	41.0
Financial services	2 692 378	11.5	1 357 005	11.4
Construction	2 308 038	9.8	606 950	5.1
Manufacturing	1 984 581	8.5	798 919	6.7
Trade	1 425 077	6.1	570 104	4.8
Real state	1 402 752	6.0	619 796	5.2
Transport	1 310 827	5.6	317 802	2.7
Public utilities	905 367	3.9	233 349	2.0
Art, science and education	800 266	3.4	634 100	5.3
Cities and municipalities	793 767	3.4	122 886	1.0
Medical institutions	202 416	0.9	14 474	0.1
Communications	102 884	0.4	132 768	1.1
Energy	39 932	0.2	508 001	4.3
Others	516 765	2.1	1 108 452	9.3
<b>Total customer accounts</b>	<b>23 438 211</b>	<b>100.0</b>	<b>11 910 586</b>	<b>100.0</b>

## **15 Customer Accounts (continued)**

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

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

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

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

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

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

## **16 Debt Securities in Issue**

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

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

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

## **17 Other Borrowed Funds**

<i>In thousands of Russian Roubles</i>	<b>2005</b>	<b>2004</b>
Funds attracted from Ministry of Finance and Ministry of Construction of the Russian Federation under Housing facility program	30 657	41 664
Funds attracted from Ministry of Finance of the Russian Federation under FIDP facility	5 269	7 621
Subordinated loan	-	41 947
<b>Total other borrowed funds</b>	<b>35 926</b>	<b>91 232</b>

## 17 Other Borrowed Funds (Continued)

As at 31 December 2005 the Group had USD 1 065 thousand, equivalent of RR 30 657 thousand (2004: USD 1 501 thousand, equivalent of RR 41 664 thousand) of funds attracted from the Ministry of Finance and the Ministry of Construction of the Russian Federation under a facility of the International Bank for Reconstruction and Development. The facility was provided for financing construction of houses and development of construction industry in Russia in 1996. As at 31 December 2005 the loan carried variable interest rates from 5.56% to 6.70% p. a. depending on the tranche (2004: from 8.53% to 10.87% p. a. depending on the tranche) and should be repaid by 15 January 2008 in equal semi-annual instalments starting July 1998.

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

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

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

## 18 Other Liabilities

<i>In thousands of Russian Roubles</i>	Note	2005	2004
Accrued employee benefit costs		95 736	-
Due to construction company	32	17 831	17 831
Provision for losses on credit related commitments	29	12 053	1 587
Fair value of derivative financial instruments	29	9 139	2 269
Plastic cards creditors		6 705	4 007
Taxes payable, other than profit tax		6 449	5 231
Trade creditors		1 804	11 501
Settlements on conversion operations		1 192	1 549
Dividends payable	26	395	438
Other		3 400	3 156
<b>Total other liabilities</b>		<b>154 704</b>	<b>47 569</b>

Movements in provision for credit related commitments are as follows:

<i>In thousands of Russian Roubles</i>	2005	2004
<b>Carrying amount at 1 January</b>	<b>1 587</b>	<b>736</b>
Provision for losses on credit related commitments during the period	10 466	851
<b>Carrying amount at 31 December</b>	<b>12 053</b>	<b>1 587</b>

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

**19 Share Capital**

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

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

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

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

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

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

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

**20 Other Reserves**

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

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

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

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules at 31 December 2005 are RR 1 551 134 thousand (2004: RR 616 246 thousand).

## 21 Interest Income and Expense

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

## 22 Fee and Commission Income and Expense

<i>In thousands of Russian Roubles</i>	2005	2004
<b>Fee and commission income</b>		
Commission on settlement transactions	202 781	158 279
Commission on plastic cards & cheques settlements	82 369	58 422
Commission on cash transactions	65 829	47 648
Commission on cash collection	30 328	26 627
Commission on guarantees issued	19 680	6 218
Commission on transactions with foreign currency	11 012	14 534
Commission on safekeeping operations	5 573	4 368
Other	1 136	1 388
<b>Total fee and commission income</b>	<b>418 708</b>	<b>317 484</b>
<b>Fee and commission expense</b>		
Commission on settlement transactions	13 121	3 669
Commission on plastic cards & cheques settlements	9 576	10 325
Commission on banknote transactions	1 402	4 119
Commission on cash collection and cash transactions	766	298
Other	333	273
<b>Total fee and commission expense</b>	<b>25 198</b>	<b>18 684</b>
<b>Net fee and commission income</b>	<b>393 510</b>	<b>298 800</b>



### 23 Administrative and Other Operating Expenses

<i>In thousands of Russian Roubles</i>	Note	2005	2004
Staff costs		550 236	381 750
Administrative expenses		108 237	193 291
Other expenses related to premises and equipment		86 743	42 829
Depreciation of premises and equipment	12	80 227	66 422
Maintenance expenses		67 641	36 292
Taxes other than on income		57 447	49 022
Property rent expenses		53 915	53 353
Security expenses		44 524	35 195
Contribution to deposit insurance scheme		29 644	-
Advertising and marketing		10 618	15 099
Professional services		4 551	2 691
Charity expenses		4 316	2 198
Other		35 364	55 172
<b>Total administrative and operating expenses</b>		<b>1 133 463</b>	<b>933 314</b>

### 24 Income Taxes

Income tax expense/(credit) comprises the following:

<i>In thousands of Russian Roubles</i>	2005	2004
Current tax	220 578	57 521
Deferred tax	(54 180)	(67 531)
<b>Income tax expense/(credit) for the year</b>	<b>166 398</b>	<b>(10 010)</b>

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

<i>In thousands of Russian Roubles</i>	2005	2004
<b>IFRS profit before tax</b>	<b>796 448</b>	<b>252 215</b>
Theoretical tax charge at the applicable statutory rate (2005: 24%; 2004: 24%)	191 148	60 532
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	(13 112)	(26 820)
- Non deductible expenses	3 260	3 533
- Non-taxable gain on disposal of subsidiaries	-	(38 841)
- Income on government securities taxed at different rates	(14 439)	(11 991)
- Other non temporary differences	-	3 577
- Utilisation of previously unrecognised tax losses	(459)	-
<b>Income tax expense/(credit) for the year</b>	<b>166 398</b>	<b>(10 010)</b>

**24 Income Taxes (Continued)**

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

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

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

	31 December 2004	Charged/ (credited) to profit or loss	Charged/ (credited) directly to equity	31 December 2005
<b>Tax effect of deductible temporary differences</b>				
Loan impairment provision	37 518	102 481	-	139 999
Accrued income/expense	28 399	3 765	-	32 164
Premises and equipment: depreciation and impairment provision	29 394	(13 440)	-	15 954
Loss on disposal of investment in property held for resale	36 968	(36 968)	-	-
Gain on sale of subsidiaries	16 057	(16 057)	-	-
Fair valuation of loans to customers	3 523	(2 669)	-	854
Other	778	6 910	-	7 688
<b>Net deferred tax asset</b>	<b>152 637</b>	<b>44 022</b>	<b>-</b>	<b>196 659</b>
Less offsetting with deferred tax liability	(152 637)	(42 915)	-	(195 552)
<b>Recognised deferred tax asset</b>	<b>-</b>	<b>1 107</b>	<b>-</b>	<b>1 107</b>
<b>Tax effect of taxable temporary differences</b>				
Revaluation of premises and equipment	(166 331)	4 022	(93 528)	(255 837)
Fair valuation of securities	(10 441)	1 755	-	(8 686)
Fair valuation of loans to banks	(1 689)	330	-	(1 359)
Fair valuation of attracted funds	(1 933)	1 933	-	-
Other	(2 137)	2 118	-	(19)
<b>Gross deferred tax liability</b>	<b>(182 531)</b>	<b>10 158</b>	<b>(93 528)</b>	<b>(265 901)</b>
Less offsetting with deferred tax asset	152 637	42 915	-	195 552
<b>Recognised deferred tax liability</b>	<b>(29 894)</b>	<b>53 073</b>	<b>(93 528)</b>	<b>(70 349)</b>

**24 Income Taxes (Continued)**

	31 December 2003	Charged / (credited) to profit or loss	Disposal of subsidiaries	Charged/ (credited) directly to equity	31 December 2004
<b>Tax effect of deductible temporary differences</b>					
Loan impairment provision	62 369	(24 851)	-	-	37 518
Loss on disposal of investment in property held for resale	33 095	3 873	-	-	36 968
Premises and equipment: depreciation and impairment provision	38 219	511	-	(9 336)	29 394
Accrued income	-	27 356	1 043	-	28 399
Gain on sale of subsidiaries	-	16 057	-	-	16 057
Fair valuation of loans to customers	-	3 817	(294)	-	3 523
Fair valuation of securities	8 032	(8 032)	-	-	-
Insurance reserves	-	55 989	(55 989)	-	-
Other	2 616	305	(2 143)	-	778
<b>Net deferred tax asset</b>	<b>144 331</b>	<b>75 025</b>	<b>(57 383)</b>	<b>(9 336)</b>	<b>152 637</b>
Less offsetting with deferred tax liability	(144 331)	(75 025)	57 383	9 336	(152 637)
<b>Recognised deferred tax asset</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Tax effect of taxable temporary differences</b>					
Revaluation of premises and equipment	(163 160)	(3 171)	-	-	(166 331)
Fair valuation of securities	-	(10 515)	74	-	(10 441)
Fair valuation of attracted funds	(2 691)	758	-	-	(1 933)
Fair valuation of loans to banks	(3 960)	2 271	-	-	(1 689)
Other	(5 300)	3 163	-	-	(2 137)
<b>Gross deferred tax liability</b>	<b>(175 111)</b>	<b>(7 494)</b>	<b>74</b>	<b>-</b>	<b>(182 531)</b>
Less offsetting with deferred tax asset	144 331	75 025	(57 383)	(9 336)	152 637
<b>Recognised deferred tax liability</b>	<b>(30 780)</b>	<b>67 531</b>	<b>(57 309)</b>	<b>(9 336)</b>	<b>(29 894)</b>

## 25 Earnings per Share

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

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

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

## 26 Dividends

	2005		2004	
	Ordinary	Preference	Ordinary	Preference
<b>Dividends payable as at 1 January</b>	<b>438</b>	-	<b>322</b>	-
Dividends declared during the year	2 382	221	1 528	221
Dividends paid during the year	(2 425)	(221)	(1 412)	(221)
<b>Dividends payable as at 31 December</b>	<b>395</b>	-	<b>438</b>	-
<b>Dividends per share declared during the year (RR per share)</b>	<b>0.14</b>	<b>0.11</b>	<b>0.11</b>	<b>0.11</b>

All dividends are declared and paid in Russian Roubles.

## **27 Segment Analysis**

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

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

- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency transactions with commercial and state entities.
- Operations on financial markets – representing financial instruments trading, loans and deposits in the interbank market, dealing in foreign exchange and derivative financial instruments.
- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages for individuals.

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

**27 Segment Analysis (Continued)**

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

	Corporate banking	Operations on financial markets	Retail banking	Unallocated	Elimina- tions	Total
<i>In thousands of Russian Roubles</i>						
<b>2005</b>						
External revenues	2 705 642	425 723	212 086	-	-	3 343 451
Revenues from other segments	977 532	1 808 317	883 971	-	(3 669 820)	-
<b>Total revenues</b>	<b>3 683 174</b>	<b>2 234 040</b>	<b>1 096 057</b>	<b>-</b>	<b>(3 669 820)</b>	<b>3 343 451</b>
<b>Total revenues comprise:</b>						
- Interest income	3 276 276	2 088 538	934 320	-	(3 669 820)	2 629 314
- Net gains from operations with securities	-	159 240	-	-	-	159 240
- Net gains from trading in foreign currencies	32 442	(125 274)	102 152	-	-	9 320
- Net gains from translation of foreign currency	-	109 649	-	-	-	109 649
- Fee and commission income	370 461	1 768	46 479	-	-	418 708
- Other operating income	3 995	119	13 106	-	-	17 220
<b>Segment result</b>	<b>788 201</b>	<b>303 851</b>	<b>146 438</b>	<b>-</b>	<b>-</b>	<b>1 238 490</b>
Unallocated costs						(442 042)
<b>Profit before tax</b>						<b>796 448</b>
Income tax expense						(166 398)
<b>Profit</b>						<b>630 050</b>
<b>Segment assets</b>	<b>20 497 916</b>	<b>8 877 404</b>	<b>1 102 672</b>	<b>656 750</b>	<b>-</b>	<b>31 134 742</b>
<b>Segment liabilities</b>	<b>17 312 322</b>	<b>1 329 610</b>	<b>8 953 161</b>	<b>223 015</b>	<b>-</b>	<b>27 818 108</b>
<b>Other segment items</b>						
Capital expenditure	(26 503)	(1 121)	(67 817)	(69 670)	-	(165 111)
Depreciation and amortisation expense	(12 909)	(544)	(32 938)	(33 836)	-	(80 227)
Reversals of impairment losses though profit or loss	-	-	-	44 927	-	44 927
Provision for loans impairments	(461 089)	(9 375)	(6 492)	-	-	(476 956)
Other non-cash expenses	(41 227)	(280)	(95 296)	(75 742)	-	(212 545)

**27 Segment Analysis (Continued)**

	Corporate banking	Opera- tions on financial markets	Retail banking	Unallocated	Elimina- tions	Total
<i>In thousands of Russian Roubles</i>						
<b>2004</b>						
External revenues	1 642 706	174 229	174 166	-	-	1 991 101
Revenues from other segments	598 692	1 132 662	489 941	-	(2 221 295)	-
<b>Total revenues</b>	<b>2 241 398</b>	<b>1 306 891</b>	<b>664 107</b>	<b>-</b>	<b>(2 221 295)</b>	<b>1 991 101</b>
<b>Total revenues comprise:</b>						
- Interest income	1 876 133	1 302 428	509 840	-	(2 221 295)	1 467 106
- Net gains from operations with securities	-	110 742	-	-	-	110 742
- Net gains from trading in foreign currencies	44 387	(67 991)	120 830	-	-	97 226
- Net gains from translation of foreign currency	-	(38 615)	-	-	-	(38 615)
- Fee and commission income	284 219	327	32 938	-	-	317 484
- Other operating income	36 659	-	499	-	-	37 158
<b>Segment result</b>	<b>321 075</b>	<b>38 847</b>	<b>47 488</b>	<b>-</b>	<b>-</b>	<b>407 410</b>
Unallocated costs						(155 195)
<b>Profit before tax</b>						<b>252 215</b>
Income tax credit						10 010
<b>Profit</b>						<b>262 225</b>
<b>Segment assets</b>	<b>11 512 885</b>	<b>4 061 158</b>	<b>519 463</b>	<b>519 855</b>	<b>-</b>	<b>16 613 361</b>
<b>Segment liabilities</b>	<b>9 053 259</b>	<b>715 065</b>	<b>4 885 979</b>	<b>66 045</b>	<b>-</b>	<b>14 720 348</b>
<b>Other segment items</b>						
Capital expenditure	(17 397)	(822)	(44 004)	(51 131)	-	(113 354)
Depreciation and amortisation expense	(14 573)	(444)	(23 776)	(27 629)	-	(66 422)
Reversals of impairment losses though equity	-	-	-	38 901	-	38 901
Provision for loan impairment	(164 235)	129	(26 887)	-	-	(190 993)
Other non-cash expenses	(104 911)	(16)	(32 585)	(1 025)	-	(138 537)

## 27 Segment Analysis (Continued)

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

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

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

## 28 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

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

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

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

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

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



**28 Financial Risk Management (Continued)**

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

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

<i>In thousands of Russian Roubles</i>	<b>Russia</b>	<b>OECD countries</b>	<b>Non-OECD countries</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	3 854 204	700 347	2 394	4 556 945
Mandatory cash balances with the Central Bank of the Russian Federation	500 453	-	-	500 453
Trading securities	3 024 055	-	-	3 024 055
Other securities at fair value through profit or loss	327 488	-	-	327 488
Due from other banks	1 886 543	200 278	-	2 086 821
Loans and advances to customers	19 006 871	37 705	-	19 044 576
Deferred tax asset	1 107	-	-	1 107
Premises, equipment and intangible assets	1 394 328	-	-	1 394 328
Other assets	198 969	-	-	198 969
<b>Total assets</b>	<b>30 194 018</b>	<b>938 330</b>	<b>2 394</b>	<b>31 134 742</b>
<b>Liabilities</b>				
Due to other banks	1 293 684	-	-	1 293 684
Customer accounts	23 389 764	27 402	21 045	23 438 211
Debt securities in issue	2 825 234	-	-	2 825 234
Other borrowed funds	5 271	30 655	-	35 926
Other liabilities	154 704	-	-	154 704
Deferred tax liability	70 349	-	-	70 349
<b>Total liabilities</b>	<b>27 739 006</b>	<b>58 057</b>	<b>21 045</b>	<b>27 818 108</b>
<b>Net balance sheet position</b>	<b>2 455 012</b>	<b>880 273</b>	<b>(18 651)</b>	<b>3 316 634</b>
<b>Credit related commitments (Note 29)</b>	<b>915 999</b>	<b>-</b>	<b>-</b>	<b>915 999</b>

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

**28 Financial Risk Management (Continued)**

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

<i>In thousands of Russian Roubles</i>	<b>Russia</b>	<b>OECD countries</b>	<b>Non-OECD countries</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	1 525 543	151 925	1 510	1 678 978
Mandatory cash balances with the Central Bank of the Russian Federation	288 660	-	-	288 660
Trading securities	2 080 419	-	-	2 080 419
Other securities at fair value through profit or loss	717 881	-	-	717 881
Due from other banks	297 941	22 276	-	320 217
Loans and advances to customers	10 395 170	-	-	10 395 170
Premises, equipment and intangible assets	914 421	-	-	914 421
Other assets	217 615	-	-	217 615
<b>Total assets</b>	<b>16 437 650</b>	<b>174 201</b>	<b>1 510</b>	<b>16 613 361</b>
<b>Liabilities</b>				
Due to other banks	19 680	360 135	244 018	623 833
Customer accounts	11 820 526	44 722	45 338	11 910 586
Debt securities in issue	2 017 234	-	-	2 017 234
Other borrowed funds	49 568	41 664	-	91 232
Other liabilities	47 569	-	-	47 569
Deferred tax liability	29 894	-	-	29 894
<b>Total liabilities</b>	<b>13 984 471</b>	<b>446 521</b>	<b>289 356</b>	<b>14 720 348</b>
<b>Net balance sheet position</b>	<b>2 453 179</b>	<b>(272 320)</b>	<b>(287 846)</b>	<b>1 893 013</b>
<b>Credit related commitments (Note 29)</b>	<b>97 810</b>	<b>-</b>	<b>-</b>	<b>97 810</b>

**28 Financial Risk Management (Continued)**

**Currency risk.** The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Asset and Liability Management Committee of the Bank sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk as at 31 December 2005.

<i>In thousands of Russian Roubles</i>	RR	USD	Euro	Other currencies	Total
<b>Assets</b>					
Cash and cash equivalents	3 519 302	669 431	340 183	28 029	4 556 945
Mandatory cash balances with the Central Bank of the Russian Federation	500 453	-	-	-	500 453
Trading securities	2 382 764	641 291	-	-	3 024 055
Other securities at fair value through profit or loss	-	327 488	-	-	327 488
Due from other banks	1 667 952	418 869	-	-	2 086 821
Loans and advances to customers	14 252 458	4 657 745	134 373	-	19 044 576
Deferred tax asset	1 107	-	-	-	1 107
Premises, equipment and intangible assets	1 394 328	-	-	-	1 394 328
Other assets	191 429	3 464	4 076	-	198 969
<b>Total assets</b>	<b>23 909 793</b>	<b>6 718 288</b>	<b>478 632</b>	<b>28 029</b>	<b>31 134 742</b>
<b>Liabilities</b>					
Due to other banks	278 519	975 238	38 375	1 552	1 293 684
Customer accounts	18 806 563	3 551 578	1 077 286	2 784	23 438 211
Debt securities in issue	2 544 127	192 736	88 371	-	2 825 234
Other borrowed funds	-	35 926	-	-	35 926
Other liabilities	152 355	1 556	793	-	154 704
Deferred tax liability	70 349	-	-	-	70 349
<b>Total liabilities</b>	<b>21 851 913</b>	<b>4 757 034</b>	<b>1 204 825</b>	<b>4 336</b>	<b>27 818 108</b>
<b>Net balance sheet position</b>	<b>2 057 880</b>	<b>1 961 254</b>	<b>(726 193)</b>	<b>23 693</b>	<b>3 316 634</b>
<b>Currency derivatives (Note 29)</b>	<b>1 588 714</b>	<b>(2 260 348)</b>	<b>666 607</b>	<b>-</b>	<b>(5 027)</b>
<b>Net balance sheet position excluding currency derivatives</b>	<b>3 646 594</b>	<b>(299 094)</b>	<b>(59 586)</b>	<b>23 693</b>	<b>3 311 607</b>
<b>Credit related commitments (Note 29)</b>	<b>445 596</b>	<b>208 300</b>	<b>262 103</b>	<b>-</b>	<b>915 999</b>

**28 Financial Risk Management (Continued)**

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

<i>In thousands of Russian Roubles</i>	RR	USD	Euro	Other currencies	Total
<b>Assets</b>					
Cash and cash equivalents	1 296 514	241 638	100 445	40 381	1 678 978
Mandatory cash balances with the Central Bank of the Russian Federation	288 660	-	-	-	288 660
Trading securities	1 877 619	202 800	-	-	2 080 419
Other securities at fair value through profit or loss	-	717 881	-	-	717 881
Due from other banks	258 260	61 957	-	-	320 217
Loans and advances to customers	7 668 660	2 477 215	249 295	-	10 395 170
Premises, equipment and intangible assets	914 421	-	-	-	914 421
Other assets	82 676	134 633	306	-	217 615
<b>Total assets</b>	<b>12 386 810</b>	<b>3 836 124</b>	<b>350 046</b>	<b>40 381</b>	<b>16 613 361</b>
<b>Liabilities</b>					
Due to other banks	91 403	530 120	1 053	1 257	623 833
Customer accounts	8 969 596	2 077 215	842 693	21 082	11 910 586
Debt securities in issue	1 670 354	314 219	32 661	-	2 017 234
Other borrowed funds	41 947	49 285	-	-	91 232
Other liabilities	29 738	17 831	-	-	47 569
Deferred tax liability	29 894	-	-	-	29 894
<b>Total liabilities</b>	<b>10 832 932</b>	<b>2 988 670</b>	<b>876 407</b>	<b>22 339</b>	<b>14 720 348</b>
<b>Net balance sheet position</b>	<b>1 553 878</b>	<b>847 454</b>	<b>(526 361)</b>	<b>18 042</b>	<b>1 893 013</b>
<b>Currency derivatives (Note 29)</b>	<b>458 379</b>	<b>(909 271)</b>	<b>453 724</b>	<b>-</b>	<b>2 832</b>
<b>Net balance sheet position excluding currency derivatives</b>	<b>2 012 257</b>	<b>(61 817)</b>	<b>(72 637)</b>	<b>18 042</b>	<b>1 895 845</b>
<b>Credit related commitments (Note 29)</b>	<b>97 810</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>97 810</b>

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

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

## **28 Financial Risk Management (Continued)**

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

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

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

**28 Financial Risk Management (Continued)**

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

<i>In thousands of Russian Roubles</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 1 year</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	4 556 945	-	-	-	4 556 945
Mandatory cash balances with the Central Bank of the Russian Federation	500 453	-	-	-	500 453
Trading securities	3 024 055	-	-	-	3 024 055
Other securities at fair value through profit or loss	-	-	-	327 488	327 488
Due from other banks	1 664 177	142 521	-	280 123	2 086 821
Loans and advances to customers	2 149 740	7 030 079	6 959 962	2 904 795	19 044 576
Deferred tax asset	-	-	-	1 107	1 107
Premises, equipment and intangible assets	-	-	-	1 394 328	1 394 328
Other assets	137 381	15 732	7 672	38 184	198 969
<b>Total assets</b>	<b>12 032 751</b>	<b>7 188 332</b>	<b>6 967 634</b>	<b>4 946 025</b>	<b>31 134 742</b>
<b>Liabilities</b>					
Due to other banks	669 971	623 713	-	-	1 293 684
Customer accounts	12 489 501	5 476 489	1 393 246	4 078 975	23 438 211
Debt securities in issue	1 609 530	846 928	364 886	3 890	2 825 234
Other borrowed funds	-	-	-	35 926	35 926
Other liabilities	33 182	103 683	-	17 839	154 704
Deferred tax liability	-	-	-	70 349	70 349
<b>Total liabilities</b>	<b>14 802 184</b>	<b>7 050 813</b>	<b>1 758 132</b>	<b>4 206 979</b>	<b>27 818 108</b>
<b>Net liquidity gap</b>	<b>(2 769 433)</b>	<b>137 519</b>	<b>5 209 502</b>	<b>739 046</b>	<b>3 316 634</b>
<b>Cumulative liquidity gap as at 31 December 2005</b>	<b>(2 769 433)</b>	<b>(2 631 914)</b>	<b>2 577 588</b>	<b>3 316 634</b>	

**28 Financial Risk Management (Continued)**

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

<i>In thousands of Russian Roubles</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 1 year</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	1 678 978	-	-	-	1 678 978
Mandatory cash balances with the Central Bank of the Russian Federation	288 660	-	-	-	288 660
Trading securities	2 080 419	-	-	-	2 080 419
Other securities at fair value through profit or loss	-	-	-	717 881	717 881
Due from other banks	320 217	-	-	-	320 217
Loans and advances to customers	1 057 526	3 486 421	3 758 225	2 092 998	10 395 170
Premises, equipment and intangible assets	-	-	-	914 421	914 421
Other assets	45 665	154 355	6 137	11 458	217 615
<b>Total assets</b>	<b>5 471 465</b>	<b>3 640 776</b>	<b>3 764 362</b>	<b>3 736 758</b>	<b>16 613 361</b>
<b>Liabilities</b>					
Due to other banks	95 374	528 459	-	-	623 833
Customer accounts	8 866 605	2 907 524	136 320	137	11 910 586
Debt securities in issue	589 126	1 138 014	290 094	-	2 017 234
Other borrowed funds	1 290	-	41 947	47 995	91 232
Other liabilities	12 375	35 179	15	-	47 569
Deferred tax liability	-	-	-	29 894	29 894
<b>Total liabilities</b>	<b>9 564 770</b>	<b>4 609 176</b>	<b>468 376</b>	<b>78 026</b>	<b>14 720 348</b>
<b>Net liquidity gap</b>	<b>(4 093 305)</b>	<b>(968 400)</b>	<b>3 295 986</b>	<b>3 658 732</b>	<b>1 893 013</b>
<b>Cumulative liquidity gap as at 31 December 2004</b>	<b>(4 093 305)</b>	<b>(5 061 705)</b>	<b>(1 765 719)</b>	<b>1 893 013</b>	

## 28 Financial Risk Management (Continued)

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

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

<i>In thousands of Russian Roubles</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 1 year</b>	<b>Total</b>
Loans and advances to customers	1 430 564	5 021 799	6 065 030	6 527 183	19 044 576
<b>Net liquidity gap</b>	<b>(3 488 609)</b>	<b>(1 870 761)</b>	<b>4 314 570</b>	<b>4 361 434</b>	<b>3 316 634</b>
<b>Cumulative liquidity gap as at 31 December 2005</b>	<b>(3 488 609)</b>	<b>(5 359 370)</b>	<b>(1 044 800)</b>	<b>3 316 634</b>	

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

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

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

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

**Interest rate risk.** The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The table below summarises the Group's exposure to interest rate risks as at 31 December 2005. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.



**28 Financial Risk Management (Continued)**

<i>In thousands of Russian Roubles</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 1 year</b>	<b>Non- interest bearing</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	4 556 945	-	-	-	-	4 556 945
Mandatory cash balances with the Central Bank of the Russian Federation	500 453	-	-	-	-	500 453
Trading securities	3 004 878	-	-	-	19 177	3 024 055
Other securities at fair value through profit or loss	-	-	-	327 488	-	327 488
Due from other banks	1 664 177	142 521	-	280 123	-	2 086 821
Loans and advances to customers	2 149 740	7 030 079	6 959 962	2 904 795	-	19 044 576
Deferred tax asset	-	-	-	-	1 107	1 107
Premises, equipment and intangible assets	-	-	-	-	1 394 328	1 394 328
Other assets	-	-	-	-	198 969	198 969
<b>Total assets</b>	<b>11 876 193</b>	<b>7 172 600</b>	<b>6 959 962</b>	<b>3 512 406</b>	<b>1 613 581</b>	<b>31 134 742</b>
<b>Liabilities</b>						
Due to other banks	669 971	623 713	-	-	-	1 293 684
Customer accounts	12 489 501	5 476 489	1 393 246	4 078 975	-	23 438 211
Debt securities in issue	1 609 530	846 928	364 886	3 890	-	2 825 234
Other borrowed funds	-	-	-	35 926	-	35 926
Other liabilities	-	-	-	-	154 704	154 704
Deferred tax liability	-	-	-	-	70 349	70 349
<b>Total liabilities</b>	<b>14 769 002</b>	<b>6 947 130</b>	<b>1 758 132</b>	<b>4 118 791</b>	<b>225 053</b>	<b>27 818 108</b>
<b>Net sensitivity gap</b>	<b>(2 892 809)</b>	<b>225 470</b>	<b>5 201 830</b>	<b>(606 385)</b>	<b>1 388 528</b>	<b>3 316 634</b>
<b>Cumulative sensitivity gap as at 31 December 2005</b>	<b>(2 892 809)</b>	<b>(2 667 339)</b>	<b>2 534 491</b>	<b>1 928 106</b>	<b>3 316 634</b>	

**28 Financial Risk Management (Continued)**

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

<i>In thousands of Russian Roubles</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 1 year</b>	<b>Non- interest bearing</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	1 678 978	-	-	-	-	1 678 978
Mandatory cash balances with the Central Bank of the Russian Federation	288 660	-	-	-	-	288 660
Trading securities	1 968 112	-	-	-	112 307	2 080 419
Other securities at fair value through profit or loss	-	-	-	717 881	-	717 881
Due from other banks	320 217	-	-	-	-	320 217
Loans and advances to customers	1 057 526	3 486 421	3 758 225	2 092 998	-	10 395 170
Premises, equipment and intangible assets	-	-	-	-	914 421	914 421
Other assets	-	-	-	-	217 615	217 615
<b>Total assets</b>	<b>5 313 493</b>	<b>3 486 421</b>	<b>3 758 225</b>	<b>2 810 879</b>	<b>1 244 343</b>	<b>16 613 361</b>
<b>Liabilities</b>						
Due to other banks	95 374	528 459	-	-	-	623 833
Customer accounts	8 866 605	2 907 524	136 320	137	-	11 910 586
Debt securities in issue	589 126	1 138 014	290 094	-	-	2 017 234
Other borrowed funds	1 290	-	41 947	47 995	-	91 232
Other liabilities	-	-	-	-	47 569	47 569
Deferred tax liability	-	-	-	-	29 894	29 894
<b>Total liabilities</b>	<b>9 552 395</b>	<b>4 573 997</b>	<b>468 361</b>	<b>48 132</b>	<b>77 463</b>	<b>14 720 348</b>
<b>Net sensitivity gap</b>	<b>(4 238 902)</b>	<b>(1 087 576)</b>	<b>3 289 864</b>	<b>2 762 747</b>	<b>1 166 880</b>	<b>1 893 013</b>
<b>Cumulative sensitivity gap as at 31 December 2004</b>	<b>(4 238 902)</b>	<b>(5 326 478)</b>	<b>(2 036 614)</b>	<b>726 133</b>	<b>1 893 013</b>	

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

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

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

**28 Financial Risk Management (Continued)**

% p.a.	2005				2004			
	RR	USD	Euro	Other currencies	RR	USD	Euro	Other currencies
<b>Assets</b>								
Cash and cash equivalents	0.58	2.29	1.81	0.75	0.30	0.00	0.00	0.00
Debt trading securities	7.07	5.78	-	-	7.55	4.65	-	-
Other securities at fair value through profit or loss	-	5.32	-	-	-	5.78	-	-
Due from other banks	7.73	5.25	-	-	9.53	5.73	-	-
Loans and advances to customers	13.69	13.76	15.83	-	15.50	14.60	16.70	-
<b>Liabilities</b>								
Due to other banks	3.41	6.08	2.46	0.00	6.50	4.98	0.00	0.00
Customer accounts								
- current and settlement accounts	0.61	0.12	0.12	0.11	0.12	0.03	0.03	0.00
- term deposits	8.80	7.50	8.13	-	8.54	7.40	6.97	-
Debt securities in issue	6.27	9.36	8.68	-	8.38	9.23	8.08	-
Other borrowed funds	-	4.43	-	-	19.85	5.75	-	-

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

**29 Contingencies, Commitments and Derivative Financial Instruments**

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

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

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

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

**29 Contingencies, Commitments and Derivative Financial Instruments (Continued)**

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

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

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

<i>In thousands of Russian Roubles</i>	<b>2005</b>	<b>2004</b>
Not later than 1 year	13 209	8 066
Later than 1 year and not later than 5 years	7 661	13 238
<b>Total operating lease commitments</b>	<b>20 870</b>	<b>21 304</b>

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

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

<i>In thousands of Russian Roubles</i>	<b>2005</b>	<b>2004</b>
Guarantees issued	372 507	39 397
Undrawn credit lines	274 355	-
Import letters of credit	201 690	-
Letters of credit for settlements between residents	79 500	60 000
Less: Provision for losses on credit related commitments	(12 053)	(1 587)
<b>Total credit related commitments</b>	<b>915 999</b>	<b>97 810</b>

The total outstanding contractual amount of letters of guarantees letters of credit and undrawn credit lines does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Fair value of credit related commitments was approximately RR 915 999 thousand at 31 December 2005 (2004: RR 97 810 thousand).

**29 Contingencies, Commitments and Derivative Financial Instruments (Continued)**

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

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

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

<i>In thousands of Russian Roubles</i>	<b>Notes</b>	<b>2005</b>		<b>2004</b>	
		<b>Asset pledged</b>	<b>Related liability</b>	<b>Asset pledged</b>	<b>Related liability</b>
Trading securities	8, 15	466 582	434 269	427 298	409 770
Premises and equipment	12	-	-	87 182	-
<b>Total</b>		<b>466 582</b>	<b>434 269</b>	<b>514 480</b>	<b>409 770</b>

Also, mandatory cash balances with the CBRF in the amount of RR 500 453 thousand (2004: RR 288 660 thousand) represent a mandatory reserve deposit which is not available to finance the Group's day to day operations.

**29 Contingencies, Commitments and Derivative Financial Instruments (Continued)**

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

<i>In thousands of Russian Roubles</i>	2005		2004	
	Net asset forwards	Net liability forwards	Net asset forwards	Net liability forwards
<b>Foreign exchange forwards: fair values, at the balance sheet date, of</b>				
- USD receivable on settlement (+)	345 426	85 189	-	262 448
- USD payable on settlement (-)	(458 289)	(951 852)	(894 232)	(138 744)
- Euros receivable on settlement (+)	170 925	922 995	718 398	-
- Euros payable on settlement (-)	(341 850)	(85 463)	-	(264 673)
- RR receivable on settlement (+)	287 900	19 992	180 935	138 700
<i>In thousands of Russian Roubles</i>	2005		2004	
	Net asset futures	Net liability futures	Net asset futures	Net liability futures
<b>Foreign exchange futures: fair values, at the balance sheet date, of</b>				
- USD receivable on settlement (+)	34 539	57 565	-	-
- USD payable on settlement (-)	(561 259)	(811 667)	-	-
- RR receivable on settlement (+)	561 259	811 667	-	-
- RR payable on settlement (-)	(34 539)	(57 565)	-	-
<b>Net fair value of foreign exchange derivative financial instruments</b>	<b>13, 18</b>	<b>4 112</b>	<b>5 101</b>	<b>(2 269)</b>

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

### **30 Fair Value of Financial Instruments**

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

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

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

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

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

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

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

### 31 Related Party Transactions

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

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

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

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

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

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

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

<i>In thousands of Russian Roubles</i>	Shareholders	Management of the Group	Companies under common control
Amounts lent to related parties during the period	67 227	4 223	15 633 938
Amounts repaid by related parties during the period	43 238	5 429	15 925 855



**31 Related Party Transactions (Continued)**

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

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

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

<i>In thousands of Russian Roubles</i>	<b>Shareholders</b>	<b>Management of the Group</b>	<b>Companies under common control</b>
Interest income	6 452	560	12 815
Interest expense	(4 844)	(2 815)	(4 656)
(Provision) / recovery of provision for loan impairment	(2 645)	1 436	(14 060)
Fee and commission income	103	-	79
Losses on origination of assets at rates below market	-	-	(14 440)

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

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

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

### 32 Disposals

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

	Note	"General Insurance Company"	Gaide Insurance Company	Leasing company "St Peterburg"	Total
Cash and cash equivalents		96 890	42 654	2 057	141 601
Due from other banks		5 901	5 095	111 881	122 877
Loans and advances to customers		123 320	27 062	-	150 382
Trading securities		-	9 874	-	9 874
Other securities at fair value through profit or loss		8 899	13 675	-	22 574
Other assets		35 013	13 940	97	49 050
Deferred tax asset		130 329	38 190	10 901	179 420
Due to other banks		48 065	9 243	-	57 308
Other liabilities		(535 884)	(157 759)	(130 393)	(824 036)
<b>Net assets/(liabilities) of subsidiary</b>		<b>(87 467)</b>	<b>1 974</b>	<b>(5 457)</b>	<b>(90 950)</b>
Less: disposed minority interest		-	(686)	-	(686)
<b>Total carrying amount of assets / (liabilities) disposed</b>		<b>(87 467)</b>	<b>1 288</b>	<b>(2 620)</b>	<b>(88 799)</b>
<b>Total disposal consideration</b>		<b>684</b>	<b>5 453</b>	<b>1</b>	<b>6 138</b>
Less: fair value of receivable arising on disposal	13	(684)	(5 453)	-	(6 137)
Less: cash and cash equivalents in subsidiary disposed		(96 890)	(42 654)	-	(139 544)
<b>Cash inflow/(outflow) on disposal</b>		<b>(96 890)</b>	<b>(42 654)</b>	<b>1</b>	<b>(139 543)</b>

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

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

**32 Disposals (Continued)**

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

**33 Subsequent events**

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