

**SBERBANK  
(SAVINGS BANK OF THE RUSSIAN FEDERATION)  
Financial Statements and Auditors' Report  
31 December 2005**

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## AUDITORS' REPORT

### To the shareholders and the Board of Directors of Sberbank (Savings Bank of the Russian Federation):

We have audited the accompanying balance sheet of Sberbank (Savings Bank of the Russian Federation) (hereinafter – the “Bank”) as at 31 December 2005, and the related statements of income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2005 and the 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  
20 April 2006

**Sberbank (Savings Bank of the Russian Federation)**  
**Balance Sheet**

	Note	31 December 2005	31 December 2004 (Restated)
<i>In thousands of Russian Roubles</i>			
<b>ASSETS</b>			
Cash and cash equivalents	7	123 368 671	109 136 991
Mandatory cash balances with the Central Bank of the Russian Federation		56 808 779	44 966 603
Trading securities	8	131 815 427	117 036 694
Other securities at fair value through profit or loss	9	227 280 891	215 569 169
Due from other banks	10	25 932 229	10 576 697
Loans and advances to customers	11	1 787 288 224	1 298 006 237
Investment securities available for sale	12	-	112 296
Repurchase receivable	13	1 658 705	-
Investment securities held to maturity	14	28 398 916	35 650 135
Deferred income tax asset	28	-	6 101 084
Premises and equipment	15	106 849 836	72 381 032
Other assets	16	23 725 839	12 683 018
<b>TOTAL ASSETS</b>		<b>2 513 127 517</b>	<b>1 922 219 956</b>
<b>LIABILITIES</b>			
Due to other banks	17	24 912 260	12 949 575
Deposits from individuals	18	1 514 301 804	1 199 916 878
Customer accounts	18	546 805 963	454 384 812
Debt securities in issue	19	86 889 528	63 313 212
Other borrowed funds	20	62 963 865	29 763 322
Deferred income tax liability	28	2 330 419	-
Other liabilities	21	14 462 112	8 573 573
Subordinated debt	22	29 393 050	-
<b>TOTAL LIABILITIES</b>		<b>2 282 059 001</b>	<b>1 768 901 372</b>
<b>EQUITY</b>			
Share capital	23	20 980 583	20 980 583
Share premium	23	10 016 190	10 016 190
Treasury shares	23	(301)	(312)
Revaluation reserve for premises		15 873 431	453 397
Fair value reserve for investment securities available for sale		-	4 655
Retained earnings	24	184 198 613	121 864 071
<b>TOTAL EQUITY</b>		<b>231 068 516</b>	<b>153 318 584</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2 513 127 517</b>	<b>1 922 219 956</b>

Approved for issue and signed on behalf of the Board on 20 April 2006.

  
A.I. Kazmin  
Chairman of the Board and CEO

  
A.V. Kruzhalov  
Chief Accountant

**Sberbank (Savings Bank of the Russian Federation)**  
**Statement of Income**

<i>In thousands of Russian Roubles</i>	<b>Note</b>	<b>2005</b>	<b>2004 (Restated)</b>
Interest income	25	245 521 854	166 734 284
Interest expense	25	(89 148 954)	(84 930 051)
<b>Net interest income</b>		<b>156 372 900</b>	<b>81 804 233</b>
Provision for loan impairment	11	(19 601 682)	(15 790 772)
<b>Net interest income after provision for loan impairment</b>		<b>136 771 218</b>	<b>66 013 461</b>
Gains less losses arising from trading securities and other securities at fair value through profit or loss		16 144 622	13 862 219
Gains less losses arising from investment securities available for sale		4 709	2 830 446
Gains arising from investment securities held to maturity	14	4 180 969	-
(Losses net of gains)/gains less losses from trading in foreign currencies		(730 563)	5 017 305
Foreign exchange translation gains less losses		5 920 153	(1 598 441)
Fee and commission income	26	36 929 702	26 198 106
Fee and commission expense	26	(1 146 784)	(741 559)
Other operating income		3 920 700	2 093 217
<b>Operating profit</b>		<b>201 994 726</b>	<b>113 674 754</b>
Administrative and other operating expenses	27	(114 373 230)	(90 587 654)
<b>Profit before tax</b>		<b>87 621 496</b>	<b>23 087 100</b>
Income tax expense	28	(21 813 964)	(4 919 463)
<b>Profit for the year</b>		<b>65 807 532</b>	<b>18 167 637</b>
<b>Earnings per ordinary share, basic and diluted</b> (expressed in RR per share)	29	<b>3 454</b>	<b>949</b>

**Sberbank (Savings Bank of the Russian Federation)**  
**Statement of Changes in Equity**

	Note	Share capital	Share premium	Treasury shares	Revaluation reserve for premises	Fair value reserve for investment securities available for sale	Retained earnings	Total equity
<i>In thousands of Russian Roubles</i>								
<b>Previously reported balance at 31 December 2003</b>		<b>20 980 583</b>	<b>10 016 190</b>	<b>(312)</b>	<b>474 987</b>	<b>-</b>	<b>103 401 715</b>	<b>134 873 163</b>
Valuation of securities at fair value through profit or loss		-	-	-	-	-	2 972 722	2 972 722
Fair value reserve for investment securities available for sale		-	-	-	-	2 635 312	-	2 635 312
<b>Adjusted at 1 January 2004</b>		<b>20 980 583</b>	<b>10 016 190</b>	<b>(312)</b>	<b>474 987</b>	<b>2 635 312</b>	<b>106 374 437</b>	<b>140 481 197</b>
Securities available for sale:								
- Fair value losses net of gains		-	-	-	-	(630 942)	-	(630 942)
- Disposals		-	-	-	-	(2 830 446)	-	(2 830 446)
Premises and equipment:								
- Depreciation of revalued premises		-	-	-	(28 408)	-	28 408	-
Income tax recorded in equity	28	-	-	-	6 818	830 731	(6 818)	830 731
Profit for the year (Restated)		-	-	-	-	-	18 167 637	18 167 637
Dividends declared	30	-	-	-	-	-	(2 699 593)	(2 699 593)
<b>Balance at 31 December 2004 (Restated)</b>		<b>20 980 583</b>	<b>10 016 190</b>	<b>(312)</b>	<b>453 397</b>	<b>4 655</b>	<b>121 864 071</b>	<b>153 318 584</b>
Securities available for sale:								
- Fair value losses net of gains		-	-	-	-	(1 416)	-	(1 416)
- Disposals		-	-	-	-	(4 709)	-	(4 709)
Premises and equipment:								
- Revaluation of premises	15	-	-	-	20 316 636	-	-	20 316 636
- Depreciation of revalued premises		-	-	-	(27 118)	-	27 118	-
Income tax recorded in equity	28	-	-	-	(4 869 484)	1 470	(6 508)	(4 874 522)
Profit for the year		-	-	-	-	-	65 807 532	65 807 532
Disposal of treasury shares	23	-	-	11	-	-	-	11
Dividends declared	30	-	-	-	-	-	(3 493 600)	(3 493 600)
<b>Balance at 31 December 2005</b>		<b>20 980 583</b>	<b>10 016 190</b>	<b>(301)</b>	<b>15 873 431</b>	<b>-</b>	<b>184 198 613</b>	<b>231 068 516</b>

**Sberbank (Savings Bank of the Russian Federation)**  
**Statement of Cash Flows**

<i>In thousands of Russian Roubles</i>	<b>Note</b>	<b>2005</b>	<b>2004 (Restated)</b>
<b>Cash flows from operating activities</b>			
Interest received		240 035 498	173 175 425
Interest paid		(85 975 914)	(83 684 506)
Income received from trading securities and other securities at fair value through profit or loss		13 285 689	23 310 972
(Expenses paid)/Income received from trading in foreign currencies		(694 257)	5 100 101
Fees and commissions received		36 759 581	26 198 106
Fees and commissions paid		(1 146 784)	(1 404 036)
Other operating income received		2 953 776	1 906 116
Administrative and other operating expenses paid		(100 207 885)	(80 845 285)
Income tax paid		(17 275 091)	(8 668 826)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>87 734 613</b>	<b>55 088 067</b>
<b>Changes in operating assets and liabilities</b>			
Net (increase)/decrease in mandatory cash balances with the Central Bank of the Russian Federation		(11 842 176)	53 927 005
Net (increase)/decrease in trading securities		(14 840 273)	11 301 301
Net increase in securities at fair value through profit or loss		(15 960 399)	(27 339 030)
Net (increase)/decrease in due from other banks		(18 142 573)	67 327 122
Net increase in loans and advances to customers		(496 906 671)	(521 039 725)
Net increase in repurchase receivable		(1 042 751)	-
Net increase in other assets		(10 302 665)	(3 442 271)
Net increase/(decrease) in due to other banks		11 975 303	(22 679 333)
Net increase in deposits from individuals		316 112 687	228 215 004
Net increase in customer accounts		112 316 026	232 277 968
Net increase/(decrease) in debt securities in issue		24 113 692	(10 523 126)
Net increase/(decrease) in other liabilities		1 698 952	(796 236)
<b>Net cash (used in)/from operating activities</b>		<b>(15 086 235)</b>	<b>62 316 746</b>
<b>Cash flows from investing activities</b>			
Proceeds from disposal and redemption of investment securities available for sale		108 834	21 952 314
Acquisition of premises and equipment	15	(26 011 675)	(16 290 865)
Proceeds from disposal of premises and equipment	15	1 131 540	822 237
Dividend income received		203 839	70 661
<b>Net cash (used in)/from investing activities</b>		<b>(24 567 462)</b>	<b>6 554 347</b>
<b>Cash flows from financing activities</b>			
Proceeds from other borrowed funds		32 229 271	925 168
Repayment of interest on other borrowed funds		(1 004 186)	(878 396)
Proceeds from subordinated debt		28 340 000	-
Repayment of interest on subordinated debt		(901 556)	-
Disposal of treasury shares		11	-
Dividends paid	30	(3 476 737)	(2 687 215)
<b>Net cash from/(used in) financing activities</b>		<b>55 186 803</b>	<b>(2 640 443)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>(1 301 426)</b>	<b>(51 906)</b>
<b>Net increase in cash and cash equivalents</b>		<b>14 231 680</b>	<b>66 178 744</b>
Cash and cash equivalents at the beginning of the year		109 136 991	42 958 247
<b>Cash and cash equivalents at the end of the year</b>	<b>7</b>	<b>123 368 671</b>	<b>109 136 991</b>

The notes set out on pages 5 to 60 form an integral part of these financial statements.

## **1 Introduction**

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005 for Sberbank (Savings Bank of the Russian Federation) (the "Bank").

The Bank is a joint stock commercial bank established in 1841 and operated in various forms since then. The Bank was incorporated and is domiciled in the Russian Federation. The Bank's principal shareholder, the Central Bank of the Russian Federation (the "CBRF"), owns 63.76% of ordinary shares or 60.57% of the issued and outstanding shares at 31 December 2005.

The Board of Directors of the Bank is headed by the Chairman of the CBRF. The Board of Directors also includes representatives from the Bank's other shareholders. Two Deputy Chairmen of the CBRF are Deputy Chairmen of the Board of Directors.

**Principal activity** The Bank's principal business activity is corporate and retail banking operations within the Russian Federation. The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation since 1991.

On 21 June 2004 the Bank applied for participation in the State deposit insurance scheme, which was introduced by the Federal Law #177-FZ "Deposits of individuals insurance in the Russian Federation" dated 23 December 2003. On 29 December 2004 the CBRF, following the inspection of the Bank's performance to assess its compliance with the criteria set for the State deposit insurance scheme, officially informed the Bank about its positive decision, and the Bank was accepted to the State deposit insurance scheme on 11 January 2005. The State deposit insurance scheme dictates 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 or a CBRF imposed moratorium on payments. Prior to the admission to the State deposit insurance scheme, deposits of individuals placed with the Bank were fully guaranteed by the State. After the Bank was admitted to the State deposit insurance scheme, deposits of individuals placed before 1 October 2004 continued to be covered by the State guarantee until 1 January 2007 and deposits placed after 1 October 2004 are covered by the general terms of the State deposit insurance scheme.

The Bank has 17 (2004:17) regional head offices, 992 (2004: 994) branches and 19 261 (2004:19 211) sub-branches within the Russian Federation as at 31 December 2005. The average number of the Bank's employees during 2005 was 235 116 (2004: 228 531).

**Registered address and place of business.** The Bank's registered address is: Vavilova str., 19, Moscow, Russian Federation.

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

## **2 Operating Environment of the Bank**

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.



## **2 Operating Environment of the Bank (Continued)**

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 financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the inflationary adjustments and revaluation of premises, revaluation of available for sale financial assets, financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts. The Bank maintains its accounting records in accordance with Russian banking regulations. These financial statements have been prepared from these accounting records and adjusted as necessary in order to be in accordance with IFRS.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5.

**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. The cost based measurement for financial instruments is applied only in rare circumstances.

**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. 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.

**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 the related balance sheet items.

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

*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 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 assets.** Trading securities, other securities at fair value through profit or loss, derivatives and other financial assets at fair value through profit or loss are initially recorded at fair value. All other financial assets 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 assets 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 Bank commits to deliver a financial instrument. All other purchases and sales are recognised when the entity becomes a party to the contractual provisions of the instrument.

**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.

**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 Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

**Precious metals.** Gold and other precious metals are recorded at the balance sheet date at London fixing rates. Precious metals are included in other assets.

**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 Bank classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within six months. Trading securities are not reclassified out of this category even when the Bank's intentions subsequently change.

Trading securities are carried at fair value with changes in the fair value and gains or losses on derecognition recorded in profit or loss as gains less losses from trading securities in the period in which they arise. Interest earned on trading securities calculated using the effective interest method is presented in the statement of income as interest income. Dividends are included in other operating income when the Bank's right to receive the dividend payment is established.

**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 Bank 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.

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

**Loans and advances to customers.** Loans and advances to customers are recorded when the Bank 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.

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

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

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

After a loan has been written down as a result of impairment, interest income is then recognised using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss.

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

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

**Credit related commitments.** In the normal course of business, the Bank enters into credit related commitments, including letters of credit, guarantees, commitments to extend credit and undrawn credit lines. Financial guarantees represent irrevocable assurance to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Premiums received for the financial guarantees are amortised on a straight line basis during the life of the guarantee. In determining the amount of provision for financial guarantees, Management uses best estimates of the expenditures required to settle the obligations arising at the reporting date. The estimates of outcome and financial effect are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of Management.

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

**Investment securities available for sale.** This classification includes investment securities which the Bank 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 Bank 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. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Bank'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 profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of 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 profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

**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 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.

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.

**Investment securities held to maturity.** This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. Investment securities held to maturity are carried at amortised cost.

**Derecognition of financial assets.** The Bank derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (ii) the Bank has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Bank 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 are stated at fair value, as described below. Equipment is 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, less accumulated depreciation and provision for impairment, where required.

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

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

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

Construction in progress is carried at cost, less provision for impairment where required. Upon completion, assets are transferred to premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

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 profit or loss 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 profit or loss.

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

Premises	2.5-4.5%;
Office and computer equipment	25%; and
Vehicles and other equipment	18%.

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Bank 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.

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

**Due to other banks.** Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost.

**Deposits from individuals and customer accounts.** Deposits from individuals and 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, certificates of deposit and savings certificates issued by the Bank. Debt securities are stated at amortised cost.

**Other borrowed funds.** Other borrowed funds represent medium and long-term funds attracted by the Bank on the international financial markets. Other borrowed funds are carried at amortised cost. If the Bank repurchases its borrowed funds, they are removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains/(losses) arising from retirement of debt.

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

**Derivative financial instruments.** Derivative financial instruments, including forward and futures foreign exchange contracts and forwards with precious metals, 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 profit or loss as gains less losses arising from trading in foreign currencies and other operating income. The Bank does not apply hedge accounting.

**Income taxes.** Income taxes have been provided for in the 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 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 or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

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

**Provision for liabilities and charges.** Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank 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.

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

**Preference shares.** Preference shares are not redeemable. Dividend payments are at the discretion of the Bank. When a dividend is paid, the preference shares attract a minimum payment of annual dividends of 15% of their nominal value, subject to confirmation of the shareholders' meeting. Dividend payments in excess of that minimum level are determined at the Bank's annual shareholders' meeting. Preference shares are classified as a part of equity.

**Treasury shares.** Where the Bank purchases the Bank's equity instruments, the consideration paid including any attributable incremental external costs net of income taxes is deducted from equity attributable to the equity holders of the Bank until they are cancelled or disposed of. Where such shares are subsequently disposed or reissued, any consideration received is included in 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 Bank 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 statement of income for interest-bearing instruments on an accrual 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. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

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 original 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 accrual 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. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Trust and custody services fees related to investment funds are recorded rateably over the period the service is provided.

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

Monetary assets and liabilities are translated into the Bank'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 the Bank's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items.

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 Bank in its own name, but on the account of third parties, are not reported on the balance sheet. The extent of such balances and transactions is indicated in Note 33. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

**Contingent assets.** Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. Contingent assets are not recognised by the Bank in its balance sheet, but disclosed in the notes to the financial statements.

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

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

**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.

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 at as 31 December 2002 are the basis for the carrying amounts in these 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 year in which the associated services are rendered by the employees of the Bank.

**Segment reporting.** A segment is a distinguishable component of the Bank 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.

**Changes in presentation.** Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current year. The following significant reclassifications have been made to 2004 balances to conform to the 2005 presentation:

<b>As previously reported</b>	<b>Reclassified</b>	<b>Amount</b> <i>(In thousands of Russian Roubles)</i>	<b>Comment</b>
Cash and cash equivalents	Other assets	4 481 389	Precious metals balances and restricted cash have been recognised as part of other assets.
Deposits from individuals	Customer accounts	9 438 660	Balances on the accounts of individual entrepreneurs have been recognised as part of customer accounts.
Debt securities issued	Other borrowed funds	27 781 693	Long-term loan received by the Bank have been recognised as part of other borrowed funds.

These financial statements were approved for issue by the Board on 20 April 2006 and further changes require approval of the body that gave that authorisation.



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

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. 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 year include:

**Held-to-maturity financial assets.** Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Bank fails to keep these investments to maturity other than for certain specific circumstances – for example, selling an insignificant amount close to maturity, or sale or reclassification is attributable to an isolated event that is beyond the Bank's control, is non-recurring and could not have been reasonably anticipated by the Bank – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost. If the entire class of held-to-maturity investments was tainted, the carrying amount would increase by RR 25 102 431 thousand, with a corresponding entry to the fair value reserve in equity net of deferred tax of RR 6 024 583 thousand.

**Impairment of equity investment securities available for sale.** The Bank determines that available-for-sale equity investment securities available for sale are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows.

**Impairment losses on loans and advances.** The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the statement of income, the Bank 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. For new types of loans, where the Bank has not collected statistics of historical losses, market information on historical losses of similar groups of loans is used to assess incurred but not yet reported losses on such groups of loans. Also, the Bank's management accounting system in some cases does not allow to collect all necessary information on incurred losses for certain groups of loans. Management uses estimates and incurred loss models for groups of loans with similar credit risk profile. Management is also in process of upgrading Bank's accounting systems to produce fully the information required for proper application of loan portfolio impairment assessment. 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.

**Tax legislation.** Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 33.

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

**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 Bank 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 fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. To the extent practical, models use only observable data, however certain areas require Management to make estimates. Changes in assumptions about these factors could affect reported fair values. 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 be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

**Capital Adequacy Ratio.** Capital Adequacy Ratio is calculated in accordance with the International Convergence of Capital Measurement and Capital Standards (July 1988, updated to April 1998) (or Basel Capital Accord) requirements. Such requirements are subject to interpretation and accordingly the appropriateness of the inclusion, exclusion, and/or classification of amounts included in the calculation of the Capital Adequacy Ratio requires Management judgement.

**Related party transactions.** The Bank's principal shareholder is the Central Bank of the Russian Federation (refer to Note 1). As the Bank adopted IAS 24 "Related Party Disclosures" (revised), disclosures are made in these financial statements for transactions with state-controlled entities and government bodies. Currently the Government of the Russian Federation does not provide to the general public or entities under its ownership/control a complete list of the entities which are owned or controlled directly or indirectly by the State. Judgement is applied by the Management in determining the scope of operations with related parties to be disclosed in the financial statements. Refer to Notes 36 and 37.

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

Certain new IFRSs became effective for the Bank 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 Bank's operations and the nature of their impact on the Bank's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to the retained earnings at 1 January 2004, 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 financial statements.

**IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors.** The Bank now applies all voluntary changes in accounting policies retrospectively. Comparatives are amended in accordance with the new policies. All material errors are now corrected retrospectively in the first set of financial statements after their discovery.

**IAS 16 (revised 2003) Property, Plant and Equipment.** The residual value is now defined as the amount that the Bank 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 Bank's policy is now not to cease depreciating assets during temporary periods when the assets are idle. All changes to accounting policies as a result of the revised IAS 16 were accounted retrospectively and did not result in a significant effect on the carrying amount of the Bank's assets.

**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 financial statements.

**IAS 33 (revised 2003) Earnings per Share.** IAS 33 was revised to provide additional guidance and illustrative examples on selected complex matters. The Bank did not have to change its accounting policies as a result of the new guidance.

**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 Bank 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 profit or loss. Subsequent reclassifications into or out of the 'at fair value through profit or loss' category are prohibited. The Bank no longer recognises gains and losses on available-for-sale financial assets in profit or loss but in equity.

As allowed by the standard, the Bank has redesignated such financial instruments as federal loan bonds (OFZ bonds), corporate bonds and the Russian Federation Eurobonds into 'at fair value through profit or loss' or 'available for sale' or 'held to maturity' categories at the date of initial application of the revised IAS 39. Part of these securities previously recorded as originated loans and receivables have been classified at fair value through profit or loss category because they are designated as such based on the unrestricted version of the fair value option in IAS 39 (revised).

The Bank 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. Also, under the revised IAS 39 it was clarified that the impairment calculation is based on an incurred loss model. In accordance with the standard's transitional provisions the revised accounting policies are applied retrospectively.

Opening equity at 1 January 2004 was increased by RR 5 608 034 thousand as a result of adoption of the above new or revised standards and interpretations. The impact of adoption of new or revised standards on the 2004 movements in equity is as follows:

<i>In thousands of Russian Roubles</i>	<b>Total equity</b>
<b>Balance at 1 January 2004 (as previously reported)</b>	<b>134 873 163</b>
Valuation of securities at fair value through profit or loss	2 972 722
Fair value reserve for investment securities available for sale	2 635 312
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<b>Balance at 1 January 2004 (restated)</b>	<b>140 481 197</b>
Movements in fair value reserve for investment securities available for sale (restated)	(3 461 388)
Income tax recorded directly to equity (restated)	830 731
Profit for the year (restated)	18 167 637
Dividends declared	(2 699 593)
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<b>Balance at 31 December 2004 (restated)</b>	<b>153 318 584</b>

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

Included in the above adjustments are effects of the reclassification of quoted securities included in originated loans and receivables with a prior amortised cost carrying amount of RR 21 541 768 thousand at 31 December 2004 (RR 16 119 124 thousand at 1 January 2004) into the fair value through profit or loss category at a fair value of RR 23 971 970 thousand at the same date (RR 20 030 600 thousand at 1 January 2004) and effect of the reclassification of quoted securities included in originated loans and receivables with a prior amortised cost carrying amount of RR 106 171 thousand at 31 December 2004 (RR 19 827 200 thousand at 1 January 2004) into the available for sale category at a fair value of RR 112 296 thousand at the same date (RR 23 294 715 thousand at 1 January 2004). Effect of this restatement on statement of income for the year ended 31 December 2004 is presented in the table below. Part of these originated loans and receivables have been classified at fair value through profit or loss category because they are designated as such based on the unrestricted version of the fair value option in IAS 39 (revised).

The impact of adoption of new or revised standards on the 2004 statement of income is as follows:

	<b>2004 (As previously reported)</b>	<b>Adjustment as a result of adoption of new or revised standards</b>	<b>2004 (Restated)</b>
<i>In thousands of Russian Roubles</i>			
Interest income	166 734 284	-	166 734 284
Interest expense	(84 930 051)	-	(84 930 051)
<b>Net interest income</b>	<b>81 804 233</b>	<b>-</b>	<b>81 804 233</b>
Provision for loan impairment	(15 790 772)	-	(15 790 772)
<b>Net interest income after provision for loan impairment</b>	<b>66 013 461</b>	<b>-</b>	<b>66 013 461</b>
Gains less losses arising from trading securities and other securities at fair value through profit or loss	15 343 493	(1 481 274)	13 862 219
Gains less losses arising from investment securities available for sale	2 830 446	-	2 830 446
Gains less losses from trading in foreign currencies	5 017 305	-	5 017 305
Foreign exchange translation losses net of gains	(1 598 441)	-	(1 598 441)
Fee and commission income	26 198 106	-	26 198 106
Fee and commission expense	(741 559)	-	(741 559)
Other operating income	2 093 217	-	2 093 217
<b>Operating profit</b>	<b>115 156 028</b>	<b>(1 481 274)</b>	<b>113 674 754</b>
Administrative and other operating expenses	(90 587 654)	-	(90 587 654)
<b>Profit before tax</b>	<b>24 568 374</b>	<b>(1 481 274)</b>	<b>23 087 100</b>
Income tax expense	(5 281 787)	362 324	(4 919 463)
<b>Profit for the year</b>	<b>19 286 587</b>	<b>(1 118 950)</b>	<b>18 167 637</b>

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

The impact of adoption of new or revised standards on the 2004 balance sheet is as follows:

<i>In thousands of Russian Roubles</i>	<b>2004 (As previously reported)</b>	<b>Adjustment as a result of adoption of new or revised standards</b>	<b>2004 (Restated)</b>
<b>ASSETS</b>			
Cash and cash equivalents	109 136 991	-	109 136 991
Mandatory cash balances with the Central Bank of the Russian Federation	44 966 603	-	44 966 603
Trading securities	117 036 694	-	117 036 694
Other securities at fair value through profit or loss	-	215 569 169	215 569 169
Due from other banks	10 576 697	-	10 576 697
Loans and advances to customers	1 298 006 237	-	1 298 006 237
Investment securities available for sale	191 597 199	(191 484 903)	112 296
Investment securities held to maturity	-	35 650 135	35 650 135
Securities acquired at original issuance	57 298 074	(57 298 074)	-
Deferred income tax asset	6 685 802	(584 718)	6 101 084
Premises and equipment	72 381 032	-	72 381 032
Other assets	12 683 018	-	12 683 018
<b>TOTAL ASSETS</b>	<b>1 920 368 347</b>	<b>1 851 609</b>	<b>1 922 219 956</b>
<b>LIABILITIES</b>			
Due to other banks	12 949 575	-	12 949 575
Deposits from individuals	1 199 916 878	-	1 199 916 878
Customer accounts	454 384 812	-	454 384 812
Debt securities in issue	63 313 212	-	63 313 212
Other borrowed funds	29 763 322	-	29 763 322
Other liabilities	8 573 573	-	8 573 573
<b>TOTAL LIABILITIES</b>	<b>1 768 901 372</b>	<b>-</b>	<b>1 768 901 372</b>
<b>EQUITY</b>			
Share capital	20 980 583	-	20 980 583
Share premium	10 016 190	-	10 016 190
Treasury shares	(312)	-	(312)
Revaluation reserve for premises	453 397	-	453 397
Fair value reserve for investment securities available for sale	-	4 655	4 655
Retained earnings	120 017 117	1 846 954	121 864 071
<b>TOTAL EQUITY</b>	<b>151 466 975</b>	<b>1 851 609</b>	<b>153 318 584</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1 920 368 347</b>	<b>1 851 609</b>	<b>1 922 219 956</b>

## 6 New Accounting Pronouncements

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

**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 profit or loss ('fair value through profit or loss'). The amendment restricts the ability to designate financial instruments as part of this category.

**IAS 39 (Amendment) – Financial Guarantee Contracts.** Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the amount recognised under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

**IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures.** IFRS 7 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 level of an entity's capital and how it manages capital. The Bank is currently assessing what impact IFRS 7 and the amendment to IAS 1 will have on disclosures in its financial statements.

## 7 Cash and Cash Equivalents

<i>In thousands of Russian Roubles</i>	<b>2005</b>	<b>2004</b>
Cash on hand	58 281 759	45 271 165
Cash balances with the CBRF (other than mandatory reserve deposits)	26 946 095	41 667 705
Correspondent accounts and overnight placements with other banks		
- Russian Federation	14 551 561	1 932 558
- Other countries	23 589 256	20 265 563
<b>Total cash and cash equivalents</b>	<b>123 368 671</b>	<b>109 136 991</b>

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 32. The information on related party balances is disclosed in Notes 36 and 37.

## 8 Trading securities

<i>In thousands of Russian Roubles</i>	<b>2005</b>	<b>2004</b>
Federal loan bonds (OFZ bonds)	52 661 881	32 582 435
Russian Federation Eurobonds	35 956 096	48 569 256
Bonds of the CBRF	24 461 159	904 534
Municipal and subfederal bonds	7 423 572	27 286 179
Corporate bonds	5 619 056	2 008 527
VneshEconomBank 3% coupon bonds (VEB bonds)	5 194 514	1 482 740
Corporate shares	499 149	4 203 023
<b>Total trading securities</b>	<b>131 815 427</b>	<b>117 036 694</b>

## **8 Trading securities (Continued)**

OFZ bonds are RR denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds have maturity dates from February 2006 to November 2021 (2004: from March 2005 to October 2018), coupon rates from 6% to 10% (2004: from 6% to 13%) and yield to maturity from 4% to 7% (2004: from 3% to 11%), 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 June 2007 to March 2030 (2004: from March 2005 to March 2030), coupon rates from 5% to 13% (2004: from 5% to 13%) and yield to maturity from 5% to 6% (2004: from 3% to 7%), depending on the type of bond issue.

Bonds of the CBRF are non interest-bearing RR denominated securities issued by the CBRF at a discount. These bonds have maturity date in June 2009 (2004: July 2005) and yield to maturity of 5% (2004: 5%).

Municipal and subfederal bonds are interest-bearing securities denominated in RR and issued by municipal and subfederal bodies of the Russian Federation. These bonds have maturity dates from April 2006 to December 2014 (2004: from February 2005 to December 2014), coupon rates from 7% to 17% (2004: from 8% to 17%) and yield to maturity from 3% to 11% (2004: from 2% to 13%), depending on the type of bond issue.

Corporate bonds are interest bearing securities denominated in RR, issued by large Russian companies. These bonds have maturity dates from February 2006 to November 2012 (2004: from February 2005 to December 2009), coupon rates from 7% to 15% (2004: from 8% to 17%) and yield to maturity from 6% to 13% (2004: from 5% to 13%), depending on the type of bond issue.

VEB bonds are bearer interest bearing securities denominated in USD and 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%. The bonds have maturity dates from May 2006 to May 2011 (2004: from May 2006 to May 2011) and yield to maturity from 5% to 6% (2004: from 5% to 6%), depending on the type of bond issue.

Corporate shares are quoted shares of large Russian companies.

Geographical, currency and interest rate analyses of trading securities are disclosed in Note 32. The information on trading securities issued by related parties is disclosed in Notes 36 and 37.

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

<i>In thousands of Russian Roubles</i>	<b>2005</b>	<b>2004 (Restated)</b>
Federal loan bonds (OFZ bonds)	178 500 203	193 879 907
Municipal and subfederal bonds	32 408 493	72 142
Corporate shares	12 671 785	8 380 692
Corporate bonds	3 683 676	3 639 870
Russian Federation Eurobonds	16 734	9 596 558
<b>Total other securities at fair value through profit or loss</b>	<b>227 280 891</b>	<b>215 569 169</b>

OFZ bonds have maturity dates from February 2006 to November 2021 (2004: from March 2005 to August 2018), coupon rates from 6% to 10% (2004: from 6% to 13%) and yield to maturity from 4% to 7% (2004: from 3% to 8%), depending on the type of bond issue.

Municipal and subfederal bonds have maturity dates from March 2006 to December 2014 (2004: July 2006), coupon rates of 9% - 17% (2004: 14%) and yield to maturity from 3% to 11% (2004: 14%), depending on the type of bond issue.

## 9 Other Securities at Fair Value through Profit or Loss (Continued)

Corporate shares are quoted shares of large Russian companies.

Corporate bonds have maturity dates from March 2007 to July 2010 (2004: from June 2006 to July 2013), coupon rates from 8% to 15% (2004: from 10% to 14%) and yield to maturity from 5% to 13% (2004: from 10% to 17%), depending on the type of bond issue.

Russian Federation Eurobonds have maturity date up to March 2030 (2004: from July 2018 to March 2030), coupon rate of 5% (2004: 5% - 13%) and yield to maturity of 6% (2004: 7%).

Geographical, currency and interest rate analyses of other securities at fair value through profit or loss are disclosed in Note 32. The information on other securities at fair value through profit or loss issued by related parties is disclosed in Note 37.

## 10 Due from Other Banks

<i>In thousands of Russian Roubles</i>	<b>2005</b>	<b>2004</b>
Short-term placements with other banks	23 189 270	8 032 179
Reverse sale and repurchase agreements with other banks	2 742 959	2 544 518
Overdue placements with other banks	-	1 900
Less: Provision for impairment of due from other banks	-	(1 900)
<b>Total due from other banks</b>	<b>25 932 229</b>	<b>10 576 697</b>

At 31 December 2005 amounts due from other banks in the amount of RR 2 742 959 thousand (2004: RR 2 544 518 thousand) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of RR 2 902 899 thousand (2004: RR 2 252 819 thousand).

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 impairment of due from other banks at 1 January</b>	<b>(1 900)</b>	<b>(76 900)</b>
Due from other banks written off during the year as uncollectible	1 900	75 000
<b>Provision for impairment of due from other banks at 31 December</b>	<b>-</b>	<b>(1 900)</b>

At 31 December 2005 the estimated fair value of due from other banks was RR 25 932 229 thousand (2004: RR 10 576 697 thousand). Refer to Note 35.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 32. The information on related party balances is disclosed in Notes 36 and 37.



## 11 Loans and Advances to Customers

<i>In thousands of Russian Roubles</i>	<b>2005</b>	<b>2004</b>
Current loans	1 856 803 176	1 357 637 562
Overdue loans	19 723 473	19 727 722
Reverse sale and repurchase agreements	3 839 710	-
Less: Provision for loan impairment	(93 078 135)	(79 359 047)
<b>Total loans and advances to customers</b>	<b>1 787 288 224</b>	<b>1 298 006 237</b>

Overdue loans represent the amount of overdue loan payments and do not include the entire outstanding balance of the loans with overdue payments.

At 31 December 2005 loans and advances to customers in the amount of RR 3 839 710 thousand (2004: nil) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of RR 4 226 544 thousand (2004: nil).

Movements in the 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 at 1 January</b>	<b>79 359 047</b>	<b>66 559 980</b>
Provision for loan impairment during the year	19 601 682	15 790 772
Loans and advances to customers written off during the year as uncollectible	(5 882 594)	(2 991 705)
<b>Provision for loan impairment at 31 December</b>	<b>93 078 135</b>	<b>79 359 047</b>

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

	<b>2005</b>		<b>2004</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Individuals	467 832 784	24.9	265 751 772	19.3
Trade	405 490 914	21.6	299 159 621	21.7
Services	190 506 039	10.1	107 192 945	7.8
Food and agriculture	159 428 332	8.5	123 539 954	9.0
Machine building	135 887 258	7.2	125 228 820	9.1
Oil, gas and chemical	123 466 860	6.6	109 251 667	7.9
Energy	69 938 861	3.7	49 207 377	3.6
Metallurgy	69 498 084	3.7	81 950 392	5.9
Construction	54 536 141	2.9	51 140 827	3.7
Telecommunications	48 563 580	2.6	59 063 106	4.3
Transport, aviation, space industry	33 848 765	1.8	44 278 031	3.2
Timber industry	19 208 393	1.0	23 360 609	1.7
Government and municipal bodies	10 450 106	0.5	7 884 805	0.6
Other	91 710 242	4.9	30 355 358	2.2
<b>Total loans and advances to customers, gross</b>	<b>1 880 366 359</b>	<b>100.0</b>	<b>1 377 365 284</b>	<b>100.0</b>

At 31 December 2005 the Bank had 10 borrowers with aggregated loan amounts above RR 17 100 000 thousand (2004: 10 borrowers with aggregated loan amounts above RR 11 000 000 thousand). The total aggregate amount of these loans was RR 311 442 688 thousand or 16.6% of the total gross loan portfolio (2004: RR 297 153 550 thousand or 21.6%).

## 11 Loans and Advances to Customers (Continued)

At 31 December 2005 the estimated fair value of loans and advances to customers was RR 1 787 288 224 thousand (2004: RR 1 298 006 237 thousand). Refer to Note 35.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 32. The information on related party balances is disclosed in Notes 36 and 37.

## 12 Investment Securities Available for Sale

<i>In thousands of Russian Roubles</i>	<b>2005</b>	<b>2004 (Restated)</b>
Russian Federation Eurobonds	-	112 296
<b>Total investment securities available for sale</b>	<b>-</b>	<b>112 296</b>

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As at 31 December 2004 Russian Federation Eurobonds had a maturity date of 2005, coupon rate of 8.8% and yield to maturity 4.1%.

Geographical, currency, maturity and interest rate analyses of investment securities available for sale are disclosed in Note 32. The information on related party debt investment securities available for sale is disclosed in Note 37.

## 13 Repurchase Receivable

Repurchase receivable represents securities sold under sale and repurchase agreements, which the counterparty has the right, by contract or custom, to sell or repledge. Refer to Note 17.

<i>In thousands of Russian Roubles</i>	<b>2005</b>	<b>2004</b>
Russian Federation Eurobonds	1 658 705	-
<b>Total repurchase receivable</b>	<b>1 658 705</b>	<b>-</b>

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As at 31 December 2005 Russian Federation Eurobonds had maturity date of July 2018, coupon rate of 11.1% and yield to maturity of 6.4%.

The information on related party balances is disclosed in Note 37.

## 14 Investment Securities Held to Maturity

<i>In thousands of Russian Roubles</i>	<b>2005</b>	<b>2004 (Restated)</b>
Russian Federation Eurobonds	28 398 916	35 650 135
<b>Total investment securities held to maturity</b>	<b>28 398 916</b>	<b>35 650 135</b>

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#### **14 Investment Securities Held to Maturity (Continued)**

The movement in investment securities held to maturity is as follows:

<i>In thousands of Russian Roubles</i>	<b>2005</b>	<b>2004</b> <b>(Restated)</b>
<b>Gross amount at 1 January</b>	<b>35 650 135</b>	<b>37 588 991</b>
Interest income accrued	5 105 034	5 273 871
Coupon received	(4 951 143)	(5 029 535)
Disposal of securities	(8 761 684)	-
Exchange differences relating to debt securities	1 356 574	(2 183 192)
<b>Gross amount at 31 December</b>	<b>28 398 916</b>	<b>35 650 135</b>

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In December 2005 the Bank has disposed of certain Russian Federation Eurobonds classified as investment securities held to maturity with a par value of USD 307 100 thousand and maturity in July 2018. These securities were pledged as a collateral for borrowings from a foreign counterparty, whose holding company subsequently filed for bankruptcy protection in the United States. As a result of a settlement transaction with the above counterparty, the Bank has recorded a net gain from dealing with investment securities held to maturity in the amount of RR 4 180 969 thousand. A contingent asset in the amount of RR 3 457 202 thousand representing a receivable resulting from this transaction has not been recognised in these financial statements. Refer also to Note 33.

At 31 December 2005 the estimated fair value of investment securities held to maturity was RR 53 501 347 thousand (2004: RR 62 760 259 thousand). Refer to Note 35.

Geographical, currency, maturity and interest rate analyses of investment securities held to maturity are disclosed in Note 32. The information on related party balances is disclosed in Note 37.

**15 Premises and Equipment**

<i>In thousands of Russian Roubles</i>	Note	Premises	Office and computer equipment	Vehicles and other equipment	Construction in progress	Total
Cost or valuation at 1 January 2004		51 689 933	22 104 984	7 408 277	3 847 071	85 050 265
Accumulated depreciation		(6 446 861)	(8 889 832)	(4 086 159)	–	(19 422 852)
<b>Carrying amount at 1 January 2004</b>		<b>45 243 072</b>	<b>13 215 152</b>	<b>3 322 118</b>	<b>3 847 071</b>	<b>65 627 413</b>
Additions		3 615 392	8 112 274	909 827	3 653 372	16 290 865
Transfers		3 031 185	–	–	(3 031 185)	–
Disposals		(484 400)	(330 100)	(488 300)	(91 813)	(1 394 613)
Depreciation charge	27	(2 299 907)	(5 529 287)	(885 815)	–	(8 715 009)
Disposals of depreciation		77 982	177 455	316 939	–	572 376
Transfers of depreciation		–	(958 297)	958 297	–	–
<b>Carrying amount at 31 December 2004</b>		<b>49 183 324</b>	<b>14 687 197</b>	<b>4 133 066</b>	<b>4 377 445</b>	<b>72 381 032</b>
Cost or valuation at 31 December 2004		57 852 110	29 887 158	7 829 804	4 377 445	99 946 517
Accumulated depreciation		(8 668 786)	(15 199 961)	(3 696 738)	–	(27 565 485)
<b>Carrying amount at 31 December 2004</b>		<b>49 183 324</b>	<b>14 687 197</b>	<b>4 133 066</b>	<b>4 377 445</b>	<b>72 381 032</b>
Additions		5 383 637	12 395 308	1 805 898	6 426 832	26 011 675
Transfers		3 387 307	–	–	(3 387 307)	–
Disposals		(473 953)	(1 414 209)	(639 170)	(28 805)	(2 556 137)
Depreciation charge	27	(2 494 555)	(7 081 609)	(1 099 648)	–	(10 675 812)
Disposals of depreciation		97 604	910 743	364 095	–	1 372 442
Revaluation of premises		20 316 636	–	–	–	20 316 636
<b>Carrying amount at 31 December 2005</b>		<b>75 400 000</b>	<b>19 497 430</b>	<b>4 564 241</b>	<b>7 388 165</b>	<b>106 849 836</b>
Cost or valuation at 31 December 2005		75 400 000	40 868 257	8 996 532	7 388 165	132 652 954
Accumulated depreciation		–	(21 370 827)	(4 432 291)	–	(25 803 118)
<b>Carrying amount at 31 December 2005</b>		<b>75 400 000</b>	<b>19 497 430</b>	<b>4 564 241</b>	<b>7 388 165</b>	<b>106 849 836</b>

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

Premises were independently valued at 31 December 2005. The valuation was carried out by an independent firm of valuers. The basis used for the appraisal was fair value. Fair values were estimated using appropriate valuation techniques and using observable market prices in an active market. Included in the above carrying amount is RR 20 316 636 thousand representing revaluation surplus relating to premises of the Bank. Average remaining useful life of premises was set as 30 years.

## 15 Premises and Equipment (Continued)

At 31 December 2005 included in office and computer equipment are fully amortised items in the amount of RR 7 641 998 thousand (2004: RR 6 887 663 thousand) and in vehicles and other equipment in the amount of RR 2 596 747 thousand (2004: RR 2 408 456 thousand).

## 16 Other Assets

<i>In thousands of Russian Roubles</i>	<b>Note</b>	<b>2005</b>	<b>2004</b>
Plastic cards receivables		11 889 066	3 504 705
Precious metals		3 969 676	3 338 326
Prepaid taxes other than on income		1 802 221	1 226 911
Prepaid expenses		1 538 983	823 569
Trade debtors and prepayments		1 418 634	1 514 616
Precious metals forward contracts	34	760 634	203 712
Restricted cash		655 583	1 143 063
Foreign exchange forward contracts	34	83 664	1 967
Other		1 607 378	926 149
<b>Total other assets</b>		<b>23 725 839</b>	<b>12 683 018</b>

As at 31 December 2005 plastic cards receivables of RR 11 889 066 thousand (2004: RR 3 504 705 thousand) represent receivables due within 30 days from international plastic cards payment system on operations of the Bank's customers with plastic cards.

Restricted cash represents balances on correspondent accounts with foreign banks placed by the Bank on behalf of its customers. The Bank has received restricted deposits from these customers in the same amounts, which are recorded in customer accounts. Refer to Note 33.

Geographical, currency and maturity analyses of other assets are disclosed in Note 32. The information on related party balances is disclosed in Note 36.

## 17 Due to Other Banks

<i>In thousands of Russian Roubles</i>	<b>2005</b>	<b>2004</b>
Correspondent accounts and overnight placements of other banks	22 833 359	11 847 388
Current term placements of other banks	607 214	1 102 187
Sale and repurchase agreements with other banks	1 471 687	-
<b>Total due to other banks</b>	<b>24 912 260</b>	<b>12 949 575</b>

As at 31 December 2005 trading securities with a fair value of RR 1 658 705 thousand (31 December 2004: nil) have been sold to third parties under sale and repurchase agreements with other banks. Refer to Note 13.

At 31 December 2005 the estimated fair value of due to other banks was RR 24 912 260 thousand (2004: RR 12 949 575 thousand). Refer to Note 35.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 32.

## 18 Deposits from Individuals and Customer Accounts

<i>In thousands of Russian Roubles</i>	<b>2005</b>	<b>2004</b>
<b>State and public organisations</b>		
- Current/settlement accounts	53 411 194	45 128 341
- Term deposits	16 125 577	5 633 906
<b>Other legal entities</b>		
- Current/settlement accounts	352 348 281	318 804 159
- Term deposits	124 920 911	84 818 406
<b>Individuals</b>		
- Current/demand accounts	136 100 326	99 793 569
- Term deposits	1 378 201 478	1 100 123 309
<b>Total deposits from individuals and customer accounts</b>	<b>2 061 107 767</b>	<b>1 654 301 690</b>

Economic sector concentrations within customer accounts are as follows:

	<b>2005</b>		<b>2004</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Individuals	1 514 301 804	73.5	1 199 916 878	72.5
Oil, gas and chemical	108 919 249	5.2	108 619 166	6.6
Services	97 464 516	4.7	63 966 872	3.9
Trade	75 710 040	3.7	54 483 794	3.3
Municipal bodies and state organisations	61 454 531	3.0	36 254 775	2.2
Construction	31 960 408	1.6	23 736 721	1.4
Food and agriculture	28 146 079	1.3	21 277 570	1.3
Metallurgy	25 257 585	1.2	34 792 105	2.1
Machine building	23 758 833	1.2	17 436 191	1.0
Other	94 134 722	4.6	93 817 618	5.7
<b>Total deposits from individuals and customer accounts</b>	<b>2 061 107 767</b>	<b>100.0</b>	<b>1 654 301 690</b>	<b>100.0</b>

At 31 December 2005 included in customer accounts are deposits of RR 33 112 622 thousand (2004: RR 25 156 811 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 33.

At 31 December 2005 the estimated fair value of customer accounts was RR 2 061 107 767 thousand (2004: RR 1 654 301 690 thousand). Refer to Note 35.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 32. The information on related party balances is disclosed in Notes 36 and 37.

## 19 Debt Securities in Issue

<i>In thousands of Russian Roubles</i>	<b>2005</b>	<b>2004</b>
Promissory notes	79 263 453	58 849 276
Savings certificates	6 297 898	3 460 216
Deposit certificates	1 328 177	1 003 720
<b>Total debt securities in issue</b>	<b>86 889 528</b>	<b>63 313 212</b>

## **19 Debt Securities in Issue (Continued)**

Promissory notes are interest-bearing or discount securities issued by the Bank. They are nominated in RR, USD and Euro and have maturity dates from "On demand" till May 2009. Interest or discount rates on promissory notes issued by the Bank vary from 4.3% to 6.1% (2004: from 8.3% to 11.2%). Promissory notes are freely tradable on the Russian financial market.

Savings and deposits certificates are interest-bearing securities issued by the Bank. They are nominated in RR, USD, Euro and have maturity dates from "On demand" till March 2007. Interest rates on these securities vary from 2.1% till 3.0% (2004: from 16.2% to 17.5%).

At 31 December 2005 the estimated fair value of debt securities in issue was RR 85 510 063 thousand roubles (2004: RR 62 663 718 thousand roubles). Refer to Note 35.

Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 32.

## **20 Other Borrowed Funds**

<i>In thousands of Russian Roubles</i>	<b>2005</b>	<b>2004</b>
Long-term loans received	57 597 510	27 781 693
Term borrowings	5 366 355	1 981 629
<b>Total other borrowed funds</b>	<b>62 963 865</b>	<b>29 763 322</b>

Included in long-term loans received are floating rate (three month LIBOR +1.75%) notes issued in October 2003 maturing in three years with effective interest rate of 6.8% p.a. (2004: 4.7% p.a.). The transaction was structured as an issue of notes by UBS Luxembourg S.A. for the purpose of financing a loan to the Bank. These notes had a par value of USD 1 000 000 thousand and carried 12 quarterly coupons. The loan has been accounted for at amortised cost of RR 28 881 656 thousand (2004: RR 27 781 693 thousand).

Also, included in long-term loans received is a syndicated loan in the amount of USD 1 000 000 thousand which was received by the Bank in December 2005 from a consortium of foreign banks. As at 31 December 2005 the loan was accounted for at amortised cost of RR 28 715 854 thousand. This loan has a maturity date on 10 November 2008 and contractual floating interest rate of LIBOR + 0.55%. As at 31 December 2005 the effective interest rate on the loan was 5.4%.

Term borrowings represent funding received by the Bank from foreign export agencies via foreign banks, which was used by Sberbank for direct lending to Russian companies in accordance with the terms of the agreements. As at 31 December 2005 these term borrowings were accounted for at amortised cost of RR 5 366 355 thousand (2004: RR 1 981 629 thousand), had floating interest rates varying from 2.8% to 6.4% (2004: from 2.9% to 3.9%) and maturity dates from February 2006 to January 2016 (2004: from February 2006 to February 2012).

At 31 December 2005 the estimated fair value of other borrowed funds was RR 63 296 447 thousand (2004: RR 30 116 171 thousand). Refer to Note 35.

Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 32.

## 21 Other Liabilities

<i>In thousands of Russian Roubles</i>	<b>Note</b>	<b>2005</b>	<b>2004</b>
Accrued employee benefit costs		5 586 105	4 347 164
Taxes payable		3 970 921	2 586 684
Insurance system fees payable		2 124 368	-
Plastic cards and other settlements with clients		1 670 084	718 521
Trade payables		320 586	385 949
Precious metal forwards	34	44 710	144 598
Foreign exchange forwards	34	33 597	28
Other		711 741	390 629
<b>Total other liabilities</b>		<b>14 462 112</b>	<b>8 573 573</b>

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 32.

## 22 Subordinated Debt

<i>In thousands of Russian Roubles</i>	<b>2005</b>	<b>2004</b>
Subordinated debt	29 393 050	-
<b>Total subordinated debt</b>	<b>29 393 050</b>	<b>-</b>

In 2005 the Bank received a subordinated loan. This transaction was structured by UBS Luxembourg S.A. as an issue of aggregate principal amount of USD 1 000 000 thousand 6.2% Loan Participation Notes due in February 2015 for the sole purpose of financing a ten-year subordinated loan to the Bank. As at 31 December 2005 this subordinated debt was accounted for at amortised cost of RR 29 393 050 thousand.

As at 31 December 2005 the estimated fair value of subordinated debt was RR 29 185 455 thousand. Refer to Note 35.

Geographical, currency and maturity analyses of subordinated debt are disclosed in Note 32.

## 23 Share Capital and Share Premium

	<b>2005</b>			<b>2004</b>		
	<b>Number of shares, in units</b>	<b>Nominal amount</b>	<b>Inflation adjusted amount</b>	<b>Number of shares, in units</b>	<b>Nominal amount</b>	<b>Inflation adjusted amount</b>
Ordinary shares	19 000 000	950 000	19 525 646	19 000 000	950 000	19 525 646
Preference shares	50 000 000	50 000	1 454 937	50 000 000	50 000	1 454 937
Less: Treasury shares						
- Ordinary shares	(1 787)	(89)	(243)	(1 787)	(89)	(243)
- Preference shares	(1 144)	(1)	(58)	(1 382)	(1)	(69)
<b>Total share capital</b>	<b>68 997 069</b>	<b>999 910</b>	<b>20 980 282</b>	<b>68 996 831</b>	<b>999 910</b>	<b>20 980 271</b>

All ordinary shares have a nominal value of RR 50 per share and rank equally. Each share carries one vote.



### **23 Share Capital and Share Premium (Continued)**

All preference shares have a nominal value of RR 1 per share and carry no voting rights but rank ahead of the ordinary shares in the event of the Bank's liquidation. Preference shares are not redeemable. Dividend payments are at the discretion of the Bank. When a dividend is paid, the preference shares attract a minimum payment of annual dividends of 15% of their nominal value, subject to confirmation of the shareholders meeting. If preference dividends are not declared by ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders but lose this right when the next dividend is paid. Preference share dividends are set at 379% p.a. in 2005 for the year ended 31 December 2004 (2004: 288% p.a. for the year ended 31 December 2003) and rank above ordinary dividends.

Share premium of RR 10 016 190 thousand (2004: RR 10 016 190 thousand) represents the excess of contributions received over the nominal value of shares issued.

### **24 Retained Earnings**

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 207 045 125 thousand (2004: RR 151 580 715 thousand).

### **25 Interest Income and Expense**

<i>In thousands of Russian Roubles</i>	<b>2005</b>	<b>2004</b>
<b>Interest income</b>		
Loans and advances to customers	214 274 900	139 869 305
Debt trading securities and other securities at fair value through profit or loss	24 191 659	15 041 376
Investment securities held to maturity	5 105 034	5 273 870
Due from other banks	1 890 479	6 064 116
Correspondent accounts with other banks	57 498	22 645
Debt investment securities available for sale	2 284	462 972
<b>Total interest income</b>	<b>245 521 854</b>	<b>166 734 284</b>
<b>Interest expense</b>		
Term deposits of individuals	73 286 161	74 882 057
Term deposits of legal entities	6 360 540	2 583 698
Current/settlement accounts	4 831 151	3 738 628
Other borrowed funds	2 838 031	962 516
Term placements of other banks	734 779	321 288
Debt securities in issue	705 443	2 275 188
Correspondent accounts of other banks	392 849	166 676
<b>Total interest expense</b>	<b>89 148 954</b>	<b>84 930 051</b>
<b>Net interest income</b>	<b>156 372 900</b>	<b>81 804 233</b>

**26 Fee and Commission Income and Expense**

<i>In thousands of Russian Roubles</i>	<b>2005</b>	<b>2004</b>
<b>Fee and commission income</b>		
Cash transactions	24 883 235	18 176 535
Plastic cards operations	4 195 806	2 556 610
Operations with foreign currency	2 892 618	2 370 050
Settlement transactions	1 978 335	953 865
Cash collection	1 788 038	1 350 799
Transactions with securities	460 679	432 320
Guarantees issued	185 547	65 329
Other	545 444	292 598
<b>Total fee and commission income</b>	<b>36 929 702</b>	<b>26 198 106</b>
<b>Fee and commission expense</b>		
Operations with foreign currency	283 576	230 084
Settlement transactions	460 650	220 412
Transactions with securities	113 087	119 431
Cash collection	97 970	90 068
Other	191 501	81 564
<b>Total fee and commission expense</b>	<b>1 146 784</b>	<b>741 559</b>
<b>Net fee and commission income</b>	<b>35 782 918</b>	<b>25 456 547</b>

**27 Administrative and Other Operating Expenses**

<i>In thousands of Russian Roubles</i>	<b>Note</b>	<b>2005</b>	<b>2004</b>
Staff costs		68 316 065	54 917 708
Depreciation of premises and equipment	15	10 675 812	8 715 009
Administrative expenses		12 227 390	9 292 549
State deposit insurance system membership fee		7 682 868	-
Other costs of premises and equipment		5 924 490	4 673 145
Taxes other than on income		4 028 832	7 849 462
Advertising and marketing services		1 736 235	1 021 386
Professional services		244 749	153 949
Other		3 536 789	3 964 446
<b>Total administrative and other operating expenses</b>		<b>114 373 230</b>	<b>90 587 654</b>

Included in staff costs are statutory social security and pension contributions of RR 11 506 226 thousand (2004: RR 10 864 114 thousand).

**28 Income Taxes**

Income tax expense comprises the following:

<i>In thousands of Russian Roubles</i>	<b>2005</b>	<b>2004 (Restated)</b>
Current tax	18 256 983	8 894 964
Deferred tax	8 431 503	(4 806 232)
Less: Deferred tax recorded directly in equity	(4 874 522)	830 731
<b>Income tax expense for the year</b>	<b>21 813 964</b>	<b>4 919 463</b>

The income tax rate applicable to the majority of the Bank'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>	<b>2005</b>	<b>2004 (Restated)</b>
<b>IFRS profit before tax</b>	<b>87 621 496</b>	<b>23 087 100</b>
Theoretical tax charge at statutory rate (2005: 24%; 2004: 24%)	21 029 159	5 540 904
Income on government securities taxed at different rates	(2 143 208)	(2 746 237)
Tax resulting from transition to the Tax Code in 2002	304 398	304 398
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	(48 921)	(41 893)
- Other non deductible expenses	1 655 668	604 139
- Other non-temporary differences	969 705	751 221
Transfer pricing adjustment for securities operations	47 163	506 931
<b>Income tax expense for the year</b>	<b>21 813 964</b>	<b>4 919 463</b>

A deferred tax liability of RR 4 875 992 thousand has been recorded directly in equity in respect of the revaluation of the Bank's premises. Refer to Note 15. A reversal of deferred tax liability of RR 1 470 thousand (2004: RR 830 731 thousand) has been recorded directly in equity in respect of the fair valuation of investment securities available for sale.

**28 Income Taxes (Continued)**

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%).

<i>In thousands of Russian Roubles</i>	<b>31 December 2004 (Restated)</b>	<b>Charged/ (credited) to profit or loss</b>	<b>Charged / (credited) directly to equity</b>	<b>31 December 2005</b>
<b>Tax effect of deductible temporary differences</b>				
Loan impairment provision	6 549 695	(2 090 134)	-	4 459 561
Deferred income	1 022 493	1 557 801	-	2 580 294
Accrued employee benefit costs	1 043 319	297 346	-	1 340 665
Low value items write-off	692 744	275 259	-	968 003
Other	1 330 343	(217 809)	-	1 112 534
<b>Gross deferred tax asset</b>	<b>10 638 594</b>	<b>(177 537)</b>	<b>-</b>	<b>10 461 057</b>
<b>Tax effect of taxable temporary differences</b>				
Premises and equipment	837 562	1 304 090	4 875 992	7 017 644
Fair valuation of trading securities and other securities at fair value through profit or loss	2 872 097	1 928 367	-	4 800 464
Amortisation of investment securities held to maturity	752 826	(108 206)	-	644 620
Fair valuation of investment securities available for sale	8 265	(6 795)	(1 470)	-
Other	66 760	261 988	-	328 748
<b>Gross deferred tax liability</b>	<b>4 537 510</b>	<b>3 379 444</b>	<b>4 874 522</b>	<b>12 791 476</b>
<b>Total net deferred tax asset/(liability)</b>	<b>6 101 084</b>	<b>(3 556 981)</b>	<b>(4 874 522)</b>	<b>(2 330 419)</b>

**28 Income Taxes (Continued)**

<i>In thousands of Russian Roubles</i>	<b>1 January 2004 (Restated)</b>	<b>Charged/ (credited)to profit or loss</b>	<b>Charged / (credited) directly to equity</b>	<b>31 December 2004 (Restated)</b>
<b>Tax effect of deductible temporary differences</b>				
Loan impairment provision	7 275 270	(725 575)	-	6 549 695
Accrued employee benefit costs	1 305 928	(262 609)	-	1 043 319
Deferred income	-	1 022 493	-	1 022 493
Low value items write-off	562 360	130 384	-	692 744
Other	1 251 639	78 704	-	1 330 343
<b>Gross deferred tax asset</b>	<b>10 395 197</b>	<b>243 397</b>	<b>-</b>	<b>10 638 594</b>
<b>Tax effect of taxable temporary differences</b>				
Premises and equipment	1 540 700	(703 138)	-	837 562
Fair valuation of trading securities and other securities at fair value through profit or loss	4 597 600	(1 725 503)	-	2 872 097
Amortisation of investment securities held to maturity	738 464	14 362	-	752 826
Fair valuation of investment securities available for sale	1 913 378	(1 074 382)	(830 731)	8 265
Other	310 206	(243 446)	-	66 760
<b>Gross deferred tax liability</b>	<b>9 100 348</b>	<b>(3 732 107)</b>	<b>(830 731)</b>	<b>4 537 510</b>
<b>Total net deferred tax asset</b>	<b>1 294 849</b>	<b>3 975 504</b>	<b>830 731</b>	<b>6 101 084</b>

**29 Earnings per Share**

Basic earnings per share are calculated by dividing the profit 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>	<b>2005</b>	<b>2004 (Restated)</b>
Profit attributable to equity holders of the Bank	65 807 532	18 167 637
Less: preference dividends	(189 500)	(144 005)
<b>Profit attributable to the Bank's ordinary shareholders</b>	<b>65 618 032</b>	<b>18 023 632</b>
Weighted average number of ordinary shares in issue (thousands)	18 998	18 998
<b>Basic and diluted ordinary earnings per share (expressed in RR per share)</b>	<b>3 454</b>	<b>949</b>

### 30 Dividends

<i>In thousands of Russian Roubles</i>	2005		2004	
	Ordinary	Preference	Ordinary	Preference
Dividends payable at 1 January	28 038	7 942	22 350	1 252
Dividends declared during the year	3 304 100	189 500	2 555 588	144 005
Dividends paid during the year	(3 291 405)	(185 332)	(2 549 900)	(137 315)
<b>Dividends payable at 31 December</b>	<b>40 733</b>	<b>12 110</b>	<b>28 038</b>	<b>7 942</b>
<b>Dividends per share declared during the year (RR per share)</b>	<b>173.90</b>	<b>3.79</b>	<b>134.50</b>	<b>2.88</b>

All dividends are declared and paid in Russian Roubles.

### 31 Segment Analysis

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

**Business Segments.** The Bank is organised on a basis of two main business segments:

- Retail banking – representing private customer current accounts, savings, deposits, custody, debit cards, consumer loans and mortgages.
- Corporate banking – representing current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.

The Bank does not allocate in its internal management accounting system certain types of the Bank's assets and liabilities as well as income and expenses between the segments. Such items have been presented as "unallocated" in the table below. Currently the Bank is in the process of development of the basis of allocation of such items and adjusting its internal management accounting system to make such allocations in the future.

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

**31 Segment Analysis (Continued)**

Segment reporting per business segments as of 31 December 2005 follows:

<i>In thousands of Russian Roubles</i>	<b>Corporate banking</b>	<b>Retail banking</b>	<b>Unallocated</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	-	-	123 368 671	123 368 671
Mandatory cash balances with the CBRF	-	-	56 808 779	56 808 779
Trading securities	131 815 427	-	-	131 815 427
Other securities at fair value through profit or loss	227 280 891	-	-	227 280 891
Due from other banks	25 932 229	-	-	25 932 229
Loans and advances to customers	1 334 613 222	452 675 002	-	1 787 288 224
Repurchase receivable	1 658 705	-	-	1 658 705
Investment securities held to maturity	28 398 916	-	-	28 398 916
Premises and equipment	-	-	106 849 836	106 849 836
Other assets	-	-	23 725 839	23 725 839
<b>Total assets</b>	<b>1 749 699 390</b>	<b>452 675 002</b>	<b>310 753 125</b>	<b>2 513 127 517</b>
<b>Liabilities</b>				
Due to other banks	24 912 260	-	-	24 912 260
Deposits from individuals	-	1 514 301 804	-	1 514 301 804
Customer accounts	546 805 963	-	-	546 805 963
Debt securities in issue	78 776 895	8 112 633	-	86 889 528
Other borrowed funds	62 963 865	-	-	62 963 865
Deferred income tax liability	-	-	2 330 419	2 330 419
Other liabilities	-	-	14 462 112	14 462 112
Subordinated debt	29 393 050	-	-	29 393 050
<b>Total liabilities</b>	<b>742 852 033</b>	<b>1 522 414 437</b>	<b>16 792 531</b>	<b>2 282 059 001</b>
Interest income	172 640 000	72 881 854	-	245 521 854
Interest expense	(15 862 793)	(73 286 161)	-	(89 148 954)
Gains less losses arising from trading securities and other securities at fair value through profit or loss	16 144 622	-	-	16 144 622
Gains less losses arising from investment securities available for sale	4 709	-	-	4 709
Gains less losses arising from investment securities held to maturity	4 180 969	-	-	4 180 969
(Losses, net of gains)/gains less losses arising from trading in foreign currencies	(3 519 672)	2 789 109	-	(730 563)
Fee and commission income	26 018 347	10 911 355	-	36 929 702
Fee and commission expense	(1 146 784)	-	-	(1 146 784)

**31 Segment Analysis (Continued)**

Segment reporting per business segments as of 31 December 2004 follows:

<i>In thousands of Russian Roubles</i>	<b>Corporate banking</b>	<b>Retail banking</b>	<b>Unallocated</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	-	-	109 136 991	109 136 991
Mandatory cash balances with the CBRF	-	-	44 966 603	44 966 603
Trading securities	117 036 694	-	-	117 036 694
Other securities at fair value through profit or loss	215 569 169	-	-	215 569 169
Due from other banks	10 576 697	-	-	10 576 697
Loans and advances to customers	1 039 448 356	258 557 881	-	1 298 006 237
Investment securities available for sale	112 296	-	-	112 296
Investment securities held to maturity	35 650 135	-	-	35 650 135
Deferred income tax asset	-	-	6 101 084	6 101 084
Premises and equipment	-	-	72 381 032	72 381 032
Other assets	-	-	12 683 018	12 683 018
<b>Total assets</b>	<b>1 418 393 347</b>	<b>258 557 881</b>	<b>245 268 728</b>	<b>1 922 219 956</b>
<b>Liabilities</b>				
Due to other banks	12 949 575	-	-	12 949 575
Deposits from individuals	-	1 199 916 878	-	1 199 916 878
Customer accounts	454 384 812	-	-	454 384 812
Debt securities in issue	54 917 307	8 395 905	-	63 313 212
Other borrowed funds	29 763 322	-	-	29 763 322
Other liabilities	-	-	8 573 573	8 573 573
<b>Total liabilities</b>	<b>552 015 016</b>	<b>1 208 312 783</b>	<b>8 573 573</b>	<b>1 768 901 372</b>
Interest income	127 683 318	39 050 966	-	166 734 284
Interest expense	(10 047 994)	(74 882 057)	-	(84 930 051)
Gains less losses arising from trading securities and other securities at fair value through profit or loss	13 862 219	-	-	13 862 219
Gains less losses arising from investment securities available for sale	2 830 446	-	-	2 830 446
Gains less losses arising from trading in foreign currencies	2 026 479	2 990 826	-	5 017 305
Fee and commission income	17 344 964	8 853 142	-	26 198 106
Fee and commission expense	(741 559)	-	-	(741 559)



### 31 Segment Analysis (Continued)

**Geographical segments.** Geographical segment information is based on the Bank's activity among its central head office and 17 regional head offices. The Bank has defined five geographical segments:

<b>Geographical segment</b>	<b>Name of territorial bank</b>	<b>Location of the regional head offices</b>
Moscow	Central head office	Moscow
European Russia	Severny	Yaroslavl
	Severo-Zapadny	Saint-Petersburg
	Tsentralno-Chernozemny	Voronezh
	Volgo-Vyatsky	Nizhniy Novgorod
	Povolzhsky	Samara
	Srednerussky	Moscow
	Severo-Kavkazsky	Stavropol
Yugo-Zapadny	Rostov-on-Don	
Ural	Zapadno-Uralsky	Perm
	Uralsky	Ekaterinburg
Western Siberia	Sibirsky	Novosibirsk
	Altaysky	Barnaul
	Zapadno-Sibirsky	Tumen
Eastern Siberia and Far East	Severo-Vostochny	Magadan
	Dalnevostochny	Khabarovsk
	Vostochno-Sibirsky	Krasnoyarsk
	Baikalsky	Irkutsk

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

**Sberbank (Savings Bank of the Russian Federation)**  
**Notes to the Financial Statements - 31 December 2005**

**31 Segment Analysis (Continued)**

The Bank's reporting by geographical segments as of 31 December 2005 is as follows:

<i>In thousands of Russian Roubles</i>	<b>Moscow</b>	<b>European Russia</b>	<b>Ural</b>	<b>Western Siberia</b>	<b>Eastern Siberia and Far East</b>	<b>Unallocated</b>	<b>Total</b>
<b>Assets</b>							
Cash and cash equivalents	67 734 074	36 873 632	6 436 960	6 078 796	6 245 209	-	123 368 671
Mandatory cash balances with the CBRF	-	-	-	-	-	56 808 779	56 808 779
Trading securities	131 456 309	317 805	-	26 983	14 330	-	131 815 427
Other securities at fair value through profit or loss	217 241 332	8 884 549	63	754 347	400 600	-	227 280 891
Due from other banks	25 932 229	-	-	-	-	-	25 932 229
Loans and advances to customers	661 933 444	680 282 912	168 992 431	143 864 777	132 214 660	-	1 787 288 224
Repurchase receivable	1 658 705	-	-	-	-	-	1 658 705
Investment securities held to maturity	28 398 916	-	-	-	-	-	28 398 916
Premises and equipment	24 307 329	51 560 459	10 551 435	11 144 108	9 286 505	-	106 849 836
Other assets	-	-	-	-	-	23 725 839	23 725 839
<b>Total assets</b>	<b>1 158 662 338</b>	<b>777 919 357</b>	<b>185 980 889</b>	<b>161 869 011</b>	<b>148 161 304</b>	<b>80 534 618</b>	<b>2 513 127 517</b>
<b>Liabilities</b>							
Due to other banks	13 378 217	4 572 261	2 469 237	3 601 762	890 783	-	24 912 260
Deposits from individuals	427 695 906	729 935 181	123 547 294	111 552 151	121 571 272	-	1 514 301 804
Customer accounts	256 927 939	186 492 974	37 825 308	39 077 690	26 482 052	-	546 805 963
Debt securities in issue	32 007 144	30 912 401	11 321 047	8 133 814	4 515 122	-	86 889 528
Other borrowed funds	62 963 865	-	-	-	-	-	62 963 865
Deferred income tax liability	-	-	-	-	-	2 330 419	2 330 419
Other liabilities	-	-	-	-	-	14 462 112	14 462 112
Subordinated debt	29 393 050	-	-	-	-	-	29 393 050
<b>Total liabilities</b>	<b>822 366 121</b>	<b>951 912 817</b>	<b>175 162 886</b>	<b>162 365 417</b>	<b>153 459 229</b>	<b>16 792 531</b>	<b>2 282 059 001</b>
Interest income	91 115 115	92 619 700	22 849 032	20 061 133	18 876 874	-	245 521 854
Interest expense	(33 560 974)	(36 575 759)	(7 180 488)	(5 975 062)	(5 856 671)	-	(89 148 954)
Gains less losses arising from trading securities and other securities at fair value through profit or loss	17 822 016	(1 092 640)	(194 391)	(107 566)	(282 797)	-	16 144 622
Gains less losses arising from investment securities available for sale	4 709	-	-	-	-	-	4 709
Gains less losses arising from investment securities held to maturity	4 180 969	-	-	-	-	-	4 180 969
(Losses net of gains)/gains less losses from trading in foreign currencies	(3 145 201)	1 725 531	151 273	209 963	327 871	-	(730 563)
Fee and commission income	4 594 387	20 382 660	3 326 366	4 077 138	4 549 151	-	36 929 702
Fee and commission expense	(1 061 024)	(38 750)	(8 680)	(11 385)	(26 945)	-	(1 146 784)

**Sberbank (Savings Bank of the Russian Federation)**  
**Notes to the Financial Statements - 31 December 2005**

**31 Segment Analysis (Continued)**

The Bank's reporting by geographical segments as of 31 December 2004 is as follows:

<i>In thousands of Russian Roubles</i>	<b>Moscow</b>	<b>European Russia</b>	<b>Ural</b>	<b>Western Siberia</b>	<b>Eastern Siberia and Far East</b>	<b>Unallocated</b>	<b>Total</b>
<b>Assets</b>							
Cash and cash equivalents	74 076 376	23 907 027	4 263 322	3 296 014	3 594 252	-	109 136 991
Mandatory cash balances with the CBRF	-	-	-	-	-	44 966 603	44 966 603
Trading securities	63 064 009	37 343 038	4 897 952	4 068 097	7 663 598	-	117 036 694
Other securities at fair value through profit or loss	130 967 407	58 353 022	6 998 434	6 595 977	12 654 329	-	215 569 169
Due from other banks	10 576 697	-	-	-	-	-	10 576 697
Loans and advances to customers	482 558 694	497 413 864	125 212 229	103 387 656	89 433 794	-	1 298 006 237
Investment securities available for sale	112 296	-	-	-	-	-	112 296
Investment securities held to maturity	10 798 789	17 301 692	2 666 770	1 741 180	3 141 704	-	35 650 135
Deferred income tax asset	-	-	-	-	-	6 101 084	6 101 084
Premises and equipment	15 335 723	35 641 014	7 176 813	7 800 193	6 427 289	-	72 381 032
Other assets	-	-	-	-	-	12 683 018	12 683 018
<b>Total assets</b>	<b>787 489 991</b>	<b>669 959 657</b>	<b>151 215 520</b>	<b>126 889 117</b>	<b>122 914 966</b>	<b>63 750 705</b>	<b>1 922 219 956</b>
<b>Liabilities</b>							
Due to other banks	8 689 361	1 320 165	1 703 778	979 750	256 521	-	12 949 575
Deposits from individuals	337 361 757	571 728 669	102 386 559	90 694 792	97 745 101	-	1 199 916 878
Customer accounts	243 397 354	131 845 596	31 886 212	23 840 301	23 415 349	-	454 384 812
Debt securities in issue	16 968 076	23 738 650	11 159 244	7 918 664	3 528 578	-	63 313 212
Other borrowed funds	29 763 322	-	-	-	-	-	29 763 322
Other liabilities	-	-	-	-	-	8 573 573	8 573 573
<b>Total liabilities</b>	<b>636 179 870</b>	<b>728 633 080</b>	<b>147 135 793</b>	<b>123 433 507</b>	<b>124 945 549</b>	<b>8 573 573</b>	<b>1 768 901 372</b>
Interest income	50 521 742	70 600 122	17 169 039	15 639 223	12 804 158	-	166 734 284
Interest expense	(32 176 378)	(34 686 023)	(6 854 869)	(5 666 900)	(5 545 881)	-	(84 930 051)
Gains less losses arising from trading securities and other securities at fair value through profit or loss	15 411 187	(890 148)	(391 257)	(147 745)	(119 818)	-	13 862 219
Gains and losses arising from investment securities available for sale	2 830 446	-	-	-	-	-	2 830 446
Gains less losses from trading in foreign currencies	2 132 108	1 965 651	277 304	252 637	389 605	-	5 017 305
Fee and commission income	5 020 122	12 902 586	2 520 660	2 782 208	2 972 530	-	26 198 106
Fee and commission expense	(668 314)	(34 361)	(8 029)	(9 892)	(20 963)	-	(741 559)

**32 Financial Risk Management**

The risk management function within the Bank is carried out in respect of major types of risks: credit, market (includes interest rate, equity and currency risks), liquidity risk and operational risk. 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 risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational risk.

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

**Credit risk.** The Bank is exposed to credit risk, which is a risk of a counterparty being unable to meet its credit obligations in whole or in part when due. The Bank manages credit risk in accordance with internal policies and procedures, which are reviewed and updated periodically, as well as on an ad-hoc basis.

The Bank's lending policies focus on the improvement of the credit quality and income level of its loan portfolio and minimisation and diversification of credit risks. To minimise credit risk on the branch level, the Credit and Investment Committee at the Central Head Office sets lending limits for branches, the Regional Head Offices and branches that report to the Central Head Office. The Regional Head Offices then distribute these lending limits among branches, sub-branches and outlets that report to them. Loans that exceed these lending limits must be approved by the Credit and Investment Committee.

The Bank usually requires collateral and/or guarantees for loans. Acceptable collateral includes real property, securities, transportation and production equipment, inventory, precious metals, certain contract rights and certain personal property. The Bank accepts guarantees from controlling shareholders (or other controlling persons) of small businesses, government entities, banks, other solvent legal entities, individuals (for loans to individuals). In order to reduce credit risk, several types of collateral may be used simultaneously.

**Exposure Limits.** To manage its credit risk, the Bank places its counterparties into risk groups, which reflect the possibility of default on their obligations. Counterparties placed into particular risk groups are assigned exposure limits. The Bank has procedures for calculation and review of risk limits for the following categories: corporate clients, Russian Federation subjects, municipal bodies, resident banks and non-resident banks. Exposure limits are also set for foreign countries, single and related borrowers and banking operations subject to credit risk.

Exposure limits for corporate clients are set on the basis of their ownership structure, business reputation, credit history, financial condition, future financial trends, quality of financial management, transparency, industry and regional position and facilities and equipment quality. On the basis of these factors, corporate clients are placed into risk groups and assigned long-term and short-term exposure limits.

Credit risk of federation subjects and municipal bodies is evaluated on the basis of their financial position and the level of development. The financial position is evaluated on the basis of credit history, debt level and compliance with its budget and budgetary norms. The level of development is evaluated on the basis of the current socio-economic development level, future socio-economic development potential and tax base. The Bank sets three types of exposure limits for federation subjects and municipal bodies: short-term (for transactions with a term no more than a year), temporary (for transactions that take place before their budgets are approved and have a term of no more than three months) and long-term (for transactions with a term of over a year). These limits are calculated on the basis of the federation subjects' budgets for the current year and reports relating to compliance with their budgets for a previous year. Exposure limits are not set and credit operations are not performed if a federation subject has no legal basis for credit operations or where its financial position or level of development indicate that credit transactions are not advisable.

Exposure limits for counterparty banks are set on the basis of their financial condition, position among comparable banks, transparency of asset and liability structure and operations, operating environment (for non-resident counterparty banks), capital structure, concentration of banking operations, credit history, business reputation and relationship with the Bank. Branch and/or banking group structure is also taken into account in setting exposure limits for a particular counterparty bank.

**Risk Concentration.** In order to reduce and diversify its credit risk, the Bank monitors its credit risk concentration, sets exposure limits for single borrowers and groups of related borrowers that are lower than those set by the CBRF and sets limits for loans and bank guarantees made to related parties. Concentration and exposure limits for large credit operations and related borrowers and high-risk credit operations are approved at the Head Office level.

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

*Monitoring.* The Bank constantly monitors credit risks and exposure limits of various counterparties. Exposure limits for corporate clients are reviewed at least twice a year based on their year-end and mid-year financial information, for federation subjects and municipal bodies twice a year on the basis of their approved budgets, for resident banks on a monthly basis and for non-resident banks and foreign countries at least once a year. Exposure limits may also be reviewed on an ad-hoc basis.

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

**Market risk.** The Bank takes on exposure to market risks. Market risk management includes management of interest rate risk, currency risk and equity risk. The Bank manages its market risks primarily through transaction limits set by the Interest Rates and Limits Committee (IRLC). Market risk limits are set and reviewed at least once a year. The IRLC develops market risk management methodologies and sets limits on particular operations for the Central Head Office and Regional Head Offices. The Regional Head Offices have their own interest rates and limits committees that set limits for operations of the Regional Head Offices on the basis of the methodologies and limits set by IRLC. If necessary, the Regional Head Offices develop their own methodologies and set their own market risk limits. Market risk limits are set on the basis of the value-at-risk analysis, scenario analysis and stress testing. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

**32 Financial Risk Management (Continued)**

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

<i>In thousands of Russian Roubles</i>	<b>Russia</b>	<b>Other countries</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	99 779 415	23 589 256	123 368 671
Mandatory cash balances with the CBRF	56 808 779	-	56 808 779
Trading securities	131 815 427	-	131 815 427
Other securities at fair value through profit or loss	227 280 891	-	227 280 891
Due from other banks	6 843 550	19 088 679	25 932 229
Loans and advances to customers	1 787 045 917	242 307	1 787 288 224
Repurchase receivable	-	1 658 705	1 658 705
Investment securities held to maturity	28 398 916	-	28 398 916
Premises and equipment	106 849 836	-	106 849 836
Other assets	23 070 256	655 583	23 725 839
<b>Total assets</b>	<b>2 467 892 987</b>	<b>45 234 530</b>	<b>2 513 127 517</b>
<b>Liabilities</b>			
Due to other banks	17 983 908	6 928 352	24 912 260
Deposits from individuals	1 508 367 278	5 934 526	1 514 301 804
Customer accounts	543 998 977	2 806 986	546 805 963
Debt securities in issue	86 889 528	-	86 889 528
Other borrowed funds	-	62 963 865	62 963 865
Deferred income tax liability	2 330 419	-	2 330 419
Other liabilities	14 462 112	-	14 462 112
Subordinated debt	-	29 393 050	29 393 050
<b>Total liabilities</b>	<b>2 174 032 222</b>	<b>108 026 779</b>	<b>2 282 059 001</b>
<b>Net balance sheet position</b>	<b>293 860 765</b>	<b>(62 792 249)</b>	<b>231 068 516</b>
<b>Credit related commitments (Note 33)</b>	<b>267 013 438</b>	<b>37 172 161</b>	<b>304 185 599</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.

**32 Financial Risk Management (Continued)**

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

<i>In thousands of Russian Roubles</i>	<b>Russia</b>	<b>Other countries</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	88 871 428	20 265 563	109 136 991
Mandatory cash balances with the CBRF	44 966 603	-	44 966 603
Trading securities	117 036 694	-	117 036 694
Other securities at fair value through profit or loss	215 569 169	-	215 569 169
Due from other banks	10 484 596	92 101	10 576 697
Loans and advances to customers	1 297 763 760	242 477	1 298 006 237
Investment securities available for sale	112 296	-	112 296
Investment securities held to maturity	35 650 135	-	35 650 135
Deferred income tax asset	6 101 084	-	6 101 084
Premises and equipment	72 381 032	-	72 381 032
Other assets	11 539 955	1 143 063	12 683 018
<b>Total assets</b>	<b>1 900 476 752</b>	<b>21 743 204</b>	<b>1 922 219 956</b>
<b>Liabilities</b>			
Due to other banks	10 172 661	2 776 914	12 949 575
Deposits from individuals	1 195 818 649	4 098 229	1 199 916 878
Customer accounts	420 616 331	33 768 481	454 384 812
Debt securities in issue	63 313 212	-	63 313 212
Other borrowed funds	-	29 763 322	29 763 322
Other liabilities	8 573 573	-	8 573 573
<b>Total liabilities</b>	<b>1 698 494 426</b>	<b>70 406 946</b>	<b>1 768 901 372</b>
<b>Net balance sheet position</b>	<b>201 982 326</b>	<b>(48 663 742)</b>	<b>153 318 584</b>
<b>Credit related commitments (Note 33)</b>	<b>151 008 300</b>	<b>26 657 808</b>	<b>177 666 108</b>

**32 Financial Risk Management (Continued)**

**Currency risk.** The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Committee on Interest Rates and Limits 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 Bank's exposure to foreign currency exchange rate risk at 31 December 2005:

<i>In thousands of Russian Roubles</i>	<b>RR</b>	<b>USD</b>	<b>Euro</b>	<b>Other</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	88 645 835	12 932 256	20 082 376	1 708 204	123 368 671
Mandatory cash balances with the CBRF	56 808 779	-	-	-	56 808 779
Trading securities	90 664 817	41 150 610	-	-	131 815 427
Other securities at fair value through profit or loss	227 264 157	16 734	-	-	227 280 891
Due from other banks	5 890 849	1 237 648	18 803 732	-	25 932 229
Loans and advances to customers	1 364 240 293	397 557 144	24 160 827	1 329 960	1 787 288 224
Repurchase receivable	-	1 658 705	-	-	1 658 705
Investment securities held to maturity	-	28 398 916	-	-	28 398 916
Premises and equipment	106 849 836	-	-	-	106 849 836
Other assets	14 553 812	3 965 326	476 391	4 730 310	23 725 839
<b>Total assets</b>	<b>1 954 918 378</b>	<b>486 917 339</b>	<b>63 523 326</b>	<b>7 768 474</b>	<b>2 513 127 517</b>
<b>Liabilities</b>					
Due to other banks	20 465 217	3 788 416	427 523	231 104	24 912 260
Deposits from individuals	1 237 238 199	225 991 909	48 828 722	2 242 974	1 514 301 804
Customer accounts	386 551 681	124 936 106	34 391 968	926 208	546 805 963
Debt securities in issue	69 119 322	17 371 023	399 183	-	86 889 528
Other borrowed funds	-	60 603 056	2 360 809	-	62 963 865
Deferred income tax liability	2 330 419	-	-	-	2 330 419
Other liabilities	13 452 367	870 900	87 134	51 711	14 462 112
Subordinated debt	-	29 393 050	-	-	29 393 050
<b>Total liabilities</b>	<b>1 729 157 205</b>	<b>462 954 460</b>	<b>86 495 339</b>	<b>3 451 997</b>	<b>2 282 059 001</b>
<b>Net balance sheet position</b>	<b>225 761 173</b>	<b>23 962 879</b>	<b>(22 972 013)</b>	<b>4 316 477</b>	<b>231 068 516</b>
<b>Off-balance sheet notional position</b>	<b>22 187 342</b>	<b>(44 092 065)</b>	<b>20 227 265</b>	<b>2 445 495</b>	<b>768 037</b>
<b>Credit related commitments (Note 33)</b>	<b>149 644 288</b>	<b>122 415 791</b>	<b>31 300 173</b>	<b>825 347</b>	<b>304 185 599</b>



**32 Financial Risk Management (Continued)**

At 31 December 2004, the Bank had the following positions in currencies:

<i>In thousands of Russian Roubles</i>	<b>RR</b>	<b>USD</b>	<b>Euro</b>	<b>Other</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	78 372 196	13 366 288	16 453 013	945 494	109 136 991
Mandatory cash balances with the CBRF	44 966 603	-	-	-	44 966 603
Trading securities	66 984 698	49 428 074	623 922	-	117 036 694
Other securities at fair value through profit or loss	205 972 611	9 596 558	-	-	215 569 169
Due from other banks	8 971 876	1 604 821	-	-	10 576 697
Loans and advances to customers	1 034 419 224	243 896 576	18 809 024	881 413	1 298 006 237
Investment securities available for sale	-	112 296	-	-	112 296
Investment securities held to maturity	-	35 650 135	-	-	35 650 135
Deferred income tax asset	6 101 084	-	-	-	6 101 084
Premises and equipment	72 381 032	-	-	-	72 381 032
Other assets	7 919 628	333 973	823 060	3 606 357	12 683 018
<b>Total assets</b>	<b>1 526 088 952</b>	<b>353 988 721</b>	<b>36 709 019</b>	<b>5 433 264</b>	<b>1 922 219 956</b>
<b>Liabilities</b>					
Due to other banks	11 495 749	1 206 397	240 791	6 638	12 949 575
Deposits from individuals	965 623 914	190 168 113	42 705 395	1 419 456	1 199 916 878
Customer accounts	321 167 360	106 031 786	26 667 065	518 601	454 384 812
Debt securities in issue	56 072 640	6 471 300	769 272	-	63 313 212
Other borrowed funds	-	28 866 326	896 996	-	29 763 322
Other liabilities	8 216 368	292 547	64 360	298	8 573 573
<b>Total liabilities</b>	<b>1 362 576 031</b>	<b>333 036 469</b>	<b>71 343 879</b>	<b>1 944 993</b>	<b>1 768 901 372</b>
<b>Net balance sheet position</b>	<b>163 512 921</b>	<b>20 952 252</b>	<b>(34 634 860)</b>	<b>3 488 271</b>	<b>153 318 584</b>
<b>Off-balance sheet notional position</b>	<b>(5 514 606)</b>	<b>(24 959 768)</b>	<b>28 925 183</b>	<b>1 637 837</b>	<b>88 646</b>
<b>Credit related commitments (Note 33)</b>	<b>108 821 333</b>	<b>44 021 682</b>	<b>24 136 610</b>	<b>686 483</b>	<b>177 666 108</b>

The Bank has extended loans and advances denominated in foreign currencies. Movements in foreign exchange rates affect the borrowers' repayment ability and incurrence of loan losses.

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

The table below shows assets and liabilities at 31 December 2005 by their remaining contractual maturity, unless there is evidence that any of the assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement of the assets is used.

**Sberbank (Savings Bank of the Russian Federation)**  
**Notes to the Financial Statements - 31 December 2005**

**32 Financial Risk Management (Continued)**

The liquidity position as per contractual maturity of the Bank's assets and liabilities 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>From 1 to 3 years</b>	<b>More than 3 years</b>	<b>No stated maturity</b>	<b>Total</b>
<b>Assets</b>							
Cash and cash equivalents	123 368 671	-	-	-	-	-	123 368 671
Mandatory cash balances with the CBRF	18 425 330	11 520 581	8 882 016	14 229 938	3 750 914	-	56 808 779
Trading securities	131 815 427	-	-	-	-	-	131 815 427
Other securities at fair value through profit or loss	227 280 891	-	-	-	-	-	227 280 891
Due from other banks	24 443 512	538 894	-	949 823	-	-	25 932 229
Loans and advances to customers	111 181 990	459 910 604	404 487 996	467 358 496	344 349 138	-	1 787 288 224
Repurchase receivable	-	1 658 705	-	-	-	-	1 658 705
Investment securities held to maturity	-	-	-	-	28 398 916	-	28 398 916
Premises and equipment	-	-	-	-	-	106 849 836	106 849 836
Other assets	20 765 581	735 978	230 085	507 721	205 550	1 280 924	23 725 839
<b>Total assets</b>	<b>657 281 402</b>	<b>474 364 762</b>	<b>413 600 097</b>	<b>483 045 978</b>	<b>376 704 518</b>	<b>108 130 760</b>	<b>2 513 127 517</b>
<b>Liabilities</b>							
Due to other banks	23 440 572	1 471 688	-	-	-	-	24 912 260
Deposits from individuals	257 084 939	343 493 666	286 604 122	495 224 994	131 894 083	-	1 514 301 804
Customer accounts	411 413 702	74 490 290	35 648 761	21 058 514	4 194 696	-	546 805 963
Debt securities in issue	57 479 390	12 210 122	15 695 633	1 494 833	9 550	-	86 889 528
Other borrowed funds	-	887 912	-	30 133 645	31 942 308	-	62 963 865
Deferred income tax liability	-	-	-	-	-	2 330 419	2 330 419
Other liabilities	6 026 295	7 132 356	82 970	870 485	321 426	28 580	14 462 112
Subordinated debt	-	-	-	-	29 393 050	-	29 393 050
<b>Total liabilities</b>	<b>755 444 898</b>	<b>439 686 034</b>	<b>338 031 486</b>	<b>548 782 471</b>	<b>197 755 113</b>	<b>2 358 999</b>	<b>2 282 059 001</b>
<b>Net liquidity gap</b>	<b>(98 163 496)</b>	<b>34 678 728</b>	<b>75 568 611</b>	<b>(65 736 493)</b>	<b>178 949 405</b>	<b>105 771 761</b>	<b>231 068 516</b>
<b>Cumulative liquidity gap at 31 December 2005</b>	<b>(98 163 496)</b>	<b>(63 484 768)</b>	<b>12 083 843</b>	<b>(53 652 650)</b>	<b>125 296 755</b>	<b>231 068 516</b>	<b>-</b>

**32 Financial Risk Management (Continued)**

The liquidity position as per contractual maturity of the Bank's assets and liabilities 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>From 1 to 3 years</b>	<b>More than 3 years</b>	<b>No stated maturity</b>	<b>Total</b>
<b>Assets</b>							
Cash and cash equivalents	109 136 991	-	-	-	-	-	109 136 991
Mandatory cash balances with the CBRF	16 674 795	11 637 042	5 490 453	8 723 115	2 441 198	-	44 966 603
Trading securities	117 036 694	-	-	-	-	-	117 036 694
Other securities at fair value through profit or loss	215 569 169	-	-	-	-	-	215 569 169
Due from other banks	3 180 574	6 452 667	-	943 456	-	-	10 576 697
Loans and advances to customers	118 025 607	335 740 039	312 370 780	331 982 976	199 886 835	-	1 298 006 237
Investment securities available for sale	-	-	112 296	-	-	-	112 296
Investment securities held to maturity	-	-	-	-	35 650 135	-	35 650 135
Deferred income tax asset	-	-	-	-	-	6 101 084	6 101 084
Premises and equipment	-	-	-	-	-	72 381 032	72 381 032
Other assets	8 996 799	1 388 303	693 711	729 852	198 442	675 911	12 683 018
<b>Total assets</b>	<b>588 620 629</b>	<b>355 218 051</b>	<b>318 667 240</b>	<b>342 379 399</b>	<b>238 176 610</b>	<b>79 158 027</b>	<b>1 922 219 956</b>
<b>Liabilities</b>							
Due to other banks	12 949 575	-	-	-	-	-	12 949 575
Deposits from individuals	241 643 480	378 495 362	193 638 223	297 112 558	89 027 255	-	1 199 916 878
Customer accounts	371 814 950	49 626 318	8 353 153	23 807 042	783 349	-	454 384 812
Debt securities in issue	46 495 606	13 031 764	3 038 812	737 517	9 513	-	63 313 212
Other borrowed funds	27 781 693	1 981 629	-	-	-	-	29 763 322
Other liabilities	6 369 197	668 422	388 952	946 270	198 643	2 089	8 573 573
<b>Total liabilities</b>	<b>707 054 501</b>	<b>443 803 495</b>	<b>205 419 140</b>	<b>322 603 387</b>	<b>90 018 760</b>	<b>2 089</b>	<b>1 768 901 372</b>
<b>Net liquidity gap</b>	<b>(118 433 872)</b>	<b>(88 585 444)</b>	<b>113 248 100</b>	<b>19 776 012</b>	<b>148 157 850</b>	<b>79 155 938</b>	<b>153 318 584</b>
<b>Cumulative liquidity gap at 31 December 2004</b>	<b>(118 433 872)</b>	<b>(207 019 316)</b>	<b>(93 771 216)</b>	<b>(73 995 204)</b>	<b>74 162 646</b>	<b>153 318 584</b>	<b>-</b>

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

The entire portfolio of trading securities and other securities at fair value through profit or loss is classified within demand and less than one month category as the portfolio is of a high liquid nature, and Management believes this is a fairer portrayal of its liquidity position.

Contractual maturity of trading portfolio as at 31 December 2005 is as follows: on demand and less than 1 month – nil; from 1 to 6 months – RR 4 409 253 thousand; from 6 to 12 months – RR 1 194 708 thousand; from 1 to 3 years – RR 20 477 462 thousand; more than 3 years – RR 105 234 955 thousand, no stated maturity – RR 499 149 thousand (2004: on demand and less than 1 month – nil; from 1 to 6 months – RR 2 237 886 thousand; from 6 to 12 months – RR 6 128 720 thousand; from 1 to 3 years – RR 30 402 481 thousand; more than 3 years – RR 74 064 584 thousand; no stated maturity – RR 4 203 023 thousand).

Contractual maturity of other securities at fair value through profit or loss as at 31 December 2005 is as follows: on demand and less than 1 month – nil; from 1 to 6 months – RR 31 133 619 thousand; from 6 to 12 months – RR 16 023 704 thousand; from 1 to 3 years – RR 72 871 133 thousand; more than 3 years – RR 94 580 650 thousand; no stated maturity – RR 12 671 785 (2004: on demand and less than 1 month – nil; from 1 to 6 months – RR 9 803 698 thousand; from 6 to 12 months – RR 10 494 156 thousand; from 1 to 3 years – RR 82 472 272 thousand; more than 3 years – RR 104 418 351 thousand; no stated maturity – RR 8 380 692 thousand).

Management believes that in spite of a substantial portion of customer accounts and deposits from individuals being on demand (as at 31 December 2005 total customer deposits and deposits from individuals on demand amounted to RR 668 498 641 thousand (2004: RR 613 458 430 thousand)), diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customers accounts and deposits from individuals provide a long-term and stable source of funding for the Bank.

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. The Bank utilises a wide range of market instruments to support a level of liquidity sufficient for both current and forecasted financial obligations including the disposals of liquid assets and attraction of funding in domestic and international capital markets.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank 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 Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The table below summarises the Bank's exposure to interest rate risks at 31 December 2005. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

**Sberbank (Savings Bank of the Russian Federation)**  
**Notes to the Financial Statements - 31 December 2005**

**32 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>From 1 to 3 years</b>	<b>More than 3 years</b>	<b>Non- monetary</b>	<b>Total</b>
<b>Assets</b>							
Cash and cash equivalents	123 368 671	-	-	-	-	-	123 368 671
Mandatory cash balances with the CBRF	18 425 330	11 520 581	8 882 016	14 229 938	3 750 914	-	56 808 779
Trading securities	131 815 427	-	-	-	-	-	131 815 427
Other securities at fair value through profit or loss	227 280 891	-	-	-	-	-	227 280 891
Due from other banks	24 443 512	538 894	-	949 823	-	-	25 932 229
Loans and advances to customers	111 181 990	459 910 604	404 487 996	467 358 496	344 349 138	-	1 787 288 224
Repurchase receivable	-	1 658 705	-	-	-	-	1 658 705
Investment securities held to maturity	-	-	-	-	28 398 916	-	28 398 916
Premises and equipment	-	-	-	-	-	106 849 836	106 849 836
Other assets	20 765 581	735 978	230 085	507 721	205 550	1 280 924	23 725 839
<b>Total assets</b>	<b>657 281 402</b>	<b>474 364 762</b>	<b>413 600 097</b>	<b>483 045 978</b>	<b>376 704 518</b>	<b>108 130 760</b>	<b>2 513 127 517</b>
<b>Liabilities</b>							
Due to other banks	23 440 572	1 471 688	-	-	-	-	24 912 260
Deposits from individuals	257 084 939	343 493 666	286 604 122	495 224 994	131 894 083	-	1 514 301 804
Customer accounts	411 413 702	74 490 290	35 648 761	21 058 514	4 194 696	-	546 805 963
Debt securities in issue	57 479 390	12 210 122	15 695 633	1 494 833	9 550	-	86 889 528
Other borrowed funds	30 416 452	32 547 413	-	-	-	-	62 963 865
Deferred income tax liability	-	-	-	-	-	2 330 419	2 330 419
Other liabilities	6 026 295	7 132 356	82 970	870 485	321 426	28 580	14 462 112
Subordinated debt	-	29 393 050	-	-	-	-	29 393 050
<b>Total liabilities</b>	<b>785 861 350</b>	<b>500 738 585</b>	<b>338 031 486</b>	<b>518 648 826</b>	<b>136 419 755</b>	<b>2 358 999</b>	<b>2 282 059 001</b>
<b>Net sensitivity gap</b>	<b>(128 579 948)</b>	<b>(26 373 823)</b>	<b>75 568 611</b>	<b>(35 602 848)</b>	<b>240 284 763</b>	<b>105 771 761</b>	<b>231 068 516</b>
<b>Cumulative sensitivity gap at 31 December 2005</b>	<b>(128 579 948)</b>	<b>(154 953 771)</b>	<b>(79 385 160)</b>	<b>(114 988 008)</b>	<b>125 296 755</b>	<b>231 068 516</b>	<b>-</b>

**32 Financial Risk Management (Continued)**

The following table summarises the Bank's exposure to interest rate risks at 31 December 2004 by showing assets and liabilities in categories based on the earlier of contractual repricing or maturity dates.

<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>From 1 to 3 years</b>	<b>More than 3 years</b>	<b>Non-monetary</b>	<b>Total</b>
<b>Assets</b>							
Cash and cash equivalents	109 136 991	-	-	-	-	-	109 136 991
Mandatory cash balances with the CBRF	16 674 795	11 637 042	5 490 453	8 723 115	2 441 198	-	44 966 603
Trading securities	117 036 694	-	-	-	-	-	117 036 694
Other securities at fair value through profit or loss	215 569 169	-	-	-	-	-	215 569 169
Due from other banks	3 180 574	6 452 667	-	943 456	-	-	10 576 697
Loans and advances to customers	118 025 607	335 740 039	312 370 780	331 982 976	199 886 835	-	1 298 006 237
Investment securities available for sale	-	-	112 296	-	-	-	112 296
Investment securities held to maturity	-	-	-	-	35 650 135	-	35 650 135
Deferred income tax asset	-	-	-	-	-	6 101 084	6 101 084
Premises and equipment	-	-	-	-	-	72 381 032	72 381 032
Other assets	8 996 799	1 388 303	693 711	729 852	198 442	675 911	12 683 018
<b>Total assets</b>	<b>588 620 629</b>	<b>355 218 051</b>	<b>318 667 240</b>	<b>342 379 399</b>	<b>238 176 610</b>	<b>79 158 027</b>	<b>1 922 219 956</b>
<b>Liabilities</b>							
Due to other banks	12 949 575	-	-	-	-	-	12 949 575
Deposits from individuals	241 643 480	378 495 362	193 638 223	297 112 558	89 027 255	-	1 199 916 878
Customer accounts	371 814 950	49 626 318	8 353 153	23 807 042	783 349	-	454 384 812
Debt securities in issue	46 495 606	13 031 764	3 038 812	737 517	9 513	-	63 313 212
Other borrowed funds	27 781 693	1 981 629	-	-	-	-	29 763 322
Other liabilities	6 369 197	668 422	388 952	946 270	198 643	2 089	8 573 573
<b>Total liabilities</b>	<b>707 054 501</b>	<b>443 803 495</b>	<b>205 419 140</b>	<b>322 603 387</b>	<b>90 018 760</b>	<b>2 089</b>	<b>1 768 901 372</b>
<b>Net sensitivity gap</b>	<b>(118 433 872)</b>	<b>(88 585 444)</b>	<b>113 248 100</b>	<b>19 776 012</b>	<b>148 157 850</b>	<b>79 155 938</b>	<b>153 318 584</b>
<b>Cumulative sensitivity gap at 31 December 2004</b>	<b>(118 433 872)</b>	<b>(207 019 316)</b>	<b>(93 771 216)</b>	<b>(73 995 204)</b>	<b>74 162 646</b>	<b>153 318 584</b>	<b>-</b>

The Bank is exposed to cash flow interest rate risk, principally through assets and liabilities for which interest rates are reset as market rates change. Such assets and liabilities are primarily presented in the above table as being repriced in the short-term. The Bank is exposed to fair value interest rate risk as a result of assets and liabilities at fixed interest rates; these are primarily presented in the above table as being repriced in the long-term. In practice, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

### 32 Financial Risk Management (Continued)

To manage interest rate risk the IRLC sets uniform fixed interest rates for deposits of and loans to individuals, maximum interest rates on deposits of legal entities, minimum interest rates for loans to legal entities, ranges for terms and amounts of deposits and loans and categories of clients for deposit and loans. The Board approves interest rates for individuals set by the IRLC for the Head Office and Regional Head Offices, which are uniform. The IRLC also sets limits restricting long-term operations on the asset side.

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.

<i>In % p.a.</i>	2005		2004	
	RR	Other currencies	RR	Other currencies
<b>Assets</b>				
Cash and cash equivalents	0.8	1.6	0.3	1.0
Debt trading securities	4.1	5.4	7.7	5.4
Other debt securities at fair value through profit or loss	5.6	5.5	6.5	10.1
Due from other banks	5.7	2.5	6.5	4.9
Loans and advances to customers	14.1	8.4	14.4	8.4
Debt investment securities available for sale	-	-	-	11.0
Repurchase receivable	-	10.7	-	-
Debt investment securities held to maturity	-	15.8	-	15.8
<b>Liabilities</b>				
Due to other banks	2.0	5.9	0.1	2.0
Deposits from individuals	6.6	5.2	7.2	5.1
Customer accounts	2.1	2.5	1.9	2.2
Debt securities in issue	1.3	4.9	3.7	3.4
Other borrowed funds	-	5.9	-	4.6
Subordinated debt	-	6.5	-	-

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

### 33 Contingencies and Commitments

**Legal proceedings.** From time to time and in the normal course of business, claims against the Bank are received. On the basis of its own estimates and internal and external professional advice the Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these 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 Bank 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.

### 33 Contingencies and Commitments (Continued)

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.

**Capital expenditure commitments.** At 31 December 2005 the Bank has contractual capital expenditure commitments in respect of premises and equipment totalling RR 2 704 748 thousand (2004: RR 2 446 767 thousand) and in respect of computer equipment installation of RR 784 129 thousand (2004: RR 444 719 thousand). The Bank has already allocated the necessary resources in respect of these commitments. The Bank believes that future net income and funding will be sufficient to cover this and any similar such commitments.

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

<i>In thousands of Russian Roubles</i>	<b>2005</b>	<b>2004</b>
Not later than 1 year	2 445 828	2 343 314
Later than 1 year and not later than 5 years	5 702 199	5 060 507
Later than 5 years	8 323 287	6 952 833
<b>Total operating lease commitments</b>	<b>16 471 314</b>	<b>14 356 654</b>

**Credit related commitments.** The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank 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 Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank 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>
Undrawn credit lines and commitments to extent credit	182 848 725	126 232 206
Export letters of credit	68 486 421	19 211 309
Import letters of credit	37 172 161	26 657 808
Guarantees issued	15 678 292	4 595 583
Letters of credit for domestic settlements	-	969 202
<b>Total credit related commitments</b>	<b>304 185 599</b>	<b>177 666 108</b>



### 33 Contingencies and Commitments (Continued)

At 31 December 2005 included in customer accounts are deposits of RR 33 112 622 thousand (2004: RR 25 156 811 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 18.

Movements in the provision for losses on credit related commitments were as follows:

	2005	2004
<b>Provision for losses on credit related commitments as at 1 January</b>	-	57 232
Release of provision for losses on credit related commitments during the period	-	(57 232)
<b>Provision for losses on credit related commitments as at 31 December</b>	-	-

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

**Contingent asset.** As discussed also in Note 14, in December 2005 the Bank has performed a set off transaction following its claim for premature termination of a secured borrowing agreement with a foreign counterparty. The foreign counterparty refused to honour its obligation under the above agreement to return the securities (Russian Federation Eurobonds) pledged by the Bank for this borrowing on the grounds that its holding company has filed for bankruptcy protection in the United States. The netting of mutual obligations subsequently performed by the Bank resulted in a receivable in the amount of RR 3 457 202 thousand, which represented a difference between the fair value of the related securities pledged and the amount of borrowings plus accrued interest. Collection of the above receivable is contingent upon the Bank's successful completion of its litigation against the counterparty, recognition of the results of this litigation in the US courts and financial viability of the creditor.

In March 2006, the Bank has been declared a winner by the UK High Court for the amount of approximately USD 122 million (as at 31 December 2005 RR 3 511 million) in respect of its court claim against the above counterparty. Management of the Bank, however, considers that at present the collection perspectives of the above amount are doubtful in the foreseeable future, and the relevant receivable has not been recognised in these financial statements.

**Fiduciary assets.** These assets are not included in the Bank's balance sheet as they are not assets of the Bank. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets fall into the following categories:

<i>In thousands of Russian Roubles</i>	2005 Nominal value	2004 Nominal value
Shares	14 429 372	11 123 338
Promissory notes	5 235 524	1 400 591
Corporate bonds	4 586 624	2 347 898
Debt securities of municipal authorities of RF	2 201 303	2 318 829
VneshEconomBank 3% coupon bonds (VEB bonds)	1 349 870	1 472 818
GKO and OFZ	395 783	292 724
Other securities	494 912	80 858
RF Eurobonds	-	2 775

### 33 Contingencies and Commitments (Continued)

**Assets pledged and restricted.** At 31 December 2005 the Bank has the following assets pledged as collateral:

<i>In thousands of Russian Roubles</i>	Note	2005		2004	
		Asset pledged	Related liability	Asset pledged	Related liability
Repurchase receivable	13	1 658 705	1 471 687	-	-
Securities at fair value through profit or loss	9	-	-	9 770 461	8 334 845
<b>Total</b>		<b>1 658 705</b>	<b>1 471 687</b>	<b>9 770 461</b>	<b>8 334 845</b>

Mandatory cash balances with the Central Bank of the Russian Federation in the amount of RR 56 808 779 thousand (2004: RR 44 966 603 thousand) represent mandatory reserve deposits, which are not available to finance the Bank's day-to-day operations.

Other assets in the amount of RR 296 595 thousand (2004: RR 65 827 thousand) include restricted deposits pledged against currency operations in accordance with effective legislation.

As at 31 December 2005 the Bank has pledged securities with fair value of RR 61 853 236 thousand (2004: RR 41 885 229 thousand) as collateral against overnight interbank borrowings that the Bank attracts on a regular basis from the Central Bank of the Russian Federation.

As at 31 December 2005 restricted cash represents monetary funds in the amount of USD 655 583 thousand (31 December 2004: RR 1 143 063 thousand) which collateralise settlements on irrevocable letters of credit.

### 34 Derivative Financial Instruments

Foreign exchange and other derivative financial instruments entered into by the Bank are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forward and futures contracts entered into by the Bank. The table covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term in nature.

**34 Derivative Financial Instrument (Continued)**

	Domestic counterparties				Foreign counterparties			
	Principal or agreed amount at fair value of asset purchased	Principal or agreed amount at fair value of asset sold	Assets Positive fair value	Liabilities Negative fair value	Principal or agreed amount at fair value of asset purchased	Principal or agreed amount at fair value of asset sold	Assets Positive fair value	Liabilities Negative fair value
<b>2005:</b>								
<b>Deliverable forwards</b>								
Foreign currency								
- purchase euro/sale USD	-	-	-	-	19 143 600	19 140 328	36 869	(33 597)
- purchase RR/sale USD	1 737 750	1 726 950	10 800	-	6 108 110	6 101 890	6 220	-
Precious metals								
- purchase precious metals/sale RR	5 704 629	4 972 567	759 917	(27 855)	-	-	-	-
- purchase USD /sale precious metals	-	-	-	-	3 342 996	3 359 134	717	(16 855)
<b>Futures</b>								
Foreign currency								
- purchase RR /sale USD	19 314 050	19 284 275	29 775	-	-	-	-	-
<b>Total</b>	<b>26 756 429</b>	<b>25 983 792</b>	<b>800 492</b>	<b>(27 855)</b>	<b>28 594 706</b>	<b>28 601 352</b>	<b>43 806</b>	<b>(50 452)</b>

	Domestic counterparties				Foreign counterparties			
	Principal or agreed amount at fair value of asset purchased	Principal or agreed amount at fair value of asset sold	Assets Positive fair value	Liabilities Negative fair value	Principal or agreed amount at fair value of asset purchased	Principal or agreed amount at fair value of asset sold	Assets Positive fair value	Liabilities Negative fair value
<b>2004:</b>								
<b>Deliverable forwards</b>								
Foreign currency								
- purchase USD/sale euro	18 877	18 905	-	(28)	-	-	-	-
- purchase USD/sale JPY					83 246	82 853	393	-
Precious metals								
- purchase precious metals/sale RR	4 972 503	4 961 207	155 894	(144 598)	-	-	-	-
- purchase USD /sale precious metals	-	-	-	-	3 236 529	3 188 711	47 818	-
<b>Futures</b>								
Foreign currency								
- purchase USD /sale RR	554 974	553 400	1 574	-	-	-	-	-
<b>Total</b>	<b>5 546 354</b>	<b>5 533 512</b>	<b>157 468</b>	<b>(144 626)</b>	<b>3 319 775</b>	<b>3 271 564</b>	<b>48 211</b>	<b>-</b>

In respect of derivatives the Bank has recorded a net gain of RR 50 067 thousand (2004: RR 1 939 thousand) within gains less losses arising from trading in foreign currency and a net gain of RR 715 924 thousand (2004: net gain of RR 59 114 thousand) within other operating income.

### **35 Fair Value of Financial Instruments**

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.

The estimated fair values of financial instruments have been determined by the Bank 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. Despite the Russian Federation is assigned investment grade ratings, the Russian economy continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Some market quotations may be outdated or reflect distress sale transactions and therefore may not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

**Financial instruments carried at fair value.** Trading securities, other securities at fair value through profit or loss, investment securities available for sale and financial derivatives including those classified as repurchase receivable are carried on the balance sheet at their fair value.

**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. Refer to Notes 10 and 11 for the estimated fair values of due from other banks and loans and advances to customers, respectively.

**Investment securities held to maturity.** Fair value for investment securities held to maturity is based on quoted market prices. Refer to Note 14 for the estimated fair value of investment securities held to maturity.

**Liabilities carried at amortised cost.** The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Refer to Notes 17, 18, 19, 20 and 22 for the estimated fair values of due to other banks, deposits of individuals and customer accounts, debt securities in issue, other borrowed funds and subordinated debt, 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 Note 34.

### **36 Related Party Transactions**

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party, 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. Transactions with related parties are entered into the normal course of business and are priced at market rates.

The Bank's principal shareholder is the Central Bank of the Russian Federation (refer to Note 1). As the Bank adopted IAS 24 "Related Party Disclosures" (revised), new disclosures are made in Note 37 for transactions with state-controlled entities and government bodies. The amended standard has been applied retrospectively and the new disclosures were also provided for the comparative period.

The table in this note represent balances and results of operations with the Bank's principal shareholder, the CBRF and other related parties, not disclosed in Note 37.

**36 Related Party Transactions (Continued)**

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

<i>In thousands of Russian Roubles</i>	2005		2004	
	The CBRF	Other related parties(*)	The CBRF	Other related parties (*)
<b>Assets</b>				
Account with the CBRF (other than mandatory cash balances)	26 946 095	–	41 667 705	–
Discount debt securities	24 461 159	–	904 534	–
Due from other banks (contractual interest rate: 4% - 5%)	3 497 680	–	3 760 936	–
Gross amount of loans and advances to customers (contractual interest rate: 11% - 14%)	–	17 717 472	–	12 746 217
Impairment provisions for loans and advances to customers	–	(479 517)	–	(635 252)
Other assets	–	10 322	–	5 010
<b>Liabilities</b>				
Customer accounts (contractual interest rate: 5% - 6%)	–	502 566	–	909 559
<b>Credit related commitments</b>				
Import letters of credit at the year end	–	359 404	–	82 249
Guarantees issued by the Bank at the year end	–	–	–	60 000

(\*) Other related parties are represented mostly by leasing subsidiary of the Bank, CJSC “RG-Leasing”.

Income and expense items with related parties for the year were as follows:

<i>In thousands of Russian Roubles</i>	2005		2004	
	The CBRF	Other related parties	The CBRF	Other related parties
Interest income	722 902	1 905 071	2 357 852	267 098
Interest expense	(126 484)	(19 871)	(119 965)	(10 542)
Other operating income	362	98 064	29	743 118
Other operating expenses	(216 438)	(113 030)	(181 240)	(68 623)

In 2005, the remuneration of members of the key management personnel comprised salaries and bonuses totalling RR 328 275 thousand (2004: RR 228 239 thousand).

**37 Operations with State-Controlled Entities and Government Bodies**

As stated in Note 36, the Bank adopted IAS 24 “Related Party Disclosures” revised. New disclosures are made below for transactions with state-controlled entities and government bodies. The amended standard has been applied retrospectively and the new disclosures were also provided for the comparative period.

**37 Operations with State-Controlled Entities and Government Bodies (Continued)**

Currently the Government of the Russian Federation does not provide to the general public or entities under its ownership/control a complete list of the entities which are owned or controlled directly or indirectly by the State. Under these circumstances the Management of the Bank disclosed only information that its current internal management accounting system allows to present in relation to operations with state-controlled entities and where the Management believes such entities could be considered as state-controlled based on its best knowledge. These financial statements disclose operations with government bodies and entities, in which the government directly owns more than 50% of the share capital. In relation to state-controlled entities, Management analysed the Bank's transactions with its 260 largest customers and extracted balances and results of operations in relation to the following groups of entities which were included in the tables below: 100% State subsidiaries and government bodies and entities where the State controls over 50% of its share capital.

Transactions with government bodies and state-controlled entities are entered into the normal course of business and priced at market rates. At 31 December 2005, the outstanding balances with state-controlled entities and government bodies were as follows:

	2005		2004	
	100% owned State subsidiaries and government bodies	Entities where the State controls over 50% of share capital	100% owned State subsidiaries and government bodies	Entities where the State controls over 50% of share capital
<i>In thousands of Russian Roubles</i>				
Cash and cash equivalents	-	3 260 632	-	264 395
Due from other banks	-	240 031	-	-
Trading securities	101 236 063	3 378 605	109 920 610	2 886 242
Other securities at fair value through profit and loss	210 925 430	10 716 318	203 548 607	5 326 257
Gross amount of loans and advances to customers	84 131 924	24 178 213	75 553 549	29 133 274
Impairment provisions for loans and advances to customers	(1 053 924)	(795 840)	(1 557 382)	(2 050 259)
Investment securities available for sale	-	-	112 296	-
Repurchase receivable	1 658 705	-	-	-
Investment securities held to maturity	28 298 916	-	35 650 135	-
Customer accounts	69 536 771	121 225 393	50 762 247	132 833 568

Income and expense items with State subsidiaries and government bodies for the reporting period were as follows:

	2005		2004	
	100% owned state subsidiaries and government bodies	Entities where the state controls over 50% of share capital	100% owned state subsidiaries and government bodies	Entities where the state controls over 50% of share capital
<i>In thousands of Russian Roubles</i>				
Interest income	38 326 198	3 014 262	27 544 268	2 937 052
Interest expense	(938 280)	(1 635 730)	(600 877)	(1 572 362)
Gains less losses arising from trading securities and other securities at fair value through profit or loss	12 448 247	334 595	13 126 502	341 856
Gains less losses arising from investment securities available for sale	4 709	-	2 830 446	-
Gains less losses arising from investment securities held to maturity	4 180 969	-	-	-
Fee and commission income	2 711 483	779 238	1 200 180	462 787

Transactions with the State include taxes which are detailed in Note 28.

**38 Capital Adequacy Ratio**

As of 31 December 2005, Capital Adequacy Ratio calculated by the Bank in accordance with the International Convergence of Capital Measurement and Capital Standards (July 1988, updated to April 1998) (or Basel Capital Accord) requirements was as follows:

	<b>2005</b>	<b>2004</b> <b>(Restated)</b>
Core capital adequacy ratio (Tier 1)	10.3%	10.1%
Total capital adequacy ratio (Tier 1 and Tier 2)	12.5%	10.1%

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