VOZROZHDENIYE BANK
Consolidated Financial Statements and Auditors' Report

31 December 2005

CONTENTS

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AUDITORS' REPORT

To the Supervisory Council of Vozrozhdeniye Bank:

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

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

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

ZAO PricewaterhouseCoopers Audit
Moscow, Russian Federation
31 March 2006

In millions of Russian Roubles	**Note**	**31 December 2005**	**31 December 2004 (restated)**
ASSETS			
Cash and cash equivalents	7	8 478	3 964
Mandatory cash balances with the Central Bank of the Russian Federation		923	579
Trading securities	8	2 342	523
Due from other banks	9	3 078	946
Loans and advances to customers	10	30 774	22 055
Premises, equipment and intangible assets	11	1 972	1 691
Other assets	12	1 542	869
TOTAL ASSETS		**49 109**	**30 627**
LIABILITIES			
Due to other banks	13	113	323
Customer accounts	14	40 112	24 414
Debt securities in issue	15	4 131	2 187
Subordinated loans	16	1 223	698
Exchangeable convertible preference shares	17	-	127
Other liabilities		257	274
TOTAL LIABILITIES		**45 836**	**28 023**
EQUITY			
Share capital	17	4 377	4 371
Share premium	17	1 735	1 610
Revaluation reserve for investment securities available-for-sale		-	(6)
Accumulated deficit	18	(2 839)	(3 371)
TOTAL EQUITY		**3 273**	**2 604**
TOTAL LIABILITIES AND EQUITY		**49 109**	**30 627**

Approved for issue on 31 March 2006.

D.L.Orlov
President

A.A.Novikova
Chief Accountant

In millions of Russian Roubles	**Note**	**2005**	**2004 (restated)**
Interest income	19	4 155	3 528
Interest expense	19	(2 044)	(1 474)
Net interest income		**2 111**	**2 054**
Provision for loan impairment	10	(247)	(467)
Net interest income after provision for loan impairment		**1 864**	**1 587**
Gains less losses from trading securities		97	22
Gains less losses from disposal of investment securities available-for-sale		25	-
Gains less losses from trading in foreign currencies		168	87
Gains less losses from dealing in precious metals		22	25
Foreign exchange translation (losses net of gains)/gains less losses		(28)	7
Fee and commission income	20	1 514	1 048
Fee and commission expense	20	(82)	(65)
Losses on initial recognition of assets at rates below market	10	-	(15)
Gains on initial recognition of liabilities at rates below market	16	-	33
Release of provision for losses on credit related commitments	27	33	-
Losses from disposal of loans and advances to customers	10	-	(111)
Dividend income		13	16
Other operating income		118	114
Operating income		**3 744**	**2 748**
Administrative and other operating expenses	21	(3 037)	(2 258)
Gain from disposal of subsidiary	31	-	17
Profit before tax		**707**	**507**
Income tax expense	22	(163)	(46)
Profit for the year		**544**	**461**
Profit attributable to			
Equity holders of the Bank		544	444
Minority interest		-	17
Profit for the year		**544**	**461**
Earnings per share for profit attributable to the equity holders of the Bank, basic (expressed in RR per share)	23		
Ordinary and convertible preference shares		28	22
Preference shares with fixed dividend		29	25
Earnings per share for profit attributable to the equity holders of the Bank, diluted (expressed in RR per share)	23		
Ordinary and convertible preference shares		28	22
Preference shares with fixed dividend		29	25

In millions of Russian Roubles	Note	Attributable to equity holders of the Bank					Minority Interest	Total equity
		Share capital	Share premium	Revaluation reserve for investment securities available-for-sale	Accumulated deficit	Total		
Previously reported balance at 31 December 2003		**4 371**	**1 610**	**-**	**(3 821)**	**2 160**	**65**	**2 225**
Revaluation reserve for investment securities available for sale	5	-	-	(24)	24	-	-	-
Income tax recorded in equity	5, 22	-	-	6	(6)	-	-	-
Adjusted balance at 1 January 2004		**4 371**	**1 610**	**(18)**	**(3 803)**	**2 160**	**65**	**2 225**
Available-for -sale investments:								
- Fair value gains less losses	5	-	-	16	-	16	-	16
Income tax recorded in equity	5, 22	-	-	(4)	-	(4)	-	(4)
Net income recognised directly in equity		-	-	12	-	12	-	12
Profit for the year		-	-	-	444	444	17	461
Total recognised income for 2004		-	-	12	444	456	17	473
Dividends declared	24	-	-	-	(12)	(12)	-	(12)
Disposal of subsidiary		-	-	-	-	-	(82)	(82)
Balance at 31 December 2004		**4 371**	**1 610**	**(6)**	**(3 371)**	**2 604**	**-**	**2 604**
Available-for-sale investments:								
- Fair value gains less losses		-	-	33	-	33	-	33
- Disposals		-	-	(25)	-	(25)	-	(25)
Income tax recorded in equity	22	-	-	(2)	-	(2)	-	(2)
Net income recognised directly in equity		-	-	6	-	6	-	6
Profit for the year		-	-	-	544	544	-	544
Total recognised income for 2005		-	-	6	544	550	-	550
Share issue	17	6	125	-	-	131	-	131
Dividends declared	24	-	-	-	(12)	(12)	-	(12)
Balance at 31 December 2005		**4 377**	**1 735**	**-**	**(2 839)**	**3 273**	**-**	**3 273**

In millions of Russian Roubles	**Note**	**2005**	**2004**
Cash flows from operating activities			
Interest received		4 102	3 525
Interest paid		(1 622)	(1 400)
Net income received from dealing with trading securities		72	30
Net income received from disposal of investment securities available-for-sale		25	-
Net income received from trading in foreign currencies		155	87
Net income received from dealing in precious metals		22	25
Fees and commissions received		1 552	1 050
Fees and commissions paid		(82)	(65)
Other operating income received		90	119
Administrative and other operating expenses paid		(2 870)	(2 130)
Income tax paid		(182)	(14)
Cash flows from operating activities before changes in operating assets and liabilities		**1 262**	**1 227**
Changes in operating assets and liabilities			
Net (increase)/decrease in mandatory cash balances with the Central Bank of the Russian Federation		(344)	969
Net increase in trading securities		(1 780)	(208)
Net increase in due from other banks		(2 112)	(553)
Net increase in loans and advances to customers		(8 673)	(6 173)
Net increase in other assets		(111)	(176)
Net (decrease)/increase in due to other banks		(210)	233
Net increase in customer accounts		15 094	2 220
Net increase in debt securities in issue		1 812	1 331
Net decrease in other liabilities		(20)	(260)
Net cash from/(used in) operating activities		**4 918**	**(1 390)**
Cash flows from investing activities			
Acquisition of investment securities available-for-sale		(749)	(53)
Proceeds from disposal of investment securities available-for-sale		290	9
Acquisition of premises, equipment and intangible assets	11	(497)	(276)
Proceeds from disposal of premises, equipment and intangible assets		16	-
Dividend income received		13	16
Net cash used in investing activities		**(927)**	**(304)**
Cash flows from financing activities			
Receipt of subordinated loans	16	490	290
Dividends paid	24	(12)	(12)
Net cash from financing activities		**478**	**278**
Effect of exchange rate changes on cash and cash equivalents		**45**	**(84)**
Net increase in cash and cash equivalents		**4 514**	**(1 500)**
Cash and cash equivalents at the beginning of the year		3 964	5 464
Cash and cash equivalents at the end of the year	7	**8 478**	**3 964**

Financing transactions that did not require the use of cash and cash equivalents were excluded from the cash flow statement and are disclosed in Note 7.

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005. In 2004 Vozrozhdeniye Bank OJSC (the "Bank") consolidated Moscow Reinsurance Company (the "Company") for the first six months of 2004 until disposal in June 2004 (refer to Note 31). Starting from 1 July 2004 the Company was included into these consolidated financial statements as an associate using the equity method. The Bank and its associate together are referred to as the "Bank".

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is an open joint-stock company limited by shares and was set up in accordance with Russian regulations.

Principal Activity. The Bank's principal business activity is commercial 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 ("CBRF") since 1991. In April 2004 the Bank applied for participation in the State deposit insurance scheme, which was introduced by the Federal Law No. 177-FZ "Deposits of individuals insurance in the Russian Federation" dated 23 December 2003. In October 2004 the Bank was inspected by the CBRF to assess its compliance with the criteria set for the State deposit insurance scheme and in accordance with the decision of the CBRF, the Bank was accepted to the State deposit insurance scheme in December 2004. The State deposit insurance scheme implies that the State Deposit Insurance Agency will guarantee repayment of individual deposits up to RR 100 thousand (approximately US Dollars 3 thousand) per individual in case of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments.

Ordinary shares and preference shares, with a fixed dividend, of the Bank are traded on the Moscow Interbank Currency Exchange (MICEX). As at 31 December 2005 550 000 (2004: 550 000) ordinary shares of the Bank were circulating on international over-the-counter markets through Level One American Depository Receipts (ADR). Refer to Note 17.

As at 31 December 2005 the Bank had 59 (2004: 59) branches within the Russian Federation, the majority of which are in Moscow and Moscow region. The Bank's Head office is located at the following address: Luchnikov pereulok, 7/4, Moscow, Russia, 101999. The number of the Bank's employees as at 31 December 2005 was 5 083 (2004: 4 506).

Mr. D. Orlov is the ultimate de-facto controlling shareholder of the Bank.

Moscow Reinsurance Company is a limited liability company registered in the Russian Federation in 1996. The principal activity of the Company is reinsurance services within the Russian Federation. The Company operates under a reinsurance license issued by the Ministry of Finance of the Russian Federation. In October 2005 the Company was reorganised from limited liability company into open joint-stock company. As at 31 December 2005 the Bank owned 20% (2004: 20%) of the Company (refer to Note 31).

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

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. Management can not predict economic trends and developments in the banking sector and the effect, if any, of a deterioration in the liquidity of or confidence in the Russian banking system. Refer to Note 26 for description of policies and practices that Management applies to address the financial risks of the Bank.

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 of the Russian Federation, together with tax, legal, regulatory, and political developments.

3 Basis of Preparation and Significant Accounting Policies

Basis of Preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by revaluation of trading and available-for-sale financial assets. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5. In 2004 the Bank has early adopted IAS 8 (Revised) "Accounting Policies, Changes in Accounting Estimates and Errors" ("IAS 8R").

The Bank maintains its accounting records in accordance with Russian banking and insurance regulations. These consolidated financial statements have been prepared from those accounting records and adjusted as necessary in order to be in accordance with IFRS.

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

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the acquirer's share of the fair value of the net assets of the acquiree at each exchange transaction is recorded as goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered.

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

Associates. Associates are entities over which the Bank has significant influence, but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Bank's share of the post-acquisition profits or losses of associates is recorded in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Share of profit of associate is disclosed in other operating income in the consolidated financial statements.

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.

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 Bank 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 related balance sheet items.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The present value calculation includes all fees 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).

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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.

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

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 consolidated cash flow statement.

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The 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. Interest earned on trading securities calculated using the effective interest method is presented in the consolidated income statement as interest income. Dividends are included in consolidated income statement when the Bank's right to receive the dividend payment is established. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading securities in the period in which they arise.

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.

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 of impairment 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.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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 thereafter recognised for the unwilling of the present value discount using the instrument's original effective interest rate.

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.

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

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

All of the Bank's intangible assets have definite useful lives and include capitalised computer software.

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

If impaired, premises, equipment and intangible assets 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. 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.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

Premises	2%;
Office and computer equipment	15-20%; and
Intangible assets	20%.

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.

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.

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. If the Bank purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

Borrowings, including convertible preference shares and subordinated loans. Borrowings are recorded initially at their fair value. Subsequently, borrowings are stated at amortised cost.

Convertible preference shares that may be exchanged with the Bank for debt are classified as financial liabilities. Dividends on these preference shares are recognised in the consolidated statement of income as interest expense on an amortised cost basis, using the effective interest method.

Derivative financial instruments. Derivative financial instruments, including forward agreements and foreign exchange contracts, 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 currency, gains less losses arising from dealing in precious metals and other operating income depending on the related contracts. The Bank does not apply hedge accounting.

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

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if consolidated financial statements are authorised prior to filling 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 consolidated balance sheet only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

Credit related commitments. In the normal course of business, the Bank enters into credit related commitments, including letters of credit and guarantees. Commitments to provide loans at a below-market interest rate are initially recognised at fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the amount recognised under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". Specific provisions are recorded against other credit related commitments when losses are considered more likely than not.

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

Income and expense recognition. Interest income and expense are recorded in the consolidated income statement for all debt 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 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.

Foreign currency translation. The Bank's functional currency and the Bank's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into the functional currency of the Bank at the official exchange rate of the CBRF ruling on the transaction date. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into the functional currency of the Bank at official exchange rates of the CBRF are recognised in profit or loss. Translation differences on non-monetary items such as equity securities are recorded as part of the fair value gain or loss.

As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Bank no longer applies the provisions of IAS 29 "Financial Reporting in the Hyperinflationary Economies" ("IAS 29"). Accounting for the effects of hyperinflation prior to 1 January 2003 is detailed further below.

Foreign currency balances were translated using the principal rate of exchange as of Friday, 30 December 2005 of USD 1 = RR 28.7900 (31 December 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 consolidated balance sheet. The extent of such balances and transactions is indicated in Note 27. 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.

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

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. IAS 29 requires that the consolidated 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 consolidated financial statements. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave and bonuses 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. Geographical segments of the Bank have been reported separately within these consolidated financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

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 consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment of available for-sale equity investments. The Bank determines that available-for-sale equity investments 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 consolidated income statement, 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. 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.

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

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 27.

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 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.

Segment reporting. The Bank changed its assessment of segment information in 2005 due to a shift to a more product-based approach in the management of banking operations and the corresponding installation of a new information system, which allowed for a better allocation of assets and liabilities and, therefore, has selected business segment as the primary segment and geographical segment as the secondary segment.

Going concern. Management prepared these consolidated financial statements on a going concern basis. In making this judgement Management considered current intentions and financial position of the Bank.

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". Minority interest is now presented as equity and the Bank discloses on the face of the income statement profit or loss for the period and the allocation of that amount between 'profit or loss attributable to minority interest' and 'profit or loss attributable to equity holders of the Bank'. Certain new disclosures and changes in presentation required by the revised standard were made in these consolidated financial statements.

IAS 10 (revised 2003) "Events after the Balance Sheet Date". The standard was amended to include a limited clarification that if an entity declares dividends after the balance sheet date, the entity should not recognise those dividends as a liability at the balance sheet date. This is consistent with the policies applied by the Bank.

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

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. The Bank now derecognises the carrying amount of a component of premises and equipment which has been replaced and capitalises the cost of the replacement. The previous version of IAS 16 did not extend its derecognition principle to components; rather, its recognition principle for subsequent expenditures effectively precluded the cost of a replacement from being capitalised. All changes to accounting policies as a result of the revised IAS 16 were accounted for 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 consolidated financial statements.

IAS 27 (revised 2003) "Consolidated and Separate Financial Statements". The Bank's policies were changed to remove limited exceptions from consolidation. IAS 27 now requires consolidation of all subsidiaries of the Bank. Changes in provisions of this standard did not have any material effect on these consolidated 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.

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.

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. The Bank now applies the guidance added to IAS 39 on how to determine fair values using valuation techniques and how to evaluate impairment in a group of loans. In accordance with the standard's transitional provisions the revised accounting policies are applied retrospectively except for the clarified derecognition rules which are applied prospectively from 1 January 2004. Although allowed by the standard, the Bank has not redesignated any financial instrument into 'at fair value through profit or loss' category at the date of initial application of the revised IAS 39.

Adjustments to opening equity at 1 January 2004 comprised a reclassification from accumulated deficit of RR 18 million into revaluation reserve for investment securities available-for-sale as a result of recognition of gains and losses on investment securities available-for-sale in equity as the option to recognise them in the consolidated income statement was removed from IAS 39 (revised 2003). The impact of the transition to the revised IAS 39 is as follows:

31 December 2003 *In millions of Russian Roubles*	**Balance sheet item as previously reported**	**Adjustment**	**Balance sheet item as restated**
Accumulated deficit	(3 821)	18	(3 803)
Revaluation reserve for investment securities available-for-sale	-	(18)	(18)

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

31 December 2004 *In millions of Russian Roubles*	**Balance sheet item/Statement of income item as previously reported**	**Adjustment**	**Balance sheet item/Statement of income item as restated**
Accumulated deficit	(3 377)	6	(3 371)
Revaluation reserve for investment securities available-for-sale	-	(6)	(6)
Gains less losses from disposal of investment securities available-for-sale	16	(16)	-
Income tax expense	(50)	4	(46)

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:

IFRIC 4 "Determining whether an Arrangement contains a Lease" (effective from 1 January 2006). IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

IAS 39 (Amendment) "The Fair Value Option" (effective from 1 January 2006). 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 changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category.

IAS 39 (Amendment) "Cash Flow Hedge Accounting of Forecast Intragroup Transactions" (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss.

IAS 39 (Amendment) "Financial Guarantee Contracts" (effective from 1 January 2006). 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 expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognition of financial assets or result in continuing involvement accounting.

IFRS 7 "Financial Instruments: Disclosures and a Complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures" (effective from January 2007). 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 the IFRS 7 and the amendment to IAS 1 will have on disclosures in its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

Other new standards or interpretations. The Bank has not early adopted the following other new standards or interpretations:

- IAS 19 (Amendment) “Employee Benefits” (effective from 1 January 2006);
- IAS 21 (Amendment) “Net Investment in a Foreign Operation” (effective from 1 January 2006);
- IFRS 6 “Exploration for and Evaluation of Mineral Resources” (effective from 1 January 2006);
- IFRS 1 (Amendment) “First-time Adoption of International Financial Reporting Standards” and IFRS 6 (Amendment) “Exploration for and Evaluation of Mineral Resources” (effective from 1 January 2006);
- IFRIC 5 “Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds” (effective from 1 January 2006);
- IFRIC 6 “Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment” (effective for periods beginning on or after 1 December 2005, that is from 1 January 2006).
- IFRIC 7 “Applying the Restatement Approach under IAS 29” (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007).
- IFRIC 8 “Scope of IFRS 2” (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007).
- IFRIC 9 “Reassesment of Embedded Derivatives” (effective for periods beginning on or after 1 June 2006, that is from 1 January 2007).

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

7 Cash and Cash Equivalents

In millions of Russian Roubles	**2005**	**2004**
Cash on hand	2 871	2 039
Cash balances with the CBRF (other than mandatory reserve deposits)	4 274	921
Correspondent accounts and overnight placements with other banks		
- Russian Federation	37	29
- Other countries	1 296	975
Total cash and cash equivalents	**8 478**	**3 964**

Financing transactions not requiring the use of cash and cash equivalents and therefore were excluded from the consolidated cash flow statement were the conversion of convertible preference shares into ordinary shares. Refer to Note 17.

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 26. The information on related party balances is disclosed in Note 30.

8 Trading Securities

In millions of Russian Roubles	**2005**	**2004**
CBRF bonds	1 215	-
Russian Federation Eurobonds	527	-
Corporate bonds	303	201
Corporate Eurobonds	114	153
VneshEconomBank 3% coupon bonds (VEB bonds)	84	-
Municipal bonds	83	6
Federal loan bonds (OFZ)	10	-
Corporate shares	6	163
Total trading securities	**2 342**	**523**

CBRF bonds are zero-coupon bonds denominated in Russian Roubles, issued by the Central Bank of Russian Federation. These bonds have maturity dates from June 2009 to September 2009 (2004: nil) and yield to maturity from 4.2% to 4.8% (2004: nil), 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 2010 (2004: nil), coupon rates of 8.3% - 10.0% (2004: nil) and yield to maturity from 5.0% to 6.5% (2004: nil), depending on the type of bond issue.

Corporate bonds are interest bearing securities denominated in Russian Roubles issued by large Russian companies and a Russian bank and are freely tradable in the Russian Federation. These bonds have maturity dates from April 2006 to December 2008 (2004: from April 2006 to December 2007), coupon rates of 7.8% - 16.3% (2004: 7.8% - 16.3%) and yield to maturity from 6.8% to 12.6% (2004: 7.8% - 16.3%), depending on the type of bond issue.

Corporate Eurobonds are interest bearing securities denominated in Euro, issued by a large Russian company, and are freely tradable internationally. These bonds have maturity date in June 2015 (2004: from September 2009 to April 2014), coupon rate of 5.9% (2004: 7.1% - 9.3%) and yield to maturity of 4.8% (2004: 7.2% to 9.3%).

VEB bonds are 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 have a coupon rate of 3.0% (2004: nil). The bonds have maturity date in May 2008 (2004: nil) and yield to maturity of 5.4% (2004: nil).

Municipal bonds are interest-bearing securities denominated in Russian Roubles, issued by Russian regional authorities and are freely tradable in the Russian Federation. These bonds have maturity dates from December 2008 to June 2009 (2004: April 2009), interest rates of 10.0% - 13.0% (2004: 11.0%) and yield to maturity from 6.2% to 7.5% (2004: 8.8%), depending on the type of bond issue.

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds have a maturity date in April 2008 (2004: nil), a coupon rate of 6.3% (2004: nil) and yield to maturity of 6.7% (2004: nil).

Corporate shares are shares of Russian companies.

Geographical, currency, maturity and interest rate analyses of trading securities are disclosed in Note 26.

The Bank is licensed by the Federal Commission on Securities Markets of the Russian Federation as a professional participant of the securities market.

9 Due from Other Banks

In millions of Russian Roubles	**2005**	**2004**
Deposits with CBRF	2 000	300
Short-term placements with other banks	1 078	646
Total due from other banks	**3 078**	**946**

9 Due from Other Banks (Continued)

As at 31 December 2005 the Bank had a short-term deposit placed with CBRF in the amount of RR 2 000 million (2004: RR 300 million) with a maturity date in January 2006 (2004: January 2005) and contractual interest rate of 0.5% (2004: 0.5%).

At 31 December 2005 the estimated fair value of due from other banks was RR 3 078 million (2004: RR 946 million). Refer to Note 29.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 26.

10 Loans and Advances to Customers

In millions of Russian Roubles	2005	2004
Current loans	31 954	22 730
Overdue loans	441	781
Less: Provision for loan impairment	(1 621)	(1 456)
Total loans and advances to customers	**30 774**	**22 055**

Movements in the provision for loan impairment are as follows:

In millions of Russian Roubles	2005	2004
Provision for loan impairment at 1 January	**1 456**	**1 043**
Provision for loan impairment during the year	247	467
Loans and advances to customers written off during the year as uncollectible	(82)	(54)
Provision for loan impairment at 31 December	**1 621**	**1 456**

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

	2005		2004	
In millions of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Manufacturing	10 165	31	7 740	33
Trade	7 993	25	4 343	18
Individuals	3 511	11	883	4
Construction	2 512	8	2 264	10
Finance	2 019	6	1 424	6
Agricultural	1 777	5	1 395	6
State and public organisations	1 245	4	2 805	12
Transport	1 044	3	1 057	4
Other	2 129	7	1 600	7
Total loans and advances to customers (before impairment)	**32 395**	**100**	**23 511**	**100**

State and public organisations exclude government owned profit-oriented businesses.

At 31 December 2005 the Bank had 11 borrowers with aggregated loan amounts equal or above RR 300 million. The total aggregate amount of these loans was RR 4 609 million or 14.2% of the gross loan portfolio.

At 31 December 2004 the Bank had 13 borrowers with aggregated loan amounts equal or above RR 250 million. The total aggregate amount of these loans was RR 5 285 million or 22.5% of the gross loan portfolio.

10 Loans and Advances to Customers (Continued)

In March 2004 the Bank sold to a third party part of a loan issued to a Russian resident customer and incurred a loss of RR 111 million.

During 2004 a loss on origination of loans and advances to customers issued at rates below market in the amount of RR 15 million has been recorded in the consolidated statement of income.

At 31 December 2005 the estimated fair value of loans and advances to customers was RR 30 774 million (2004: RR 22 055 million). Refer to Note 29.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 26. The information on related party balances is disclosed in Note 30.

11 Premises, Equipment and Intangible Assets

	Note	Premises	Office and computer equipment	Computer software licences	Construction in progres	Total
Net book amount as at 31 December 2003		**1 231**	**395**	**-**	**61**	**1 687**
Gross book amount						
Opening balance		1 424	1 376	-	61	2 861
Disposal of subsidiary		(88)	(17)	-	-	(105)
Additions		15	228	-	33	276
Transfers		50	-	-	(50)	-
Disposals		(28)	(79)	-	-	(107)
Closing balance		**1 373**	**1 508**	**-**	**44**	**2 925**
Accumulated depreciation				-		
Opening balance		193	981	-	-	1 174
Disposal of subsidiary		(1)	(6)	-	-	(7)
Depreciation charge	21	28	117	-	-	145
Disposals		-	(78)	-	-	(78)
Closing balance		**220**	**1 014**	**-**	**-**	**1 234**
Net book amount as at 31 December 2004		**1 153**	**494**	**-**	**44**	**1 691**
Gross book amount						
Opening balance		1 373	1 508	-	44	2 925
Additions		17	349	25	106	497
Transfers		51	-	-	(51)	-
Disposals		(6)	(148)	-	(11)	(165)
Closing balance		**1 435**	**1 709**	**25**	**88**	**3 257**
Accumulated depreciation						
Opening balance		220	1 014	-	-	1 234
Depreciation charge	21	28	164	5	-	197
Disposals		(2)	(144)	-	-	(146)
Closing balance		**246**	**1 034**	**5**	**-**	**1 285**
Net book amount as at 31 December 2005		**1 189**	**675**	**20**	**88**	**1 972**

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

12 Other Assets

In millions of Russian Roubles	Note	2005	2004
Investment securities available-for-sale		628	167
Credit/debit cards receivables		329	119
Trade debtors and prepayments		224	205
Investment in associate		168	140
Deferred tax asset	22	59	9
Settlements on letters of credit		11	133
Other		123	96
Total other assets		**1 542**	**869**

Geographical, currency and maturity analyses of other assets are disclosed in Note 26. The information on related party balances is disclosed in Note 30.

13 Due to Other Banks

In millions of Russian Roubles	2005	2004
Current term placements of other banks	92	316
Correspondent accounts of other banks	21	7
Total due to other banks	**113**	**323**

At 31 December 2005 the estimated fair value of due to other banks was RR 113 million (2004: RR 323 million). Refer to Note 29.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 26.

14 Customer Accounts

In millions of Russian Roubles	2005	2004
State and public organisations		
- Current/settlement accounts	928	340
Other legal entities		
- Current/settlement accounts	9 852	6 584
- Term deposits	4 408	2 472
Individuals		
- Current/demand accounts	5 690	3 521
- Term deposits	19 234	11 497
Total customer accounts	**40 112**	**24 414**

State and public organisations exclude government owned profit-oriented businesses.

14 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

In millions of Russian Roubles	2005 Amount	2005 %	2004 Amount	2004 %
Individuals	24 924	62	15 018	62
Manufacturing	4 959	12	2 780	12
Trade	4 066	10	3 954	16
Finance	2 083	5	845	4
Construction	1 004	3	582	2
State and public organizations	928	2	340	1
Agriculture	324	1	121	0
Other	1 824	5	774	3
Total customer accounts	**40 112**	**100**	**24 414**	**100**

At 31 December 2005 the Bank had 5 customers with balances above RR 300 million. The aggregate balance of these customers was RR 3 676 million or 9.1% of total customer accounts.

At 31 December 2004 the Bank had 3 customers with balances equal or above RR 240 million. The aggregate balance of these customers was RR 2 632 million or 11.0% of total customer accounts.

At 31 December 2005 included in customer accounts are deposits of RR 166 million (2004: RR 133 million) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 27.

At 31 December 2005 the estimated fair value of customer accounts was RR 40 112 million (2004: RR 24 414 million). Refer to Note 29.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 26. The information on related party balances is disclosed in Note 30.

15 Debt Securities in Issue

In millions of Russian Roubles	2005	2004
Promissory notes	3 764	1 458
Deposit certificates	367	729
Total debt securities in issue	**4 131**	**2 187**

Promissory notes have maturity dates from January 2006 to July 2010 (2004: January 2005 to March 2007) and effective interest rates of 3.0%-15.7% (2004: 3.1%-12.6%).

At 31 December 2005 the estimated fair value of debt securities in issue was RR 4 131 million (2004: RR 2 187 million). Refer to Note 29.

Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 26. The information on debt securities in issue held by related parties is disclosed in Note 30.

16 Subordinated loans

Subordinated loans represent long-term deposits of customers of the Bank, which mature in 2010 to 2013 and bear contractual interest rates ranging from 2.3% to 8.0%. In 2004 the Bank recognised income of RR 33 million as a result of the extension of maturity of an existing subordinated loan from April 2006 to April 2011 at an interest rate of 2.3%. In July and December 2005 the Bank received two additional subordinated loans in the amount of USD 10 million from a unrelated party and USD 7 million from a related party which mature in July and December 2013 and bear a contractual interest rate of 5.8% and 8.0%, respectively.

Under the terms of the subordinated loans, in the event of liquidation of the Bank, the repayment of these loans is subordinated to all other creditors of the Bank.

As at 31 December 2005 the estimated fair value of subordinated loans was RR 1 223 million (2004: RR 698 million). Refer to Note 29.

Geographical, currency, maturity and interest rate analyses of subordinated loans are disclosed in Note 26. The information on related parties balances is disclosed in Note 30.

17 Share Capital

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

	2005			2004		
	Number of shares	**Nominal amount**	**Inflation adjusted amount** *(in millions of Russian Roubles)*	**Number of share**	**Nominal amount**	**Inflation adjusted amount** *(in millions of Russian Roubles)*
Ordinary shares	18 748 694	187	4 317	16 748 753	167	4 297
Preference shares with fixed dividend	1 294 505	13	60	1 294 505	13	60
Convertible preference shares	-	-	-	1 999 941	20	33
Less: exchangeable convertible preference shares recorded as liabilities	-	-	-	(1 176 470)	(12)	(19)
Total share capital	**20 043 199**	**200**	**4 377**	**18 866 729**	**188**	**4 371**

All ordinary shares have a nominal value of RR 10 per share (2004: RR 10 per share). Each share carries one vote.

The preference shares have a nominal value of RR 10 (2004: RR 10) and carry no voting rights but rank ahead of the ordinary shares in the event of the Bank's liquidation. The preference shares are not redeemable. Preference share dividends are set at 20% p.a. from their nominal amount (2004: 20% p.a.) and rank above ordinary dividends. If preference dividends are not declared by ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until such time that the dividend is paid.

In accordance with the Bank's charter, the convertible preference shares must be converted into ordinary shares not earlier than five years from the date of registration of the preference shares' issue report (29 March 2000) on the following basis: 1 convertible preference share is converted into 1 ordinary share. In 2005 these convertible preference shares were converted into ordinary shares.

17 Share Capital (Continued)

At 31 December 2004 included in convertible preference shares were 1 176 470 of exchangeable convertible preference shares issued to Canadian Imperial Bank of Commerce ("CIBC"). In accordance with an agreement between the Bank and CIBC dated March 2000, the Bank agreed to exchange these preference shares into long-term (six year) debt instruments in 2005 at a price of USD 5.10 per share. According to the agreement these should be repaid by the Bank in equal installments during the six years following the date of exchange. CIBC has the right to sell the exchangeable convertible preferred shares to third parties. In the event of such sale, the exchange agreement with the Bank expires. In accordance with IFRS these exchangeable convertible preference shares were recorded in the consolidated balance sheet as a liability and were carried at amortised cost at 31 December 2004. As set out below exchangeable convertible preference shares were converted into ordinary shares and then CIBC sold these ordinary shares in August 2005.

In May 2005 the Central Bank of the Russian Federation registered an additional issue of 1 999 941 ordinary shares of the Bank with a nominal value of RR 10 per share in the total nominal amount of RR 20 million. These shares were issued by the conversion of convertible preference shares with a nominal value of RR 10 per share into ordinary shares.

Conversion of shares is disclosed in the table below:

In millions of Russian Roubles	**Exchangeable convertible preference shares recorded as liabilities prior to conversion into ordinary shares**	**Ordinary shares**	**Convertible preference share (less exchangeable convertible preference shares recorded as liabilities)**	**Share premium**
Balance as at 1 January 2005	**127**	**4 297**	**14**	**1 610**
Amortisation of exchangeable convertible preference shares recorded as liabilities prior to conversion into ordinary shares (Note 19)	4	-	-	-
Conversion of exchangeable convertible preference shares recorded as liabilities into ordinary shares	(131)	12	-	119
Conversion of convertible preference shares (less exchangeable convertible preference shares recorded as liabilities) into ordinary shares	-	8	(14)	6
Balance as at 31 December 2005	**-**	**4 317**	**-**	**1 735**

As at 31 December 2004 the carrying value of exchangeable convertible preference shares recorded as liabilities was RR 127 million, while the estimated fair value of exchangeable convertible preference shares recorded as liabilities was RR 135 million. Refer to Note 29.

As at 31 December 2005 550 000 (2004: 550 000) ordinary shares of the Bank were circulating under a Level One American Depository Receipts (ADR) program on International over-the-counter markets. One ADR corresponds to one ordinary share of the Bank with a nominal value of RR 10.

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

18 Accumulated Deficit

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules at 31 December 2005 are RR 1 715 million (2004: RR 886 million).

19 Interest Income and Expense

In millions of Russian Roubles	2005	2004
Interest income		
Loans and advances to customers	3 934	3 450
Correspondent accounts and due from other banks	140	31
Trading securities	81	47
Total interest income	**4 155**	**3 528**
Interest expense		
Term deposits of individuals	1 432	981
Debt securities in issue	263	137
Term deposits of legal entities	200	143
Current/settlement accounts of legal entities	66	149
Subordinated loans	64	48
Due to other banks	15	5
Exchangeable convertible preference shares recorded as liabilities	4	11
Total interest expense	**2 044**	**1 474**
Net interest income	**2 111**	**2 054**

The information on related party transactions is disclosed in Note 30.

20 Fee and Commission Income and Expense

In millions of Russian Roubles	2005	2004
Fee and commission income		
Settlement transactions	523	277
Credit/debit cards and cheques settlements	488	295
Cash transactions	397	296
Cash collection	43	29
Guarantees issued	24	22
Other	39	129
Total fee and commission income	**1 514**	**1 048**
Fee and commission expense		
Cash transactions	31	27
Settlement transactions	27	20
Other	24	18
Total fee and commission expense	**82**	**65**
Net fee and commission income	**1 432**	**983**

21 Administrative and Other Operating Expenses

In millions of Russian Roubles	Note	2005	2004
Staff costs		1 715	1 384
Administrative expenses		431	331
Taxes other than income tax		221	99
Depreciation of premises, equipment and intangible assets	11	197	145
Other costs related to premises, equipment and intangible assets		132	74
Rent		129	84
Other		212	141
Total administrative and other operating expenses		**3 037**	**2 258**

Included in staff costs are statutory social security and pension contributions of RR 273 million (2004: RR 249 million).

22 Income Taxes

Income tax expense comprises the following:

In millions of Russian Roubles	2005	2004 (restated)
Current tax	215	46
Deferred tax	(50)	(9)
Deferred tax recorded directly to equity	(2)	9
Income tax expense for the year	**163**	**46**

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.

In millions of Russian Roubles	2005	2004 (restated)
IFRS profit before tax	**707**	**507**
Theoretical tax charge at statutory rate (2005: 24%; 2004: 24%)	170	122
Tax effect of items, which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	(4)	(1)
- Other non temporary differences	(3)	(26)
Recovery of additional current tax charge	-	(49)
Income tax expense for the year	**163**	**46**

Deferred taxation relating to the fair value remeasurement of investment securities available-for-sale, which is charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recorded in the consolidated statement of income when the gain or loss on the securities is realised.

22 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%).

	2003 (restated)	Disposal of subsi-diary	(Charged) /credited to profit or loss	Charged directly to equity	2004 (restated)	(Charged) /credited to profit or loss	Charged directly to equity	2005
Tax effect of deductible temporary differences								
Provision for loan impairment	146	-	(29)	-	117	26	-	143
Fair valuation of trading securities	6	-	-	-	6	(6)	-	-
Accruals	-	-	-	-	-	28	-	28
Fair valuation of investment securities available-for-sale	6	-	-	(4)	2	-	(2)	-
Other	23	(13)	(5)	-	5	8	-	13
Gross deferred tax asset (restated)	**181**	**(13)**	**(34)**	**(4)**	**130**	**56**	**(2)**	**184**
Tax effect of taxable temporary differences								
Premises, equipment and intangible assets	(161)	13	71	-	(77)	(6)	-	(83)
Investment in associate	-	-	(21)	-	(21)	(7)	-	(28)
Other	(26)	6	(3)	-	(23)	9	-	(14)
Gross deferred tax liability (restated)	**(187)**	**19**	**47**	**-**	**(121)**	**(4)**	**-**	**(125)**
Total net deferred tax asset/(liability) (restated)	**(6)**	**6**	**13**	**(4)**	**9**	**52**	**(2)**	**59**

The net deferred tax asset represents income taxes recoverable through future income and is recorded on the consolidated balance sheet within other assets.

23 Earnings per Share

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

In millions of Russian Roubles	Note	2005	2004
Profit attributable to shareholders		544	444
Less dividends on preference and ordinary shares	24	(12)	(12)
Undistributed earnings		**532**	**432**

	2005			2004		
In millions of Russian Roubles	Ordinary shares	Preference shares with fixed dividend	Convertible preference shares	Ordinary shares	Preference shares with fixed dividend	Convertible preference shares
Distributed earnings	9	3	-	8	4	-
Undistributed earnings	498	34	-	361	28	43
Total earnings	507	37	-	369	32	43
Weighted average number of shares in issue (in millions)	18.2487	1.2945	-	16.7488	1.2945	1.9999
Basic earnings per share (expressed in RR per share)	**28**	**29**	**-**	**22**	**25**	**22**

For calculation of the diluted earnings per share the weighted number of shares outstanding as at the year-end is adjusted to assume conversion of all potential dilutive shares. In the diluted earnings per share calculation all convertible preference shares are assumed to have been converted into ordinary shares. The conversion of convertible preference shares to ordinary shares has antidilutive effect and therefore the basic earnings per share equal diluted earnings per share.

24 Dividends

	2005		2004	
In millions of Russian Roubles	Ordinary	Preference	Ordinary	Preference
Dividends payable at 1 January	**-**	**-**	**-**	**-**
Dividends declared during the year	9	3	8	4
Dividends paid during the year	(9)	(3)	(8)	(4)
Dividends payable at 31 December	**-**	**-**	**-**	**-**
Dividends per share declared during the year (expressed in RR per share)	**0.5**	**2**	**0.5**	**2**

All dividends are declared and paid in Russian Roubles.

25 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 the basis of two main business segments:

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

- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.

Funds are reallocated free of charge between segments.

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

In millions of Russian Roubles	Retail banking	Corporate banking	Total
2005			
External revenues	878	4 570	5 448
Unallocated revenues	-	-	710
Segment results	**(644)**	**4 589**	**3 945**
Unallocated costs	-	-	(3 238)
Profit before tax			**707**
Income tax expense	-	-	(163)
Profit for the year			**544**
Other segment items			
Capital expenditure	63	434	497
Depreciation charge	(25)	(172)	(197)
Provision for loan impairment	(63)	(184)	(247)
At 31 December 2005			
Segment assets	3 972	27 132	31 104
Unallocated assets	-	-	18 005
Total assets			**49 109**
Segment liabilities	24 924	19 318	44 242
Unallocated liabilities	-	-	1 594
Total liabilities			**45 836**

25 Segment Analysis (Continued)

In millions of Russian Roubles	Retail banking	Corporate banking	Total
2004			
External revenues	374	4 082	4 456
Unallocated revenues	-	-	581
Segment results	**(633)**	**3 562**	**2 929**
Unallocated costs	-	-	(2 422)
Profit before tax			**507**
Income tax expense	-	-	(46)
Profit for the year			**461**
Other segment items			
Capital expenditure	13	263	276
Depreciation charge	(7)	(138)	(145)
Provision for loan impairment	(8)	(459)	(467)
At 31 December 2004			
Segment assets	1 046	21 336	22 382
Unallocated assets	-	-	8 245
Total assets			**30 627**
Segment liabilities	15 018	11 583	26 601
Unallocated liabilities	-	-	1 422
Total liabilities			**28 023**

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

In millions of Russian Roubles	Russia	OECD	Non-OECD	Total
2005				
Segment assets	47 656	1 404	49	49 109
Segment liabilities	42 686	173	2 977	45 836
External revenues	6 154	4	-	6 158
Capital expenditure	497	-	-	497
Credit related commitments	6 202	-	14	6 216
2004				
Segment assets	29 135	1 265	227	30 627
Segment liabilities	26 619	143	1 261	28 023
External revenues	5 030	7	-	5 037
Capital expenditure	276	-	-	276
Credit related commitments	3 382	168	-	3 550

26 Financial Risk Management

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

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

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

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

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

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

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

26 Financial Risk Management (Continued)

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

In millions of Russian Roubles	**Russia**	**OECD**	**Non-OECD**	**Total**
Assets				
Cash and cash equivalents	7 189	1 279	10	8 478
Mandatory cash balances with the CBRF	923	-	-	923
Trading securities	2 342	-	-	2 342
Due from other banks	2 970	108	-	3 078
Loans and advances to customers	30 765	-	9	30 774
Premises, equipment and intangible assets	1 972	-	-	1 972
Other assets	1 495	17	30	1 542
Total assets	**47 656**	**1 404**	**49**	**49 109**
Liabilities				
Due to other banks	43	70	-	113
Customer accounts	39 121	103	888	40 112
Debt securities in issue	2 619	-	1 512	4 131
Subordinated loans	646	-	577	1 223
Other liabilities	257	-	-	257
Total liabilities	**42 686**	**173**	**2 977**	**45 836**
Net balance sheet position	**4 970**	**1 231**	**(2 928)**	**3 273**
Credit related commitments (Note 27)	**6 202**	**-**	**14**	**6 216**

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

26 Financial Risk Management (Continued)

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

In millions of Russian Roubles	Russia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	2 989	966	9	3 964
Mandatory cash balances with the CBRF	579	-	-	579
Trading securities	523	-	-	523
Due from other banks	838	66	42	946
Loans and advances to customers	21 793	100	162	22 055
Premises, equipment and intangible assets	1 691	-	-	1 691
Other assets	722	133	14	869
Total assets	**29 135**	**1 265**	**227**	**30 627**
Liabilities				
Due to other banks	305	16	2	323
Customer accounts	24 103	-	311	24 414
Debt securities in issue	1 600	-	587	2 187
Subordinated loans	337	-	361	698
Exchangeable convertible preference shares	-	127	-	127
Other liabilities	274	-	-	274
Total liabilities	**26 619**	**143**	**1 261**	**28 023**
Net balance sheet position	**2 516**	**1 122**	**(1 034)**	**2 604**
Credit related commitments (Note 27)	**3 382**	**168**	**-**	**3 550**

26 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 Supervisory Board and the Assets and Liabilities Management Committee set 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:

In millions of Russian Roubles	**RR**	**USD**	**Euro**	**Other**	**Total**
Assets					
Cash and cash equivalents	6 488	1 445	515	30	8 478
Mandatory cash balances with the CBRF	923	-	-	-	923
Trading securities	1 617	611	114	-	2 342
Due from other banks	2 348	730	-	-	3 078
Loans and advances to customers	24 151	6 039	584	-	30 774
Premises, equipment and intangible assets	1 972	-	-	-	1 972
Other assets	1 477	62	3	-	1 542
Total assets	**38 976**	**8 887**	**1 216**	**30**	**49 109**
Liabilities					
Due to other banks	37	6	70	-	113
Customer accounts	30 789	8 242	1 080	1	40 112
Debt securities in issue	2 405	1 722	4	-	4 131
Subordinated loans	-	1 223	-	-	1 223
Other liabilities	232	24	1	-	257
Total liabilities	**33 463**	**11 217**	**1 155**	**1**	**45 836**
Net balance sheet position	**5 513**	**(2 330)**	**61**	**29**	**3 273**
Credit related commitments (Note 27)	**5 245**	**125**	**846**	**-**	**6 216**

26 Financial Risk Management (Continued)

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

In millions of Russian Roubles	RR	USD	Euro	Other	Total
Assets					
Cash and cash equivalents	2 464	1 099	367	34	3 964
Mandatory cash balances with the CBRF	579	-	-	-	579
Trading securities	370	153	-	-	523
Due from other banks	602	344	-	-	946
Loans and advances to customers	16 473	5 345	237	-	22 055
Premises, equipment and intangible assets	1 691	-	-	-	1 691
Other assets	612	117	124	16	869
Total assets	**22 791**	**7 058**	**728**	**50**	**30 627**
Liabilities					
Due to other banks	305	3	15	-	323
Customer accounts	17 175	6 395	832	12	24 414
Debt securities in issue	1 514	669	4	-	2 187
Subordinated loans	-	698	-	-	698
Exchangeable convertible preference shares	-	127	-	-	127
Other liabilities	260	8	6	-	274
Total liabilities	**19 254**	**7 900**	**857**	**12**	**28 023**
Net balance sheet position	**3 537**	**(842)**	**(129)**	**38**	**2 604**
Credit related commitments (Note 27)	**2 941**	**309**	**300**	**-**	**3 550**

26 Financial Risk Management (Continued)

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 Treasury 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. Some of the assets and liabilities, however, may be of a longer term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer term duration.

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

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**No stated maturity**	**Total**
Assets						
Cash and cash equivalents	8 478	-	-	-	-	8 478
Mandatory cash balances with the CBRF	441	230	228	24	-	923
Trading securities	2 342	-	-	-	-	2 342
Due from other banks	3 078	-	-	-	-	3 078
Loans and advances to customers	2 545	11 219	12 443	4 567	-	30 774
Premises, equipment and intangible assets	-	-	-	-	1 972	1 972
Other assets	771	-	-	-	771	1 542
Total assets	**17 655**	**11 449**	**12 671**	**4 591**	**2 743**	**49 109**
Liabilities						
Due to other banks	20	23	-	70	-	113
Customer accounts	20 113	10 217	9 556	226	-	40 112
Debt securities in issue	1 054	831	1 349	897	-	4 131
Subordinated loans	-	-	-	1 223	-	1 223
Other liabilities	257	-	-	-	-	257
Total liabilities	**21 444**	**11 071**	**10 905**	**2 416**	**-**	**45 836**
Net liquidity gap	**(3 789)**	**378**	**1 766**	**2 175**	**2 743**	**3 273**
Cumulative liquidity gap at 31 December 2005	**(3 789)**	**(3 411)**	**(1 645)**	**530**	**3 273**	**-**

26 Financial Risk Management (Continued)

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

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**No stated maturity**	**Total**
Assets						
Cash and cash equivalents	3 964	-	-	-	-	3 964
Mandatory cash balances with the CBRF	239	145	61	134	-	579
Trading securities	523	-	-	-	-	523
Due from other banks	944	-	2	-	-	946
Loans and advances to customers	1 319	10 615	6 707	3 414	-	22 055
Premises, equipment and intangible assets	-	-	-	-	1 691	1 691
Other assets	400	55	107	-	307	869
Total assets	**7 389**	**10 815**	**6 877**	**3 548**	**1 998**	**30 627**
Liabilities						
Due to other banks	307	-	-	16	-	323
Customer accounts	10 500	5 693	2 373	5 848	-	24 414
Debt securities in issue	572	947	442	226	-	2 187
Subordinated loans	-	-	-	698	-	698
Exchangeable convertible preference shares	-	7	14	106	-	127
Other liabilities	156	118	-	-	-	274
Total liabilities	**11 535**	**6 765**	**2 829**	**6 894**	**-**	**28 023**
Net liquidity gap	**(4 146)**	**4 050**	**4 048**	**(3 346)**	**1 998**	**2 604**
Cumulative liquidity gap at 31 December 2004	**(4 146)**	**(96)**	**3 952**	**606**	**2 604**	**-**

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.

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

26 Financial Risk Management (Continued)

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

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the 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.

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**Non-monetary**	**Total**
Assets						
Cash and cash equivalents	8 478	-	-	-	-	8 478
Mandatory cash balances with the CBRF	441	230	228	24	-	923
Trading securities	2 342	-	-	-	-	2 342
Due from other banks	3 078	-	-	-	-	3 078
Loans and advances to customers	2 545	11 219	12 443	4 567	-	30 774
Premises, equipment and intangible assets	-	-	-	-	1 972	1 972
Other assets	771	-	-	-	771	1 542
Total assets	**17 655**	**11 449**	**12 671**	**4 591**	**2 743**	**49 109**
Liabilities						
Due to other banks	20	23	-	70	-	113
Customer accounts	20 113	10 217	9 556	226	-	40 112
Debt securities in issue	1 054	831	1 349	897	-	4 131
Subordinated loans	-	-	-	1 223	-	1 223
Other liabilities	257	-	-	-	-	257
Total liabilities	**21 444**	**11 071**	**10 905**	**2 416**	**-**	**45 836**
Net sensitivity gap	**(3 789)**	**378**	**1 766**	**2 175**	**2 743**	**3 273**
Cumulative sensitivity gap at 31 December 2005	**(3 789)**	**(3 411)**	**(1 645)**	**530**	**3 273**	**-**

26 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.

In millions of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Non-monetary	Total
Assets						
Cash and cash equivalents	3 964	-	-	-	-	3 964
Mandatory cash balances with the CBRF	239	145	61	134	-	579
Trading securities	523	-	-	-	-	523
Due from other banks	944	-	2	-	-	946
Loans and advances to customers	1 319	10 615	6 707	3 414	-	22 055
Premises, equipment and intangible assets	-	-	-	-	1 691	1 691
Other assets	400	55	107	-	307	869
Total assets	**7 389**	**10 815**	**6 877**	**3 548**	**1 998**	**30 627**
Liabilities						
Due to other banks	307	-	-	16	-	323
Customer accounts	10 500	5 693	2 373	5 848	-	24 414
Debt securities in issue	572	947	442	226	-	2 187
Subordinated loans	-	-	-	698	-	698
Exchangeable convertible preference shares	-	7	14	106	-	127
Other liabilities	156	118	-	-	-	274
Total liabilities	**11 535**	**6 765**	**2 829**	**6 894**	**-**	**28 023**
Net sensitivity gap	**(4 146)**	**4 050**	**4 048**	**(3 346)**	**1 998**	**2 604**
Cumulative sensitivity gap at 31 December 2004	**(4 146)**	**(96)**	**3 952**	**606**	**2 604**	**-**

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.

The Bank monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken. In the absence of any available hedging instruments, the Bank normally seeks to match its interest rate positions.

26 Financial Risk Management (Continued)

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.

	2005				2004			
In % p.a.	**RR**	**USD**	**Euro**	**Other**	**RR**	**USD**	**Euro**	**Other**
Assets								
Cash and cash equivalents	2%	2%	1%	0%	1%	0%	0%	0%
Trading securities	5%	5%	5%	-	10%	7%	-	-
Due from other banks	2%	4%	-	-	3%	3%	-	-
Loans and advances to customers	14%	12%	10%	-	15%	12%	11%	-
Liabilities								
Due to other banks	10%	0%	3%	-	4%	0%	4%	-
Customer accounts								
- current and settlement accounts	1%	0%	0%	0%	1%	1%	0%	0%
- term deposits	7%	7%	5%	-	7%	6%	6%	-
Debt securities in issue	8%	10%	0%	-	8%	10%	0%	-
Subordinated loans	-	7%	-	-	-	8%	-	-
Exchangeable convertible preference shares recorded as liabilities	-	-	-	-	-	9%	-	-

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

27 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 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 consolidated financial statements.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the 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.

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 of 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.

27 Contingencies and Commitments (Continued)

Being conservative, the Group estimates that it has certain potential obligations from exposure to other than remote tax risks. However, at 31 December 2005 no provision for potential tax liabilities had been recorded (2004: no provision), because the Bank's Management believes that its interpretation of the relevant legislation is appropriate and the Bank's tax, currency legislation and customs positions will be sustained.

Capital expenditure commitments. At 31 December 2005 the Bank has contractual capital expenditure commitments in respect of premises and equipment totalling RR 64 million (2004: RR 84 million) and in respect of software and other intangible assets of RR 139 million (2004: RR 76 million).

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 non-cancellable operating leases are as follows:

In millions of Russian Roubles	**2005**	**2004**
Not later than 1 year	105	74
Later than 1 year and not later than 5 years	185	267
Later than 5 years	351	489
Total operating lease commitments	**641**	**830**

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:

In millions of Russian Roubles	**2005**	**2004**
Unused limits on overdraft loans	3 255	1 597
Guarantees issued	2 010	1 044
Undrawn credit lines	897	772
Import letters of credit	14	168
Letters of credit for payments in the Russian Federation	40	2
Less: Provision for losses on credit related commitments	-	(33)
Total credit related commitments	**6 216**	**3 550**

Deposits in the amount of RR 166 million (2004: RR 133 million) held as collateral for irrevocable commitments under import letters of credit are recorded in customer accounts. Refer to Note 14.

27 Contingencies and Commitments (Continued)

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.

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

In millions of Russian Roubles	2005	2004
Provision for losses on credit related commitments as at 1 January	**33**	**33**
Release of provision for losses on credit related commitments during the period	(33)	-
Provision for losses on credit related commitments as at 31 December	**-**	**33**

Fiduciary assets. These assets are not included in the Bank's consolidated 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:

In millions of Russian Roubles	2005 Nominal value	2004 Nominal value
Promissory notes held on behalf of the Bank's customers	721	59
Client VEB securities held with Vneshtorgbank on behalf of the Bank's customers	171	258
Corporate bonds held on behalf of the Bank's customers	86	-
Deposit certificates held on behalf of the Bank's customers	76	65
Eurobonds held on behalf of the Bank's customers	58	55
Shares held on behalf of the Bank's customers	24	15
Municipal bonds held on behalf of the Bank's customers	-	11
OFZ held with NDC on behalf of the Bank's customers	-	6
Other	16	-

Assets pledged and restricted. Mandatory cash balances with the CBRF in the amount of RR 923 million (2004: RR 579 million) represent mandatory reserve deposits which are not available to finance the Bank's day to day operations.

28 Derivative Financial Instruments

Derivative financial instruments include foreign exchange contracts and forward agreements with precious metals. 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.

At 31 December 2005 the Bank did not have outstanding derivative contracts, except outstanding obligations from unsettled spot transactions with foreign currencies and forward agreements with precious metals. The fair value of these derivative contracts at 31 December 2005 is RR 13 million (31 December 2004: RR 6 million).

29 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 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.

Financial instruments carried at fair value. Trading securities, investment securities available-for-sale and financial derivatives are carried on the consolidated balance sheet at their fair value. Quoted market prices were used for estimation of the fair value.

Loans and receivables carried at amortised cost, including loans and advanced to customers and due from other banks. 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.

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity 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 13, 14, 15 and 16 for the estimated fair values of due to other banks, customer accounts, debt securities in issue and subordinated loans, 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. Fair value was determined by using appropriate techniques. Refer to Notes 28.

30 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Transactions with related parties are entered into in the normal course of business with significant shareholders of the Bank, associate and directors. These transactions include settlements, loans and deposit taking.

30 Related Party Transactions (Continued)

The outstanding balances with related parties were as follows:

In millions of Russian Roubles	31 December 2005		31 December 2004	
	Shareholders	**Directors, associate**	**Shareholders**	**Directors, associate**
Correspondent accounts and overnight placements with other banks	-	-	2	-
Gross amount of loans and advances to customers				
Gross amount of loans and advances to customers (contractual interest rate: 31 December 2005: 4.8%; 31 December 2004: 5.0%-18.0%)	-	33	-	33
Provision for impairment of loans and advances to customers	-	(2)	-	(2)
Other assets				
Investment in associate	-	168	-	140
Customer accounts				
Current/settlement accounts	4	22	-	14
Term deposits (contractual interest rate: 31 December 2005: 5.7%, 31 December 2004: 7.0%)	204	39	-	14
Debt securities in issue				
Debt securities issued (contractual interest rate: 31 December 2005: 6.0%-14.0%)	915	-	-	-
Subordinated loans				
Subordinated loans (contractual interest rate: 31 December 2005: 8.0%; 31 December 2004: 8.0%)	288	-	86	-
Exchangeable convertible preference shares recorded as liabilities				
Exchangeable convertible preference shares recorded as liabilities (contractual interest rate: 31 December 2005: 0%; 31 December 2004: 0%)	-	-	127	-

The income and expense items with related parties for the years 2005 and 2004 were as follows:

In millions of Russian Roubles	2005		2004	
	Shareholders	**Directors, associate**	**Shareholders**	**Directors, associate**
Interest income				
Loans and advances to customers	-	1	-	1
Interest expense				
Customer accounts	4	1	-	-
Debt securities in issue	23	-	-	-
Subordinated loans	7	-	5	-
Exchangeable convertible preference shares	4	-	11	-

In 2005, the remuneration of members of the Executive Board comprised salaries, discretionary bonuses and other short-term benefits totalling to RR 112 million (2004: RR 68 million).

31 Disposal of Subsidiary

As at 31 December 2003 the Bank owned 61% of Moscow Reinsurance Company. In June 2004 the Bank's interest in the Company was diluted to 20% after the Company issued new shares to a third party. As at 31 December 2004 the investment was recorded as an investment in associate in the consolidated financial statements of the Bank. The consolidated financial statements of the Bank for the year ended 31 December 2004 included the results of the Company up to the date of its disposal.

The calculation of the gain on disposal of the Company is as follows:

	RR million
Net assets of subsidiary as at 31 December 2003	163
Less: minority interest	(65)
Share of the Bank in net assets of subsidiary as at 31 December 2003	98
Results of subsidiary in 2004 till the date of its disposal	46
Less: minority interest	(17)
Share of the Bank in net assets of subsidiary before disposal	127
Share of the Bank in net assets after disposal	(144)
Gain from disposal of subsidiary	**17**

32 Subsequent Events

On 14 March 2006 the Bank received a subordinated loan from a customer of the Bank in the amount of USD 5 million. The interest rate on this loan is 6.5%, and maturity date is 17 March 2014.