Bank “Petrocommerce” Group

Consolidated Financial Statements and Auditors’ Report

31 December 2005

CONTENTS

Auditors’ Report

Consolidated Financial Statements

Consolidated Balance Sheet 1
Consolidated Income Statement 2
Consolidated Statement of Changes in Equity 3
Consolidated Statement of Cash Flows 4

Notes to the Consolidated Financial Statements

1 Introduction 5
2 Operating Environment of the Group 6
3 Basis of Preparation and Significant Accounting Policies 7
4 Critical Accounting Estimates and Judgements in Applying Accounting Policies 14
5 Adoption of New or Revised Standards and Interpretations 15
6 New Accounting Pronouncements 16
7 Cash and Cash Equivalents 17
8 Trading Securities 18
9 Due from Other Banks 19
10 Loans and Advances to Customers 20
11 Investment Securities Available for Sale 21
12 Premises and Equipment 22
13 Other Assets 23
14 Due to Other Banks 23
15 Customer Accounts 23
16 Debt Securities in Issue 24
17 Other Borrowed Funds 25
18 Other Liabilities 25
19 Share Capital 26
20 Retained Earnings 26
21 Interest Income and Expense 27
22 Fee and Commission Income and Expense 27
23 Administrative and Other Operating Expenses 28
24 Income Taxes 28
25 Dividends 30
26 Segment Analysis 31
27 Financial Risk Management 34
28 Contingencies and Commitments 43
29 Derivative Financial Instruments 46
30 Fair Value of Financial Instruments 46
31 Related Party Transactions 47
32 Principal Subsidiaries 48

PRICEWATERHOUSECOOPERS

ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya nab. 52/5
115054 Moscow
Russian Federation
Telephone +7 (495) 967 6000
Facsimile +7 (495) 967 6001

AUDITORS' REPORT

To the Shareholders and the Board of Directors of Bank Petrocommerce:

We have audited the accompanying consolidated balance sheet of Bank Petrocommerce and its subsidiaries (hereinafter - the "Group") 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 Group's Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

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

Moscow, Russian Federation
24 May 2006

In thousands of Russian Roubles	Note	31 December 2005	31 December 2004
ASSETS			
Cash and cash equivalents	7	13 571 459	18 368 040
Mandatory cash balances with central banks	28	1 687 934	1 189 891
Trading securities	8	17 509 232	10 511 984
Due from other banks	9	994 877	666 420
Loans and advances to customers	10	52 232 554	26 484 193
Investment securities available for sale	11	1 436 310	1 689 185
Deferred income tax asset	24	15 867	113 128
Premises and equipment	12	2 305 754	1 977 448
Other assets	13	824 929	791 433
TOTAL ASSETS		**90 578 916**	**61 791 722**
LIABILITIES			
Due to other banks	14	6 996 230	1 369 245
Customer accounts	15	58 929 553	43 141 465
Debt securities in issue	16	7 808 471	6 570 789
Other borrowed funds	17	3 745 138	1 821 772
Deferred income tax liability	24	232 402	7 182
Other liabilities	18	911 836	288 620
TOTAL LIABILITIES		**78 623 630**	**53 199 073**
EQUITY			
Share capital	19	6 752 558	6 752 558
Treasury shares		-	(482 887)
Fair value reserve for investment securities available for sale		(9 691)	71 109
Retained earnings	20	5 132 509	2 191 663
Net assets attributable to the Bank’s equity holders		**11 875 376**	**8 532 443**
Minority interest		**79 910**	**60 206**
TOTAL EQUITY		**11 955 286**	**8 592 649**
TOTAL LIABILITIES AND EQUITY		**90 578 916**	**61 791 722**

Approved for issue by the Executive Board and signed on its behalf on 24 May 2006.

Nikitenko V.N. President	Funtova E.V. Chief Accountant

In thousands of Russian Roubles	Note	2005	2004
Interest income	21	6 381 562	4 342 311
Interest expense	21	(3 265 899)	(2 654 324)
Net interest income		**3 115 663**	**1 687 987**
Provision for loan impairment	9, 10	(784 239)	(433 691)
Net interest income after provision for loan impairment		**2 331 424**	**1 254 296**
Gains less losses from trading securities		3 329 457	763 376
Gains less losses arising from investment securities available for sale		394 081	167 473
Gains less losses from trading in foreign currencies		565 556	505 844
Foreign exchange translation losses net of gains		(385 961)	(56 957)
Fee and commission income	22	1 536 324	1 210 667
Fee and commission expense	22	(311 719)	(218 067)
Losses arising from early retirement of debt	17	-	(25 839)
Other operating income		103 875	143 357
Operating income		**7 563 037**	**3 744 150**
Administrative and other operating expenses	23	(3 078 696)	(2 135 334)
Profit before tax		**4 484 341**	**1 608 816**
Income tax expense	24	(1 166 690)	(241 755)
Profit for the year		**3 317 651**	**1 367 061**
Profit is attributable to:			
Equity holders of the Bank		3 298 145	1 363 817
Minority interest		19 506	3 244
Profit for the year		**3 317 651**	**1 367 061**

In thousands of Russian Roubles	Note	Attributable to equity holders of the Bank					Minority interest	Total equity
		Share capital	Treasury shares	Fair value reserve for investment securities available for sale	Retained earnings	Total		
Balance at 1 January 2004		**6 752 558**	**(479 223)**	**79 662**	**1 246 833**	**7 599 830**	**57 780**	**7 657 610**
Available for sale investments:								
- Fair value gains less losses		-	-	156 299	-	156 299	(80)	156 219
- Disposals		-	-	(167 133)	-	(167 133)	(340)	(167 473)
Income tax recorded directly in equity	24	-	-	2 281	-	2 281	420	2 701
Other movements		-	-	-	(8 085)	(8 085)	(818)	(8 903)
Net loss recognised directly in equity		-	-	(8 553)	(8 085)	(16 638)	(818)	(17 456)
Profit for the year		-	-	-	1 363 817	1 363 817	3 244	1 367 061
Total recognised income		**-**	**-**	**(8 553)**	**1 355 732**	**1 347 179**	**2 426**	**1 349 605**
Acquisition of treasury shares	19	-	(3 664)	-	1 017	(2 647)	-	(2 647)
Dividends declared:								
- Ordinary shares	25	-	-	-	(216 919)	(216 919)	-	(216 919)
- Preference shares	25	-	-	-	(195 000)	(195 000)	-	(195 000)
Balance at 31 December 2004		**6 752 558**	**(482 887)**	**71 109**	**2 191 663**	**8 532 443**	**60 206**	**8 592 649**
Available for sale investments:								
- Fair value gains less losses		-	-	290 274	-	290 274	(1 935)	288 339
- Disposals		-	-	(395 387)	-	(395 387)	1 306	(394 081)
Income tax recorded directly in equity	24	-	-	26 024	-	26 024	(133)	25 891
Other movements		-	-	(1 711)	4 962	3 251	960	4 211
Net loss recognised directly in equity		-	-	(80 800)	4 962	(75 838)	198	(75 640)
Profit for the year		-	-	-	3 298 145	3 298 145	19 506	3 317 651
Total recognised income		-	-	(80 800)	3 303 107	3 222 307	19 704	3 242 011
Disposal of treasury shares	19	-	482 887	-	(32 888)	449 999	-	449 999
Dividends declared:								
- Ordinary shares	25	-	-	-	(229 373)	(229 373)	-	(229 373)
- Preference shares	25	-	-	-	(100 000)	(100 000)	-	(100 000)
Balance at 31 December 2005		**6 752 558**	**-**	**(9 691)**	**5 132 509**	**11 875 376**	**79 910**	**11 955 286**

In thousands of Russian Roubles	Note	2005	2004
Cash flows from operating activities			
Interest received		6 157 979	4 252 215
Interest paid		(2 976 210)	(2 882 576)
Income received from trading in trading securities		1 597 655	733 561
Income received from trading in foreign currencies		565 556	475 661
Fees and commissions received		1 509 332	1 160 112
Fees and commissions paid		(310 929)	(218 067)
Other operating income received		50 596	86 249
Administrative and other operating expenses paid		(2 572 859)	(1 915 224)
Income tax paid		(735 357)	(367 311)
Cash flows from operating activities before changes in operating assets and liabilities		**3 285 763**	**1 324 620**
Changes in operating assets and liabilities			
Net (increase)/decrease in mandatory cash balances with central banks		(497 719)	1 945 420
Net increase in trading securities		(5 121 654)	(3 707 160)
Net (increase)/decrease in due from other banks		(315 469)	315 511
Net increase in loans and advances to customers		(26 130 330)	(6 930 344)
Net decrease in other assets		152 109	553 552
Net increase in due to other banks		5 387 654	154 458
Net increase in customer accounts		15 258 185	14 896 240
Net increase/(decrease) in debt securities in issue		1 179 795	(3 393 966)
Net increase/(decrease) in other liabilities		199 611	(94 195)
Net cash (used in)/provided from operating activities		**(6 602 055)**	**5 064 136**
Cash flows from investing activities			
Acquisition of investment securities available for sale		(4 688 149)	(3 310 584)
Proceeds from disposal of investment securities available for sale		5 236 222	3 384 232
Acquisition of premises and equipment	12	(670 217)	(659 469)
Proceeds from disposal of premises and equipment		23 440	4 819
Dividend income received		53 272	107 663
Net cash used in investing activities		**(45 432)**	**(473 339)**
Cash flows from financing activities			
Proceeds from other borrowed funds		1 746 038	3 539 268
Repayment of other borrowed funds		-	(1 568 831)
Acquisition of treasury shares	19	-	(2 647)
Disposal of treasury shares	19	449 999	-
Dividends paid	25	(328 724)	(412 164)
Net cash from financing activities		**1 867 313**	**1 555 626**
Effect of exchange rate changes on cash and cash equivalents		**(16 407)**	**(120 664)**
Net (decrease)/increase in cash and cash equivalents		**(4 796 581)**	**6 025 759**
Cash and cash equivalents at the beginning of the year		18 368 040	12 342 281
Cash and cash equivalents at the end of the year	7	**13 571 459**	**18 368 040**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005 for OAO Bank Petrocommerce (the "Bank") and its subsidiaries (together referred to as the "Group" or "Bank Petrocommerce Group").

The activities of the Group are regulated by the Central Bank of the Russian Federation (the "CBRF"), legislation of the Russian Federation and countries in which the subsidiaries are registered.

The Bank is an open joint-stock commercial bank owned by shareholders whose liability is limited. The Bank was established in the Russian Federation as a partnership in 1992 and was granted its general banking licence on 6 September 1993. In March 2000, the Bank changed its legal status from a partnership to an open joint stock company. The principal activities of the Bank include deposit taking and commercial lending, support of clients' export/import transactions, foreign exchange, securities trading and trading in derivative financial instruments. The Bank's operations are conducted in both Russian and international markets.

On 24 May 2004, the Bank applied for participation in the State deposit insurance scheme, which was introduced by Federal Law No. 177-FZ "On Insurance of Individuals' Deposits with Banks of the Russian Federation" dated 23 December 2003. In July-August 2004, the CBRF reviewed the Bank's compliance with requirements of the State deposit insurance programme. On the basis of the CBRF's decision, on 11 January 2005 the Bank became a participant in the State deposit insurance programme. 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.

The Bank's office is registered at the following address: Petrovka 24, Moscow, Russia 127051. As at 31 December 2005 the Bank had 18 branches (2004: 19 branches) in the Russian Federation. The average number of the Bank's employees during the year was 2 182 (2004: 1 905).

In 2004 the Bank's main shareholder changed. OAO LUKOIL, a major Russian oil company, which was the Bank's main shareholder, sold a controlling block of ordinary shares (324 092 500 ordinary shares), accounting for 78.07% of the Bank's voting shares, to the financial group IFD Capital. IFD Capital is primarily focused on operations in Russia and participates in the following businesses: trading and brokerage activities, trust activities, investment advisory services, administration of pension funds and the provision of insurance services within the Russian Federation. IFD Capital and OAO LUKOIL also concluded a preliminary agreement on the sale and purchase of an additional 87 350 700 ordinary shares of the Bank before 1 July 2007 for certain consideration. In October 2005 this preliminary agreement was cancelled. In December 2005 an open tender for the right to purchase 86 895 100 ordinary shares of the Bank was announced. Based on the results of the tender, IFD Capital obtained the right to purchase these shares. In May 2006 sale-purchase agreements have been signed by the parties and 15-17 May 2006 owneship rights on 80 524 000 ordinary shares of the Bank have been transferred to IFD Capital.

The main subsidiaries of Bank Petrocommerce Group are the following: OAO Komi Regional Bank Ukhtabank, ZAO Bank Petrocommerce-Ukraine, Stavropolpromstroybank - OAF and ACB UNIBANK S.A. Refer to Note 32.

Below is a description of the main activity of the principal subsidiaries.

Joined-Stock Company Komi Regional Bank Ukhtabank ("Ukhtabank") is a commercial bank owned by shareholders whose liability is limited. The Bank's principal business activity is commercial and retail banking operations, operations with securities and foreign exchange within the Russian Federation. The Bank has operated under a banking license issued by the CBRF since 1991. The head office of Ukhtabank is located at the following address: Russia, 169300, Komi Republic, Ukhta, Oktyabrskaya str., 14. At 31 December 2005 Ukhtabank had six branches within the Russian Federation (2004: six branches). The average number of employees of Ukhtabank during the year was 498 (2004: 455). The controlling block of shares of Ukhtabank was acquired by the Group in 2002.

1 Introduction (Continued)

ZAO Bank Petrocommerce-Ukraine ("Petrocommerce-Ukraine") was registered on 26 September 1996 in Ukraine by the National Bank of Ukraine as a joint-stock company under the name Aviatekbank. In January 2002, Aviatekbank was acquired by the Group and in February 2002 it was renamed as ZAO Bank Petrocommerce-Ukraine. The current banking licence #108-1 was received by Petrocommerce-Ukraine on 9 April 2002. Petrocommerce-Ukraine's main activities include provision of banking services to companies representing various economic sectors, state bodies and individuals. These services include deposit taking, loans, investments in securities and execution of payments in Ukraine and abroad. Petrocommerce-Ukraine's head office is located in Kiev. At 31 December 2005 Petrocommerce-Ukraine also had four branches in Ukraine (2004: four branches). The average number of employees of Petrocommerce-Ukraine during the year was 482 (2004: 480).

Joint-Stock Investment Commercial Industrial and Construction Bank Stavropolie, an open joint-stock company (hereinafter, "Stavropolpromstroybank"), was created in December 1991 as the Commercial Bank Stavropolie as a result of restructuring of commercial bank "Stavropolye" previously founded on 26 December 1990. In March 1996 the Bank changed its legal form and became an open joined-stock company. In May 2002, Stavropolpromstroybank was aquired by the Group. Stavropolpromstroybank has banking licence #1288. Stavropolpromstroybank's main activities include deposit taking, loans, cash and settlement services to clients and transactions with securities and foreign currencies. Stavropolpromstroybank's head office is located in Stavropol. As at 31 December 2005 Stavropolpromstroybank had seven branches in the Russian Federation (2004: seven branches). The average number of employees of Stavropolpromstroybank during the year was 558 (2004: 513).

Commercial Bank Unibank S.A. ("Unibank") was established in the Republic of Moldova on August 1992. In December 2002 it became a subsidiary of the Bank. Unibank has a type "B" licence for all types of banking activities excluding trust activities. Unibank's main activities include deposit taking, loans, cash and settlement services to clients and transactions with securities. The head office of Unibank is located in Kishinev. As at 31 December 2005 Unibank had five branches in the Republic of Moldova (2004: five branches). The average number of employees of Unibank during the year was 222 (2004: 201).

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

In the normal course of business the Group enters into transactions with its related parties. These transactions include, but are not limited to, settlements, loans, deposit taking, guarantees, trade finance and foreign currency transactions. As at 31 December 2005, a substantial portion of the Group's liabilities (24% of total liabilities) (2004: 33% of total liabilities) are due to related parties and a significant component of the Group's income and expense are derived from activities with related parties. Refer to Note 31.

2 Operating Environment of the Group

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

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

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 investment securities available for sale, trading securities and derivatives. The Bank maintains its accounting records in accordance with Russian banking regulations. Subsidiaries maintain their accounting records in accordance with Russian accounting regulations or applicable companies’ law in respective jurisdictions. These consolidated financial statements have been prepared from the accounting records of the constituent entities of the Group and adjusted as necessary in order to be in accordance with IFRS. 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.

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

The 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.

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. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group’s policies.

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

Other movements in the consolidated statement of changes in equity include the result of net assets revaluation arising on the consolidation of the Group’s subsidiaries whose functional currency differs from the Group’s functional currency (Russian Rouble). Cumulative balance of currency translation differences recorded in equity at 31 December 2005 amounted to a loss of RR 19 673 thousand.

Special Purpose Entities. Judgement is required to determine whether the substance of the relationship between the Group and a special purpose entity indicates that the special purpose entity is controlled by the Group. In assessing ability of the Group to control the special purpose entities management takes into consideration the factors presented in SIC 12 “Consolidation - Special Purpose Entities”, such as the SPE conducting activities on behalf of the Group and whether the Group obtains majority of the benefits of the SPE’s operations.

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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 entity would receive or pay in a forced transaction, involuntary liquidation or distress sale.

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

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

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial instrument. All other purchases and sales are recognised when the entity becomes a party to the contractual provisions of the instrument.

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists.

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

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the consolidated income statement as interest income. Dividends are included in operating income when the Group's right to receive the dividend payment is established. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in 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 Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

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

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

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

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

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

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

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

Investment securities available for sale are carried at fair value. 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 Group's right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired, at which time the cumulative gain or loss is removed from equity to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognised. The corresponding liability is presented within amounts due to other banks.

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

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss. An impairment loss recognised for an asset in prior periods is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

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

Premises	2% per annum; and
Office and computer equipment	20-33% per annum.

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

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

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

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, deposit and savings certificates and bonds issued by the Group. Debt securities are stated at amortised cost.

Other borrowed funds. Other borrowed funds represent medium and long-term funds attracted by the Group on the international financial markets. Other borrowed funds are carried at amortised cost. If the Group purchases its other borrowed funds, 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 early retirement of debt.

Derivative financial instruments. Derivative financial instruments, including 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 either gains less losses arising from trading in foreign currency or gains less losses arising from trading securities depending on the related contracts. The Group does not apply hedge accounting.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with applicable 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 financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

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

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary’s dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

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

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

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

Treasury shares. Where the Bank or its subsidiaries purchase the Bank’s equity instruments, the consideration paid including any attributable incremental costs net of income taxes is deducted from equity attributable to the equity holders of the Bank until they are cancelled or disposed of. Where such shares are subsequently disposed or reissued, any consideration received is included in equity.

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

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.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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 Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group 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.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis.

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

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

The results and financial position of each group entity (functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(I) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(II) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(III) all resulting exchange differences are recognised in equity.

When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified to profit or loss.

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

Fiduciary assets and trust activities. Assets and liabilities held by the Group in its own name, but on the account of third parties, are not reported on the consolidated balance sheet. The extent of such balances and transactions is indicated in Note 28. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary or trust activities are presented in fee and commission income.

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

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the 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 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 Group.

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

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current year.

These consolidated financial statements were approved for issue on 24 May 2006 and further changes require approval of the body that gave that authorisation.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial 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:

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

Impairment of available for-sale equity investments. The Group 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 Group 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. Had all the declines in fair value below cost been considered significant or prolonged, the Group would suffer an additional loss of RR 26 762 thousand at 31 December 2005.

Impairment losses on loans and advances**.** The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 28.

Fair Value of Financial Instruments. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Group's operating environment 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.

Related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair value. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses.

5 Adoption of New or Revised Standards and Interpretations

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

IAS 1 (revised 2003) Presentation of Consolidated Financial Statements. Minority interest is now presented as equity and the Group discloses on the face of the consolidated income statement profit for the period and the allocation of that amount between 'profit attributable to minority interest' and 'profit 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 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors. The Group now applies all voluntary changes in accounting policies retrospectively. Comparatives are amended in accordance with the new policies. All material errors are now corrected retrospectively in the first set of consolidated financial statements after their discovery.

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

***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 Group.

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

IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates. The term 'functional currency' replaced 'measurement currency'. Only one translation method is now applied to all foreign operations - namely that described in the previous version of IAS 21 as applying to foreign entities. Changes in provisions of this standard did not have any material effect on these consolidated financial statements.

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 Group'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 39 (revised 2003) Financial Instruments: Recognition and Measurement. The definition of 'originated loans and receivables' was amended to become 'loans and receivables'. This category now comprises originated or purchased loans and receivables that are not quoted in an active market.

The Group amended its policies for derecognition of financial assets. Under the original IAS 39, several concepts governed derecognition. The revised IAS 39 retains the two main concepts of risks and rewards and control, but clarifies that the evaluation of the transfer of risks and rewards precedes the evaluation of the transfer of control. The Group now applies the guidance added to IAS 39 on how to determine fair values using valuation techniques and how to evaluate impairment in a group of loans. 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.

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

6 New Accounting Pronouncements

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

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 any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ('fair value through profit or loss'). The amendment restricts the ability to designate financial instruments as part of this category. The Group's policy is not to voluntarily designate assets and liabilities at fair value through profit and loss.

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.

6 New Accounting Pronouncements (Continued)

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 amount recognised under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 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 Group is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its consolidated financial statements.

Other new standards or interpretations. The Group has also not early adopted amendments to IAS 19 (Actuarial Gains and Losses, Group Plans and Disclosures), IAS 21 (Net Investment in a Foreign Operation), the new IFRIC interpretations 4 to 9 (Determining whether an Arrangement contains a Lease; Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment; Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies; Scope of IFRS 2; Reassesment of Embedded Derivatives), IFRS 6, Exploration for and Evaluation of Mineral Resources and IFRS 1 (Amendment) - First-time Adoption of International Financial Reporting Standards.

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

7 Cash and Cash Equivalents

In thousands of Russian Roubles	**2005**	**2004**
Cash on hand	3 264 094	2 240 722
Cash balances with central banks (other than mandatory cash balanses)	8 713 400	11 544 022
Correspondent accounts and overnight placements with other banks		
- Russian Federation	639 766	650 892
- Other countries	717 872	1 914 414
Settlement accounts with trading systems	236 327	2 017 990
Total cash and cash equivalents	**13 571 459**	**18 368 040**

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 27. The information on related party balances is disclosed in Note 31.

8 Trading Securities

In thousands of Russian Roubles	2005	2004
Corporate shares	5 126 558	1 864 406
Federal loan bonds (OFZ)	4 710 428	3 695 316
Corporate bonds	3 537 418	3 026 257
Corporate Eurobonds	1 162 703	44 041
Credit-linked notes	1 110 035	-
Russian Federation Eurobonds	761 132	-
US Treasury Strip securities	721 790	1 264 965
Other	379 168	616 999
Total trading securities	**17 509 232**	**10 511 984**

Corporate shares are quoted shares of large Russian and foreign companies in oil, gas, energy, metallurgical, banking and other sectors. These shares are freely tradable in Russia.

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds have maturity dates from July 2007 to November 2021 (2004: from July 2005 to July 2010), coupon rates from 6.0% to 10.0% (2004: from 7.5% to 10.0%) and yield to maturity from 5.6% to 6.8% (2004: from 4.6% to 7.3%), depending on the type of bond issue.

Corporate bonds are debt securities denominated in Russian Roubles issued by large Russian companies in transport, trading and banking sectors. These bonds have maturity dates from October 2006 to May 2015 (2004: from April 2005 to February 2010), coupon rates from 6.2% to 11.6% (2004: from 7.8% to 16.0%) and yield to maturity from 7.1% to 9.9% (2004: from 6.0% to 19.3%) depending on the type of bond issue.

Corporate Eurobonds are debt securities denominated in USD, issued by large Russian companies, and are freely tradable internationally. These bonds have maturity dates from June 2007 to October 2010 (2004: January 2011), coupon rates from 6.9% to 10.9% (2004: 8.9%) and yield to maturity from 6.2% to 10.8% (2004: 8.0%), depending on the type of bond issue.

Credit-linked notes are debt securities denominated in USD. These notes are linked to the Russian Federation performance of its payment obligations under the Sovereign Debt Agreements and are freely tradable internationally. These securities have maturity date in October 2014, coupon rate of 9.6% and yield to maturity of 5.4%.

Russian Federation Eurobonds are debt 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 2028 to March 2030, coupon rates from 5.0% to12.8% and yield to maturity from 5.6% to 6.0%, depending on the type of bond issue.

US Treasury Strip securities represent debt securities issued in the United States of America under Separate Trading of Registered Interest and Principal securities (STRIP) program, and are freely tradable internationally. These bonds mature in February 2011 (2004: February 2011) and have yield to maturity of 4.4% (2004: 4.0%).

As at 31 December 2005 included in trading securities are securities pledged under sale and repurchase agreements with the fair value of RR 101 017 thousand (2004: nil). Refer to Notes 14 and 28.

As at 31 December 2005 trading securities with a fair value of RR 1 852 515 thousand (2004: RR 1 609 460 thousand) have been pledged to the CBRF for the credit limit opened by the CBRF to the Bank. At 31 December 2005 the Group had no deposits from the CBFR attracted within this credit limit (2004: nil). Refer to Note 28.

The Bank is licensed by the Federal Commission on Securities Markets for trading in securities.

Geographical, currency, maturity and interest rate analyses of trading securities are disclosed in Note 27. The information on trading securities issued by related parties is disclosed in Note 31.

9 Due from Other Banks

In thousands of Russian Roubles	2005	2004
Term placements with other banks	988 523	629 896
Reverse sale and repurchase agreements with other banks	-	36 524
Overdue placements with other banks	14 324	-
Less: Provision for impairment of due from other banks	(7 970)	-
Total due from other banks	**994 877**	**666 420**

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

In thousands of Russian Roubles	2005	2004
Provision for impairment of due from other banks at 1 January	**-**	**-**
Provision for impairment of due from other banks during the year	7 970	-
Provision for impairment of due from other banks at 31 December	**7 970**	**-**

At 31 December 2005 term placements with other banks totalling RR 143 433 thousand (2004: RR 110 808 thousand) have been pledged to third parties as collateral with respect to term placements of other banks. Refer to Notes 14 and 28.

At 31 December 2004 amounts due from other banks of RR 36 524 thousand were effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of RR 40 576 thousand.

At 31 December 2005 the estimated fair value of due from other banks was RR 994 877 thousand (2004: RR 666 420 thousand). Refer to Note 30.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 27.

10 Loans and Advances to Customers

In thousands of Russian Roubles	2005	2004
Current loans	53 118 975	27 263 813
Overdue loans	1 454 770	854 961
Reverse sale and repurchase agreements	79 388	10 122
Less: Provision for loan impairment	(2 420 579)	(1 644 703)
Total loans and advances to customers	**52 232 554**	**26 484 193**

At 31 December 2005 loans and advances to customers of RR 79 388 thousand (2004: RR 10 122 thousand) were effectively collateralised by securities purchased under reverse sale and repurchase agreements with a fair value of RR 86 400 thousand (2004: RR 11 225 thousand).

Movements in the provision for loan impairment are as follows:

In thousands of Russian Roubles	2005	2004
Provision for loan impairment at 1 January	**1 644 703**	**1 212 082**
Provision for loan impairment during the year	776 269	433 691
Loans and advances to customers written off during the year as uncollectible	(13 381)	(617)
Effect of translation to presentation currency	12 988	(453)
Provision for loan impairment at 31 December	**2 420 579**	**1 644 703**

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

	2005		2004	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Trade	15 002 156	27	5 493 393	20
Construction and manufacturing	14 422 337	26	7 418 336	26
Food industry	5 170 020	9	3 104 373	11
Oil and energy	4 292 401	8	4 457 232	16
Individuals	3 711 142	7	1 521 393	5
Transportation	3 483 298	6	1 315 786	5
Finance sector	1 459 534	4	1 088 566	4
Other	7 112 245	13	3 729 817	13
Total loans and advances to customers (before impairment)	**54 653 133**	**100**	**28 128 896**	**100**

At 31 December 2005 the estimated fair value of loans and advances to customers was RR 52 232 554 thousand (2004: RR 26 484 193 thousand). Refer to Note 30.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 27. The information on related party balances is disclosed in Note 31.

11 Investment Securities Available for Sale

In thousands of Russian Roubles	**2005**	**2004**
Corporate bonds	840 426	426 287
Promissory notes	241 389	242 307
Municipal bonds and bonds of the Russian Federation’s regions	239 510	247 930
Corporate shares	27 614	633 972
Other	87 371	138 689
Total investment securities available for sale	**1 436 310**	**1 689 185**

Corporate bonds are debt securities mainly denominated in Russian Roubles issued by large Russian companies and banks. At 31 December 2005 these bonds had maturity dates from February 2006 to December 2010 (2004: from April 2005 to December 2009), coupon rates from 8.0% to 18.0% (2004: 5.4% to 16.0%), and yield to maturity from 4.5% to 19.1% (2004: from 5.9% to 18.7%), depending on the type of bond issue. These bonds are freely tradable in Russia.

Promissory notes are debt securities denominated in Russian Roubles issued by large Russian companies and banks. These securities are traded on over-the-counter market. At 31 December 2005 these promissory notes had maturity dates from January 2006 to March 2010 (2004: from January 2005 to December 2005) and yield to maturity from 7.0% to 10.7% (2004: from 10.1% to 15.4%), depending on the type of issue.

Municipal bonds and bonds of Russian Federation’s regions represent interest bearing securities denominated in Russian Roubles and are tradable on Moscow Interbank Currency Exchange (MICEX), other Russian stock exchanges or on the over-the-counter market. As at 31 December 2005 these securities had maturity dates from July 2006 to December 2010 (2004: August 2005 to December 2014), coupon rates from 9.5% to 14.0% (2004: 2.5% to 16.9%), and yield to maturity from 3.2% to 8.1% (2004: 2.9% to 14.4%), depending on the type of bond issue.

Corporate shares mainly represent shares of large Russian companies in energy, mining and financial sectors. These shares are freely tradable in Russia.

Geographical, currency, maturity and interest rate analyses of investment securities available for sale are disclosed in Note 27. The information on related party investment securities available for sale is disclosed in Note 31.

12 Premises and Equipment

In thousands of Russian Roubles	Land and premises	Office and computer equipment	Construction in progress	Total
Carrying amount at 1 January 2004	**704 718**	**488 871**	**315 937**	**1 509 526**
Book amount at cost				
Opening balance	768 253	903 967	315 937	1 988 157
Additions	250 931	233 707	174 831	659 469
Transfers	138 514	35 924	(174 438)	-
Disposals	-	(96 254)	-	(96 254)
Closing balance	**1 157 698**	**1 077 344**	**316 330**	**2 551 372**
Accumulated depreciation				
Opening balance	63 535	415 096	-	478 631
Depreciation charge (Note 23)	18 753	167 975	-	186 728
Disposals	-	(91 435)	-	(91 435)
Closing balance	**82 288**	**491 636**	**-**	**573 924**
Carrying amount at 31 December 2004	**1 075 410**	**585 708**	**316 330**	**1 977 448**
Book amount at cost				
Opening balance	1 157 698	1 077 344	316 330	2 551 372
Additions	112 475	372 365	185 377	670 217
Transfers	146 443	58 891	(205 334)	-
Disposals	(25 413)	(93 632)	(30 242)	(149 287)
Effect of translation to presentation currency	4 005	8 089	416	12 510
Closing balance	**1 395 208**	**1 423 057**	**266 547**	**3 084 812**
Accumulated depreciation				
Opening balance	82 288	491 636	-	573 924
Depreciation charge (Note 23)	26 058	228 345	-	254 403
Disposals	(172)	(55 878)	-	(56 050)
Transfers	11 378	(11 378)	-	-
Effect of translation to presentation currency	1 382	5 399	-	6 781
Closing balance	**120 934**	**658 124**	**-**	**779 058**
Carrying amount at 31 December 2005	**1 274 274**	**764 933**	**266 547**	**2 305 754**

Construction in progress consists of construction and refurbishment of premises and equipment not yet in operation. Upon completion, assets are transferred to the appropriate category of fixed assets.

13 Other Assets

In thousands of Russian Roubles	2005	2004
Trade debtors and other prepayments	321 373	411 973
Settlements on other operations	202 405	125 315
Settlements on non-banking operations	197 516	112 549
Prepaid taxes	103 635	141 596
Total other assets	**824 929**	**791 433**

Geographical, currency and maturity analyses of other assets are disclosed in Note 27.

14 Due to Other Banks

In thousands of Russian Roubles	2005	2004
Term placements of other banks	6 493 854	1 144 091
Correspondent accounts and overnight placements of other banks	408 533	225 154
Sale and repurchase agreements with other banks	93 843	-
Total due to other banks	**6 996 230**	**1 369 245**

At 31 December 2005, included in due to other banks are liabilities in the amount of RR 93 843 thousand related to trading securities sold under sale and repurchase agreements with a fair value of RR 101 017 thousand (2004: nil). Refer to Notes 8 and 28.

As at 31 December 2005 term placements of other banks of RR 143 436 thousand (2004: RR 144 102 thousand) have been collaterised by term placements with other banks of RR 143 433 thousand (2004: RR 110 808 thousand). Refer to Notes 9 and 28.

At 31 December 2005 the estimated fair value of due to other banks was RR 6 996 230 thousand (2004: RR 1 369 245 thousand). Refer to Note 30.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 27. The information on related party balances is disclosed in Note 31.

15 Customer Accounts

In thousands of Russian Roubles	2005	2004
State and public organisations		
- Current/settlement accounts	5 143 843	1 485 233
- Term deposits	2 466	-
Other legal entities		
- Current/settlement accounts	13 585 888	17 016 617
- Term deposits	16 260 710	6 371 463
Individuals		
- Current/demand accounts	4 718 562	3 710 125
- Term deposits	19 218 084	14 558 027
Total customer accounts	**58 929 553**	**43 141 465**

15 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

	2005		2004	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	23 936 646	41	18 268 152	42
Oil production and refining	10 241 893	17	10 076 330	23
Trade	5 345 802	9	4 051 829	9
Government bodies	5 146 309	9	1 485 233	4
Finance sector	4 274 519	7	4 751 136	11
Services	3 638 994	6	447 511	1
Manufacturing	1 765 608	3	246 520	1
Other	4 579 782	8	3 814 754	9
Total customer accounts	**58 929 553**	**100**	**43 141 465**	**100**

At 31 December 2005 included in customer accounts are deposits of RR 1 889 825 thousand (2004: RR 1 962 973 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 28.

At 31 December 2005 the estimated fair value of customer accounts was RR 58 929 553 thousand (2004: RR 43 141 465 thousand). Refer to Note 30.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 27. The information on related party balances is disclosed in Note 31.

16 Debt Securities in Issue

In thousands of Russian Roubles	**2005**	**2004**
Promissory notes	6 555 423	5 444 144
Debentures	1 046 389	976 230
Deposits and saving certificates	206 659	150 415
Total debt securities in issue	**7 808 471**	**6 570 789**

Promissory notes are debt securities denominated in RR and USD with maturity dates from on demand to December 2020 (2004: from on demand to December 2019) and effective intrest rates from 0.0% to 14.0% (2004: from 0.0% to 15.9%).

At 31 December 2005 the estimated fair value of debt securities in issue was RR 7 778 966 thousand (2004: RR 6 574 526 thousand). Refer to Note 30.

Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 27. The information on related parties balances is disclosed in Note 31.

17 Other Borrowed Funds

In thousands of Russian Roubles	**2005**	**2004**
Term borrowings	1 903 916	1 821 772
Syndicated loans	1 841 222	-
Total other borrowed funds	**3 745 138**	**1 821 772**

Term borrowings represent funds attracted on the international financial markets by issuance of bonds arranged through a large foreign bank. The bonds had a nominal value of USD 120 000 000 and were issued by the Group in February 2004 at par value, contractual interest rate of 9.0% and maturity date of February 2007. At 31 December 2005 the effective interest rate was 10.1% (2004: 10.1%).

In November 2004 part of the securities with a nominal value of USD 55 560 000 were claimed by holders for early redemption and were repaid by the Group in connection with notification of bond holders on changes in the shareholding structure of the Bank (Refer to Note 1). Losses on early redemption of part of the bonds amounted to RR 25 839 thousand.

A syndicated loan in the amount of USD 50 000 000 was received by the Group in April 2005 from a consortium of foreign banks. This loan had maturity date in April 2006 and interest rate of 6 month LIBOR plus 2.85%. At 31 December 2005 the effective interest rate was 8.6%.

A syndicated loan in the amount of USD 14 000 000 was received by the Group in October 2005 from two Croatian banks. This loan has maturity date in October 2010 and interest rate of 5.5%. At 31 December 2005 the effective interest rate was 8.2%.

At 31 December 2005 the estimated fair value of other borrowed funds was RR 3 816 202 thousand (2004: RR 1 845 419 thousand). Refer to Note 30.

Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 27.

18 Other Liabilities

In thousands of Russian Roubles	**2005**	**2004**
Settlements on bank operations	502 531	169 074
Taxes payable	192 812	25 801
Accrued staff costs	157 327	28 810
Other	59 166	64 935
Total other liabilities	**911 836**	**288 620**

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 27.

19 Share Capital

In thousands of Russian Roubles	2005			2004		
	Number of shares, in thousand units	**Nominal amount**	**Inflation adjusted amount**	**Number of shares, in thousand units**	**Nominal amount**	**Inflation adjusted amount**
Ordinary shares	450 000	4 500 000	6 228 658	450 000	4 500 000	6 228 658
Preference shares	500	500 000	523 900	500	500 000	523 900
Less: treasury shares	-	-	-	(34 887)	(348 870)	(482 887)
Total share capital	**450 500**	**5 000 000**	**6 752 558**	**415 613**	**4 651 130**	**6 269 671**

All ordinary shares have a nominal value of RR 10 per share and rank equally. Each share carries one vote.

The preference shares have a nominal value of RR 1 000 and carry no voting rights but rank ahead of the ordinary shares in the event of liquidation of the Bank. The minimum dividend to be received by holders of preference shares is not stipulated by the Charter of the Bank. The amount of dividend is determined and approved at the Bank's general shareholders meeting.

During 2004 the Group acquired 264 699 ordinary shares of the Bank at par value with total nominal value RR 2 647 thousand. The difference of RR 1 017 thousand between nominal value of shares and amount adjusted on inflation of RR 3 664 thousand was credited directly to equity. As at 31 December 2004 the total carrying amount of the treasure shares adjusted for inflation was RR 482,887 thousand.

In October 2005, treasury shares (34 887 thousand ordinary shares of the Bank) with a nominal value of RR 348 870 thousand and inflation adjusted amount of RR 482 887 thousand have been sold by the Group to non-state pension fund "Lukoil-Garant" and non-state pension fund "Pension Capital". The difference of RR 32 888 thousand between sale price of shares and amount adjusted on inflation has been debited directly to equity.

20 Retained Earnings

In accordance with Russian legislation, the Group 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 Group's reserves under Russian Accounting Rules at 31 December 2005 are RR 5 717 954 thousand (2004: RR 3 050 951 thousand).

21 Interest Income and Expense

In thousands of Russian Roubles	2005	2004
Interest income		
Loans and advances to customers	5 185 590	3 372 757
Debt trading securities	759 570	658 691
Correspondent accounts and due from other banks	271 509	180 223
Debt investment securities available for sale	164 893	130 640
Total interest income	**6 381 562**	**4 342 311**
Interest expense		
Deposits of individuals	1 723 910	1 128 512
Debt securities in issue	588 096	716 687
Term deposits of legal entities	429 266	295 404
Other borrowed funds	268 474	272 078
Due to other banks	163 867	118 402
Current accounts of legal entities	92 280	123 113
Other	6	128
Total interest expense	**3 265 899**	**2 654 324**
Net interest income	**3 115 663**	**1 687 987**

22 Fee and Commission Income and Expense

In thousands of Russian Roubles	2005	2004
Fee and commission income		
Settlement transactions	676 022	695 508
Cash transactions	336 410	217 559
Trust operations	123 665	50 555
Guarantees issued	52 718	21 569
Cash collection	29 276	32 088
Other	318 233	193 388
Total fee and commission income	**1 536 324**	**1 210 667**
Fee and commission expense		
Settlement transactions	154 999	111 490
Cash collection	25 813	19 676
Cash transaction	18 221	9 524
Other	112 686	77 377
Total fee and commission expense	**311 719**	**218 067**
Net fee and commission income	**1 224 605**	**992 600**

23 Administrative and Other Operating Expenses

In thousands of Russian Roubles	Note	2005	2004
Staff costs		1 629 793	1 134 729
Administrative expenses		339 989	277 580
Depreciation of premises and equipment	12	254 403	186 728
Rent		207 521	135 563
State deposit insurance system membership fee		117 190	-
Advertising and marketing services		90 562	69 938
Other expenses related to premises and equipment		71 954	71 255
Taxes other than on income		67 608	71 022
Other		299 676	188 519
Total administrative and other operating expenses		**3 078 696**	**2 135 334**

Included in staff costs are statutory staff costs related taxes and contributions in the amount of RR 245 084 thousand (2004: RR 147 700 thousand).

24 Income Taxes

Income tax expense comprises the following:

In thousands of Russian Roubles	2005	2004
Current tax	818 318	413 216
Deferred tax	348 372	(171 461)
Income tax expense for the year	**1 166 690**	**241 755**

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

In thousands of Russian Roubles	2005	2004
IFRS profit before tax	**4 484 341**	**1 608 816**
Theoretical tax charge at statutory rate (2005: 24%; 2004: 24%)	1 076 242	386 116
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible expenses	35 120	40 681
- Income on government securities taxed at different rates	(44 497)	(62 709)
- Other non-temporary differences	99 825	(122 333)
Income tax expense for the year	**1 166 690**	**241 755**

24 Income Taxes (Continued)

Differences between IFRS and Russian and between IFRS and statutory taxation regulations of subsidiary non-resident banks comprising the Group 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 of the Russian Federation that is taxed at 15% (2004: 15%).

In thousands of Russian Roubles	31 December 2004	Charged/ (credited) to profit or loss	Credited directly to equity	31 December 2005
Tax effect of deductible temporary differences				
Loan impairment provision	159 119	52 095	-	211 214
Debt securities in issue	61 034	(40 524)	-	20 510
Fair valuation of investment securities available for sale	-	-	3 065	3 065
Other	11 078	83 065	-	94 143
Gross deferred income tax asset	**231 231**	**94 636**	**3 065**	**328 932**
Tax effect of taxable temporary differences				
Fair valuation of trading securities	(16 691)	(419 808)	-	(436 499)
Premises and equipment	(71 908)	(28 144)	-	(100 052)
Fair valuation of investment securities available for sale	(22 540)	(286)	22 826	-
Other	(14 146)	5 230	-	(8 916)
Gross deferred income tax liability	**(125 285)**	**(443 008)**	**22 826**	**(545 467)**
Total net deferred tax asset/(liability)	**105 946**	**(348 372)**	**25 891**	**(216 535)**

24 Income Taxes (Continued)

In thousands of Russian Roubles	1 January 2004	Charged/ (credited) to profit or loss	Credited directly to equity	31 December 2004
Tax effect of deductible temporary differences				
Loan impairment provision	167 834	(8 715)	-	159 119
Debt securities in issue	33 314	27 720	-	61 034
Other	9 268	1 810	-	11 078
Gross deferred income tax asset	**210 416**	**20 815**	**-**	**231 231**
Tax effect of taxable temporary differences				
Premises and equipment	(75 050)	3 142	-	(71 908)
Fair valuation of investment securities available for sale	(25 241)	-	2 701	(22 540)
Fair valuation of trading securities	(168 304)	151 613	-	(16 691)
Other	(10 037)	(4 109)	-	(14 146)
Gross deferred income tax liability	**(278 632)**	**150 646**	**2 701**	**(125 285)**
Total net deferred tax asset/(liability)	**(68 216)**	**171 461**	**2 701**	**105 946**

In the context of the Group's current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

A deferred tax asset in the amount of RR 15 867 thousand (2004: RR 113 128 thousand) and a deferred tax liability in the amount of RR 232 402 thousand (2004: RR 7 182 thousand) have been recorded in the consolidated balance sheet after offsetting of the gross amounts presented above.

25 Dividends

	2005		2004	
In thousands of Russian Roubles	**Ordinary**	**Preference**	**Ordinary**	**Preference**
Dividends payable at 1 January	**657**	**-**	**902**	**-**
Dividends declared during the year	229 373	100 000	216 919	195 000
Dividends paid during the year	228 724	100 000	217 164	195 000
Dividends payable at 31 December	**1 306**	**-**	**657**	**-**

On 20 May 2005 the Annual General Meeting of Shareholders, based on the financial results of 2004 year, declared a dividend on ordinary shares in amount of RR 229 373 thousand and a dividend on preference shares in amount of RR 100 000 thousand.

26 Segment Analysis

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

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

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, custody, plastic cards, consumer loans and mortgages.
- Corporate banking – representing current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Other – this segment includes other operations not included in the above categories.

The Group does not have an internal management accounting system for reallocation of funds and/or operating expenses between the segments. Funds are allocated between segments free of charge.

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

2005 *In thousands of Russian Roubles*	**Retail banking**	**Corporate banking**	**Other**	**Total**
External revenues	923 339	11 363 080	24 436	12 310 855
Segment results	**(806 612)**	**8 731 174**	**24 436**	**7 948 998**
Unallocated costs				(3 464 657)
Profit before tax				**4 484 341**
Income tax expense				(1 166 690)
Profit for the year				**3 317 651**
Segment assets	4 208 645	83 223 721	824 929	88 257 295
Unallocated assets				2 321 621
Total assets				**90 578 916**
Segment liabilities	24 143 305	53 336 087	911 836	78 391 228
Unallocated liabilities				232 402
Total liabilities				**78 623 630**
Other segment items				
Capital expenditure	50 268	618 619	1 330	670 217
Depreciation charge	(19 081)	(234 817)	(505)	(254 403)

26 Segment Analysis (Continued)

2004 *In thousands of Russian Roubles*	**Retail banking**	**Corporate banking**	**Other**	**Total**
External revenues	294 315	6 729 195	109 518	7 133 028
Segment results	**(887 068)**	**4 604 496**	**83 679**	**3 801 107**
Unallocated costs				(2 192 291)
Profit before tax				**1 608 816**
Income tax expense				(241 755)
Profit for the year				**1 367 061**
Segment assets	2 025 250	57 036 745	639 151	59 701 146
Unallocated assets				2 090 576
Total assets				**61 791 722**
Segment liabilities	18 268 151	32 812 928	2 110 812	53 191 891
Unallocated liabilities				7 182
Total liabilities				**53 199 073**
Other segment items				
Capital expenditure	26 628	622 675	10 166	659 469
Depreciation charge	(7 660)	(176 144)	(2 924)	(186 728)

External revenues comprise interest income, gains less losses from trading securities, gains less losses arising from investment securities available for sale, gains less losses from trading in foreign currencies, fee and commission income and other operating income.

Unallocated costs in the tables above totalling RR 3 464 657 thousand for the year ended 31 December 2005 (2004: RR 2 192 291 thousand) represent administrative and other operating expenses and foreign exchange translation results of the Group.

26 Segment Analysis (Continued)

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

In thousands of Russian Roubles	Russia	OECD	Other	Total
2005				
Segment assets	82 279 066	3 351 046	4 948 804	90 578 916
Segment liabilities	66 617 176	8 386 752	3 619 702	78 623 630
External revenue	11 152 943	373 280	784 632	12 310 855
Credit related commitments	2 216 600	109 303	1 569 767	3 895 670
Capital expenditure	610 221	-	59 996	670 217
2004				
Segment assets	57 326 119	2 052 110	2 413 493	61 791 722
Segment liabilities	46 280 097	3 911 518	3 007 458	53 199 073
External revenue	6 639 906	210 753	282 369	7 133 028
Credit related commitments	2 052 689	350 592	1 107 291	3 510 572
Capital expenditure	628 306	-	31 163	659 469

External revenues, assets, liabilities and credit related commitments have generally been allocated based on the ultimate domicile of the counterparty, i.e. based on their respective geographical locations.

27 Financial Risk Management

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

Credit risk. The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay all amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, 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 regularly by the Credit Committee of the Bank.

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

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

The Group’s maximum exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the 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 Group uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

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

27 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	Russia	OECD	Other	Total
Assets				
Cash and cash equivalents	12 251 874	717 795	601 790	13 571 459
Mandatory cash balances with central banks	1 527 581	-	160 353	1 687 934
Trading securities	15 596 954	1 905 784	6 494	17 509 232
Due from other banks	222 016	536 046	236 815	994 877
Loans and advances to customers	48 667 322	43 060	3 522 172	52 232 554
Investment securities available for sale	1 223 502	4 608	208 200	1 436 310
Deferred income tax asset	1 295	-	14 572	15 867
Premises and equipment	2 176 246	-	129 508	2 305 754
Other assets	612 276	143 753	68 900	824 929
Total assets	**82 279 066**	**3 351 046**	**4 948 804**	**90 578 916**
Liabilities				
Due to other banks	4 127 500	2 193 049	675 681	6 996 230
Customer accounts	53 375 045	3 321 986	2 232 522	58 929 553
Debt securities in issue	7 708 565	65 392	34 514	7 808 471
Other borrowed funds	290 798	2 805 390	648 950	3 745 138
Deferred income tax liability	232 402	-	-	232 402
Other liabilities	882 866	935	28 035	911 836
Total liabilities	**66 617 176**	**8 386 752**	**3 619 702**	**78 623 630**
Net balance sheet position	**15 661 890**	**(5 035 706)**	**1 329 102**	**11 955 286**
Credit related commitments (Note 28)	**2 216 600**	**109 303**	**1 569 767**	**3 895 670**

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. The column “OECD countries” in the table above includes mainly balances with counterparties from USA, Germany and United Kingdom. Balances with Russian counterparties actually outstanding to/from off-shore companies of these Russian counterparties are allocated to the caption “Russia”. Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

27 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	Russia	OECD	Other	Total
Assets				
Cash and cash equivalents	16 202 617	1 986 591	178 832	18 368 040
Mandatory cash balances with central banks	1 106 659	-	83 232	1 189 891
Trading securities	10 506 473	-	5 511	10 511 984
Due from other banks	368 849	29 324	268 247	666 420
Loans and advances to customers	24 783 818	-	1 700 375	26 484 193
Investment securities available for sale	1 649 109	36 195	3 881	1 689 185
Deferred income tax asset	97 985	-	15 143	113 128
Premises and equipment	1 849 743	-	127 705	1 977 448
Other assets	760 866	-	30 567	791 433
Total assets	**57 326 119**	**2 052 110**	**2 413 493**	**61 791 722**
Liabilities				
Due to other banks	448 517	577 924	342 804	1 369 245
Customer accounts	39 356 024	1 412 866	2 372 575	43 141 465
Debt securities in issue	6 188 025	98 956	283 808	6 570 789
Other borrowed funds	-	1 821 772	-	1 821 772
Deferred income tax liability	7 182	-	-	7 182
Other liabilities	280 349	-	8 271	288 620
Total liabilities	**46 280 097**	**3 911 518**	**3 007 458**	**53 199 073**
Net balance sheet position	**11 046 022**	**(1 859 408)**	**(593 965)**	**8 592 649**
Credit related commitments (Note 28)	**2 052 689**	**350 592**	**1 107 291**	**3 510 572**

27 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	RR	USD	Euro	Other	Total
Assets					
Cash and cash equivalents	11 457 935	1 186 419	373 049	554 056	13 571 459
Mandatory cash balances with central banks	1 527 581	30 600	4 259	125 494	1 687 934
Trading securities	13 612 323	3 829 619	60 796	6 494	17 509 232
Due from other banks	150 104	193 048	511 857	139 868	994 877
Loans and advances to customers	34 120 570	13 874 715	3 106 717	1 130 552	52 232 554
Investment securities available for sale	1 198 883	24 619	4 608	208 200	1 436 310
Deferred income tax asset	1 295	-	-	14 572	15 867
Premises and equipment	2 176 244	-	-	129 510	2 305 754
Other assets	641 532	119 388	5 104	58 905	824 929
Total assets	**64 886 467**	**19 258 408**	**4 066 390**	**2 367 651**	**90 578 916**
Liabilities					
Due to other banks	2 710 586	2 977 649	810 467	497 528	6 996 230
Customer accounts	41 709 856	12 650 146	3 260 221	1 309 330	58 929 553
Debt securities in issue	6 906 351	902 120	-	-	7 808 471
Other borrowed funds	-	3 745 138	-	-	3 745 138
Deferred income tax liability	232 402	-	-	-	232 402
Other liabilities	727 595	33 488	556	150 197	911 836
Total liabilities	**52 286 790**	**20 308 541**	**4 071 244**	**1 957 055**	**78 623 630**
Net balance sheet position	**12 599 677**	**(1 050 133)**	**(4 854)**	**410 596**	**11 955 286**
Credit related commitments (Note 28)	**743 590**	**1 374 278**	**1 759 796**	**18 006**	**3 895 670**

27 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	RR	USD	Euro	Other	Total
Assets					
Cash and cash equivalents	15 843 797	1 847 276	407 379	269 588	18 368 040
Mandatory cash balances with central banks	1 106 659	-	-	83 232	1 189 891
Trading securities	9 197 467	1 309 006	-	5 511	10 511 984
Due from other banks	95 539	155 741	10 951	404 189	666 420
Loans and advances to customers	14 956 168	9 669 258	393 525	1 465 242	26 484 193
Investment securities available for sale	1 080 799	518 481	-	89 905	1 689 185
Deferred tax income asset	86 472	11 513	-	15 143	113 128
Premises and equipment	1 849 743	-	-	127 705	1 977 448
Other assets	746 820	14 056	-	30 557	791 433
Total assets	**44 963 464**	**13 525 331**	**811 855**	**2 491 072**	**61 791 722**
Liabilities					
Due to other banks	340 838	739 069	1 703	287 635	1 369 245
Customer accounts	31 183 612	9 216 194	1 593 229	1 148 430	43 141 465
Debt securities in issue	5 794 273	776 516	-	-	6 570 789
Other borrowed funds	-	1 821 772	-	-	1 821 772
Deferred tax income liability	7 182	-	-	-	7 182
Other liabilities	235 589	44 760	-	8 271	288 620
Total liabilities	**37 561 494**	**12 598 311**	**1 594 932**	**1 444 336**	**53 199 073**
Net balance sheet position	**7 401 970**	**927 020**	**(783 077)**	**1 046 736**	**8 592 649**
Credit related commitments (Note 28)	**648 962**	**1 981 181**	**666 649**	**213 780**	**3 510 572**

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

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

27 Financial Risk Management (Continued)

The entire portfolio of trading securities is classified within demand and less then one month as the portfolio is of a trading nature and Management believes this is a fairer portrayal of its liquidity position.

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

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**No stated maturity**	**Total**
Assets						
Cash and cash equivalents	13 571 459	-	-	-	-	13 571 459
Mandatory cash balances with central banks	1 687 934	-	-	-	-	1 687 934
Trading securities	17 509 232	-	-	-	-	17 509 232
Due from other banks	912 670	66 767	7 500	7 940	-	994 877
Loans and advances to customers	6 993 517	15 925 067	11 029 523	18 284 447	-	52 232 554
Investment securities available for sale	24 763	329 300	322 428	732 205	27 614	1 436 310
Deferred income tax asset	14 572	-	-	1 295	-	15 867
Premises and equipment	-	-	-	-	2 305 754	2 305 754
Other assets	349 773	106 699	25 271	343 186	-	824 929
Total assets	**41 063 920**	**16 427 833**	**11 384 722**	**19 369 073**	**2 333 368**	**90 578 916**
Liabilities						
Due to other banks	5 061 949	769 565	662 892	501 824	-	6 996 230
Customer accounts	36 035 652	10 761 186	10 486 990	1 645 725	-	58 929 553
Debt securities in issue	418 378	1 482 542	2 997 510	2 910 041	-	7 808 471
Other borrowed funds	-	1 504 516	47 564	2 193 058	-	3 745 138
Deferred income tax liability	-	-	232 402	-	-	232 402
Other liabilities	556 917	223 882	130 802	235	-	911 836
Total liabilities	**42 072 896**	**14 741 691**	**14 558 160**	**7 250 883**	**-**	**78 623 630**
Net liquidity gap	**(1 008 976)**	**1 686 142**	**(3 173 438)**	**12 118 190**	**2 333 368**	**11 955 286**
Cumulative liquidity gap at 31 December 2005	**(1 008 976)**	**677 166**	**(2 496 272)**	**9 621 918**	**11 955 286**	**-**

27 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	No stated maturity	Total
Assets						
Cash and cash equivalents	18 368 040	-	-	-	-	18 368 040
Mandatory cash balances with central banks	1 189 891	-	-	-	-	1 189 891
Trading securities	10 511 984	-	-	-	-	10 511 984
Due from other banks	556 259	97 308	12 853	-	-	666 420
Loans and advances to customers	673 592	8 905 975	7 999 919	8 904 707	-	26 484 193
Investment securities available for sale	123 307	103 264	494 032	334 610	633 972	1 689 185
Deferred income tax asset	-	-	113 128	-	-	113 128
Premises and equipment	-	-	-	-	1 977 448	1 977 448
Other assets	466 209	6 205	2 676	316 343	-	791 433
Total assets	**31 889 282**	**9 112 752**	**8 622 608**	**9 555 660**	**2 611 420**	**61 791 722**
Liabilities						
Due to other banks	710 128	292 461	309 134	57 522	-	1 369 245
Customer accounts	21 448 491	12 463 610	5 917 580	3 311 784	-	43 141 465
Debt securities in issue	1 099 565	771 168	3 310 724	1 389 332	-	6 570 789
Other borrowed funds	-	-	-	1 821 772	-	1 821 772
Deferred income tax liability	-	-	7 182	-	-	7 182
Other liabilities	238 176	8 228	42 216	-	-	288 620
Total liabilities	**23 496 360**	**13 535 467**	**9 586 836**	**6 580 410**	**-**	**53 199 073**
Net liquidity gap	**8 392 922**	**(4 422 715)**	**(964 228)**	**2 975 250**	**2 611 420**	**8 592 649**
Cumulative liquidity gap at 31 December 2004	**8 392 922**	**3 970 207**	**3 005 979**	**5 981 229**	**8 592 649**	**-**

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

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 Group would indicate that these customers accounts provide a long-term and stable source of funding for the Group.

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

27 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**Non-interest bearing**	**Total**
Assets						
Cash and cash equivalents	13 571 459	-	-	-	-	13 571 459
Mandatory cash balances with central banks	1 687 934	-	-	-	-	1 687 934
Trading securities	12 283 594	-	-	-	5 225 638	17 509 232
Due from other banks	912 670	66 767	7 500	7 940	-	994 877
Loans and advances to customers	6 993 518	15 925 067	11 029 523	18 284 446	-	52 232 554
Investment securities available for sale	24 763	329 300	322 428	732 205	27 614	1 436 310
Deferred income tax asset	-	-	-	-	15 867	15 867
Premises and equipment	-	-	-	-	2 305 754	2 305 754
Other assets	-	-	-	-	824 929	824 929
Total assets	**35 473 938**	**16 321 134**	**11 359 451**	**19 024 591**	**8 399 802**	**90 578 916**
Liabilities						
Due to other banks	5 091 277	1 605 896	87 250	211 807	-	6 996 230
Customer accounts	36 035 652	10 761 186	10 486 990	1 645 725	-	58 929 553
Debt securities in issue	418 378	1 482 547	2 997 506	2 910 040	-	7 808 471
Other borrowed funds	-	1 841 222	-	1 903 916	-	3 745 138
Deferred income tax liability	-	-	-	-	232 402	232 402
Other liabilities	-	-	-	-	911 836	911 836
Total liabilities	**41 545 307**	**15 690 851**	**13 571 746**	**6 671 488**	**1 144 238**	**78 623 630**
Net sensitivity gap	**(6 071 369)**	**630 283**	**(2 212 295)**	**12 353 103**	**7 255 564**	**11 955 286**
Cumulative sensitivity gap at 31 December 2005	**(6 071 369)**	**(5 441 086)**	**(7 653 381)**	**4 699 722**	**11 955 286**	**-**

27 Financial Risk Management (Continued)

The following table summarises the Group'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 thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 1 to 5 years**	**Non-interest bearing**	**Total**
Assets						
Cash and cash equivalents	18 368 040	-	-	-	-	18 368 040
Mandatory cash balances with central banks	1 189 891	-	-	-	-	1 189 891
Trading securities	8 647 578	-	-	-	1 864 406	10 511 984
Due from other banks	556 259	97 308	12 853	-	-	666 420
Loans and advances to customers	673 592	8 905 975	7 999 919	8 904 707	-	26 484 193
Investment securities available for sale	123 307	103 264	494 032	334 610	633 972	1 689 185
Deferred income tax asset	-	-	-	-	113 128	113 128
Premises and equipment	-	-	-	-	1 977 448	1 977 448
Other assets	-	-	-	-	791 433	791 433
Total assets	**29 558 667**	**9 106 547**	**8 506 804**	**9 239 317**	**5 380 387**	**61 791 722**
Liabilities						
Due to other banks	710 128	292 461	309 134	57 522	-	1 369 245
Customer accounts	21 448 491	12 463 610	5 917 580	3 311 784	-	43 141 465
Debt securities in issue	1 099 565	771 168	3 310 724	1 389 332	-	6 570 789
Other borrowed funds	-	-	-	1 821 772	-	1 821 772
Deferred income tax liability	-	-	-	-	7 182	7 182
Other liabilities	-	-	-	-	288 620	288 620
Total liabilities	**23 258 184**	**13 527 239**	**9 537 438**	**6 580 410**	**295 802**	**53 199 073**
Net sensitivity gap	**6 300 483**	**(4 420 692)**	**(1 030 634)**	**2 658 907**	**5 084 585**	**8 592 649**
Cumulative sensitivity gap at 31 December 2004	**6 300 483**	**1 879 791**	**849 157**	**3 508 064**	**8 592 649**	**-**

The Group 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 Group 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 Group 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 Group normally seeks to match its interest rate positions.

27 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								
Correspondent accounts and overnight placements with other banks	1.5	2.8	0.9	1.4	0.1	1.5	0.9	0.0
Cash balances with central banks other than mandatory reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Mandatory cash balances with central banks	0.0	0.0	0.0	0.0	0.0	-	-	0.0
Debt trading securities	6.7	6.4	-	-	7.6	4.0	-	0.0
Due from other banks	5.2	3.4	2.2	11.3	11.3	6.6	7.0	15.9
Loans and advances to customers	13.4	12.6	9.3	18.6	14.1	12.4	10.5	20.0
Debt investment securities available for sale	9.6	9.8	-	7.8	12.5	7.2	-	20.0
Liabilities								
Due to other banks	5.5	5.3	4.7	9.5	4.9	7.1	0.0	11.0
Customer accounts								
- current and settlement accounts	0.1	0.1	0.1	0.8	0.2	0.9	0.9	1.0
- term deposits	7.4	6.1	6.0	13.3	11.0	7.2	6.9	13.5
Debt securities in issue	8.0	6.5	-	-	8.3	7.6	-	-
Other borrowed funds	-	9.3	-	-	-	10.1	-	-

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

28 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group 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 Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

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

28 Contingencies and Commitments (Continued)

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

In thousands of Russian Roubles	**2005**	**2004**
Not later than 1 year	197 543	125 902
Later than 1 year and not later than 5 years	492 708	395 036
Later than 5 years	835 676	827 096
Total operating lease commitments	**1 525 927**	**1 348 034**

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

The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

In thousands of Russian Roubles	**2005**	**2004**
Guarantees issued	1 931 538	1 660 608
Import letters of credit	1 899 433	1 716 269
Export letters of credit	64 699	133 695
Total credit related commitments	**3 895 670**	**3 510 572**

Import letters of credit include only import letters of credit without collateral. Deposits in the amount of RR 1 889 825 thousand (2004: RR 1 962 973 thousand) held as collateral or irrevocable commitments under import letters of credit are recorded in customer accounts (Refer to Note 15).

As at 31 December 2005 the Group also had commitments in relation to unused credit lines totalling RR 17 891 232 thousand (2004: 8 011 957 thousand), which includes non-cancellable commitments on overdrafts totalling RR 70 223 thousand (2004: 785 818 thousand).

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

28 Contingencies and Commitments (Continued)

Trust activities. The Group provides asset management services to its customers. The assets of these funds are not included in the Group's balance sheet as they are not assets of the Group. The assets managed by the Group are disclosed at their fair value and fall into the following categories:

In thousands of Russian Roubles	**2005**	**2004**
Cash	1 857 836	120 700
Corporate shares	979 595	571 063
Credit-linked notes	413 912	-
Eurobonds of Russian Federation	316 830	-
Corporate bonds	138 994	472 202
Other	128 460	65 190
Total assets in trust	**3 835 627**	**1 229 155**

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

In thousands of Russian Roubles	**2005 Nominal value**	**2004 Nominal value**
Corporate shares	1 637 885	1 364 705
Municipal bonds and Bonds of Russian Federation regions	91 147	-
Promissory notes	30 500	-
Corporate bonds	13 958	-
OFZ	6 600	4 001

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

	Note	**2005**		**2004**	
In thousands of Russian Roubles		**Asset pledged**	**Related liability**	**Asset pledged**	**Related liability**
Trading securities pledged for the credit limit of CBRF	8	1 852 515	-	1 609 460	-
Trading securities under sale and repurchase agreements	8, 14	101 017	93 843	-	-
Term placements of other banks	9, 14	143 433	143 436	110 808	144 102
Total		**2 096 965**	**237 279**	**1 720 268**	**144 102**

At 31 December 2005 OFZ securities with the fair value of RR 1 852 515 thousand (2004: RR 1 609 460 thousand) have been pledged to the Central Bank of the Russian Federation for the credit limit opened by the CBRF to the Bank. At 31 December 2005 the Group had no deposits from the Central Bank of the Russian Federation attracted within this credit limit (2004: nil). Refer to Note 8.

Mandatory cash balances with central banks in the amount of RR 1 687 934 thousand (2004: RR 1 189 891 thousand) represent mandatory reserve deposits which are not available to finance the Group's day–to-day operations.

29 Derivative Financial Instruments

Foreign exchange derivative financial instruments entered into by the Group 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 Group did not have outstanding derivative contracts (2004: nil).

30 Fair Value of Financial Instruments

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

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Despite the Russian Federation is assigned investment grade ratings, 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 and investment securities available for sale are carried on the consolidated balance sheet at their fair value. All securities are traded and have market quotations.

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 9 and 10 for the estimated fair values of due from other banks and loans and advances to customers, respectively.

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Refer to Notes 14, 15, 16 and 17 for the estimated fair values of due to other banks, customer accounts, debt securities in issue and other borrowed funds, respectively.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Refer to Notes 4 and 29.

31 Related Party Transactions

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

As set out in Note 1, the main shareholder of the Group is the financial group IFD Capital. The majority stake of its share capital is beneficially owned by Mr. Alekperov and Mr. Fedun (the "ultimate beneficiaries") and is managed by a professional asset management company, which is not owned by the ultimate beneficiaries. Transactions with related parties are entered into in the normal course of business with significant shareholders of the Bank, ultimate beneficiaries, directors and companies with which the Bank has significant shareholders in common. These transactions include settlements, loans, deposit taking, guarantees, trade finance and foreign currency transactions. These transactions are priced at market rates.

At 31 December 2005 and 2004, the outstanding balances and other rights and obligations with related parties were as follows:

	2005		2004	
In thousands of Russian Roubles	**Shareholders**	**Other**	**Shareholders**	**Other**
Correspondent accounts and overnight placements with other banks	-	8 054	-	3 378
Trading securities	322 467	-	32 853	-
Loans and advances to customers				
Loans and advances (contractual interest rate: 2005: 7.0%-13.0; 2004: 7. 0%-17.0%)	128 540	288 875	94 738	1 263 955
Debt investment securities available for sale		48 783		
Equity investment securities available for sale	-	21 255	-	22 595
Due to other banks				
Correspondent accounts and overnight placements of other banks	-	161 930	-	34 215
Term placements of other banks (contractual interest rate: 2005: 9.6%)	-	288 790	-	-
Customer accounts				
Current/settlement accounts	2 277 999	2 706 643	6 491 211	3 043 117
Term deposits outstanding (contractual interest rate: 2005: 2.0%-9.3%; 2004: 2.0%-9.0%)	7 342 018	5 473 779	3 559 303	3 639 882
Debt securities issued				
Debt securities issued (contractual interest rate: 2005: 0.0%-10.4% 2004: 0.0%-8.4%)	435 392	44 778	849 771	61 042
Guarantees issued by the Group	573 366	608 546	496 813	110 704
Guarantees received by the Group	736 490	334 882	738 584	344 931
Import letters of credit	-	944 966	-	7 710
Assets in trust	2 167 970	198 779	340 232	84 702

31 Related Party Transactions (Continued)

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

	2005		2004	
In thousands of Russian Roubles	**Shareholders**	**Other**	**Shareholders**	**Other**
Interest income:				
- Loans to customers	5 077	81 732	32 853	181 239
Interest expense:				
- Due to other banks	-	(2 354)	-	(7)
- Customer accounts	(253 417)	(434 719)	(165 617)	(240 354)
- Debt securities issued	(5 406)	(3 441)	(17 912)	(3 734)
Gains less losses from trading securities	44 925	-	480 735	353
Gains less losses from trading in foreign currencies	118 691	21 769	221 840	23 978
Fee and commission income	305 558	162 884	387 025	150 071
Fee and commission expense	-	(169 331)	(169)	(10 868)

Aggregate amounts lent to and repaid by related parties during 2005 and 2004 were:

	2005		2004	
In thousands of Russian Roubles	**Shareholders**	**Other**	**Shareholders**	**Other**
Amounts lent to related parties during the year	387 389	7 813 806	4 988 555	26 282 536
Amounts repaid by related parties during the year	368 504	8 845 651	5 403 165	25 925 100

The "Shareholders" column in the table mainly represents IFD Capital and its ultimate beneficiaries and companies which are controlled by Lukoil Group and have direct ownership in the Bank. The "Other" column in the table mainly represents companies that are not shareholders of the Bank, but are controlled by Lukoil Group or IFD Capital Group.

As at 31 December 2005 included in customer accounts are amounts of RR 686 817 thousand (2004: RR 569 259 thousand) belonging to the ultimate beneficiaries of IFD Capital Group. Interest expense on these customer accounts comprised RR 53 451 thousand (2004: RR 21 298 thousand).

In 2005, the remuneration of the Executive Board members comprised salaries, discretionary bonuses and other short-term benefits totalling to RR 175 473 thousand (2004: RR 22 941 thousand).

32 Principal Subsidiaries

Name	**Nature of business**	**Percentage of the Bank's direct ownership**	**Percentage of Group's control**	**Country of incorporation**
Komi Regional Bank "UKHTABANK"	Banking	96.74	96.74	Russia
Petrocommerce-Ukraine Bank	Banking	51.10	90.83	Ukraine
Stavropolpromstroybank	Banking	77.27	77.27	Russia
UNIBANK	Banking	100.00	100.00	Moldova