

ROSBANK Group

Independent Auditors' Report

**Consolidated and Combined
Financial Statements**

Years Ended 31 December 2005,
2004 and 2003

ROSBANK GROUP

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ROSBANK GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated and combined financial statements of ROSBANK Group (the "Group").

Management is responsible for the preparation of the consolidated and combined financial statements that present fairly the financial position of the Group as of 31 December 2005, 2004 and 2003 and the results of its operations, cash flows and changes in equity for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated and combined financial statements, management is responsible for:

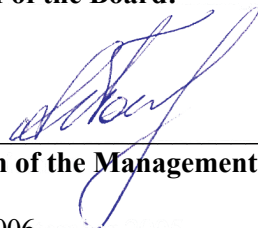
- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the combined financial statements; and
- Preparing the consolidated and combined financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated and combined financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

The consolidated and combined financial statements for the year ended 31 December 2005, 2004 and 2003 were authorised for issue on 18 April 2006, by the Board of Directors of ROSBANK.

On behalf of the Board:



Chairman of the Management Board

18 April 2006
Moscow



Chief Financial Officer

18 April 2006
Moscow

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Joint Stock Bank ROSBANK:

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

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2005, 2004 and 2003 and the results of its operations and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.



18 April 2006
Moscow

ROSBANK GROUP


CONSOLIDATED AND COMBINED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

	Notes	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
Interest income	4,31	21,153,436	15,637,271	7,398,204
Interest expense	4,31	(10,933,901)	(7,194,872)	(4,746,800)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS				
		10,219,535	8,442,399	2,651,404
Provision for impairment losses on interest bearing assets	5,31	(1,038,566)	(1,543,846)	(36,353)
NET INTEREST INCOME				
		9,180,969	6,898,553	2,615,051
Net gain on financial assets at fair value through profit or loss	6	693,649	(151,505)	955,759
Net gain/(loss) on sale of investments available-for-sale		994,910	668,843	29,743
Net gain/(loss) on foreign exchange operations		299,864	250,886	(22,411)
Net gain on precious metals operations		97,216	93,802	50,021
Fee and commission income	7,31	4,094,129	3,970,064	1,013,084
Fee and commission expense	7	(974,840)	(742,981)	(293,866)
Dividend income		61,823	11,737	14,063
Other income	8	1,146,842	798,795	120,187
NET NON-INTEREST INCOME				
		6,413,593	4,899,641	1,866,580
OPERATING INCOME				
		15,594,562	11,798,194	4,481,631
OPERATING EXPENSES				
	9,31	(11,228,645)	(8,389,667)	(3,227,572)
OPERATING PROFIT				
		4,365,917	3,408,527	1,254,059
Other provisions	5	(7,326)	(131,221)	(133,507)
PROFIT BEFORE INCOME TAX				
		4,358,591	3,277,306	1,120,552
Income tax expense	10	(1,274,529)	(951,996)	(778,049)
NET PROFIT				
		3,084,062	2,325,310	342,503
Attributable to:				
Equity holders of the parent		3,017,498	2,327,064	342,503
Minority interest		66,564	(1,754)	-
		3,084,062	2,325,310	342,503
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT				
Basic and diluted (in RUR)	11	7.80	6.83	1.01

On behalf of the Board:


Chairman of the Management Board

18 April 2006
Moscow


Chief Financial Officer

18 April 2006
Moscow

The notes on pages 9–63 form an integral part of these financial statements. The Independent Auditors' Report is presented on page 2.

ROSBANK GROUP

CONSOLIDATED AND COMBINED BALANCE SHEETS AS OF THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

	Notes	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000	Year ended 31 December 2003 RUR'000
ASSETS:				
Cash and balances with Central and National banks	12	19,455,358	28,367,163	21,513,900
Financial assets at fair value through profit or loss	13,31	15,677,102	10,821,284	10,667,955
Precious metals	14	978,040	69,342	39,170
Loans and advances to banks, less allowance for impairment losses	15,31	53,995,068	21,003,058	10,748,392
Loans to customers, less allowance for impairment losses	17,31	113,318,224	79,682,626	61,406,161
Investments available-for-sale, less allowance for impairment losses	18	478,334	1,937,346	7,787,638
Securities held-to-maturity	19	-	-	132,787
Fixed assets purchased for transfer into finance lease		329,005	-	-
Fixed assets, net	20	6,723,177	6,929,456	2,397,010
Current income tax assets		484,307	327,866	98,202
Other assets, less allowance for impairment losses	21	1,617,987	735,592	636,512
Total assets		213,056,602	149,873,733	115,427,727
LIABILITIES AND EQUITY				
LIABILITIES:				
Deposits from banks	22	11,139,028	8,618,844	7,863,506
Customer accounts	23,31	149,060,894	101,220,183	76,610,016
Financial liabilities at fair value through profit or loss	24	1,840,641	31,699	8,701
Debt securities issued	25	26,044,207	19,901,584	18,224,705
Other provisions	5,31	174,729	252,287	357,602
Current income tax liabilities		11,155	106,839	294,269
Deferred income tax liabilities	10	926,371	982,467	87,797
Other liabilities	26,31	1,039,311	884,262	697,389
		190,236,336	131,998,165	104,143,985
Subordinated debt	27,31	-	1,450,000	-
Total liabilities		190,236,336	133,448,165	104,143,985

ROSBANK GROUP


CONSOLIDATED AND COMBINED BALANCE SHEETS (CONTINUED) AS OF THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

	Notes	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000	Year ended 31 December 2003 RUR'000
EQUITY:				
Share capital	28	8,876,500	8,083,306	8,162,743
Share premium	28	9,177,470	6,445,058	6,445,058
Translation reserve		(82,280)	(62,387)	(120,636)
Revaluation reserve		2,993,114	3,095,261	-
Reorganization reserve		1,881,029	-	-
Accumulated deficit		(245,266)	(1,229,819)	(3,295,818)
Equity attributable to equity holders of the parent		22,600,567	16,331,419	11,191,347
Minority interest		219,699	94,149	92,395
Total equity		<u>22,820,266</u>	<u>16,425,568</u>	<u>11,283,742</u>
TOTAL LIABILITIES AND EQUITY		<u>213,056,602</u>	<u>149,873,733</u>	<u>115,427,727</u>

On behalf of the Board:


Chairman of the Management Board

18 April 2006
Moscow


Chief Financial Officer

18 April 2006
Moscow

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CONSOLIDATED AND COMBINED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

	Share capital RUR'000	Share premium RUR'000	Translation reserve RUR'000	Revaluation reserve RUR'000	Reorgani- zation reserve RUR'000	Accumulated deficit RUR'000	Equity attributable to equity holders of the parent RUR'000	Minority interest RUR'000	Total equity RUR'000
31 December 2002	5,840,127	3,672,190	(213,500)	-	-	(813,130)	8,485,687	-	8,485,687
Changes in									
translation reserve	-	-	92,864	-	-	-	92,864	-	92,864
Issue of share capital	165,460	-	-	-	-	-	165,460	-	165,460
Dividends declared	-	-	-	-	-	(115,780)	(115,780)	-	(115,780)
Group									
reorganization	2,157,156	2,772,868	-	-	-	(2,709,411)	2,220,613	92,395	2,313,008
Net profit	-	-	-	-	-	342,503	342,503	-	342,503
31 December 2003	8,162,743	6,445,058	(120,636)	-	-	(3,295,818)	11,191,347	92,395	11,283,742
Changes in									
translation reserves	-	-	58,249	-	-	-	58,249	-	58,249
Revaluation reserve (net of deferred tax of RUR 930,367 thousand)	-	-	-	3,095,261	-	-	3,095,261	-	3,095,261
Dividends declared	-	-	-	-	-	(299,665)	(299,665)	-	(299,665)
Group									
reorganization	(79,437)	-	-	-	-	38,600	(40,837)	3,508	(37,329)
Net profit	-	-	-	-	-	2,327,064	2,327,064	(1,754)	2,325,310
31 December 2004	8,083,306	6,445,058	(62,387)	3,095,261	-	(1,229,819)	16,331,419	94,149	16,425,568
Increase in share capital	3,398,321	5,505,280	-	-	-	-	8,903,601	-	8,903,601
Changes in									
translation reserve	-	-	(19,893)	-	-	-	(19,893)	-	(19,893)
Fixed assets disposal (net of deferred tax credit of RUR 86,440 thousand)	-	-	-	(102,147)	-	102,147	-	-	-
Dividends declared	-	-	-	-	-	(2,187,115)	(2,187,115)	-	(2,187,115)
Group									
reorganization	(2,605,127)	(2,772,868)	-	-	1,881,029	52,023	(3,444,943)	58,986	(3,385,957)
Net profit	-	-	-	-	-	3,017,498	3,017,498	66,564	3,084,062
31 December 2005	8,876,500	9,177,470	(82,280)	2,993,114	1,881,029	(245,266)	22,600,567	219,699	22,820,266

On behalf of the Board:


Chairman of the Management Board

18 April 2006
Moscow


Chief Financial Officer

18 April 2006
Moscow

The notes on pages 9–63 form an integral part of these financial statements. The Independent Auditors' Report is presented on page 2.

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CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

	Notes	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
CASH FLOWS FROM OPERATING ACTIVITIES:				
Profit before income tax		4,358,591	3,277,306	1,120,552
Provision for impairment losses on interest bearing assets		1,038,566	1,543,846	36,353
Other provisions		7,326	131,221	133,507
Depreciation charge on fixed assets		438,859	268,996	162,673
Fixed assets impairment		7,624	239	-
Net change in value of derivatives and spot deals		(53,577)	13,183	8,116
Net change in interest and other accruals		1,326,608	1,287,158	31,661
Net unrealized (gain)/loss on financial assets at fair value through profit or loss		(351,809)	669,894	(1,570,496)
Net foreign currency revaluation loss/(gain)		357,964	(133,480)	179,459
		<u>7,130,152</u>	<u>7,058,363</u>	<u>101,824</u>
Cash flow from operating activities before changes in operating assets and liabilities				
Changes in operating assets and liabilities (Increase)/decrease in operating assets:				
Minimum reserve deposit with the Central Bank of the Russian Federation		(917,585)	4,556,625	(632,024)
Loans and advances to customers		(32,680,805)	(22,270,502)	(14,043,320)
Loans and advances to banks		(2,164,277)	(422,376)	(1,162,991)
Financial assets at fair value through profit or loss		248,353	(351,651)	(1,834,039)
Other assets		(370,755)	(285,618)	125,022
Increase/(decrease) in operating liabilities:				
Deposits from banks		1,181,841	1,100,966	3,445,652
Customer accounts		45,448,494	26,516,555	28,073,169
Other liabilities		1,017,838	(356,428)	(80,587)
Cash inflow from operating activities before taxation		18,893,256	15,545,934	13,992,706
Income tax paid		(1,499,310)	(1,404,787)	(554,216)
Net cash inflow from operating activities		<u>17,393,946</u>	<u>14,141,147</u>	<u>13,438,490</u>

ROSBANK GROUP

CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

	Notes	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of fixed assets		(578,865)	(932,013)	(255,616)
Proceeds on sale of fixed assets		363,643	141,960	57,442
Purchase of fixed assets for transfer into finance lease		60,371	-	-
Purchase of subsidiaries, net of cash acquired		(3,567,889)	-	-
Net sale/(purchase) of investment securities		1,581,394	5,936,870	(7,192,993)
Net cash (outflow)/inflow from investing activities		<u>(2,141,346)</u>	<u>5,146,817</u>	<u>(7,391,167)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:				
Share capital issue		3,398,321	-	165,460
Share premium received		5,505,280	-	-
Proceeds from debt securities issued		4,926,623	1,951,072	5,581,602
(Repayment of)/ Proceeds from subordinated debt		(1,450,000)	1,450,000	-
Dividends paid		(2,176,747)	(299,665)	(115,780)
Net cash inflows from financing activities		<u>10,203,477</u>	<u>3,101,407</u>	<u>5,631,282</u>
Effect of exchange rate changes on cash and cash equivalents		759,533	(448,202)	(316,494)
NET INCREASE IN CASH AND CASH EQUIVALENTS		26,215,610	21,941,169	11,362,111
CASH AND CASH EQUIVALENTS, beginning of the period	12	<u>41,585,012</u>	<u>19,643,843</u>	<u>8,281,732</u>
CASH AND CASH EQUIVALENTS, end of the period	12	<u><u>67,800,622</u></u>	<u><u>41,585,012</u></u>	<u><u>19,643,843</u></u>

Interest received and paid by the Group during the year ended 31 December 2005 amounted to RUR 20,728,981 thousand and RUR 9,918,976 thousand, respectively.

Interest received and paid by the Group during the year ended 31 December 2004 amounted to RUR 15,912,942 thousand and RUR 6,925,623 thousand, respectively.

Interest received and paid by the Group during the year ended 31 December 2003 amounted to RUR 6,984,019 thousand and RUR 4,420,625 thousand, respectively.

On behalf of the Board:

Chairman of the Management Board

18 April 2006
Moscow

Chief Financial Officer

18 April 2006
Moscow

The notes on pages 9–63 form an integral part of these financial statements. The Independent Auditors' Report is presented on page 2.

ROSBANK GROUP

NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

1. ORGANISATION

ROSBANK (initially named “Nezavisimost”) is a joint stock bank which was incorporated in the Russian Federation in 1993. Over the subsequent five years, ROSBANK customers were mainly comprised of medium-sized trade, finance and technology companies for which it conducted a variety of activities, including corporate lending, settlement, government bond trading, foreign exchange and money market transactions. In 1998 ROSBANK was acquired by the Interros Group with the initial purpose of providing banking services to Interros Group companies. In 2000 ROSBANK acquired Uneximbank which was merged into ROSBANK and ceased to exist as a legal entity. In 2002 ROSBANK and Commercial Bank “MFK Bank”, specializing in investment banking, were consolidated. In 2003 the Interros Group acquired OVK group – one of Russia’s largest retail banking institutions. The integration of OVK with ROSBANK has transformed ROSBANK into a financial institution capable of offering universal services.

ROSBANK is regulated by the Central Bank of the Russian Federation (the “CBR”) and conducts its business under license number 2272. ROSBANK is engaged in a full range of banking activities, including commercial and investment banking and custodial services.

The registered office of ROSBANK is located at 11, Masha Poryvaeva Street, Moscow, 107078, Russian Federation.

As of 31 December 2005 ROSBANK had 76 branches in the Russian Federation.

ROSBANK is the parent company of the banking group which consists of the following enterprises:

Name	Country of incorporation	ROSBANK’s ownership interest/voting rights, %	Type of operations
Rosbank (Switzerland) SA	Switzerland	100/100	Banking
Rosbank International Finance BV	The Netherlands	100/100	Issue of Eurobonds Reorganization of UNEXIM
RosInvest SA	Luxembourg	99.97/99.97	Finance Company
Belrosbank	Byelorussia	80.77/80.77	Banking
Russia International Card Finance S.A.	Luxembourg	0/100 (Contractual agreement)	Issue of Eurobonds
Rosbank Finance S.A	Luxembourg	100/100	Issue of Eurobonds
BaikalROSBANK JSC	Russia	90/53	Banking
ROSBANK-VOLGA CJSC	Russia	100/100	Banking
RB Finance CJSC	Russia	100/100	Operations with securities
Processing Company NICKEL LLC	Russia	100/100	Processing of card operations
RB LEASING LLC	Russia	40/100	Leasing
INKAHRAN OJSC	Russia	85/ 100	Cash collection services

The following enterprises were included in the financial statements as of 31 December 2004 and 2003 on a combined basis, as such entities were under common control of ROSBANK's shareholders (Interros). These entities had all been acquired by ROSBANK by 31 December 2005 and were therefore, consolidated.

		Interros's ownership interest/ voting power, %	
Bank Pervoe OVK JSC	Russia	93.16/100	Banking
Bank Sibirskoe OVK JSC	Russia	97.32/100	Banking
Bank Povolzhskoe OVK JSC	Russia	98.04/100	Banking
Bank Centralnoe OVK JSC	Russia	99.91/100	Banking
Bank Dalnevostochnoe OVK JSC	Russia	100/100	Banking
Bank Privolzhskoe OVK LLC	Russia	100/100	Banking
Kapital i zdanie OJSC	Russia	100/100	Real estate operations
Art Heiser LLC	Russia	100/100	Real estate operations
Petrovsky Dom-XXI vek LLC	Russia	100/100	Real estate operations
			Office buildings
TOR-Service CJSC	Russia	100/100	administration
PMD Service LLC	Russia	100/100	Lease services
TD Druzhba LLC	Russia	100/100	Other services
AVTO LLC	Russia	100/100	Transportation services
RB Securities LLC	Russia	100/100	Operations with securities
AVD LLC	Russia	100/100	Recovery of bad debts
AVD Ekaterinburg LLC	Russia	100/100	Recovery of bad debts
AVD Saratov LLC	Russia	100/100	Recovery of bad debts
Dalnevostotnoe AVD LLC	Russia	100/100	Recovery of bad debts
AVD Krasnoyarsk LLC	Russia	100/100	Recovery of bad debts
AVD St-Peterburg LLC	Russia	100/100	Recovery of bad debts
AVD Krasnodar LLC	Russia	100/100	Recovery of bad debts

In 2003 JSC "Interros estate", the major shareholder of the Group, purchased a controlling interest in OVK group. OVK group consisted of 6 commercial banks and other financial and service companies. The main activity of these banks is retail banking. The management of ROSBANK has commenced the process of integrating the operations of OVK with those of ROSBANK and, on 26 January 2004, the CBR approved ROSBANK's proposed plan of consolidation. The integration of banks as large as OVK group requires extensive management, personnel and monetary resources. The integration was completed at the end of 2005, prior to which time management was faced with modernisation of the OVK group network, integrating its operations and personnel with those of ROSBANK, merging its information technology systems with those of ROSBANK, and implementing group-wide financial and management information systems and controls. OVK group was acquired by ROSBANK and the Group reorganization was completed by the end of 2005.

Interros controlled OVK group and had the ability to obtain economic benefits from the banks since the end of 2003. Therefore, combined financial statements are prepared from 31 December 2003 to ensure comparability with 2005. Since ROSBANK acquired OVK group and obtained control of OVK group at the end of 2005, the financial statements as of 31 December 2005 were prepared on a consolidated basis.

As of 31 December 2005, the following shareholders owned the issued shares of ROSBANK:

Shareholder	%
KM TECHNOLOGIES (OVERSEAS) LIMITED	97.26%
Others	2.74%
Total	<u>100.00%</u>

As of 31 December 2005, the ultimate shareholders of the Group are:

Shareholder	%
Mr. Potanin V. O.	48.58%
Mr. Prokhorov M. D.	48.58%
Others	2.84%
Total	<u>100.00%</u>

2. BASIS OF PRESENTATION

Accounting basis

These consolidated and combined financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) (“financial statements”). These financial statements are presented in thousands of Russian Roubles (“RUR”), unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments and fixed assets and according to International Accounting Standard 29 “Financial Reporting in Hyperinflationary Economies” (“IAS 29”).

Entities incorporated in the Russian Federation maintain their accounting records in accordance with Russian law. Other companies of the Group maintain their accounting records in accordance with statutory accounting standards generally accepted in the countries where they operate. For the purpose of incorporation in the financial statements, the individual financial statements of entities included in the Group prepared under the statutory accounting standards generally accepted in the countries of their origin have been adjusted to conform with IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions.

Although ROSBANK had prepared IFRS financial statements for previous years, the Group has prepared its first annual financial statements in accordance with IFRS, applying all IAS and IFRS required to be adopted for this period including amendments to certain International Accounting Standards and International Financial Reporting Standards. The Group has not prepared statutory financial statements on the same group basis.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for impairment losses and the fair value of financial instruments.

Key assumptions

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

	31 December 2005 RUR'000
Loans to customers, less allowance for impairment losses	113,318,224
Investments available-for-sale, less allowance for impairment losses	478,334
Fixed assets, net	6,723,177

Loans to customers and investments available-for-sale are measured at amortised cost/cost less allowance for impairment losses. The estimation of allowance for impairment losses involves an exercise of judgement. It is impracticable to assess the extent of the possible effects of key assumptions or other sources of uncertainty on these balances at the balance sheet date.

Certain fixed assets (buildings) are measured at revalued amounts and the date of the latest appraisal was 31 December 2004. Management believes that the next revaluation of fixed assets existing as of 31 December 2005 would not be materially different in the next financial year from the carrying balance. Next appraisal is due on 31 December 2006. Discussion of taxation is presented in Note 29.

Functional currency

The functional currency of these financial statements is the Russian Rouble.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation/combination

The financial statements incorporate the financial statements of ROSBANK, entities controlled by ROSBANK (its subsidiaries) and entities under common control made up to the end of each period. Control is achieved where there is the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

For combination purposes, assets, liabilities and all equity balances are added together without any minority interest, except for inter-group balances and transactions as discussed below.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition, unless a business combination involves entities or business under common control. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Goodwill is assessed at least annually for impairment. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the period of acquisition. The minority interest is stated at the minority's proportion of the fair values of assets and liabilities recognised. Subsequently, any losses applicable to minority interest in excess of minority interest are allocated against the interests of the parent. For a business combination involving entities or business under common control, all assets and liabilities of a subsidiary are measured at historical/fair value according to subsidiary stand-alone IFRS financial statements. The residual balance is recognized as "reorganization reserve" in the financial statements.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated and combined income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of individual entities included in the financial statements to bring the accounting policies used into line with those used by the Group.

In translating the financial statements of a foreign subsidiary into the presentation currency for incorporation in the financial statements, the Group follows a translation policy in accordance with International Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates" ("IAS 21") and the following procedures are performed:

- Assets and liabilities, both monetary and non-monetary, of the foreign entity are translated at the closing rate;
- Income and expense items of the foreign entity are translated at exchange rates at the date of respective transactions;
- All resulting exchange differences are classified as equity until the disposal of the investment;

- On disposal of the investment in the foreign entity related exchange differences are recognized in the consolidated and combined income statement.

All intra-group transactions, balances, income and expenses are eliminated on consolidation and combination.

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities, except for investments available-for-sale, are recognized using settlement date accounting. Regular way purchases and sale of investments available-for-sale are recognized using trade date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as that for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the Central Bank of the Russian Federation and National Banks, with original maturity within 90 days, loans and advances to banks in countries included in the Organization for Economic Co-operation and Development (“OECD”), except for margin deposits for operations with plastic cards as well as Government debt securities and precious metals, which may be converted to cash within a short period of time. For purposes of determining cash flows, the minimum reserve deposits required by the Central Bank of the Russian Federation and National Banks is not included as a cash equivalent due to restrictions on its availability.

Precious metals

Assets and liabilities denominated in precious metals are measured at fair value which is determined at the current rate computed based on the second fixing of the London Bullion Market rates using the RUR/USD exchange rate effective at the date. Changes in the bid prices are recorded in net (loss)/gain on operations with precious metals in the income statement.

Loans and advances to banks

In the normal course of business, the Group maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Amounts due from credit institutions are carried net of any allowance for impairment losses.

Financial assets/liabilities at fair value through profit or loss

Financial assets/liabilities at fair value through profit or loss represent assets/liabilities acquired/incurred principally for the purpose of selling/settlement in the near term, or it as a part of portfolio of a identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit-taking, or as a derivative, or financial asset/liability which upon initial recognition is designated by the Group at fair value through profit or loss. Financial assets/liabilities at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Group uses quoted market prices to determine fair value for the Group’s financial assets/liabilities at fair value through profit or loss. When reliable market prices are not available or if liquidating the Group’s position would reasonably be expected to impact market prices, fair value

is determined by reference to price quotations for similar instruments traded in different markets or management's estimates of the amounts that can be realized from an orderly disposition over a period of time, assuming current market conditions. Fair value adjustment on financial assets/liabilities at fair value through profit or loss is recognized in the income statement for the period.

Repurchase and reverse repurchase agreements

The Group enters into sale and purchase back agreements ("repos") and purchase and sale back agreements ("reverse repos") in the normal course of its business. Repos and reverse repos are utilized by the Group as an element of its treasury management and trading business.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the financial statements and consideration received under these agreements is recorded as collateralized deposit received.

Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit which is collateralized by securities and other assets.

In the event that assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gains/ (losses) on respective assets. Any related income or expense arising from the pricing difference between purchase and sale of the underlying assets is recognized as interest income or expense.

Derivative financial instruments

The Group enters into derivative financial instruments to manage currency and liquidity risks and such financial instruments are held primarily for trading purposes. Derivatives entered into by the Group include forwards and swaps.

Derivative financial instruments are initially recorded and subsequently measured at fair value. Fair values are obtained from the interest rate model. Most of the derivatives the Group enters into are of a short-term and trading nature. The results of the valuation of derivatives are reported in assets (aggregate of positive market values) or liabilities (aggregate of negative market values), respectively. Both positive and negative valuation results are recognized in the income statement for the period in which they arise under net gain/(loss) on respective transactions.

Originated loans

Loans originated by the Group are financial assets that are created by the Group by providing money directly to a borrower or by participating in a loan facility.

Loans granted by the Group with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the income statement as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans to customers are carried net of any allowance for impairment losses.

Purchased loans

Loans acquired from another lender subsequent to the origination date are either classified as loans or as available-for-sale investments on initial recognition. Purchased loans classified as loans are initially recognized at fair value and subsequently measured at amortised cost using the effective interest method. For purchased loans classified as available-for-sale investments, fair value is based on an active market or on a discounted cash flow (“DCF”) model. If market price is not available and the DCF model is not practicable, the price for similar assets is used.

Write off of loans and advances

Loans and advances are written off against allowance for impairment losses when estimated to be uncollectible, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. The excess of cash received on such sale over the outstanding debt is returned to the debtor. The decision on writing off bad debt against allowance for impairment losses for all major, preferential, unsecured and insider loans is required to be confirmed by a procedural document of judicial or notary bodies certifying that at the time of the decision the debt could not be repaid (partially repaid) with the debtor’s funds.

Non-accrual loans

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Allowance for impairment losses

The Group establishes an allowance for impairment losses of financial assets that are not carried at fair value when there is objective evidence that a financial asset or group of financial assets is impaired. The allowance for impairment losses is measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset’s original effective interest rate, for financial assets which are carried at amortised cost. 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, the previously recognised impairment loss is reversed by adjusting an allowance account. For financial assets carried at cost the allowance for impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The determination of the allowance for impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of risk assets for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in the allowance for impairment losses is charged to profit and the total of the allowance for impairment losses is deducted in arriving at assets as shown in the balance sheet. Factors that the Group considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors’ or issuers’ liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Group may sustain losses which are substantial relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb losses incurred on risk assets, at the balance sheet date.

Finance leases

Leases that transfer substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract.

The lease classified as finance lease if:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- the lease term is for the major part of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- the leased assets are of a specialized nature such that only the lessee can use them without major modifications being made.

Group as lessor

The Group presents leased assets as loans equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are recognized as expenses when incurred.

Investments held-to-maturity

Investments held-to-maturity are debt securities with determinable or fixed payments. The Group has the positive intent and ability to hold such investments to maturity. These securities are carried at amortized cost, less any allowance for impairment. Amortized discounts are recognized in interest income over the period to maturity using the effective interest method.

Investments available-for-sale

Investments available-for-sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at fair value. Subsequently the securities are measured at fair value, with such re-measurement recognized directly in equity until sold when gain/loss previously recorded in equity recycles through the income statement, plus accrued coupon income recognized in the consolidated and combined income statement for the period as interest income on investment securities. The Group uses quoted market prices to determine the fair value for the Group's investments available-for-sale. If the market for investments is not active, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. Dividends received are included in dividend income in the consolidated and combined income statement.

Non-marketable debt and equity securities are stated at amortized cost and cost, respectively, less impairment losses, unless fair value can be reliably measured.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognized in the income statement for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognized in the income statement for the period. Reversals of such impairment losses on equity instruments are not recognized in the income statement.

Fixed assets

Fixed assets, except for buildings, acquired after 1 January 2003 are carried at historical cost less accumulated depreciation and any recognised impairment loss. Fixed assets, acquired before 1 January 2003, except for buildings, are carried at historical cost restated for inflation less accumulated depreciation and any recognised impairment loss. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

The carrying amounts of fixed assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for fixed assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Depreciation of fixed assets is charged on the carrying value of fixed assets and is designed to write off assets over their useful economic lives. It is calculated on a straight line basis at the following annual rates:

Buildings	2%
Equipment	20%

Till the end of 2004, buildings were carried at historical cost restated for inflation less accumulated depreciation and any recognised impairment loss.

As of 31 December 2004 the accounting policy was changed and buildings held for use in supply of services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional valuers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Three approaches were used to estimate the market value of property:

- The sales comparison approach based on the analysis of sales prices for similar properties in the market;
- The income approach that assumes direct relationship between income generated by the property and its market value; and
- The cost approach under which the value of property equals the replacement cost adjusted for depreciation.

Any revaluation increase arising on the revaluation of such buildings is credited to the fixed assets revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to income. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to accumulated deficit.

Taxation

Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the period. Taxable profit differs from net profit as reported in the consolidated and combined income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the combined income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Countries where the Group operates also have various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated and combined income statement.

Deposits from banks and customers

Customer and bank deposits are initially recognized at fair value, which amounts to the issue proceeds less transaction costs incurred. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated and combined income statement over the period of the borrowings using the effective interest method.

Debt securities issued

Debt securities issued represent promissory notes, certificates of deposit and debentures issued by the Group. They are accounted for according to the same principles used for customer and bank deposits.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Group are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Contingent assets

Contingent assets from financial guarantees received arise when the Bank has indicators of a loss incurred because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. The contingent asset is disclosed where an inflow of economic benefits is probable. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs.

Share capital and share premium

Contributions to share capital and share premium, made before 1 January 2003, are recognized at their cost restated for inflation. Contributions to share capital and share premium made after 1 January 2003 are recognized at cost. Share premium represents the excess of contributions over the nominal value of shares issued. Gains and losses on sales of treasury stock are charged or credited to share premium.

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under International Accounting Standard 10 “Events after the Balance Sheet Date” (“IAS 10”) and disclosed accordingly.

Retirement and other benefit obligations

The Group does not have any pension arrangements separate from the State pension system of the Russian Federation and other countries, which require current contributions by the Group calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by pension funds selected by employees. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. Interest income also includes income earned on investments in securities. Fee and commission income includes loan origination fees, loan commitment fees and loan servicing fees. Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan

commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit and loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit and loss on expiry. Loan servicing fees are recognized as revenue as services are provided. Other income is credited to the consolidated and combined income statement when the related transactions are completed. Commission income for the guarantees issued is deferred and recognised as revenue on a time proportion basis over the period of guarantees. Commission expense for guarantees received is deferred and recognised as expense on a time proportion basis over the period of guarantees. All other commissions are recognized when services are provided.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Russian Roubles at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for on the exchange rates prevailing on the date of the transaction. Profits and losses arising from these translations are included in net gain/(loss) on foreign exchange operations.

Rates of exchange

The exchange rates at period-end used by the Group in the preparation of the financial statements are as follows:

	31 December 2005	31 December 2004	31 December 2003
RUR/1 US Dollar	28.7825	27.7487	29.4545
RUR/1 Euro	34.1850	37.8104	36.8240
RUR/Gold (1 ounce)	14,765.42	12,087.33	12,289.90
RUR/Platinum (1 ounce)	27,746.33	23,850.01	21,734.45

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the balance sheet when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability.

Fiduciary activities

The Group provides trustee services to its customers. Also the Group provides depository services to its customers that include transactions with securities on their depo accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

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 per cent or more of all the segments are reported separately. Geographical segments of the Group have been reported separately within these consolidated financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

Adoption of new standards

The Group provided an assessment of the effect of changes on its financial position and results of operations reported under IFRS which would become effective for accounting periods beginning on or after 1 January 2006.

As of 1 January 2006 the International Accounting Standards Board amended the scope of IAS 39 “Financial Instruments: Recognition and Measurement” to include financial guarantee contracts issued and remove them from IFRS 4 “Insurance Contracts”. Under IAS 39 financial guarantee contracts issued are accounted and disclosed at the same way as under IFRS 4, therefore the effect of this change on the financial statements of the Group is not significant.

As of 1 January 2006 the option previously contained in IAS 39 to designate any financial asset or any liability to be measured at fair value through profit or loss has been eliminated. The Group reviewed its financial assets and financial liabilities at fair value through profit or loss as of 31 December 2005 and believes that the effect of the change is insignificant.

In accordance with IFRS 7 “Financial Instruments: Disclosures” effective from 1 January 2007 the Group should present additional information regarding financial instruments. The Group assessed the influence of requirements under IFRS 7 and developed a plan for systems to provide appropriate level of disclosures.

4. NET INTEREST INCOME

	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000	Year ended 31 December 2003 RUR'000
Interest income			
Interest on loans to corporate customers	10,324,860	9,524,642	4,884,742
Interest on loans to individuals	8,480,444	4,578,464	59,223
Interest on loans and advances to banks	1,405,533	338,367	554,332
Interest on debt securities	851,944	1,165,684	1,886,329
Interest on reverse repurchase transactions	90,655	18,351	13,578
Amortization of discount on loans to customers	-	11,763	-
Total interest income	21,153,436	15,637,271	7,398,204
Interest expense			
Interest on corporate customer accounts	5,197,139	3,315,796	1,616,161
Interest on deposits from individuals	3,973,687	2,439,637	1,170,033
Interest on debt securities issued	1,197,499	316,312	1,400,970
Interest on deposits from banks	565,576	1,123,127	559,636
Total interest expense	10,933,901	7,194,872	4,746,800
Net interest income before provision for impairment losses on interest bearing assets	10,219,535	8,442,399	2,651,404

5. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

The movements in allowance for impairment losses on interest-bearing assets were as follows:

	Loans and advances to banks RUR'000	Loans and advances to customers RUR'000	Total RUR'000
31 December 2002	89,270	2,235,708	2,324,978
(Recovery of provision)/Provision	(58,114)	94,467	36,353
Write-off	-	(1,008)	(1,008)
Recovery of assets previously written-off	-	58,514	58,514
Provision in combined entities	44,602	927,024	971,626
31 December 2003	75,758	3,314,705	3,390,463
(Recovery of provision)/Provision	(63,352)	1,607,198	1,543,846
Write-off	(200)	(1,037)	(1,237)
31 December 2004	12,206	4,920,866	4,933,072
(Recovery of provision)/Provision	(12,206)	1,050,772	1,038,566
Write-off	-	(100,059)	(100,059)
Provision in acquired subsidiaries at acquisition date	-	16,056	16,056
31 December 2005	-	5,887,635	5,887,635

The movements in other provisions were as follows:

	Investments available-for- sale RUR'000	Other assets RUR'000	Provisions for financial guarantees issued, claims and other commitments RUR'000	Total RUR'000
31 December 2002	90,889	18,372	218,323	327,584
Provision	3,496	595	129,416	133,507
Provision in combined entities	19,599	7,199	9,863	36,661
31 December 2003	113,984	26,166	357,602	497,752
Provision	13,911	12,325	104,985	131,221
Write-off of assets	(350)	(3,561)	(210,300)	(214,211)
31 December 2004	127,545	34,930	252,287	414,762
Provision/(Recovery of provision)	5,551	(15,771)	17,546	7,326
Write-off of assets	(13,292)	(9,271)	(95,104)	(117,667)
31 December 2005	119,804	9,888	174,729	304,421

Provisions for impairment losses on assets are deducted from the respective assets. Provision for off-balance sheet transactions are recorded in liabilities.

6. NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain on financial assets at fair value through profit or loss comprises:

	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000	Year ended 31 December 2003 RUR'000
Net realised gain/(loss) on operations with financial assets at fair value through profit or loss	341,840	518,389	(614,737)
Net unrealised gain/(loss) on operations with financial assets at fair value through profit or loss	<u>351,809</u>	<u>(669,894)</u>	<u>1,570,496</u>
Total net gain on financial assets at fair value through profit or loss	<u>693,649</u>	<u>(151,505)</u>	<u>955,759</u>

7. FEE AND COMMISSION INCOME AND EXPENSES

Fee and commission income and expense comprise:

	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000	Year ended 31 December 2003 RUR'000
Fee and commission income:			
Settlements	1,745,652	2,004,545	386,550
Cash operations	789,432	656,782	141,737
Depository and securities operations	622,625	429,787	107,158
Credit cards operations	418,578	364,036	-
Documentary operations	126,251	179,340	228,812
Foreign exchange operations	211,830	151,135	117,522
Intermediary services	9,162	80,721	-
Other operations	<u>170,599</u>	<u>103,718</u>	<u>31,305</u>
Total fee and commission income	<u>4,094,129</u>	<u>3,970,064</u>	<u>1,013,084</u>
Fee and commission expense:			
Credit cards operations	445,000	334,089	126,480
Settlements	167,120	263,572	120,040
Foreign exchange operations	125,536	7,794	2,865
Customs cards	72,204	-	-
Depository and securities operations	63,160	27,636	31,071
Cash operations	61,179	77,303	12,791
Other operations	<u>40,641</u>	<u>32,587</u>	<u>619</u>
Total fee and commission expense	<u>974,840</u>	<u>742,981</u>	<u>293,866</u>

8. OTHER INCOME

Other income for the years ended 31 December 2005, 2004 and 2003 includes penalties received amounting to RUR 5,575 thousand, RUR 284,950 thousand and RUR 1,062 thousand, respectively, and rental income received for the years ended 31 December 2005, 2004 and 2003 amounting to RUR 836,950 thousand, RUR 311,718 thousand and RUR 17,249 thousand, respectively.

9. OPERATING EXPENSES

	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000	Year ended 31 December 2003 RUR'000
Salary and bonuses	5,395,445	4,478,633	2,029,723
Operating lease expense	1,279,195	468,833	192,610
Unified social tax contribution	868,117	796,784	132,861
Taxes, other than income tax	519,595	325,786	124,341
Professional services	465,386	372,039	68,079
Depreciation charge on fixed assets	438,859	268,996	162,673
Repairs and maintenance expense	425,376	383,149	85,359
Security	314,271	219,870	45,947
Communications	261,663	172,539	35,182
Deposit insurance charge	246,919	21,658	-
Advertising and marketing expenses	198,361	189,623	51,490
Expenses on stationery and other office expenses	172,119	135,631	24,723
Business trip expenses	80,207	24,523	22,558
Insurance	42,201	33,425	26,058
Charity expenses	29,474	18,624	15,406
Representation expenses	25,219	19,303	15,184
Customs duties	14,507	10,423	36,838
Penalties paid	13,290	24,609	1,355
Fixed assets impairment	7,624	239	-
Bank cards services	4,253	26,124	-
Other	426,564	398,856	157,185
	<u>11,228,645</u>	<u>8,389,667</u>	<u>3,227,572</u>
Total operating expenses			

10. INCOME TAXES

The Group provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of countries where the Group companies operate and which may differ from International Financial Reporting Standards.

The Group is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 December 2005, 2004 and 2003 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as of 31 December 2005, 2004 and 2003 comprise:

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
Deferred assets:			
Loans to banks and customers	2,688,684	2,085,900	2,388,997
Other liabilities	726,833	569,941	291,520
Other assets	159,945	98,171	-
Financial liabilities at fair value through profit or loss	97,850	31,699	8,701
Deposits from banks and customer accounts	61,098	-	21,586
Financial assets at fair value through profit or loss	-	47,034	-
Investments available-for-sale	-	15,880	-
	<u>3,734,410</u>	<u>2,848,625</u>	<u>2,710,804</u>
Deferred liabilities:			
Fixed assets	3,762,607	4,321,601	345,905
Debt securities issued	55,919	-	-
Financial assets at fair value through profit or loss	44,624	-	90,658
Investments available-for-sale	7,133	-	861
Deposits from banks and customer accounts	-	15,947	-
Other assets	-	-	64,746
	<u>3,870,283</u>	<u>4,337,548</u>	<u>502,170</u>
Net deferred (liabilities)/assets	(135,873)	(1,488,923)	2,208,634
Deferred tax liabilities at the statutory tax rate (24%)	(926,371)	(982,467)	(87,797)
Deferred tax assets at the statutory tax rate (24%)	893,761	625,126	617,869
Less: valuation allowance	(893,761)	(625,126)	(617,869)
Net deferred tax liability	<u>(926,371)</u>	<u>(982,467)</u>	<u>(87,797)</u>

Relationships between tax expenses and accounting profit for the years ended 31 December 2005, 2004 and 2003 are explained as follows:

	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000	Year ended 31 December 2003 RUR'000
Profit before income tax	<u>4,358,591</u>	<u>3,277,306</u>	<u>1,120,552</u>
Tax at the statutory tax rate (24%)	1,046,062	786,553	268,932
Change in valuation allowance	268,635	7,257	330,972
Tax effect due to different tax rates	4,133	(948)	(8,906)
Tax effect of permanent differences	(44,301)	159,134	187,051
Income tax expense	<u>1,274,529</u>	<u>951,996</u>	<u>778,049</u>
Current income tax expense	1,244,185	987,693	721,573
Deferred income tax expense/(credit)	30,344	(35,697)	56,476
Income tax expense	<u>1,274,529</u>	<u>951,996</u>	<u>778,049</u>

Deferred income tax liability	31 December 2005	31 December 2004	31 December 2003
Beginning of period	982,467	87,797	31,321
Deferred tax expense/(credit)	30,344	(35,697)	56,476
Deferred tax (credit)/expense on fixed assets revaluation charged to equity	(86,440)	930,367	-
End of period	<u>926,371</u>	<u>982,467</u>	<u>87,797</u>

11. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

	Year ended 31 December 2005 proforma	Year ended 31 December 2004 proforma	Year ended 31 December 2003 proforma
Profit			
Net profit for the period (RUR'000)	<u>3,017,498</u>	<u>2,327,064</u>	<u>342,503</u>
Weighted average number of ordinary shares			
For basic earnings per share	<u>387,080,765</u>	<u>340,528,420</u>	<u>340,528,420</u>
Earnings per share – basic and diluted (RUR)	<u>7.80</u>	<u>6.83</u>	<u>1.01</u>

Weighted average number of ordinary shares for earnings per share purposes for the year ended 31 December 2005 was calculated as the number of ROSBANK's ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor.

Weighted average number of ordinary shares for earnings per share purposes for the years ended 31 December 2004 and 2003 was calculated using the number of ROSBANK's shares for respective years as if the Group restructuring had happened at the beginning of the earliest period presented.

12. CASH AND BALANCES WITH CENTRAL AND NATIONAL BANKS

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
Cash	5,974,281	4,259,798	2,988,445
Balances with Central and National banks	13,481,077	12,107,365	16,025,455
Time deposit with the Central Bank of the Russian Federation	-	12,000,000	2,500,000
Total cash and balances with Central and National banks	<u>19,455,358</u>	<u>28,367,163</u>	<u>21,513,900</u>

The balances with Central and National banks comprise of balances with the Central Bank of the Russian Federation, the National Bank of Switzerland and the National Bank of Byelorussia as of 31 December 2005, 2004 and 2003 and include RUR 4,656,081 thousand, RUR 3,637,751 thousand and RUR 8,194,376 thousand, respectively, which represent the minimum reserve deposits required by Central and National banks. The Group is required to maintain the reserve balances with Central and National banks at all times.

Cash and cash equivalents for the purposes of the statement of cash flows are comprised of the following:

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
Loans and advances to banks in OECD countries	46,293,755	15,596,179	5,644,208
Cash and balances with Central and National banks	19,455,358	28,367,163	21,513,900
Trading government debt securities	5,729,550	1,190,079	640,941
Precious metals	978,040	69,342	39,170
	<u>72,456,703</u>	<u>45,222,763</u>	<u>27,838,219</u>
Less minimum reserve deposits	<u>(4,656,081)</u>	<u>(3,637,751)</u>	<u>(8,194,376)</u>
Total cash and cash equivalents	<u>67,800,622</u>	<u>41,585,012</u>	<u>19,643,843</u>

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
Debt securities of central governments	6,336,185	1,201,672	640,941
Debt securities of corporates	4,511,722	4,880,813	3,918,095
Debt securities of local authorities	1,919,267	1,617,361	2,497,703
Debt securities of financial institutions	1,560,753	1,275,016	1,974,904
Equity investments	1,166,303	1,769,259	1,544,483
Derivative financial instruments	182,872	77,163	91,829
	<u>15,677,102</u>	<u>10,821,284</u>	<u>10,667,955</u>

	% rate to nominal	2005	% rate to nominal	2004	% rate to nominal	2003
Debt securities:						
Central governments:						
OFZ bonds	6%-10%	4,638,622	8%-10%	587,736	6%-10%	506,656
Government Eurobonds of the Russian Federation	5%-13%	804,857	5%	2,681	8%-10%	55,214
T-notes of US Department of Treasury	4%	572,358	-	-	-	-
T-bills of MF of Byelorussia	10%-14%	243,735	10%-14%	586,812	-	-
OVGVZ bonds	3%	76,613	3%	24,443	3%	79,071
		6,336,185		1,201,672		640,941
Corporates:						
Eurobonds of JSC Norilsk Nickel	7%	507,751	7%	467,705	-	-
Bonds of JSC RAO UES	8%	322,417	-	-	15%	167,590
Bonds of JSC Salyut-Energiya	10%	289,644	14%	925,453	-	-
Eurobonds of JSC Gazprom	5%	269,906	-	-	-	-
Bonds of LLC Mir-Finance	10%	256,629	-	-	-	-
Bonds of LLC Group Magnezit	10%	250,593	-	-	-	-
Eurobonds of JSC Nutrinvestholding	11%	219,563	-	-	-	-
Bonds of JSC RTK-Leasing	10%	217,327	-	-	-	-
Bonds of LLC Uralvagonzavod-Finance	9%	211,559	-	-	-	-
Eurobonds of JSC Salavatnefteorgsintez	9%	189,517	-	-	-	-
Bonds of LLC Neftegazovaya Kompaniya Itera	10%	180,760	14%	1,106,353	-	-
Bonds of LLC Sanvey-Group	12%	176,346	-	-	-	-
Bonds of LLC Russian Aluminium Finance	8%	148,610	10%	2,229	-	-
Bonds of LLC Promtraktor-Finance	11%	127,690	-	-	-	-
Eurobonds of LLC EurazHolding	11%	125,722	-	-	11%	240,096
Eurobonds of JSC Vympelcom-Kommunikatsii	8%-10%	124,289	-	-	-	-
Bonds of JSC Chelyabinsky Truboprokatny Zavod	10%	121,930	-	-	-	-
Bonds of JSC Chelyabinsky Metallurgichesky Kombinat	11%	111,683	11%	13,316	11%	72,425
Bonds of JSC NPO Irkut	9%	98,307	-	-	-	-
Bonds of JSC Salavatnefteorgsintez	10%	98,093	10%	151,282	-	-
Eurobonds of LLC FK EvrazHolding	8%	72,528	-	-	-	-
Bonds of LLC AirUnion	13%	70,330	-	-	-	-
Bonds of LLC Torgoviy Dom MECHEL	12%	59,989	-	-	-	-
Bonds of JSC Eastline	12%	55,404	-	-	12-14%	600,805
Bonds of JSC Gazprom	8%	48,520	-	-	-	-
Bonds of JSC Ochakovo	9%	44,275	-	-	-	-
Bonds of JSC OMK	9%	41,191	-	-	-	-
Bonds of JSC TMK	11%	31,488	-	-	-	-
Eurobonds of JSC Sibneft	11%	16,991	-	-	11%	69,224
Bonds of JSC NPO Saturn	12%	16,188	-	-	-	-
Bonds of JSC Rossiskie Zhelezhye Dorogi	8%	6,482	-	-	-	-
Bonds of JSC Roskhlebproduct	-	-	12%	1,206,959	-	-
Bonds of JSC Uglemet-trading	-	-	12%	225,385	12%	488,586
Bonds of MIG Finance	-	-	16%	182,307	-	-
Bonds of SU-155 Capital	-	-	12%	180,935	-	-
Credit Linked Notes of JSC Salavatnefteorgsintez (SNOS)	-	-	8%	181,570	-	-
Eurobonds of JSC Sistema	-	-	9%	101,985	10-11%	204,182
Promissory notes of Byelorussian companies	-	-	0%-16%	49,486	-	-
Bonds of JSC YuTK	-	-	12%	42,200	12%	3,212
Eurobonds of MMK Finance	-	-	10%	20,501	8-10%	898,716
Bonds of LLC TD Evroset	-	-	16%	15,524	-	-

	% rate to nominal	2005	% rate to nominal	2004	% rate to nominal	2003
Bonds of Mairinvest	-	-	12%	5,057	-	-
Bonds of JSC MGTS	-	-	10%	2,566	-	-
Bonds of JSC IAPO	-	-	-	-	12-17%	254,250
Bonds of LLC Russky Aluminy	-	-	-	-	10%	190,737
Eurobonds of JSC Rosneft	-	-	-	-	13%	137,202
Bonds of JSC Alrosa	-	-	-	-	16%	113,301
Eurobonds of JSC MTS	-	-	-	-	10%	99,560
Bonds of Mikoyanovskiy Myasokombinat	-	-	-	-	15%	81,644
Bonds of RITEK	-	-	-	-	9%	68,694
Bonds of Severo-Zapadny Telecom	-	-	-	-	14%	50,886
Eurobonds of JSC Alrosa	-	-	-	-	8%	40,283
Bonds of Centertelecom	-	-	-	-	12%	16,264
Bonds of LLC "Primary Don"	-	-	-	-	15%	10,183
Bonds of Ilim Pulp Finance	-	-	-	-	15%	5,850
Bonds of JSC Uralsvyazinform	-	-	-	-	18%	3,684
Other	-	-	-	-	-	100,721
		4,511,722		4,880,813		3,918,095
Local authorities:						
Bonds of Khabarovsk Region Authority	9%-11%	276,859	12-13%	145,107	13%	62,921
Bonds of Novosibirsk City Authority	5%-12%	256,988	13-16%	406,760	5%-13%	367,984
Bonds of Kazan city Authority	10%-11%	228,683	-	-	-	-
Bonds of Krasnoyarsk Region Authority	7%-11%	224,694	10-11%	203,314	10%-11%	239,404
Bonds of Irkutsk Region Authority	9%-11%	151,209	12%	178,022	-	-
Bonds of Belgorog Region Authority	8%	146,409	-	-	19%	4,920
Bonds of Krasnoyarsk City Authority	6%-13%	135,053	3-11%	152,925	13%	881,904
Bonds of Tverskaya region	8%	121,703	-	-	17%	21,405
Bonds of Voronezh Region Authority	13%	92,133	13%	75,628	-	-
Bonds of Kirov Region Authority	8%	86,946	-	-	-	-
Bonds of Yaroslavl Region Authority	8%-13%	83,284	11%	3,694	10%-13%	28,204
Bonds of Chuvashia Region Authority	12%	52,494	10-12%	132,850	12%	39,308
Bonds of Odintsovo Moscow region district	12%	37,273	-	-	-	-
Bonds of Yakutia Region Authority	9%-13%	24,286	10-14%	220,684	-	-
Bonds of Moscow Region Authority	10%	1,253	-	-	11%-17%	116,083
Bonds of Moscow City Authority	-	-	10%	94,992	10%	622,791
Bonds of St-Petersburg City Authority	-	-	9-10%	3,385	9-15%	81,640
Bonds of Ufa Authority	-	-	-	-	10%	24,049
Bonds of Republic Komi Authority	-	-	-	-	16%	7,090
		1,919,267		1,617,361		2,497,703
Financial institutions:						
Bonds of Russia Spread Trust	8%	874,080	-	-	-	-
Eurobonds of JSC Impexbank	9%	267,708	-	-	-	-
Promissory notes of JSC Vneshtorgbank	-	112,763	7%	1,229,600	-	28,382
Promissory notes of LLC Russkiy Mezhdunarodniy Bank	-	90,926	-	-	-	-
Promissory notes of JSC Russkiy Mezhregionalniy Bank Razvitiya	-	56,295	-	-	-	-
Promissory notes of JSC Bank Sojuz	-	55,735	-	-	-	-
Promissory notes of JSC Absolut Bank	-	55,350	-	-	-	-
Promissory notes of JSC Vserossiyskiy Bank Razvitiya Regionov	-	37,726	-	-	-	-
Bonds of JSC Probiznesbank	11%	10,170	-	-	-	-
Promissory notes of Byelorussian banks	-	-	-	45,416	-	-
Promissory notes of JSC Sberbank	-	-	-	-	-	807,859
Promissory notes of JSC Alfa-Bank	-	-	-	-	-	412,098
Promissory notes of JSC Gazprombank	-	-	-	-	-	272,100
Bonds of JSC Vneshtorgbank	-	-	-	-	15%	218,241
Promissory notes of JSC MDM-Bank	-	-	-	-	-	101,719

	% rate to nominal	2005	% rate to nominal	2004	% rate to nominal	2003
Promissory notes of Impexbank	-	-	-	-	-	70,029
Promissory notes of JSC Uralo-Sibirsky Bank	-	-	-	-	-	28,431
Promissory notes of JSC Altay Capital Bank	-	-	-	-	-	10,000
Promissory notes of LLC Sibsotsbank	-	-	-	-	-	10,000
Promissory notes of CJSC Miraf-Bank	-	-	-	-	-	5,476
Promissory notes of LLC Sibbusinessbank	-	-	-	-	-	5,000
Promissory notes of CB Forbank	-	-	-	-	17%	3,000
Promissory notes of OJSC CB NT and SR Sibacadembank	-	-	-	-	-	1,205
Promissory notes of CJSC Kedr	-	-	-	-	-	762
Promissory notes of JSB Avtobank	-	-	-	-	-	602
		<u>1,560,753</u>		<u>1,275,016</u>		<u>1,974,904</u>

As of 31 December 2005, 2004 and 2003 accrued interest income on debt securities is included in financial assets at fair value through profit or loss amounting to RUR 145,834 thousand, RUR 91,978 thousand and RUR 134,198 thousand, respectively.

As of 31 December 2005 T-notes of US Department of Treasury and Bonds of the MF of Byelorussia sold under an agreement to repurchase are included in financial assets at fair value through profit or loss (Note 22).

As of 31 December 2004 Bonds of MF of Byelorussia sold under an agreement to repurchase are included in financial assets at fair value through profit or loss (Note 22).

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
Equity investments:			
Investment in mutual fund Perviy Ipotekniy	466,631	-	-
Ordinary shares of JSC Avtovaz	258,459	77,610	82,118
ADR on shares of JSC YUKOS	89,456	793	-
Ordinary shares of JSC NPO IRKUT	89,354	36,287	-
Ordinary shares of JSC RAO UES	79,228	135,539	421,465
Ordinary shares of JSC YUKOS	56,426	6,701	126
Ordinary shares of JSC Gazprom	53,430	-	407,748
Ordinary shares of JSC Lukoil	42,558	1,894	1,350
ADR on shares of JSC Lukoil	8,535	-	-
Ordinary shares of JSC MMK	7,253	-	-
Ordinary shares of JSC Rostelecom	6,128	4,810	5,286
Ordinary shares of JSC Sibneft	5,376	-	-
Preferred shares of RAO UES	1,823	1,204	-
Ordinary shares of JSC Kurskenergo	1,010	-	-
Ordinary shares of JSC MGTS	477	299	-
Ordinary shares of GMK Norilsk Nickel	-	1,437,014	1,502
Preferred shares of JSC Sberbank	-	25,730	-
Ordinary shares of JSC Surgutneftegaz	-	23,996	-
ADR on shares of GMK Norilsky Nickel	-	12,209	-
Ordinary shares of Easter Prop. Hold	-	2,517	-
Ordinary shares of Deutsche Telekom	-	1,395	-
Ordinary shares of JSC GUM	-	1,134	-
Preferred shares of JSC Transneft	-	-	615,515
Other	159	127	9,373
	<u>1,166,303</u>	<u>1,769,259</u>	<u>1,544,483</u>

14. PRECIOUS METALS

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
Gold	593,189	28,220	5,037
Platinum	378,842	41,122	12,395
Silver	6,009	-	21,738
	<u>978,040</u>	<u>69,342</u>	<u>39,170</u>
Total precious metals	<u>978,040</u>	<u>69,342</u>	<u>39,170</u>

As of 31 December 2005 precious metals are located in the Group's vaults, except for gold amounting to RUR 242,593 thousand, that are in the process of being refined.

15. LOANS AND ADVANCES TO BANKS

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
Loans to banks	26,425,043	10,877,243	2,231,585
Advances to banks	24,702,060	9,684,449	8,549,113
Loans under reverse repurchase agreements	2,856,298	439,279	-
Accrued interest income	11,667	14,293	43,452
	<u>53,995,068</u>	<u>21,015,264</u>	<u>10,824,150</u>
Less allowance for impairment losses	-	(12,206)	(75,758)
Total loans and advances to banks, net	<u>53,995,068</u>	<u>21,003,058</u>	<u>10,748,392</u>

Movements in allowances for impairment losses on loans and advances to banks for the years ended 31 December 2005, 2004 and 2003 are disclosed in Note 5.

As of 31 December 2005, 2004 and 2003 the Group had loans and advances to seven, seven and one banks totalling RUR 41,732,678 thousand, RUR 18,375,016 thousand and RUR 5,669,067 thousand, respectively, which individually exceeded 10% of the Group's equity.

As of 31 December 2005, 2004 and 2003 the maximum credit risk exposure of loans and advances to banks amounted to RUR 53,995,068 thousand, RUR 21,015,264 thousand and RUR 10,824,150 thousand, respectively.

As of 31 December 2005 and 2004 the Group included in loans and advances to banks loans under reverse repurchase agreements amounting to RUR 2,856,298 and RUR 439,279 with maturity within 2 months. Such agreements are secured by the following assets:

	31 December 2005 RUR'000	31 December 2004 RUR'000
United States treasury bills	1,009,095	-
Ordinary shares of JSC Gazprom	771,248	74,032
Eurobonds of JSC Severstal	386,027	-
Eurobonds of the German Government	308,044	-
Eurobonds of the Russian Federation	295,290	-
Bonds of the Krasnoyarsk Region Authority	70,892	-
T-bills of the MF of Byelorussia	15,702	-
Bonds of the City of Novosibirsk Authority	-	40,756
Bonds of the Voronezh region Authority	-	50,096
Bonds of JSC YTK	-	274,395
	<u>2,856,298</u>	<u>439,279</u>
Total loans under reverse repurchase agreements	<u>2,856,298</u>	<u>439,279</u>

16. DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2005		31 December 2004		31 December 2003	
	Amount payable RUR'000	Net fair value RUR'000	Amount payable RUR'000	Net fair value RUR'000	Amount payable RUR'000	Net fair value RUR'000
Foreign exchange contracts						
Forwards						
Positive revaluation value	2,713,590	34,469	1,683,516	53,875	421,995	9,673
Negative revaluation value	2,967,670	(23,908)	2,712,304	(15,618)	1,137,764	(5,205)
Swaps						
Positive revaluation value	2,359,918	14,931	-	-	1,381,416	81,843
Negative revaluation value	3,923,117	(54,502)	-	-	36,824	(316)
Total foreign exchange contracts (liabilities)/assets	<u>11,964,295</u>	<u>(29,010)</u>	<u>4,395,820</u>	<u>38,257</u>	<u>2,977,999</u>	<u>85,995</u>
Contracts on precious metals						
Forwards						
Positive revaluation value	589,842	92,882	37,678	366	397,102	313
Negative revaluation value	37,156	(2,231)	16,587	(578)	318,795	(3,180)
Swaps						
Positive revaluation value	655,492	40,590	565,566	21,525	-	-
Negative revaluation value	662,419	(42,278)	248,961	(15,301)	-	-
Total contracts on precious metals asset/(liabilities)	<u>1,944,909</u>	<u>88,963</u>	<u>868,792</u>	<u>6,012</u>	<u>715,897</u>	<u>(2,867)</u>
Contracts on securities						
Forwards						
Positive revaluation value	-	-	261,723	1,397	-	-
Negative revaluation value	-	-	905	(202)	-	-
Total contracts on securities asset	<u>-</u>	<u>-</u>	<u>262,628</u>	<u>1,195</u>	<u>-</u>	<u>-</u>
Total	<u>13,909,204</u>	<u>59,953</u>	<u>5,527,240</u>	<u>45,464</u>	<u>3,693,896</u>	<u>83,128</u>

17. LOANS TO CUSTOMERS

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
Originated loans	106,896,516	82,184,113	60,375,917
Purchased loans	9,894,814	1,978,673	3,657,131
Net investments in finance lease	1,164,303	-	-
Advances on finance lease	401,502	-	-
Loans under reverse repurchase agreements	18,809	-	90,308
Accrued interest income	829,915	440,706	597,510
	<u>119,205,859</u>	<u>84,603,492</u>	<u>64,720,866</u>
Less allowance for impairment losses	<u>(5,887,635)</u>	<u>(4,920,866)</u>	<u>(3,314,705)</u>
Total loans to customers, net	<u>113,318,224</u>	<u>79,682,626</u>	<u>61,406,161</u>

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
Loans collateralized by pledge of vehicles	25,653,038	-	-
Loans collateralized by pledge of real estate	9,672,504	4,266,178	1,549,774
Loans collateralized by pledge of goods in turnover	6,710,966	8,346,983	5,579,494
Loans collateralized by pledge of equipment	4,567,209	13,679,944	6,862,610
Loans collateralized by corporate guarantees	4,537,905	1,168,421	4,573,423
Loans collateralized by pledge of securities	2,804,319	2,165,947	2,834,267
Loans collateralized by pledge of cash	2,051,772	105,990	177,411
Loans collateralized by rights of demand	1,463,513	-	-
Loans collateralized by pledge of combined collateral	1,048,116	3,606,396	264,739
Loans collateralized by others	999,625	-	2,315,178
Unsecured loans	58,866,977	50,822,927	39,966,460
Accrued interest income	829,915	440,706	597,510
	<u>119,205,859</u>	<u>84,603,492</u>	<u>64,720,866</u>
Less allowance for impairment losses	<u>(5,887,635)</u>	<u>(4,920,866)</u>	<u>(3,314,705)</u>
Total loans to customers, net	<u>113,318,224</u>	<u>79,682,626</u>	<u>61,406,161</u>

Movements in allowances for impairment losses on loans to customers for the years ended 31 December 2005, 2004 and 2003 are disclosed in Note 5.

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
Analysis by sector:			
Individuals	54,912,016	28,219,273	11,503,849
Trade	15,481,993	9,665,154	9,011,564
Finance	7,337,672	2,259,501	4,657,030
Government	5,528,940	4,017,510	5,468,404
Energy industry	4,973,400	2,513,579	713,060
Construction	4,949,699	4,190,881	1,208,505
Engineering	3,515,371	3,523,925	1,822,878
Real estate and leasing	3,044,462	2,938,746	2,321,349
Food industry	2,628,276	2,871,462	1,147,323
Heavy industry	1,909,322	1,410,967	438,119
Defence industry	1,474,888	-	-
Ferrous metals manufacturing	1,719,491	3,535,256	1,951,285
Telecommunications	1,382,535	2,709,963	2,706,987

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
Transport	1,293,376	816,734	4,455,773
Manufacturing	1,222,321	3,221,334	3,909,096
Precious metals and diamond extraction and manufacturing	1,185,140	1,053,493	2,000,206
Chemical	674,378	508,482	605,159
Oil and gas	491,511	2,450,494	2,789,112
Agriculture	159,710	765,831	944,988
Aircraft engineering	156,852	4,342,416	4,017,582
Hotel business and services	37,078	-	578,064
Non-ferrous metals manufacturing	12,878	167,336	110,467
Insurance	-	40,000	-
Other	4,284,635	2,940,449	1,762,556
Accrued interest income	829,915	440,706	597,510
	<u>119,205,859</u>	<u>84,603,492</u>	<u>64,720,866</u>
Less allowance for impairment losses	<u>(5,887,635)</u>	<u>(4,920,866)</u>	<u>(3,314,705)</u>
Total loans to customers, net	<u>113,318,224</u>	<u>79,682,626</u>	<u>61,406,161</u>

As of 31 December 2005 and 2003 loans collateralized by pledge of securities purchased under agreement to resell are included in loans to customers are amounting to RUR 18,809 thousand and RUR 90,308 thousand, respectively; the reverse repurchase agreements mature within one month.

	31 December 2005 RUR'000		31 December 2003 RUR'000	
	Carrying value	Fair value	Carrying value	Fair value
Mortgages	18,809	18,654	-	-
Bonds of Leningradsky Region Authority	-	-	80,408	104,087
Others	-	-	9,900	9,900
	<u>18,809</u>	<u>18,654</u>	<u>90,308</u>	<u>113,987</u>

As of 31 December 2004 and 2003 the Group had loans to six and ten customers totaling RUR 13,825,515 thousand and 12,670,152 thousand, respectively, which individually exceeded 10% of the Group's equity.

As of 31 December 2004 and 2003 loans are included in loans and advances to customers of RUR 1,693,718 thousand and RUR 2,178,180 thousand, respectively, pledged under advances received from the National Bank of Byelorussia amounting of RUR 1,273,123 thousand and RUR 1,391,600 thousand, respectively.

As of 31 December 2005, 2004 and 2003 a substantial amount of loans is granted to companies operating in the Russian Federation, which represents a significant geographical concentration in one region.

As of 31 December 2005, 2004 and 2003 the maximum credit risk exposure of loans to customers amounted to RUR 119,205,859 thousand, RUR 84,603,492 thousand and RUR 64,720,866 thousand, respectively.

The components of net investment in finance leases as of 31 December 2005 are as follows:

	31 December 2005 RUR'000
Net minimum lease payments	1,922,113
Less: unearned finance income	<u>(757,810)</u>
Net investment in finance lease	<u>1,164,303</u>
Current portion	525,238
Long-term portion	<u>639,065</u>
Net investment in finance lease	<u>1,164,303</u>

The minimum lease payments due from customers under finance lease as of 31 December 2005 are as follows:

	31 December 2005 RUR'000
Not later than 1 year	909,179
Later than 1 year and not later than 5 years	<u>1,012,934</u>
Total minimum lease payments	<u>1,922,113</u>

18. INVESTMENTS AVAILABLE-FOR-SALE

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
Equity investments	482,416	1,245,907	7,598,687
Debt securities	<u>115,722</u>	<u>818,984</u>	<u>302,935</u>
	598,138	2,064,891	7,901,622
Less allowance for impairment losses	<u>(119,804)</u>	<u>(127,545)</u>	<u>(113,984)</u>
Total investments available-for-sale, net	<u>478,334</u>	<u>1,937,346</u>	<u>7,787,638</u>

Movement of provision for impairment losses on investments available-for-sale for the years ended 31 December 2005, 2004 and 2003 are disclosed in Note 5.

As of 31 December 2005, 2004 and 2003 interest income on debt securities amounting to RUR 3,303 thousand, RUR 19,287 thousand and RUR 13,866 thousand, respectively was accrued and included in securities available-for-sale.

19. SECURITIES HELD-TO-MATURITY

As of 31 December 2003 securities held-to-maturity comprise of OFZ Bonds and Bonds of MF of Russia amounting to RUR 18,598 thousand and promissory notes of Russian corporations totaling RUR 114,189 thousand with maturity between 1 and 3 months. Accrued interest income of RUR 7,503 thousand is included in securities held-to-maturity is.

20. FIXED ASSETS

	Buildings	Equipment, CIP, other	Total
	RUR'000	RUR'000	RUR'000
At cost/restated cost/revalued amount			
31 December 2003	1,582,897	1,661,220	3,244,117
Additions	331,117	600,896	932,013
Disposals	(47,971)	(177,965)	(225,936)
Revaluation	3,865,798	-	3,865,798
Impairment	(263)	-	(263)
31 December 2004	5,731,578	2,084,151	7,815,729
Additions	147,321	431,544	578,865
Disposals	(277,169)	(302,577)	(579,746)
Impairment	(8,589)	-	(8,589)
Group reorganization	-	42,528	42,528
31 December 2005	5,593,141	2,255,646	7,848,787
Accumulated depreciation			
31 December 2003	127,602	719,505	847,107
Charge for the period	34,948	234,048	268,996
Disposals	(2,696)	(67,280)	(69,976)
Revaluation	(159,830)	-	(159,830)
Impairment	(24)	-	(24)
31 December 2004	-	886,273	886,273
Charge for the period	109,123	329,736	438,859
Disposals	(4,621)	(211,482)	(216,103)
Impairment	(965)	-	(965)
Group reorganization	-	17,546	17,546
31 December 2005	103,537	1,022,073	1,125,610
Net book value			
31 December 2005	<u>5,489,604</u>	<u>1,233,573</u>	<u>6,723,177</u>
31 December 2004	<u>5,731,578</u>	<u>1,197,878</u>	<u>6,929,456</u>
31 December 2003	<u>1,455,295</u>	<u>941,715</u>	<u>2,397,010</u>

As of 31 December 2004 revaluation surplus amounted to RUR 4,025,628 thousand.

21. OTHER ASSETS

	31 December 2005	31 December 2004	31 December 2003
	RUR'000	RUR'000	RUR'000
Receivable from investments disposal	604,433	-	-
Taxes, other than income tax, recoverable	425,215	24,062	25,926
Due from suppliers and other contractors	389,147	640,464	336,886
Non-current assets held-for-sale	65,002	-	-
Receivables from operation with securities	60,540	1,166	-
Due from employees	8,939	11,891	-
Assets on spot deals	8,020	7,614	-
Accrued commissions on fiduciary operations	-	-	174,694
Other	66,579	85,325	125,172
	<u>1,627,875</u>	<u>770,522</u>	<u>662,678</u>
Less allowance for losses on other assets	(9,888)	(34,930)	(26,166)
Total other assets, net	<u>1,617,987</u>	<u>735,592</u>	<u>636,512</u>

Movement of provision for impairment losses on other assets for the years ended 31 December 2005, 2004 and 2003 is disclosed in Note 5.

As of 31 December 2005 receivable from investments disposal represents settlement on transaction on sale of the Group's shares in Monchebank. Profit on this transaction amounts to RUR 377,475 thousand accounted for as a gain on sale of investments available-for-sale in the consolidated and combined income statement.

22. DEPOSITS FROM BANKS

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
Time deposits from banks	8,260,970	7,871,655	7,099,244
Correspondent accounts of banks	2,212,030	700,917	713,059
Loans under repurchase agreements	631,107	11,027	-
Accrued interest expenses	34,921	35,245	51,203
	<u>11,139,028</u>	<u>8,618,844</u>	<u>7,863,506</u>
Total deposits from banks	<u>11,139,028</u>	<u>8,618,844</u>	<u>7,863,506</u>

As of 31 December 2005 securities sold under the agreement to repurchase represent T-notes of US Department of Treasury and Bonds of the MF of Byelorussia that are included in financial assets at fair value through profit or loss at a fair value of RUR 606,635 thousand.

As of 31 December 2004 securities sold under an agreement to repurchase represent Bonds of the MF of Byelorussia that are included in financial assets at fair value through profit or loss at a fair value of RUR 11,593 thousand.

As of 31 December 2004 and 2003 time deposits from the National Bank of Byelorussia of RUR 1,273,123 thousand and RUR 2,127,963 thousand, respectively are included in deposits from banks and represent a significant concentration. Of these amounts RUR 1,273,123 thousand and RUR 1,391,600 thousand, respectively, were secured by pledge of loans granted to customers by the Bank of RUR 1,693,718 thousand and RUR 2,178,180 thousand as of 31 December 2004 and 2003, respectively.

23. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
Time deposits	110,843,657	73,219,976	45,925,696
Repayable on demand	37,119,082	27,405,006	30,295,776
Accrued interest expense	1,098,155	595,201	388,544
	<u>149,060,894</u>	<u>101,220,183</u>	<u>76,610,016</u>
Total customer accounts	<u>149,060,894</u>	<u>101,220,183</u>	<u>76,610,016</u>

As of 31 December 2005, 2004 and 2003 customer accounts amounted to RUR 133,896 thousand, RUR 872,389 thousand and RUR 531,810 thousand, respectively, were held as security against letters of credit issued and other transaction related contingent obligations. As of 31 December 2005, 2004 and 2003 customer accounts amounted to RUR 18,756 thousand, RUR 102,651 thousand and RUR 1,437,835 thousand, respectively, were held as security against guarantees issued.

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
Analysis by sector:			
Individuals	56,738,878	36,705,481	30,365,304
Finance	40,757,747	11,165,656	13,489,319
Oil and gas	9,853,014	6,580,775	2,379,722
Non-ferrous metallurgy	7,387,601	16,446,644	8,640,118
Trading	7,250,129	5,316,705	3,763,100
Ferrous metallurgy	3,643,219	5,427,568	5,598,109
Regional government	2,077,520	733,228	12,993
Real estate dealership	2,038,961	2,023,570	1,017,611
Transportation	1,218,489	353,300	206,417
Building construction	1,204,481	2,377,385	549,660
Mechanical engineering	982,227	636,613	333,230
Precious metals and diamond extraction and manufacturing	861,187	562,023	377,904
Public health and tourism	820,176	377,874	491,070
Hotel business	666,100	751,744	334,733
Manufacturing	642,416	26,223	-
Services	580,632	990,677	-
Insurance	498,886	838,688	1,201,554
Communications	488,288	1,407,351	376,682
Professional services	467,030	757,122	525,456
Energy	457,087	244,205	494,318
Culture and art	443,001	141,555	295,347
Energy	383,797	122,384	-
Food industry	318,805	22,268	84,979
Publishing	211,821	120,543	44,721
Social organizations	167,858	106,958	150,677
Agriculture	145,071	177,540	124,507
Geology	120,916	347,525	844,518
Chemical	116,394	-	-
Aircraft industry	53,905	610,280	96,495
Information technology	53,282	112,038	340,175
Housing	50,048	2,622,980	2,325,067
Supply and production distribution	28,414	22,288	160,490
Forest	23,355	60,941	-
Leasing	5,437	29,818	442,321
Other	7,206,567	2,405,032	1,154,875
Accrued interest expense	1,098,155	595,201	388,544
Total customer accounts	<u>149,060,894</u>	<u>101,220,183</u>	<u>76,610,016</u>

24. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
Liabilities sold under repurchase agreements (short position)	1,717,722	-	-
Derivative financial instruments	122,919	31,699	8,701
Total financial liabilities at fair value through profit or loss	<u>1,840,641</u>	<u>31,699</u>	<u>8,701</u>

As of 31 December 2005 the following assets were sold under repurchase agreements with a fair value as follows:

	31 December 2005 RUR'000
United States Treasury Bills	1,005,645
Eurobonds of the German Government	297,317
Eurobonds of the Russian Federation	293,150
Eurobonds of JSC Severstal	<u>121,610</u>
Total liabilities sold under repurchase agreements (short position)	<u><u>1,717,722</u></u>

25. DEBT SECURITIES ISSUED

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
Discount bearing promissory notes	8,304,324	7,608,637	6,830,668
Eurobonds due in 2009	8,090,908	6,135,760	-
Eurobonds due in 2007	4,317,375	-	-
Discount/interest free promissory notes	1,995,126	1,916,381	1,619,158
Interest bearing promissory notes	1,093,345	696,211	1,252,405
Bonds due in 2009	832,555	1,910,292	-
Adjustable Rate Guaranteed Bonds due in 2012	708,863	1,095,334	1,162,667
Certificates of deposit	23,000	372,554	7,271,942
Accrued interest expense	<u>678,711</u>	<u>166,415</u>	<u>87,865</u>
Total debt securities issued	<u><u>26,044,207</u></u>	<u><u>19,901,584</u></u>	<u><u>18,224,705</u></u>

The Group issued Eurobonds due in 2009 collateralized by future receivables on credit card settlements. Discount/interest free promissory notes are issued for settlement purposes, on demand, at nominal value.

26. OTHER LIABILITIES

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
Accrued bonuses and salary	455,228	383,073	225,000
Payable to suppliers, contractors and purchasers	128,823	77,658	101,526
Unused vacations provision	205,932	163,203	69,365
Deposit insurance charge liability	74,977	21,658	-
Taxes, other than income tax, payable	71,133	51,140	16,673
Creditors on other operations	34,107	42,966	-
Creditors on operations with securities and precious metals	15,704	16,649	85,255
Dividends payable	10,368	-	-
Liability on spot deals	4,448	14,022	7,891
Creditors on letters of credit for foreign operations	31	5,270	-
Other accrued expenses	-	-	8,091
Other	<u>38,560</u>	<u>108,623</u>	<u>183,588</u>
Total other liabilities	<u><u>1,039,311</u></u>	<u><u>884,262</u></u>	<u><u>697,389</u></u>

27. SUBORDINATED DEBT

	Currency	Maturity date year	Interest Rate %	31 December 2004 RUR'000
Subordinated debt of CJSC Interros Estate	RUR	2010	8	850,000
Subordinated debt of CJSC Interros Estate	RUR	2012	10	<u>600,000</u>
Total subordinated debt				<u><u>1,450,000</u></u>

In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to repayment of ROSBANK's liabilities to all other creditors.

28. SHARE CAPITAL

As of 31 December 2005, 2004 and 2003 nominal share capital authorized, issued and fully paid comprised of the following:

	ROSBANK	OVK banks	Other companies	Total
Nominal	6,803,605	-	-	6,803,605
Inflation adjustments	2,072,895	-	-	2,072,895
Total 31 December 2005	8,876,500	-	-	8,876,500
Nominal	3,405,284	499,304	443,603	4,348,191
Inflation adjustments	2,072,895	1,139,053	523,167	3,735,115
Total 31 December 2004	5,478,179	1,638,357	966,770	8,083,306
Nominal	3,377,442	502,250	464,215	4,343,907
Inflation adjustments	2,072,895	1,152,587	593,354	3,818,836
Total 31 December 2003	5,450,337	1,654,837	1,057,569	8,162,743

Share premium of RUR 9,177,470 thousand and RUR 6,445,058 thousand represents the excess of contributions received in share capital over the nominal value of shares issued as of 31 December 2005 and 31 December 2004 and 2003, respectively.

ROSBANK Group shareholders declared the following payment of dividends for 2004 and the first quarter of 2005:

	Number of shares	Par value of share (RUR)	Dividend payment per share (RUR) for the year 2004	Dividend payment per share (RUR) for the first quarter of 2005	Total amount of dividends declared RUR'000
ROSBANK	340,528,420	10	1.00	-	340,528
Bank Pervoe OVK JSC	100,000,000	1	1.57	-	157,000
Bank Povolzhskoe OVK JSC	306,000	100	281.79	-	86,228
Bank Sibirskoe OVK JSC	7,500,000	10	48.79	9.19	434,816
Bank Centralnoe OVK JSC	600,000	100	917.58	-	550,548
Bank Dalnevostochnoe OVK JSC	112,844,600	1	2.85	2.29	580,022

Privolzhskoe OVK is a limited liability company. 100% share capital of the bank is owned by one shareholder. Distribution to the shareholder for 2004 and the first quarter of 2005 amounted to RUR 37,973 thousand.

The Group's reserves distributable among shareholders are limited to the amount of its reserves as disclosed in its statutory accounts.

As of 31 December 2005, 2004 and 2003, non-distributable reserves are represented by a general reserve fund, which is created as required by statutory regulations in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with statutes of individual entities that provide for the creation of a reserve for these purposes.

29. FINANCIAL COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

As of 31 December 2005, 2004 and 2003, letters of credit and other transactions related to contingent obligations covered by cash amounted to RUR 133,896 thousand, RUR 872,389 thousand and RUR 531,810 thousand, respectively and guarantees issued covered by cash amounted to RUR 18,756 thousand, RUR 102,651 thousand and RUR 1,437,835 thousand, respectively.

The risk-weighted amount is obtained by applying a credit conversion factor and counterparty risk weightings according to principles employed by the Basle Committee on Banking Supervision.

As of 31 December 2005, 2004 and 2003, the nominal or contract amounts and risk-weighted amounts were:

	2005		2004		2003	
	Nominal amount	Risk weighted amount	Nominal amount	Risk weighted amount	Nominal amount	Risk weighted amount
Contingent liabilities and credit commitments						
Guarantees issued and similar commitments	7,726,434	7,707,678	7,347,678	7,245,027	9,595,950	8,158,115
Letters of credit and other transaction related contingent obligations	1,627,705	746,905	1,837,605	482,608	949,178	208,684
Commitments on loans and unused credit lines	18,446,050	4,359,949	17,273,441	4,239,610	18,525,536	3,351,308
Total contingent liabilities and credit commitments	<u>27,800,189</u>	<u>12,814,532</u>	<u>26,458,724</u>	<u>11,967,245</u>	<u>29,070,664</u>	<u>11,718,107</u>

Capital commitments – As of 31 December 2005 the Group has commitments for capital expenditure outstanding amounting to RUR 872,475 thousand.

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

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
Not later than 1 year	1,027,430	433,250	198,216
Later than 1 year and not later than 5 years	1,052,024	864,427	322,840
Later than 5 years	457,910	47,682	16,368
Total operating lease commitments	<u>2,537,364</u>	<u>1,345,359</u>	<u>537,424</u>

Fiduciary activities – In the normal course of its business, the Group enters into agreements with limited rights on decision making with clients for asset management in accordance with specific criteria established by clients. The Group may be liable for losses due to its gross negligence or wilful misconduct until such funds or securities are returned to the client. The maximum potential financial risk of the Group at any given moment is equal to the volume of the clients' funds plus/minus any unrealized income/loss on the client's position. In the judgment of management, as of 31 December 2005, 2004 and 2003 the maximum potential financial risk on securities accepted by the Group on behalf of its clients does not exceed RUR 7,393,671 thousand, RUR 719,474 thousand and RUR 290,757 thousand, respectively.

The Group also provides depository services to its customers. As of 31 December 2005, 2004 and 2003, the Group had customer securities totalling 3,283,527,374 items, 6,462,105,404 items and 7,626,416,272 items, respectively, in its nominal holder accounts.

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

Taxes – Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgments of business activities, if a particular treatment based on Management’s judgment of the Group’s business activities were to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest. Such uncertainty may relate to valuation of financial instruments, loss and impairment provisions and market level for a deal’s pricing. The Group believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax years remain open to review by the tax authorities for three years.

Pensions and retirement plans – Employees receive pension benefits in accordance with the laws and regulations of the respective countries. As of 31 December 2005, 2004 and 2003, the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Operating environment – The Group’s principal business activities are within the Russian Federation. Laws and regulations affecting the business environment in the Russian Federation are subject to rapid changes and the Group’s assets and operations could be at risk due to negative changes in the political and business environment.

30. SUBSEQUENT EVENTS

On 25 January 2005 at the Board of Directors’ meeting the shareholders of ROSBANK decided to increase share capital of ROSBANK by issuing 100,000,000 ordinary shares of a nominal value of RUR 10 each for Initial Public Offering purposes. Shareholders of ROSBANK have also approved share option plan for its certain Management Board members and Board of Directors members. Shareholders allocated 5,6% of outstanding shares for the plan. According to the terms and conditions of the plan, participants are entitled to purchase allocated shares under individual arrangements at US dollar 1.22 per share during three years. If a participant does not continue with ROSBANK, his rights under the plan cease to exist after three months, unless shareholder prolongs this term. Rights of such a participant can be alternatively settled by a shareholder on a net basis at the shareholder’s discretion.

31. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 “Related party disclosures”, represent:

- (a) Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Group. (This includes holding companies, subsidiaries and fellow subsidiaries);
- (b) Associates – enterprises in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) Individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group;
- (d) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group (also non-executive directors and close members of the families of such individuals);
- (e) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Group and enterprises that have a member of key management in common with the Group;
- (f) Parties with joint control over the Group;
- (g) Joint ventures in which the Group is a venturer; and

- (h) Post-employment benefit plans for the benefit of employees of the Group, or of any entity that is a related party to the Group.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding with related parties:

	31 December 2005 RUR'000		31 December 2004 RUR'000		31 December 2003 RUR'000	
	Related party transactions	Total category as per financial statement caption	Related party transactions	Total category as per financial statement caption	Related party transactions	Total category as per financial statement caption
Financial assets at fair value through profit or loss	974,382	15,677,102	1,916,928	10,821,284	1,502	10,667,955
- other related parties	974,382		1,916,928		1,502	
Loans to banks and customers	3,436,265	173,200,927	2,377,852	105,618,576	2,940,107	75,745,016
- key management personnel of the Group	30,909		14,131		1,427	
- other related parties	3,405,356		2,363,721		2,938,680	
Allowance for impairment losses	169,450	5,887,635	138,208	4,933,072	130,045	3,390,463
- key management personnel of the Group	1,524		821		63	
- other related parties	167,926		137,387		129,982	
Customer accounts	38,471,040	149,060,894	24,073,921	101,220,183	16,505,762	76,610,016
- shareholders	8,266		1,554,011		90,903	
- key management personnel of the Group	141,880		167,345		146,205	
- other related parties	38,320,894		22,352,565		16,268,654	
Other provisions	62,459	174,729	64,504	252,287	85,269	357,602
- key management personnel of the Group	159		95		94	
- other related parties	62,300		64,409		85,175	
Subordinated debt	-	-	1,450,000	1,450,000	-	-
- shareholders	-		1,450,000		-	
Commitments on loans and unused credit lines	276,068	18,446,050	1,699,431	17,273,441	1,301,730	18,525,536
- other related parties	276,068		1,699,431		1,301,730	
Letters of credit and other transaction related contingent obligations	268,780	1,627,705	62,474	1,837,605	-	949,178
- other related parties	268,780		62,474		-	
Guarantees issued and similar commitments	2,989,317	7,726,434	3,562,511	7,347,678	5,084,488	9,595,950
- key management personnel of the Group	7,627		5,272		5,596	

	31 December 2005 RUR'000		31 December 2004 RUR'000		31 December 2003 RUR'000	
	Related party transactions	Total category as per financial statement caption	Related party transactions	Total category as per financial statement caption	Related party transactions	Total category as per financial statement caption
- other related parties	2,981,690		3,557,239		5,078,892	
Guarantees received	1,309,985	169,340,991	734,662	145,619,401	4,725,489	110,669,542
- other related parties	1,309,985		734,662		4,725,489	
Key management personnel compensation:						
- short-term employee benefits	142,474		61,592		69,622	
- other payments	15,801		13,126		10,419	
	<u>158,275</u>	<u>5,395,445</u>	<u>74,718</u>	<u>4,478,633</u>	<u>80,041</u>	<u>2,029,723</u>

Included in the income statement for the years ended 31 December 2005, 2004 and 2003 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2005 RUR'000		Year ended 31 December 2004 RUR'000		Year ended 31 December 2003 RUR'000	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	1,088,199	21,153,436	1,373,569	15,637,271	615,368	7,398,204
- shareholders	19,781		48,891		189,307	
- key management personnel of the Group	1,246		1,038		4,458	
- other related parties	1,067,172		1,323,640		421,603	
Interest expense	1,658,205	10,933,901	1,503,961	7,194,872	778,993	4,746,800
- shareholders	121,569		110,537		79,265	
- key management personnel of the Group	15,801		13,126		10,419	
- other related parties	1,520,835		1,380,298		689,309	
Allowance for impairment losses	31,243	1,038,566	8,162	1,543,846	1,394	36,353
- key management personnel of the Group	703		758		1	
- other related parties	30,540		7,404		1,393	
Net gain/(loss) on financial assets at fair value through profit or loss	379,781	693,649	(512,595)	(151,505)	(604,974)	955,759
- shareholders	16,544		3,377		(27,139)	
- other related parties	363,237		(515,972)		(577,835)	
Net gain/(loss) on sale of investments available- for-sale	115,851	994,910	56,927	668,843	36,528	29,743
- shareholders	-		-		-	
- other related parties	115,851		56,927		36,528	
Fee and commission income	823,578	4,094,129	589,199	3,970,064	553,952	1,013,084
- shareholders	351		436		7,990	
- key management personnel of the Group	100		-		54	
- other related parties	823,127		588,763		545,908	
Operating expense	185,663	11,228,645	108,042	8,389,667	95,048	3,227,572
- shareholders	73		18		8	
- key management personnel of the Group	142,474		61,592		69,622	
- other related parties	43,116		46,432		25,418	

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in a forced or liquidation sale. As no readily available published price quotations in an active market exist for a large part of the Group’s financial instruments, judgment is necessary in arriving at fair value using a valuation technique, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the balance sheet of the Group is presented below:

	2005		2004		2003	
	Current value, RUR’000	Fair value, RUR’000	Current value, RUR’000	Fair value, RUR’000	Current value, RUR’000	Fair value, RUR’000
Cash and balances with Central and National banks	19,455,358	19,455,358	28,367,163	28,367,163	21,513,900	21,513,900
Financial assets at fair value through profit or loss	15,677,102	15,677,102	10,821,284	10,821,284	10,667,955	10,667,955
Loans and advances to banks, less allowance for impairment losses	53,995,068	53,995,068	21,003,058	21,003,058	10,748,392	10,748,392
Deposits from banks	11,139,028	11,139,028	8,618,844	8,618,844	7,863,506	7,863,506
Customer accounts	149,060,894	149,060,894	101,220,183	101,220,183	76,610,016	76,610,016
Debt securities issued	26,044,207	26,044,207	19,901,584	19,901,584	18,224,705	18,224,705
Financial liabilities at fair value through profit or loss	1,840,641	1,840,641	31,699	31,699	8,701	8,701
Subordinated debt	-	-	1,450,000	1,450,000	-	-

The fair value of loans to customers and investments available for sale can not be measured reliably as it is not practicable to obtain market information or apply any other valuation techniques on such instruments.

33. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios (as set forth in the table below) of total (8%) and tier 1 capital (4%) to risk weighted assets.

The ratio was calculated according to the principles employed by the Basle Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for impairment losses:

Estimate	Description of position
0%	Cash and balances with the Central bank of the Russian Federation
0%	State debt securities
20%	Loans and advances to banks for up to 1 year
100%	Loans to customers
100%	Guarantees
50%	Obligations and commitments on unused loans with initial maturity of over 1 year
100%	Other assets

Capital amounts and ratios	Actual amount in RUR thousand	For capital adequacy purposes amount in RUR thousand	Ratio for capital adequacy purposes	Minimum required ratio
As of 31 December 2005				
Total capital	22,820,266	22,804,843	15.6%	8%
Tier 1 capital	19,827,152	19,827,152	13.6%	4%
As of 31 December 2004				
Total capital	16,425,568	17,850,419	16.1%	8%
Tier 1 capital	13,330,307	13,330,307	12.0%	4%
As of 31 December 2003				
Total capital	11,283,742	11,283,742	12.6%	8%
Tier 1 capital	11,265,882	11,265,882	12.6%	4%

As of 31 December 2004 the Group included in the computation of Total capital for capital adequacy purposes subordinated debt received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to repayment of the Group's liabilities to all other creditors.

34. SEGMENT REPORTING

The Group's primary format for reporting segment information is business segments and the secondary format is geographical segments. Most operations of the Group are concentrated in the Russian Federation. Geographical analysis is presented in Note 35.

Business segments – The Group is organised on the basis of two main business segments:

- Retail banking – representing individuals' customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages and private banking.
- Corporate banking – representing direct debt facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products as well as transactions with small and medium enterprises.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding items such as taxation and borrowings. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

Segment information about these businesses is presented below.

	Retail banking	Corporate banking	Unallocated	31 December 2005 Consolidated amount RUR'000
External operating income	6,358,043	5,961,487	3,275,032	15,594,562
Income from other segments	485,248	2,239,490	(2,724,738)	-
Total operating income	<u>6,843,291</u>	<u>8,200,977</u>	<u>550,294</u>	<u>15,594,562</u>
Operating expenses	(5,471,521)	(1,504,741)	(4,252,383)	(11,228,645)
Operating profit	<u>1,371,770</u>	<u>6,696,236</u>	<u>(3,702,089)</u>	<u>4,365,917</u>
Other provisions	-	(17,546)	10,220	(7,326)
Profit before tax	1,371,770	6,678,690	(3,691,869)	4,358,591
Income tax expense	-	-	(1,274,529)	(1,274,529)
Net profit	<u>1,371,770</u>	<u>6,678,690</u>	<u>(4,966,398)</u>	<u>3,084,062</u>
Segment assets	<u>55,243,270</u>	<u>62,252,007</u>	<u>95,561,325</u>	<u>213,056,602</u>
Segment liabilities	<u>57,159,985</u>	<u>91,900,909</u>	<u>41,175,442</u>	<u>190,236,336</u>
Other segment items				
Depreciation expense	(213,848)	(58,811)	(166,200)	(438,859)
Interest income	8,480,444	10,324,860	2,348,132	21,153,436
Interest expense	(3,973,687)	(5,197,139)	(1,763,075)	(10,933,901)
(Provisions)/recovery of provision for impairment losses on interest bearing assets	(1,733,520)	682,748	12,206	(1,038,566)
Commission income	3,551,813	255,727	286,589	4,094,129
Commission expense	(845,711)	(129,129)	-	(974,840)
Other income	878,704	24,420	243,718	1,146,842
Loans to customers, less allowance for impairment losses	51,967,184	61,351,040	-	113,318,224
Fixed assets, net	3,276,086	900,967	2,546,124	6,723,177
Customer accounts	57,159,985	91,900,909	-	149,060,894
Cash flow from:		Retail banking	Corporate banking	31 December 2005 RUR'000 Total
Operating activities		2,440,756	10,326,933	12,767,689
Investing activities		(90,058)	(24,767)	(114,825)
		<u>2,350,698</u>	<u>10,302,166</u>	<u>12,652,864</u>

	Retail banking	Corporate banking	Unallocated	31 December 2004 Consolidated amount RUR'000
External operating income	3,952,624	6,395,911	1,449,659	11,798,194
Income from other segments	<u>1,450,176</u>	<u>353,617</u>	<u>(1,803,793)</u>	<u>-</u>
Total operating income	<u>5,402,800</u>	<u>6,749,528</u>	<u>(354,134)</u>	<u>11,798,194</u>
Operating expenses	<u>(4,175,906)</u>	<u>(1,154,136)</u>	<u>(3,059,625)</u>	<u>(8,389,667)</u>
Operating profit	<u>1,226,894</u>	<u>5,595,392</u>	<u>(3,413,759)</u>	<u>3,408,527</u>
Other provisions	-	(104,985)	(26,236)	(131,221)
Profit before tax	1,226,894	5,490,407	(3,439,995)	3,277,306
Income tax expense	<u>-</u>	<u>-</u>	<u>(951,996)</u>	<u>(951,996)</u>
Net profit	<u>1,226,894</u>	<u>5,490,407</u>	<u>(4,391,991)</u>	<u>2,325,310</u>
Segment assets	<u>30,166,197</u>	<u>53,918,784</u>	<u>65,788,752</u>	<u>149,873,733</u>
Segment liabilities	<u>36,922,595</u>	<u>64,297,588</u>	<u>32,227,982</u>	<u>133,448,165</u>
Other segment items				
Depreciation expense	185,180	51,180	135,679	372,039
Interest income	4,578,464	9,524,642	1,534,165	15,637,271
Interest expense	(2,439,637)	(3,315,796)	(1,439,439)	(7,194,872)
Provisions for impairment losses on interest bearing assets	(857,284)	(749,914)	63,352	(1,543,846)
Commission income	2,336,279	1,355,881	277,904	3,970,064
Commission expense	(309,110)	(433,871)	-	(742,981)
Other income	643,912	14,969	139,914	798,795
Loans to customers, less allowance for impairment losses	26,717,102	52,965,524	-	79,682,626
Fixed assets, net	3,449,095	953,260	2,527,101	6,929,456
Customer accounts	36,922,595	64,297,588	-	101,220,183
Cash flow from:		Retail banking	Corporate banking	31 December 2004 RUR'000 Total
Operating activities		2,205,413	2,040,640	4,246,053
Investing activities		<u>(393,244)</u>	<u>(108,685)</u>	<u>(501,929)</u>
		<u>1,812,169</u>	<u>1,931,955</u>	<u>3,744,124</u>

OVK banks were acquired by Interros at the end of 2003. Therefore results of operations of the Group on retail segment started from 1 January 2004. Balance sheet segments disclosures as of 31 December 2003 are presented below:

	Retail banking	Corporate banking	Unallocated	31 December 2003 Consolidated amount RUR'000
Segment assets	<u>12,562,286</u>	<u>50,442,315</u>	<u>52,423,126</u>	<u>115,427,727</u>
Segment liabilities	<u>30,520,093</u>	<u>46,089,923</u>	<u>27,533,969</u>	<u>104,143,985</u>
Other segment items				
Loans to customers, less allowance for impairment losses	11,016,379	50,389,782	-	61,406,161
Fixed and intangible assets, less accumulated depreciation	1,545,907	52,533	798,570	2,397,010
Customer accounts	30,520,093	46,089,923	-	76,610,016

35. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Group's banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Group's risk management policies in relation to those risks follows.

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

Liquidity and cash flow risks are managed by the Treasury department. Strategic decisions and overall risk monitoring is provided by the Management Board and Assets and Liabilities Committee.

The treasury department makes weekly forecasts on the Group's liquidity position. The treasury department manages assets/liabilities' structure (maturities up to 7 days). The treasury department manages and controls the current liquidity position of the Group. The combined Economic Department (CED) assesses any excess/lack of liquidity. CED makes analytic reports about assets/liabilities' maturity structure every week which is issued as a basic tool for liquidity risk analysis. CED also analyzes and forecasts liquidity conditions (maturities more than 7 days) and in case of negative economic conditions, creditors' and debtors' delinquencies. CED calculates internal liquidity limits and the Central Bank of Russian the Federation's obligatory ratios.

Cash flow interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments.

Interest rate risk is managed within the limit framework as established in accordance with the standards set by the Group. Interest rate risks are controlled via regular interest rate gap reporting. The Group does not perform hedging activities, thus no risk management policy for hedging transactions has been developed.

The following table presents an analysis of interest rate risk and thus the potential of the Group for gain or loss. Effective average interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Group.

	31 December 2005		31 December 2004		31 December 2003	
	RUR	USD	RUR	USD	RUR	USD
ASSETS						
Financial assets at fair value through profit or loss	9.2%	9.3%	9.2%	6.4%	13.0%	9.2%
Loans and advances to banks, less allowance for impairment losses	8.5%	3.7%	8.1%	2.1%	8.5%	2.7%
Loans and advances to customers, less allowance for impairment losses	17.9%	11.6%	15.4%	11.5%	16.2%	11.4%
Investments available-for-sale, less allowance for impairment loss	16.0%	-	9.1%	-	10.0%	-
LIABILITIES						
Deposits from banks	5.66%	6.34%	10.9%	3.9%	2.5%	4.2%
Customer accounts	8.67%	5.94%	8.9%	5.0%	6.9%	5.4%
Debt securities issued	7.50%	8.03%	9.2%	5.9%	13.6%	5.1%
Subordinated debt	-	-	8.8%	-	-	-

The analysis of interest rate and liquidity risk on balance sheet transactions is presented in the following table:

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined	31 December 2005 RUR'000 Total
ASSETS								
Interest bearing assets								
Financial assets at fair value through profit or loss	14,327,927	-	-	-	-	-	-	14,327,927
Loans and advances to banks	35,348,694	51,137	431,850	-	-	-	-	35,831,681
Loans to customers, less allowance for impairment losses	10,803,424	21,917,477	40,449,490	39,648,843	498,990	-	-	113,318,224
Investments available-for-sale, less allowance for impairment loss	-	-	115,722	-	-	-	-	115,722
Total interest bearing assets	60,480,045	21,968,614	40,997,062	39,648,843	498,990	-	-	163,593,554
Cash and balances with Central and National banks	14,799,277	-	-	-	-	-	4,656,081	19,455,358
Financial assets at fair value through profit or loss	1,251,671	13,129	84,375	-	-	-	-	1,349,175
Precious metals	978,040	-	-	-	-	-	-	978,040
Loans and advances to banks	18,163,387	-	-	-	-	-	-	18,163,387
Investments available-for-sale, less allowance for impairment loss	-	-	145,490	217,122	-	-	-	362,612
Fixed assets purchased for transfer into finance lease	-	-	-	329,005	-	-	-	329,005
Fixed assets, net	-	-	-	-	-	-	6,723,177	6,723,177
Current income tax assets	-	-	484,307	-	-	-	-	484,307
Other assets, less allowance for impairment losses	673,912	-	944,075	-	-	-	-	1,617,987
Total non- interest bearing assets	35,866,287	13,129	1,658,247	546,127	-	-	11,379,258	49,463,048
TOTAL ASSETS	96,346,332	21,981,743	42,655,309	40,194,970	498,990	-	11,379,258	213,056,602
LIABILITIES								
Interest bearing liabilities								
Deposits from banks	7,206,987	120,458	1,586,420	645,458	-	-	-	9,559,323
Customer accounts	45,377,188	20,671,806	48,085,198	21,247,331	506,873	-	-	135,888,396
Financial liabilities at fair value through profit or loss	1,700,955	11,977	4,790	-	-	-	-	1,717,722
Debt securities issued	2,491,187	2,482,354	3,846,443	14,154,773	1,074,324	-	-	24,049,081
Total interest bearing liabilities	56,776,317	23,286,595	53,522,851	36,047,562	1,581,197	-	-	171,214,522
Deposits from banks	1,579,705	-	-	-	-	-	-	1,579,705
Customer accounts	13,172,498	-	-	-	-	-	-	13,172,498
Financial liabilities at fair value through profit or loss	122,919	-	-	-	-	-	-	122,919
Debt securities issued	1,995,126	-	-	-	-	-	-	1,995,126
Other provisions	9,645	17,356	92,163	55,565	-	-	-	174,729
Current income tax liabilities	-	-	11,155	-	-	-	-	11,155
Deferred income tax liabilities	-	-	82,444	-	-	-	843,927	926,371
Other liabilities	559,443	71,133	408,735	-	-	-	-	1,039,311
Total non-interest bearing liabilities	17,439,336	88,489	594,497	55,565	-	-	843,927	19,021,814
TOTAL LIABILITIES	74,215,653	23,375,084	54,117,348	36,103,127	1,581,197	-	843,927	190,236,336
Liquidity gap	22,130,679	(1,393,341)	(11,462,039)	4,091,843	(1,082,207)	-	-	
Interest sensitivity gap	3,703,728	(1,317,981)	(12,525,789)	3,601,281	(1,082,207)	-	-	
Cumulative interest sensitivity gap	3,703,728	2,385,747	(10,140,042)	(6,538,761)	(7,620,968)	-	-	
Cumulative interest sensitivity gap as a percentage of total assets	1.7%	1.1%	(4.8%)	(3.1%)	(3.6%)	-	-	

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined	31 December 2004 RUR'000	Total
ASSETS									
Interest rate bearing assets									
Cash and balances with Central and National banks	12,000,000	-	-	-	-	-	-	-	12,000,000
Financial assets at fair value through profit or loss	8,974,862	-	-	-	-	-	-	-	8,974,862
Loans and advances to banks, less allowance for impairment losses	16,105,459	1,627,066	176,547	-	-	-	-	-	17,909,072
Loans to customers, less allowance for impairment losses	14,488,777	8,017,503	27,016,666	24,277,255	5,524,012	358,413	-	-	79,682,626
Investments available-for-sale, less allowance for impairment loss	-	-	818,984	-	-	-	-	-	818,984
Total interest rate bearing assets	51,569,098	9,644,569	28,012,197	24,277,255	5,524,012	358,413	-	-	119,385,544
Cash and balances with Central and National banks	12,729,412	-	-	-	-	-	3,637,751	-	16,367,163
Financial assets at fair value through profit or loss	1,846,422	-	-	-	-	-	-	-	1,846,422
Precious metals	69,342	-	-	-	-	-	-	-	69,342
Loans and advances to banks, less allowance for impairment losses	3,068,703	-	25,283	-	-	-	-	-	3,093,986
Investments available-for-sale, less allowance for impairment loss	-	-	1,042,144	76,218	-	-	-	-	1,118,362
Fixed assets, net	-	-	-	-	-	-	6,929,456	-	6,929,456
Current income tax assets	-	-	327,866	-	-	-	-	-	327,866
Other assets, less allowance for impairment losses	115,672	103,890	268,100	123,800	123,718	412	-	-	735,592
Total non- interest rate bearing assets	17,829,551	103,890	1,663,393	200,018	123,718	412	10,567,207	-	30,488,189
TOTAL ASSETS	69,398,649	9,748,459	29,675,590	24,477,273	5,647,730	358,825	10,567,207	-	149,873,733
LIABILITIES									
Interest rate bearing liabilities									
Deposits from banks	3,294,529	409,665	3,920,322	847,639	-	-	-	-	8,472,155
Customer accounts and subordinated debt	54,077,540	14,266,963	19,056,373	3,065,691	6,223,758	-	-	-	96,690,325
Debt securities issued	560,560	1,461,992	5,614,004	9,291,938	1,056,709	-	-	-	17,985,203
Total interest rate bearing liabilities	57,932,629	16,138,620	28,590,699	13,205,268	7,280,467	-	-	-	123,147,683
Deposits from banks	146,689	-	-	-	-	-	-	-	146,689
Customer accounts	5,979,858	-	-	-	-	-	-	-	5,979,858
Financial liabilities at fair value through profit or loss	14,234	3,100	14,365	-	-	-	-	-	31,699
Debt securities issued	1,916,381	-	-	-	-	-	-	-	1,916,381
Other provisions	13,694	116,852	74,627	47,114	-	-	-	-	252,287
Current income tax liabilities	-	-	106,839	-	-	-	-	-	106,839
Deferred income tax liabilities	-	-	52,100	-	-	-	930,367	-	982,467
Other liabilities	469,765	35,069	379,428	-	-	-	-	-	884,262
Total non-interest rate bearing liabilities	8,540,621	155,021	627,359	47,114	-	-	930,367	-	10,300,482
TOTAL LIABILITIES	66,473,250	16,293,641	29,218,058	13,252,382	7,280,467	-	930,367	-	133,448,165
Liquidity gap	2,925,399	(6,545,182)	457,532	11,224,891	(1,632,737)	-	-	-	-
Interest sensitivity gap	(6,363,531)	(6,494,051)	(578,502)	11,071,987	(1,756,455)	-	-	-	-
Cumulative interest sensitivity gap	(6,363,531)	(12,857,582)	(13,436,084)	(2,364,097)	(4,120,552)	-	-	-	-
Cumulative interest sensitivity gap as a percentage of total assets	(4.2%)	(8.6%)	(9.0%)	(1.6%)	(2.7%)	-	-	-	-

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined	31 December 2003 RUR'000	Total
ASSETS									
Interest rate bearing assets									
Cash and balances with Central and National banks	2,500,000	-	-	-	-	-	-	-	2,500,000
Financial assets at fair value through profit or loss	9,031,643	-	-	-	-	-	-	-	9,031,643
Loans and advances to banks, less allowance for impairment losses	775,158	837,907	386,242	214,591	16,936	-	-	-	2,230,834
Loans to customers, less allowance for impairment losses	9,615,116	7,283,944	25,009,014	19,283,049	209,672	5,366	-	-	61,406,161
Investments available-for-sale, less allowance for impairment loss	-	-	302,935	-	-	-	-	-	302,935
Securities held-to-maturity	-	-	132,787	-	-	-	-	-	132,787
Total interest rate bearing assets	21,921,917	8,121,851	25,830,978	19,497,640	226,608	5,366	-	-	75,604,360
Cash and balances with Central and National banks	10,819,524	-	-	-	-	-	8,194,376	-	19,013,900
Financial assets at fair value through profit or loss	1,636,312	-	-	-	-	-	-	-	1,636,312
Precious metals	39,170	-	-	-	-	-	-	-	39,170
Loans and advances to banks, less allowance for impairment losses	8,493,114	-	24,444	-	-	-	-	-	8,517,558
Investments available-for-sale, less allowance for impairment loss	-	13,886	6,521,449	949,368	-	-	-	-	7,484,703
Fixed assets, net	-	-	-	-	-	-	2,397,010	-	2,397,010
Current income tax assets	-	98,202	-	-	-	-	-	-	98,202
Other assets, less allowance for impairment losses	291,737	255,748	89,027	-	-	-	-	-	636,512
Total non- interest rate bearing assets	21,279,857	367,836	6,634,920	949,368	-	-	10,591,386	-	39,823,367
TOTAL ASSETS	43,201,774	8,489,687	32,465,898	20,447,008	226,608	5,366	10,591,386	-	115,427,727
LIABILITIES									
Interest rate bearing liabilities									
Deposits from banks	2,457,934	1,353,623	2,448,495	881,530	8,769	-	-	-	7,150,351
Customer accounts	17,400,879	15,932,305	8,322,941	2,220,860	2,836,271	-	-	-	46,713,256
Debt securities issued	2,685,654	1,248,777	3,503,576	8,004,872	1,162,668	-	-	-	16,605,547
Total interest rate bearing liabilities	22,544,467	18,534,705	14,275,012	11,107,262	4,007,708	-	-	-	70,469,154
Deposits from banks	713,155	-	-	-	-	-	-	-	713,155
Customer accounts	29,896,760	-	-	-	-	-	-	-	29,896,760
Financial liabilities at fair value through profit or loss	8,701	-	-	-	-	-	-	-	8,701
Debt securities issued	1,619,158	-	-	-	-	-	-	-	1,619,158
Other provisions	-	-	357,602	-	-	-	-	-	357,602
Current income tax liabilities	-	294,269	-	-	-	-	-	-	294,269
Deferred income tax liabilities	-	-	47,247	-	-	-	40,550	-	87,797
Other liabilities	429,821	134,964	132,604	-	-	-	-	-	697,389
Total non-interest rate bearing liabilities	32,667,595	429,233	537,453	-	-	-	40,550	-	33,674,831
TOTAL LIABILITIES	55,212,062	18,963,938	14,812,465	11,107,262	4,007,708	-	40,550	-	104,143,985
Liquidity gap	(12,010,288)	(10,474,251)	17,653,433	9,339,746	(3,781,100)				
Interest sensitivity gap	(622,550)	(10,412,854)	11,555,966	8,390,378	(3,781,100)				
Cumulative interest sensitivity gap	(622,550)	(11,035,404)	520,562	8,910,940	5,129,840				
Cumulative interest sensitivity gap as a percentage of total assets	(0.54%)	(9.56%)	0.45%	7.72%	4.44%				

Substantially all of the Group's interest earning assets and interest bearing liabilities are at fixed rates of assets.

Asset and liability maturity periods and the ability to replace interest bearing liabilities at an acceptance cost when they mature are crucial in determining the Group's liquidity and its fluctuation of interest and exchange rates.

The maturity of time deposits of individuals is based on contractual terms. However, time deposits can be withdrawn by individuals on demand.

Currently, a considerable part of customer deposits are repayable on demand. However, the fact that these deposits are diversified by the number and type of customers and the Group's previous experience indicate that deposits are a stable and long-term source of financing for the Group.

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuation in prevailing foreign currency exchange rates on its financial position and cash flows. The Management Board sets limits on the level of exposure by currencies (primarily US Dollar), by branches and in total. These limits also comply with the minimum requirements of the Central Bank of the Russian Federation.

The Group's exposure to foreign currency exchange rate risk is presented in the table below:

	RUR	USD 1 USD = 28.7825 RUR	EUR 1 EUR = 34.1850 RUR	Precious metals	Other currency	31 December 2005 RUR'000 Total
ASSETS						
Cash and balances with Central and National banks	17,413,417	1,599,607	365,564	-	76,770	19,455,358
Financial assets at fair value through profit or loss	11,296,601	3,704,943	269,906	99,261	306,391	15,677,102
Precious metals	-	-	-	978,040	-	978,040
Loans and advances to banks, less allowance for impairment losses	2,208,976	47,593,015	3,961,409	304	231,364	53,995,068
Loans to customers, less allowance for impairment losses	77,187,049	32,333,076	1,757,064	832,381	1,208,654	113,318,224
Investments available-for-sale, less allowance for impairment loss	419,146	-	396	-	58,792	478,334
Fixed assets purchased for transfer into finance lease	329,005	-	-	-	-	329,005
Fixed assets, net	6,705,872	-	-	-	17,305	6,723,177
Current income tax assets	484,129	-	178	-	-	484,307
Other assets, less allowance for impairment losses	1,293,873	147,993	1,396	83,206	91,519	1,617,987
TOTAL ASSETS	117,338,068	85,378,634	6,355,913	1,993,192	1,990,795	213,056,602
LIABILITIES						
Deposits from banks	3,943,809	4,396,000	493,621	2,027,052	278,546	11,139,028
Customer accounts	73,154,491	71,252,557	3,551,807	285,054	816,985	149,060,894
Financial liabilities at fair value through profit or loss	-	1,543,323	297,318	-	-	1,840,641
Debt securities issued	9,766,918	15,653,127	616,665	-	7,497	26,044,207
Other provisions	105,586	62,279	5,353	1,511	-	174,729
Current income tax liabilities	10,225	-	930	-	-	11,155
Deferred income tax liabilities	914,416	-	11,955	-	-	926,371
Other liabilities	468,610	303,924	32,824	115,792	118,161	1,039,311
TOTAL LIABILITIES	88,364,055	93,211,210	5,010,473	2,429,409	1,221,189	190,236,336
OPEN BALANCE SHEET POSITION	28,974,013	(7,832,576)	1,345,440	(436,217)	769,606	

Derivative financial instruments and spot contracts

The fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents a further analysis of currency risk by types of derivative financial instruments and spot contracts as of 31 December 2005:

	RUR	USD 1 USD = 28.7825 RUR	EUR 1 EUR = 34.1850 RUR	Precious metals	Other currency	31 December 2005 RUR'000 Total
Payables on spot and derivative contracts	16,170,345	26,511,625	2,222,025	1,378,805	2,981,317	49,264,117
Receivables on spot and derivative contracts	<u>(24,911,417)</u>	<u>(19,633,500)</u>	<u>(3,718,313)</u>	<u>(699,575)</u>	<u>(237,787)</u>	<u>(49,200,592)</u>
NET POSITION ON SPOT AND DERIVATIVE CONTRACTS	<u>(8,741,072)</u>	<u>6,878,125</u>	<u>(1,496,288)</u>	<u>679,230</u>	<u>2,743,530</u>	
TOTAL OPEN POSITION	<u>20,232,941</u>	<u>(954,451)</u>	<u>(150,848)</u>	<u>243,013</u>	<u>3,513,136</u>	
	RUR	USD 1 USD = 27.7487 RUR	EUR 1 EUR = 37.8104 RUR	Precious metals	Other currency	31 December 2004 RUR thousand Total
ASSETS						
Cash and balances with Central and National banks	26,862,277	1,010,916	377,774	-	116,196	28,367,163
Financial assets at fair value through profit or loss	9,266,246	793,229	22,338	-	739,471	10,821,284
Precious metals	-	-	-	69,342	-	69,342
Loans and advances to banks, less allowance for impairment losses	1,281,616	15,376,111	3,186,005	584,453	574,873	21,003,058
Loans to customers, less allowance for impairment losses	45,608,003	33,308,875	589,586	-	176,162	79,682,626
Investments available-for-sale, less allowance for impairment loss	1,937,277	-	-	-	69	1,937,346
Fixed assets, net	6,915,034	-	-	-	14,422	6,929,456
Current income tax assets	327,866	-	-	-	-	327,866
Other assets, less allowance for impairment losses	<u>584,195</u>	<u>88,164</u>	<u>15,480</u>	<u>-</u>	<u>47,753</u>	<u>735,592</u>
TOTAL ASSETS	<u>92,782,514</u>	<u>50,577,295</u>	<u>4,191,183</u>	<u>653,795</u>	<u>1,668,946</u>	<u>149,873,733</u>
LIABILITIES						
Deposits from banks	728,720	6,450,124	322,893	1,100,131	16,976	8,618,844
Customer accounts and subordinated debt	55,907,689	42,157,712	3,345,323	34,711	1,224,748	102,670,183
Financial liabilities at fair value through profit or loss	11,757	19,942	-	-	-	31,699
Debt securities issued	10,710,442	8,936,883	254,023	-	236	19,901,584
Other provisions	85,607	143,553	10,172	-	12,955	252,287
Current income tax liabilities	106,839	-	-	-	-	106,839
Deferred income tax liabilities	982,467	-	-	-	-	982,467
Other liabilities	<u>749,528</u>	<u>87,803</u>	<u>26,158</u>	<u>-</u>	<u>20,773</u>	<u>884,262</u>
TOTAL LIABILITIES	<u>69,283,049</u>	<u>57,796,017</u>	<u>3,958,569</u>	<u>1,134,842</u>	<u>1,275,688</u>	<u>133,448,165</u>
OPEN BALANCE SHEET POSITION	<u>23,499,465</u>	<u>(7,218,722)</u>	<u>232,614</u>	<u>(481,047)</u>	<u>393,258</u>	

Derivative financial instruments and spot contracts

The fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents a further analysis of currency risk by derivative financial instruments and spot contracts as of 31 December 2004:

	RUR	USD 1 USD = 27.7487 RUR	EUR 1 EUR = 37.8104 RUR	Precious metals	Other currency	31 December 2004 RUR'000 Total
Payables on spot and derivative contracts	(12,725,092)	(4,786,172)	(283,171)	-	(611,676)	(18,406,111)
Receivables on spot and derivative contracts	<u>2,372,443</u>	<u>13,528,052</u>	<u>18,905</u>	<u>537,050</u>	<u>1,988,717</u>	<u>18,445,167</u>
NET POSITION ON SPOT AND DERIVATIVE CONTRACTS	<u>(10,352,649)</u>	<u>8,741,880</u>	<u>(264,266)</u>	<u>537,050</u>	<u>1,377,041</u>	
TOTAL OPEN POSITION	<u>13,146,816</u>	<u>1,523,158</u>	<u>(31,652)</u>	<u>56,003</u>	<u>1,770,299</u>	

	RUR	USD 1 USD = 27.4545 RUR	EUR 1 EUR = 36.8240 RUR	Precious metals	Other currency	31 December 2003 RUR thousand Total
ASSETS						
Cash and balances with Central and National banks	19,751,208	1,458,818	273,583	-	30,291	21,513,900
Financial assets at fair value through profit or loss	8,674,828	1,446,240	398,919	4,417	143,551	10,667,955
Precious metals	-	-	-	39,170	-	39,170
Loans and advances to banks, less allowance for impairment losses	2,502,051	7,181,174	841,882	-	223,285	10,748,392
Loans to customers, less allowance for impairment losses	22,735,788	37,558,919	951,152	-	160,302	61,406,161
Investments available-for-sale, less allowance for impairment loss	7,685,494	1,174	100,898	-	72	7,787,638
Securities held-to-maturity	132,787	-	-	-	-	132,787
Fixed assets, net	2,384,482	-	-	-	12,528	2,397,010
Current income tax assets	98,202	-	-	-	-	98,202
Other assets, less allowance for impairment losses	<u>428,594</u>	<u>168,338</u>	<u>6,468</u>	<u>-</u>	<u>33,112</u>	<u>636,512</u>
TOTAL ASSETS	<u>64,393,434</u>	<u>47,814,663</u>	<u>2,572,902</u>	<u>43,587</u>	<u>603,141</u>	<u>115,427,727</u>
LIABILITIES						
Deposits from banks	2,189,471	5,144,905	131,199	397,355	576	7,863,506
Customer accounts	41,234,268	33,179,827	1,766,712	37,643	391,566	76,610,016
Financial liabilities at fair value through profit or loss	8,701	-	-	-	-	8,701
Debt securities issued	14,833,540	3,362,468	-	-	28,697	18,224,705
Other provisions	91,142	265,672	-	-	788	357,602
Current income tax liabilities	294,269	-	-	-	-	294,269
Deferred income tax liabilities	87,797	-	-	-	-	87,797
Other liabilities	<u>506,057</u>	<u>143,392</u>	<u>28,244</u>	<u>-</u>	<u>19,696</u>	<u>697,389</u>
TOTAL LIABILITIES	<u>59,245,245</u>	<u>42,096,264</u>	<u>1,926,155</u>	<u>434,998</u>	<u>441,323</u>	<u>104,143,985</u>
OPEN BALANCE SHEET POSITION	<u>5,148,189</u>	<u>5,718,399</u>	<u>646,747</u>	<u>(391,411)</u>	<u>161,818</u>	

Derivative financial instruments and spot contracts

The fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents a further analysis of currency risk by types of derivative financial instruments and spot contracts as of 31 December 2003:

	RUR	USD 1 USD = 29.4545 RUR	EUR 1 EUR = 36.824 RUR	Precious metals	Other currency	31 December 2003 RUR'000 Total
Payables on spot and derivative contracts	(1,078,010)	(1,138,410)	(14,707)	(21,831)	(1,490,829)	(3,743,787)
Receivables on spot and derivative contracts	443,572	2,550,147	128,090	691,433	5,782	3,819,024
NET POSITION ON SPOT AND DERIVATIVE CONTRACTS	<u>(634,438)</u>	<u>1,411,737</u>	<u>113,383</u>	<u>669,602</u>	<u>(1,485,047)</u>	
TOTAL OPEN POSITION	<u>4,513,751</u>	<u>7,130,136</u>	<u>760,130</u>	<u>278,191</u>	<u>(1,323,229)</u>	

According to Regulation of the CBR N41 for open currency position calculation purposes the Group may exclude the contribution to share capital made in foreign currency (US dollars) of RUR equivalent of USD 148,776 thousand from total assets in the respective currency.

Market risk

Market risk is assessed by CED using a value at risk (VAR) methodology. VAR is calculated based on an internationally accepted approach. CED provides daily market risk evaluation and prepares a report for the Board of Directors at least twice a month. The Group performs back testing of the adequacy of the methodology at least quarterly with reference to current market terms to ensure that deviations for all statistics parameters included in the calculation are within expected values. Based on statistical for the preceding nine months and maturities of debt securities, the Group produces a model securities portfolio, calculates a proportion of different types of securities in the portfolio and the overall risk of the portfolio which is viewed as a standard portfolio proportion in current terms. In order to decrease risks, the Group sets the following limits: open position limit, stop-loss limit and structure limits. CED daily assesses current risks of the Group and proposes limits for the Liquidity, Risks and Pricing Committee. Currency position control provides data to CED, which calculates the open currency position (OCP) daily based on accounting data, and to Operations Registration Department, which calculates OCP daily according to CBR requirements. A stop-loss instrument is used to prevent unexpected significant losses resulting from fluctuations in the securities portfolio. The stop-loss limits are set for accumulated losses per day and per month as a percentage of investments. The month stop-loss limit is set at 3/2 of a daily limit. No operations are allowed after the loss reaches the stop-loss limit. Daily limit utilization is determined from realized and unrealized mark-to-market adjustment. Market prices used are based on quotations in REUTERS and by brokers of Tradition, ADIX, Eurobroker and Garban.

Credit risk

Credit activities are conducted in accordance with the regulatory framework set by the Central Bank of the Russian Federation as well as internationally accepted criteria. Credit Policy is defined by the Group's Management Board and the Credit Committee. Credit Risk is taken based on the principles of risk adequacy, adequacy of profitability and strategic rationale. Credit operations conducted by the Group include term loans, credit lines, overdraft facilities, syndications, documentary operations and other operations involving credit risk. The credit procedure is structured in line with a strict segregation of duties, based on the approved Credit Manual of the Group.

The Credit Committee is a standing body of the Group, authorized to make decisions on all issues relating to the credit operations of the Group. Its task is to ensure design and implementation of a single credit policy of the Group and its branches.

The Credit Committee consider issues regarding the assumption of credit risks for transactions within relevant limits (there are separate limits for corporate clients, financial institutions and individuals) established and revised on an annual basis by the Management Board and/or for which the period does not exceed 12 months.

The assumption of credit risks for transactions exceeding relevant limits established by the Board and/or for which the period exceeds 12 months is considered by the Management Board.

Credit risk management and control are conducted using differentiated multilevel complex approach to evaluation of credit applications. Credit control is carried out at all stages of credit work and credit portfolio structuring. Credit risk policy is conducted in accordance with the following internal documents:

- Banking credit policy;
- Direction for credit operations.

The following methods of credit risk management are used:

- Complex credit risk analysis;
- Approval of credit risk limits for individuals and groups of clients;
- Control over maturity structure of assets;
- Limit and decision-making control;
- Planning spread between cash inflow and outflow, plan vs. actual analysis;
- Analysis of borrower's financial position, monitoring of financial position of guarantors;
- Current banking assets monitoring for management decisions-making.

Credit risk is evaluated by the following bodies:

- Credit operations Department – complex analysis of the risk level;
- Credit Committee – credit limit determination;
- Project financing and control Department – independent risk level evaluation of specific deals;
- Combined Economic Department – standards and essential adequacy of allowance for impairment.

The procedure for credit risk assumption comprises:

- Gathering of essential documents;
- Assessment of reliability and completeness of documents;
- Complex analysis of all risks which may occur;
- Making decisions about credit risk assumption;
- Legal capacity control of clients and their representatives.

Geographical concentration

The geographical concentration of assets and liabilities is set out below:

	Russia	Other CIS countries	OECD countries	Other non-OECD countries	31 December 2005 RUR'000
					Total
ASSETS					
Cash and balances with Central and National banks	19,387,997	51,943	15,418	-	19,455,358
Financial assets at fair value through profit or loss	13,839,516	243,735	1,593,851	-	15,677,102
Precious metals	978,040	-	-	-	978,040
Loans and advances to banks, less allowance for impairment losses	3,787,140	771,675	46,300,316	3,135,937	53,995,068
Loans to customers, less allowance for impairment losses	102,160,988	3,410,993	4,614,744	3,131,499	113,318,224
Investments available-for-sale, less allowance for impairment loss	448,024	29,910	400	-	478,334
Fixed assets purchased for transfer into finance lease	329,005	-	-	-	329,005
Fixed assets, net	6,705,873	8,699	8,605	-	6,723,177
Current income tax assets	484,129	-	178	-	484,307
Other assets, less allowance for impairment losses	1,542,533	17,329	57,602	523	1,617,987
TOTAL ASSETS	149,663,245	4,534,284	52,591,114	6,267,959	213,056,602
LIABILITIES					
Deposits from banks	4,958,186	1,355,137	3,640,321	1,185,384	11,139,028
Customer accounts	107,615,584	891,584	5,481,584	35,072,142	149,060,894
Financial liabilities at fair value through profit or loss	30,499	-	1,810,142	-	1,840,641
Debt securities issued	10,043,746	7,497	14,224,232	1768732	26,044,207
Other provisions	164,761	-	5091	4,877	174,729
Current income tax liabilities	10,225	-	930	-	11,155
Deferred income tax liabilities	914,416	-	11955	-	926,371
Other liabilities	988,144	13,671	35,036	2460	1,039,311
TOTAL LIABILITIES	124,725,561	2,267,889	25,209,291	38,033,595	190,236,336
NET POSITION	24,937,684	2,266,395	27,381,823	(31,765,636)	

	Russia	Other CIS countries	OECD countries	Other non-OECD countries	31 December 2004 RUR thousand Total
ASSETS					
Cash and balances with Central and National banks	28,264,632	96,460	6,071	-	28,367,163
Financial assets at fair value through profit or loss	10,134,010	682,920	4,354	-	10,821,284
Precious metals	69,342	-	-	-	69,342
Loans and advances to banks, less allowance for impairment losses	3,885,090	1,172,528	15,723,071	222,369	21,003,058
Loans to customers, less allowance for impairment losses	72,308,482	728,906	2,651,483	3,993,755	79,682,626
Investments available-for-sale, less allowance for impairment loss	1,937,346	-	-	-	1,937,346
Fixed assets, net	6,915,034	8,412	6,010	-	6,929,456
Current income tax assets	327,866	-	-	-	327,866
Other assets, less allowance for impairment losses	711,720	22,022	1,850	-	735,592
TOTAL ASSETS	<u>124,553,522</u>	<u>2,711,248</u>	<u>18,392,839</u>	<u>4,216,124</u>	<u>149,873,733</u>
LIABILITIES					
Deposits from banks	2,930,790	1,633,841	3,112,888	941,325	8,618,844
Customer accounts and subordinated debt	87,845,487	1,512,313	5,959,837	7,352,546	102,670,183
Financial liabilities at fair value through profit or loss	16,013	-	15,686	-	31,699
Debt securities issued	12,669,487	1,003	7,231,094	-	19,901,584
Other provisions	106,434	115,599	30,254	-	252,287
Current income tax liabilities	106,839	-	-	-	106,839
Deferred income tax liabilities	982,467	-	-	-	982,467
Other liabilities	864,604	2,556	17,102	-	884,262
TOTAL LIABILITIES	<u>105,522,121</u>	<u>3,265,312</u>	<u>16,366,861</u>	<u>8,293,871</u>	<u>133,448,165</u>
NET POSITION	<u>19,031,401</u>	<u>(554,064)</u>	<u>2,025,978</u>	<u>(4,077,747)</u>	

	Russia	Other CIS countries	OECD countries	Other non-OECD countries	31 December 2003 RUR'000 Total
ASSETS					
Cash and balances with Central and National banks	21,389,015	119,175	5,710	-	21,513,900
Financial assets at fair value through profit or loss	10,586,428	-	81,527	-	10,667,955
Precious metals	39,170	-	-	-	39,170
Loans and advances to banks, less allowance for impairment losses	3,936,515	176,955	6,631,924	2,998	10,748,392
Loans to customers, less allowance for impairment losses	55,349,803	1,159,507	1,802,008	3,094,843	61,406,161
Investments available-for-sale, less allowance for impairment loss	7,785,926	1,281	431	-	7,787,638
Securities held-to-maturity	132,787	-	-	-	132,787
Fixed assets, net	2,384,482	6,328	6,200	-	2,397,010
Current income tax assets	98,202	-	-	-	98,202
Other assets, less allowance for impairment losses	624,182	8,526	3,804	-	636,512
TOTAL ASSETS	<u>102,326,510</u>	<u>1,471,772</u>	<u>8,531,604</u>	<u>3,097,841</u>	<u>115,427,727</u>
LIABILITIES					
Deposits from banks	4,194,981	2,428,760	503,402	736,363	7,863,506
Customer accounts	62,772,517	130,199	3,759,408	9,947,892	76,610,016
Financial liabilities at fair value through profit or loss	8,701	-	-	-	8,701
Debt securities issued	18,224,705	-	-	-	18,224,705
Other provisions	357,602	-	-	-	357,602
Current income tax liabilities	294,269	-	-	-	294,269
Deferred income tax liabilities	87,797	-	-	-	87,797
Other liabilities	677,161	5,767	14,461	-	697,389
TOTAL LIABILITIES	<u>86,617,733</u>	<u>2,564,726</u>	<u>4,277,271</u>	<u>10,684,255</u>	<u>104,143,985</u>
NET POSITION	<u>15,708,777</u>	<u>(1,092,954)</u>	<u>4,254,333</u>	<u>(7,586,414)</u>	