VOZROZHDENIE BANK

Financial Statements and Auditors' Report

31 December 2006

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PRICEWATERHOUSECOOPERS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Vozrozhdenie Bank:

1 We have audited the accompanying financial statements of Vozrozhdenie Bank (the "Bank") which comprise the balance sheet as at 31 December 2006 and the income statement, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2 Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

3 Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6 In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
23 March 2007

In millions of Russian Roubles	Note	31 December 2006	31 December 2005
ASSETS			
Cash and cash equivalents	7	6 105	8 478
Mandatory cash balances with the Central Bank of the Russian Federation		1 099	923
Trading securities	8	4 236	2 342
Due from other banks	9	5 732	3 078
Loans and advances to customers	10	52 426	30 774
Premises, equipment and intangible assets	11	2 597	1 972
Other assets	12	1 231	1 542
TOTAL ASSETS		**73 426**	**49 109**
LIABILITIES			
Due to other banks	13	418	113
Customer accounts	14	60 674	40 112
Debt securities in issue	15	4 087	4 131
Subordinated loans	16	2 467	1 223
Other liabilities		271	257
TOTAL LIABILITIES		**67 917**	**45 836**
EQUITY			
Share capital	17	4 397	4 377
Share premium	17	3 162	1 735
Accumulated deficit	18	(2 050)	(2 839)
TOTAL EQUITY		**5 509**	**3 273**
TOTAL LIABILITIES AND EQUITY		**73 426**	**49 109**

Approved for issue and signed on behalf of the Board of Directors on 23 March 2007.

D.L. Orlov
President

A.A. Novikova
Chief Accountant

In millions of Russian Roubles	**Note**	**2006**	**2005**
Interest income	19	6 278	4 155
Interest expense	19	(2 794)	(2 044)
Net interest income		**3 484**	**2 111**
Provision for loan impairment	10	(393)	(247)
Net interest income after provision for loan impairment		**3 091**	**1 864**
Gains less losses from trading securities		24	97
Gains less losses from disposal of investment securities available for sale		2	25
Gains less losses from trading in foreign currencies		105	168
Gains less losses from dealing in precious metals		9	22
Foreign exchange translation gains less losses/(losses net of gains)		102	(28)
Fee and commission income	20	2 197	1 514
Fee and commission expense	20	(129)	(82)
Release of provision for losses on credit related commitments	27	-	33
Losses from disposal of loans and advances to customers		(118)	-
Dividend income		13	13
Other operating income		63	118
Operating income		**5 359**	**3 744**
Administrative and other operating expenses	21	(4 243)	(3 037)
Loss from disposal of associate	30	(32)	-
Profit before tax		**1 084**	**707**
Income tax expense	22	(283)	(163)
Profit for the year		**801**	**544**
Earnings per share for profit attributable to the equity holders of the Bank, basic (expressed in RR per share)	23		
Ordinary and convertible preference shares		39	28
Preference shares with fixed dividend		38	29
Earnings per share for profit attributable to the equity holders of the Bank, diluted (expressed in RR per share)	23		
Ordinary and convertible preference shares		39	28
Preference shares with fixed dividend		38	29

In millions of Russian Roubles	**Note**	**Share capital**	**Share premium**	**Revaluation reserve for investment securities available for sale**	**Accumu-lated deficit**	**Total**
Balance at 31 December 2004		**4 371**	**1 610**	**(6)**	**(3 371)**	**2 604**
Available for sale investments:						
- Fair value gains less losses		-	-	33	-	33
- Disposals		-	-	(25)	-	(25)
Income tax recorded in equity	22	-	-	(2)	-	(2)
Net income recognised directly in equity		-	-	6	-	6
Profit for the year		-	-	-	544	544
Total recognised income for 2005		-	-	6	544	550
Share issue	17	6	125	-	-	131
Dividends declared	24	-	-	-	(12)	(12)
Balance at 31 December 2005		**4 377**	**1 735**	**-**	**(2 839)**	**3 273**
Profit for the year		-	-	-	801	801
Total recognised income for 2006		-	-	-	801	801
Share issue	17	20	1 427	-	-	1 447
Dividends declared	24	-	-	-	(12)	(12)
Balance at 31 December 2006		**4 397**	**3 162**	**-**	**(2 050)**	**5 509**

In millions of Russian Roubles	Note	2006	2005
Cash flows from operating activities			
Interest received		6 250	4 102
Interest paid		(2 443)	(1 622)
Net income received from dealing with trading securities		35	72
Net income received from disposal of investment securities available for sale		2	25
Net income received from trading in foreign currencies		105	155
Net income received from dealing in precious metals		9	22
Fees and commissions received		2 274	1 552
Fees and commissions paid		(129)	(82)
Other operating income received		50	90
Administrative and other operating expenses paid		(3 933)	(2 870)
Income tax paid		(281)	(182)
Cash flows from operating activities before changes in operating assets and liabilities		**1 939**	**1 262**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(176)	(344)
Net increase in trading securities		(1 976)	(1 780)
Net increase in due from other banks		(2 800)	(2 112)
Net increase in loans and advances to customers		(22 846)	(8 673)
Net increase in other assets		(304)	(111)
Net increase/(decrease) in due to other banks		317	(210)
Net increase in customer accounts		21 051	15 094
Net increase in debt securities in issue		64	1 812
Net decrease in other liabilities		(24)	(20)
Net cash (used in)/from operating activities		**(4 755)**	**4 918**
Cash flows from investing activities			
Acquisition of investment securities available for sale		-	(749)
Proceeds from disposal of investment securities available for sale		466	290
Proceeds from disposal of associate	30	75	-
Acquisition of premises, equipment and intangible assets	11	(889)	(497)
Proceeds from disposal of premises, equipment and intangible assets		42	16
Dividend income received		13	13
Net cash used in investing activities		**(293)**	**(927)**
Cash flows from financing activities			
Receipt of subordinated loans	16	1 372	490
Issue of ordinary shares	17	1 447	-
Dividends paid	24	(12)	(12)
Net cash from financing activities		**2 807**	**478**
Effect of exchange rate changes on cash and cash equivalents		**(132)**	**45**
Net increase in cash and cash equivalents		**(2 373)**	**4 514**
Cash and cash equivalents at the beginning of the year		8 478	3 964
Cash and cash equivalents at the end of the year	7	**6 105**	**8 478**

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

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2006. In 2005 Vozrozhdenie Bank OJSC (the "Bank") accounted for Moscow Reinsurance Company (the "Company") as an associate using the equity method. In September 2006 the Bank fully disposed of the associate. The Bank and its associate together are referred to as the "Bank".

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is an open joint-stock company limited by shares and was set up in accordance with Russian regulations. The Bank is ultimately de-facto controlled by Mr. D. Orlov (2005: Mr. D. Orlov).

Principal Activity. The Bank's principal business activity is commercial and retail banking operations within the Russian Federation. The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation ("CBRF") since 1991. The Bank participates in the State deposit insurance scheme, which was introduced by the Federal Law No.177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of individual deposits up to RR 190 thousand per individual in case of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments.

Ordinary shares are listed on the Russian Trading System (RTS) and are included into quotation list "B" of the Moscow Interbank Currency Exchange (MICEX). Preference shares, with a fixed dividend, of the Bank are traded on MICEX. As at 31 December 2006 550 000 (2005: 550 000) ordinary shares of the Bank were circulating on international over-the-counter markets through Level One American Depository Receipts (ADR). Refer to Note 17.

The Bank has 60 (2005: 59) branches within the Russian Federation, the majority of which are in Moscow and Moscow region. The number of the Bank's employees as at 31 December 2006 was 5 767 (2005: 5 083).

The Bank's registered address and Head office address is Luchnikov pereulok, 7/4 bld. 1, 101000, Moscow, Russian Federation.

Moscow Reinsurance Company is an open joint-stock company registered in the Russian Federation in 1996. The principal activity of the Company is reinsurance services within the Russian Federation. The Company operates under a reinsurance license issued by the Ministry of Finance of the Russian Federation. As at 31 December 2005 the Bank owned 20% of the shares of the Company.

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

2 Operating Environment of the Bank

The Russian Federation displays certain characteristics of an emerging market, including the existence of a currency that is in practice not convertible in most countries outside of the Russian Federation, relatively high inflation and strong economic growth. The banking sector in the Russian Federation is sensitive to adverse fluctuations in confidence and economic conditions and may occasionally experience reductions in liquidity. Management is unable to predict all developments which could have an impact on the banking sector and consequently what effect, if any, they could have on the financial position of the Bank.

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

3 Basis of Preparation and Significant Accounting Policies

Basis of Preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of trading and available for sale financial assets. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5.

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

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

Unrealised gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

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

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

Valuation techniques such as discounted cash flows models or models based on recent arms length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments. Refer to Notes 4 and 12.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

After a loan has been written down as a result of impairment, interest income is thereafter recognised for the unwinding of the present value discount using the instrument's original effective interest rate.

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

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

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

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

Depreciation. Depreciation on premises, equipment and intangible assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives at the following annual rates:

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

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

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

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

Investment securities available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Bank's right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired, at which time the cumulative gain or loss is removed from equity to profit or loss.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

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

Subordinated loans. Subordinated loans are recorded initially at their fair value. Subsequently, subordinated loans are stated at amortised cost.

Derivative financial instruments. Derivative financial instruments, including forward agreements and foreign exchange contracts, are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss as gains less losses arising from trading in foreign currency, gains less losses arising from dealing in precious metals and other operating income depending on the related contracts. The Bank does not apply hedge accounting.

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

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

At 31 December 2006 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 26.3311 (2005: USD 1 = RR 28.7825).

Fiduciary assets. Assets and liabilities held by the Bank in its own name, but on the account of third parties, are not reported on the balance sheet. The extent of such balances and transactions is indicated in Note 27. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

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

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

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

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave and bonuses are accrued in the year in which the associated services are rendered by the employees of the Bank.

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

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

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

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

Deferred income tax asset recognition. The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future Management makes judgements and applies estimation based on last three years taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

Investments carried at cost. Management could not reliably estimate the fair value of its available for sale investments in shares of OJSC "Cherkizovsky meat processing plant". The investments are carried at cost of RR 77 million (2005: RR 77 million). The investee has not published recent financial information about its operations, its shares are not quoted and recent trade prices are not publicly accessible. Management estimates that fair value of these investments is between RR 77 million and RR 83 million (2005: between RR 77 million and RR 117 million) based on the comparative analysis of the price of shares of similar plants.

5 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Bank from 1 January 2006. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Bank's operations and the nature of their impact on the Bank's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to the retained earnings at 1 January 2005, unless otherwise described below.

IFRIC 4 "Determining whether an Arrangement contains a Lease" (effective from 1 January 2006). IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. The Bank reassessed its arrangements and concluded that no adjustments are required as a result of the adoption of IFRIC 4.

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

IAS 39 (Amendment) "The Fair Value Option" (effective from 1 January 2006). IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ('fair value through profit or loss'). The amendment changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category. The Bank amended its policies and management now designates financial instruments as part of this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Bank's Board of Directors. The Bank applies the amendment retrospectively in accordance with the transitional provisions of the Fair Value Option amendment to IAS 39. The amendment did not have a significant impact on these financial statements.

IAS 39 (Amendment) "Financial Guarantee Contracts" (effective from 1 January 2006). As a result of this amendment, the Bank measures issued financial guarantees initially at their fair value, which is normally evidenced by the amount of fees received. This amount is then amortised on a straight line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date. This amendment did not have a significant impact on these financial statements.

IAS 19 (Amendment) "Employee Benefits" (effective from 1 January 2006). The amendment introduced an additional option to recognise actuarial gains and losses arising in post-employment defined benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employers. This amendment did not have a significant impact on these financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2007 or later periods and which the Bank has not early adopted:

IFRS 7 "Financial Instruments": Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). The IFRS introduces new disclosures to improve the information about financial instruments. The volume of disclosures will increase significantly with an emphasis on quantitative aspects of risk exposures and the methods of risk management. The quantitative disclosures will provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures will cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Bank is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements.

IFRS 8 "Operating Segments" (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management is currently assessing what impact the Standard will have on segment disclosures in the Bank's financial statements.

6 New Accounting Pronouncements (Continued)

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

- IFRIC 7 "Applying the Restatement Approach under IAS 29" (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007).
- IFRIC 8 "Scope of IFRS 2" (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007).
- IFRIC 10 "Interim Financial Reporting and Impairment" (effective for annual periods beginning on or after 1 November 2006).
- IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions" (effective for annual periods beginning on or after 1 March 2007).
- IFRIC 12 "Service Concession Arrangements" (effective for annual periods beginning on or after 1 January 2008).

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

7 Cash and Cash Equivalents

In millions of Russian Roubles	**2006**	**2005**
Cash on hand	3 856	2 871
Cash balances with the CBRF (other than mandatory reserve deposits)	1 669	4 274
Correspondent accounts and overnight placements with other banks		
- Russian Federation	193	37
- Other countries	387	1 296
Total cash and cash equivalents	**6 105**	**8 478**

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

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 26.

8 Trading Securities

In millions of Russian Roubles	**2006**	**2005**
CBRF bonds	2 381	1 215
Russian Federation Eurobonds	835	527
Corporate Eurobonds	346	114
Corporate bonds	296	303
Federal loan bonds (OFZ)	189	10
Municipal bonds	135	83
VneshEconomBank 3% coupon bonds (VEB bonds)	39	84
Corporate shares	15	6
Total trading securities	**4 236**	**2 342**

CBRF bonds are zero-coupon bonds denominated in Russian Roubles, issued by the Central Bank of Russian Federation. These bonds are issued at a discount to the nominal value. These bonds have maturity dates from June 2009 to September 2009 (2005: from June 2009 to September 2009) and yield to maturity from 5.0% to 5.1% (2005: from 4.2% to 4.8%), depending on the type of bond issue.

8 Trading Securities (Continued)

Russian Federation Eurobonds are interest bearing securities denominated in USD, issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. These bonds have maturity date in June 2007 (2005: from June 2007 to March 2010), coupon rate of 10.0% (2005: 8.3% - 10.0%) and yield to maturity of 5.3% (2005: 5.0% to 6.5%), depending on the type of bond issue.

Corporate Eurobonds are interest bearing securities denominated in USD and Euro, issued by large Russian companies, and are freely tradable internationally. These bonds have maturity dates from February 2007 to December 2012 (2005: June 2015), coupon rate of 4.6% to 11.5% (2005: 5.9%) and yield to maturity from 4.8% to 6.0% (2005: 4.8%).

Corporate bonds are interest bearing securities denominated in Russian Roubles issued by large Russian companies and a Russian bank and are freely tradable in the Russian Federation. These bonds have maturity dates from November 2007 to January 2009 (2005: from April 2006 to December 2008), coupon rates of 6.7% - 13.0% (2005: 7.8% - 16.3%) and yield to maturity from 6.3% to 12.9% (2005: 6.8% to 12.6%), depending on the type of bond issue.

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds have maturity dates from June 2007 to January 2011 (2005: April 2008), a coupon rate from 5.8% to 6.3% (2005: 6.3%) and yield to maturity from 5.7% to 6.2% (2005: 6.7%).

Municipal bonds are interest-bearing securities denominated in Russian Roubles, issued by Russian regional authorities and are freely tradable in the Russian Federation. These bonds have maturity dates from December 2008 to June 2015 (2005: from December 2008 to June 2009), interest rates of 7.8% - 13.0% (2005: 10.0% - 13.0%) and yield to maturity from 5.5% to 8.1% (2005: 6.2% to 7.5%), depending on the type of bond issue.

VEB bonds are interest bearing securities denominated in USD and issued by the Ministry of Finance of the Russian Federation. The bonds are purchased at a discount to nominal value and have a coupon rate of 3.0% (2005: 3.0%). The bonds have maturity dates from November 2007 to May 2008 (2005: May 2008) and yield to maturity from 5.5% to 5.7% (2005: 5.4%).

Corporate shares are shares of Russian companies.

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

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

9 Due from Other Banks

In millions of Russian Roubles	**2006**	**2005**
Deposits with CBRF	5 000	2 000
Short-term placements with other banks	732	1 078
Total due from other banks	**5 732**	**3 078**

As at 31 December 2006 the Bank had a short-term deposit placed with CBRF in the amount of RR 5 000 million (2005: RR 2 000 million) with a maturity date in January 2007 (2005: January 2006) and contractual interest rate of 2.8% (2005: 0.5%).

At 31 December 2006 the estimated fair value of due from other banks was RR 5 732 million (2005: RR 3 078 million). Refer to Note 29.

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

10 Loans and Advances to Customers

In millions of Russian Roubles	2006	2005
Current loans	53 451	31 954
Overdue loans	929	441
Less: Provision for loan impairment	(1 954)	(1 621)
Total loans and advances to customers	**52 426**	**30 774**

Movements in the provision for loan impairment are as follows:

In millions of Russian Roubles	2006	2005
Provision for loan impairment at 1 January	**1 621**	**1 456**
Provision for loan impairment during the year	393	247
Loans and advances to customers written off during the year as uncollectible	(60)	(82)
Provision for loan impairment at 31 December	**1 954**	**1 621**

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

	2006		2005	
In millions of Russian Roubles	Amount	%	Amount	%
Manufacturing	14 496	27	10 165	31
Trade	14 265	26	7 993	25
Individuals	8 982	17	3 511	11
Construction	5 322	10	2 512	8
Agricultural	3 254	6	1 777	5
Transport	2 050	4	1 044	3
Finance	1 680	3	2 019	6
State and public organisations	1 288	2	1 245	4
Other	3 043	5	2 129	7
Total loans and advances to customers (before impairment)	**54 380**	**100**	**32 395**	**100**

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

At 31 December 2006 the Bank had 13 borrowers with aggregated loan amounts equal or above RR 400 million. The total aggregate amount of these loans was RR 9 757 million or 17.9% of the gross loan portfolio.

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

At 31 December 2006 the estimated fair value of loans and advances to customers was RR 52 426 million (2005: RR 30 774 million). Refer to Note 29.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 26. The information on related party balances is disclosed in Note 31.

11 Premises, Equipment and Intangible Assets

	Note	Premises	Office and computer equipment	Computer software licences	Construc-tion in progress	Total
Net book amount as at 31 December 2004		**1 153**	**494**	**-**	**44**	**1 691**
Gross book amount						
Opening balance		1 373	1 508	-	44	2 925
Additions		17	349	25	106	497
Transfers		51	-	-	(51)	-
Disposals		(6)	(148)	-	(11)	(165)
Closing balance		**1 435**	**1 709**	**25**	**88**	**3 257**
Accumulated depreciation						
Opening balance		220	1 014	-	-	1 234
Depreciation charge	21	28	164	5	-	197
Disposals		(2)	(144)	-	-	(146)
Closing balance		**246**	**1 034**	**5**	**-**	**1 285**
Net book amount as at 31 December 2005		**1 189**	**675**	**20**	**88**	**1 972**
Gross book amount						
Opening balance		1 435	1 709	25	88	3 257
Additions		33	564	56	236	889
Transfers		20	-	-	(20)	-
Disposals		(17)	(84)	-	-	(101)
Closing balance		**1 471**	**2 189**	**81**	**304**	**4 045**
Accumulated depreciation						
Opening balance		246	1 034	5	-	1 285
Depreciation charge	21	29	205	11	-	245
Disposals		(2)	(80)	-	-	(82)
Closing balance		273	1 159	16	-	1 448
Net book amount as at 31 December 2006		**1 198**	**1 030**	**65**	**304**	**2 597**

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

12 Other Assets

In millions of Russian Roubles	Note	2006	2005
Credit/debit cards receivables		414	329
Trade debtors and prepayments		273	224
Investment securities available for sale		159	628
Deferred tax asset	22	117	59
Settlements on letters of credit		67	11
Receivables from sale of associate	30	49	-
Settlements with currency and stock exchanges		24	26
Investment in associate		-	168
Other		128	97
Total other assets		**1 231**	**1 542**

Geographical, currency and maturity analyses of other assets are disclosed in Note 26. The information on related party balances is disclosed in Note 31.

13 Due to Other Banks

In millions of Russian Roubles	2006	2005
Short-term placements of other banks	374	92
Correspondent accounts of other banks	44	21
Total due to other banks	**418**	**113**

At 31 December 2006 the estimated fair value of due to other banks was RR 418 million (2005: RR 113 million). Refer to Note 29.

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

14 Customer Accounts

In millions of Russian Roubles	2006	2005
State and public organisations		
- Current/settlement accounts	174	928
Other legal entities		
- Current/settlement accounts	17 247	9 852
- Term deposits	5 468	4 408
Individuals		
- Current/demand accounts	9 210	5 690
- Term deposits	28 575	19 234
Total customer accounts	**60 674**	**40 112**

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

14 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

	2006		2005	
In millions of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	37 785	62	24 924	62
Manufacturing	5 922	10	4 959	12
Trade	5 461	9	4 066	10
Finance	2 824	5	2 083	5
Transport	2 569	4	79	0
Construction	1 803	3	1 004	3
Agriculture	1 110	2	324	1
State and public organizations	174	0	928	2
Other	3 026	5	1 745	5
Total customer accounts	**60 674**	**100**	**40 112**	**100**

At 31 December 2006 the Bank had 10 customers with balances above RR 200 million. The aggregate balance of these customers was RR 4 932 million or 8.1% of total customer accounts.

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

At 31 December 2006 included in customer accounts are deposits of RR 105 million (2005: RR 166 million) held as collateral for irrevocable commitments under import letters of credit. Refer to Note 27.

At 31 December 2006 the estimated fair value of customer accounts was RR 60 674 million (2005: RR 40 112 million). Refer to Note 29.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 26. The information on related party balances is disclosed in Note 31.

15 Debt Securities in Issue

In millions of Russian Roubles	**2006**	**2005**
Promissory notes	3 443	3 764
Deposit certificates	644	367
Total debt securities in issue	**4 087**	**4 131**

Promissory notes have maturity dates from January 2007 to December 2010 (2005: from January 2006 to July 2010) and effective interest rates of 3.3%-15.6% (2005: 3.0%-15.7%).

At 31 December 2006 the estimated fair value of debt securities in issue was RR 4 087 million (2005: RR 4 131 million). Refer to Note 29.

Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 26. The information on debt securities in issue held by related parties is disclosed in Note 31.

16 Subordinated Loans

Subordinated loans represent long-term deposits of customers of the Bank, which mature from 2010 to 2014 and bear contractual interest rates ranging from 2.3% to 11.0%. In July and December 2005 the Bank received two additional subordinated loans in the amount of USD 10 million from an unrelated party and USD 7 million from a related party which mature in July and December 2013 and bear a contractual interest rate of 5.8% and 8.0%, respectively. In 2006 the Bank received four additional subordinated loans. The details of subordinated loans received are disclosed in the table below:

	Start date	Maturity date	Contractual interest rate, %	Currency	Balance, RR'mln
Subordinated loan 1	December 2006	December 2013	11.0	Rubles	1 000
Subordinated loan 2	June 2006	June 2014	6.5	US dollars	132
Subordinated loan 3	March 2006	March 2014	6.5	US dollars	132
Subordinated loan 4	May 2006	May 2014	6.5	US dollars	79
Total received in 2006					**1 343**

Subordinated loans 2, 3 and 4 were received by the Bank from a related party.

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

As at 31 December 2006 the estimated fair value of subordinated loans was RR 2 467 million (2005: RR 1 223 million). Refer to Note 29.

Geographical, currency, maturity and interest rate analyses of subordinated loans are disclosed in Note 26. The information on related parties' balances is disclosed in Note 31.

17 Share Capital

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

	2006			2005		
	Number of shares	Nominal amount	Inflation adjusted amount	Number of share	Nominal amount	Inflation adjusted amount
Ordinary shares	20 748 694	207	4 337	18 748 694	187	4 317
Preference shares with fixed dividend	1 294 505	13	60	1 294 505	13	60
Total share capital	**22 043 199**	**220**	**4 397**	**20 043 199**	**200**	**4 377**

All ordinary shares have a nominal value of RR 10 per share (2005: RR 10 per share). Each share carries one vote.

The preference shares have a nominal value of RR 10 (2005: RR 10) and carry no voting rights but rank ahead of the ordinary shares in the event of the Bank's liquidation. The preference shares are not redeemable. Preference share dividends are set at 20% p.a. from their nominal amount (2005: 20% p.a.) and rank above ordinary dividends. If preference dividends are not declared by ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until such time that the dividend is paid.

17 Share Capital (Continued)

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

Conversion of shares is disclosed in the table below:

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

In August 2006 the Central Bank of the Russian Federation registered an additional issue of 2 000 000 ordinary shares of the Bank with a nominal value of RR 10 per share at a price of RR 729 per share. As a result the Bank received contributions into share capital and share premium in the amounts of RR 20 million and RR 1 427 million, respectively.

As at 31 December 2006 550 000 (2006: 550 000) ordinary shares of the Bank were circulating under a Level One American Depository Receipts (ADR) program on International over-the-counter markets. One ADR corresponds to one ordinary share of the Bank with a nominal value of RR 10.

18 Accumulated Deficit

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules at 31 December 2006 are RR 3 257 million (2005: RR 1 715 million).

Within the accumulated deficit calculated in accordance with IFRS there is RR 3 968 million related to revaluation of non-monetary items as required by IAS 29, which was done until 1 January 2003.

19 Interest Income and Expense

In millions of Russian Roubles	2006	2005
Interest income		
Loans and advances to customers	5 927	3 934
Trading securities	196	81
Correspondent accounts and due from other banks	155	140
Total interest income	**6 278**	**4 155**
Interest expense		
Term deposits of individuals	2 003	1 432
Debt securities in issue	329	263
Term deposits of legal entities	282	200
Subordinated loans	97	64
Current/settlement accounts of legal entities	76	66
Due to other banks	7	15
Exchangeable convertible preference shares recorded as liabilities	-	4
Total interest expense	**2 794**	**2 044**
Net interest income	**3 484**	**2 111**

The information on related party transactions is disclosed in Note 31.

20 Fee and Commission Income and Expense

In millions of Russian Roubles	2006	2005
Fee and commission income		
Credit/debit cards and cheques settlements	734	488
Settlement transactions	663	523
Cash transactions	573	397
Cash collection	57	43
Guarantees issued	43	24
Other	127	39
Total fee and commission income	**2 197**	**1 514**
Fee and commission expense		
Credit/debit cards and cheques settlements	82	55
Cash transactions	16	8
Transactions with currency and stock exchanges	14	7
Settlement transactions	10	8
Other	7	4
Total fee and commission expense	**129**	**82**
Net fee and commission income	**2 068**	**1 432**

21 Administrative and Other Operating Expenses

In millions of Russian Roubles	Note	2006	2005
Staff costs		2 431	1 715
Administrative expenses		624	431
Depreciation of premises, equipment and intangible assets	11	245	197
Taxes other than income tax		191	135
Contributions to the State Deposit Insurance Agency		160	86
Rent		151	129
Other costs related to premises, equipment and intangible assets		142	132
Other		299	212
Total administrative and other operating expenses		**4 243**	**3 037**

Included in staff costs are statutory social security and pension contributions of RR 364 million (2005: RR 273 million).

22 Income Taxes

Income tax expense comprises the following:

In millions of Russian Roubles	2006	2005
Current tax	341	215
Deferred tax	(58)	(52)
Income tax expense for the year	**283**	**163**

The income tax rate applicable to the majority of the Bank's income is 24% (2005: 24%). A reconciliation between the expected and the actual taxation charge is provided below.

In millions of Russian Roubles	2006	2005
IFRS profit before tax	**1 084**	**707**
Theoretical tax charge at statutory rate	260	170
Tax effect of items, which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	(7)	(4)
- Non-deductible expenses	30	(3)
Income tax expense for the year	**283**	**163**

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

22 Income Taxes (Continued)

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 24% (2005: 24%), except for income on state securities that is taxed at 15% (2005: 15%).

	2004	(Charged)/ credited to profit or loss	Charged directly to equity	2005	(Charged)/ credited to profit or loss	Charged directly to equity	2006
Tax effect of deductible temporary differences							
Provision for loan impairment	117	26	-	143	(26)	-	117
Fair valuation of trading securities	6	(6)	-	-	-	-	-
Accruals	-	28	-	28	10	-	38
Fair valuation of investment securities available for sale	2	-	(2)	-	-	-	-
Deferred commission income	5	8	-	13	14	-	27
Gross deferred tax asset	**130**	**56**	**(2)**	**184**	**(2)**	**-**	**182**
Tax effect of taxable temporary differences							
Premises, equipment and intangible assets	(77)	(6)	-	(83)	29	-	(54)
Investment in associate	(21)	(7)	-	(28)	28	-	-
Other	(23)	9	-	(14)	3	-	(11)
Gross deferred tax liability	**(121)**	**(4)**	**-**	**(125)**	**60**	**-**	**(65)**
Total net deferred tax asset/(liability)	**9**	**52**	**(2)**	**59**	**58**	**-**	**117**

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

23 Earnings per Share

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

In millions of Russian Roubles	Note	2006	2005
Profit attributable to shareholders		801	544
Less dividends on preference and ordinary shares	24	(12)	(12)
Undistributed earnings		**789**	**532**

	2006		2005	
In millions of Russian Roubles	**Ordinary shares**	**Preference shares with fixed dividend**	**Ordinary shares**	**Preference shares with fixed dividend**
Distributed earnings	9	3	9	3
Undistributed earnings	742	47	498	34
Total earnings	751	50	507	37
Weighted average number of shares in issue	19.4154	1.2945	18.2487	1.2945
Basic earnings per share (expressed in RR per share)	**39**	**38**	**28**	**29**

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

24 Dividends

	2006		2005	
In millions of Russian Roubles	**Ordinary**	**Preference**	**Ordinary**	**Preference**
Dividends payable at 1 January	-	-	-	-
Dividends declared during the year	9	3	9	3
Dividends paid during the year	(9)	(3)	(9)	(3)
Dividends payable at 31 December	-	-	-	-
Dividends per share declared during the year (expressed in RR per share)	**0.5**	**2**	**0.5**	**2**

All dividends are declared and paid in Russian Roubles.

25 Segment Analysis

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

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

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

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

The Bank does not have an internal management accounting system for reallocation of funds, operating expenses and/or capital expenditures between the segments.

Funds are reallocated free of charge between segments.

Segment information for the main reportable business segments of the Bank for the years ended 31 December 2006 and 2005 is set out below:

In millions of Russian Roubles	**Retail banking**	**Corporate banking**	**Other**	**Total**
2006				
External revenues	1 690	6 434	414	8 538
Revenues from other segments	-	-	-	-
Total revenues				**8 538**
Total revenues comprise:				
- Interest income	873	5 054	351	6 278
- Fee and commission income	817	1 380	-	2 197
- Other operating income	-	-	63	63
Total revenues				**8 538**

The Bank changed its accounting policy for segment revenues to exclude gains (net of losses) from segment revenues. The change was applied retrospectively from 1 January 2005. Management believes that the revised definition of segment revenue better reflects objectives of reporting segment information.

25 Segment Analysis (Continued)

In millions of Russian Roubles	**Retail banking**	**Corporate banking**	**Other**	**Total**
2006 (continued)				
Segment result	**(316)**	**5 121**	**533**	**5 338**
Unallocated costs	-	-	-	(4 254)
Profit before tax	**-**	**-**	**-**	**1 084**
Income tax expense	-	-	-	(283)
Profit				**801**
Segment assets	9 393	43 447	9 968	62 808
Total segment assets	**9 393**	**43 447**	**9 968**	**62 808**
Current and deferred tax assets	-	-	-	117
Other unallocated assets	-	-	-	10 501
Total assets				**73 426**
Segment liabilities	37 785	26 974	418	65 177
Total segment liabilities	**37 785**	**26 974**	**418**	**65 177**
Other unallocated liabilities	-	-	-	2 740
Total liabilities				**67 917**
Other segment items				
Capital expenditure	519	370	-	889
Depreciation and amortisation expense	(143)	(102)	-	(245)

25 Segment Analysis (Continued)

In millions of Russian Roubles	**Retail banking**	**Corporate banking**	**Other**	**Total**
2005				
External revenues	878	4 570	339	5 787
Revenues from other segments	-	-	-	-
Total revenues				**5 787**
Total revenues comprise:				
- Interest income	236	3 698	221	4 155
- Fee and commission income	642	872	-	1 514
- Other operating income	-	-	118	118
Total revenues				**5 787**
Segment result	**(644)**	**3 823**	**554**	**3 733**
Unallocated costs	-	-		(3 026)
Profit before tax	**-**	**-**	**-**	**707**
Income tax expense	-	-	-	(163)
Profit				**544**
Segment assets	3 972	27 132	5 420	36 524
Total segment assets	**3 972**	**27 132**	**5 420**	**36 524**
Current and deferred tax assets	-	-	-	59
Other unallocated assets	-	-	-	12 526
Total assets				**49 109**
Segment liabilities	24 924	19 318	113	44 355
Total segment liabilities	**24 924**	**19 318**	**113**	**44 355**
Other unallocated liabilities	-	-	-	1 481
Total liabilities				**45 836**
Other segment items				
Capital expenditure	63	434	-	497
Depreciation and amortisation expense	(25)	(172)	-	(197)

25 Segment Analysis (Continued)

Geographical segments. Segment information for the main geographical segments of the Bank is set out below for the years ended 31 December 2006 and 2005.

In millions of Russian Roubles	**Russia**	**OECD**	**Non-OECD**	**Total**
2006				
Segment assets	72 372	999	55	73 426
External revenues	8 504	34	-	8 538
Capital expenditure	889	-	-	889
Credit related commitments	8 466	201	-	8 667
2005				
Segment assets	47 656	1 404	49	49 109
External revenues	5 783	4	-	5 787
Capital expenditure	497	-	-	497
Credit related commitments	6 202	-	14	6 216

26 Financial Risk Management

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

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

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

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

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

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

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

26 Financial Risk Management (Continued)

Geographical risk. The geographical concentration of the Bank's assets and liabilities at 31 December 2006 is set out below:

In millions of Russian Roubles	Russia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	5 718	364	23	6 105
Mandatory cash balances with the CBRF	1 099	-	-	1 099
Trading securities	3 890	346	-	4 236
Due from other banks	5 594	138	-	5 732
Loans and advances to customers	52 414	6	6	52 426
Premises, equipment and intangible assets	2 597	-	-	2 597
Other assets	1 060	145	26	1 231
Total assets	**72 372**	**999**	**55**	**73 426**
Liabilities				
Due to other banks	176	242	-	418
Customer accounts	59 863	218	593	60 674
Debt securities in issue	3 210	-	877	4 087
Subordinated loans	1 597	-	870	2 467
Other liabilities	271	-	-	271
Total liabilities	**65 117**	**460**	**2 340**	**67 917**
Net balance sheet position	**7 255**	**539**	**(2 285)**	**5 509**
Credit related commitments (Note 27)	**8 466**	**201**	**-**	**8 667**

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

26 Financial Risk Management (Continued)

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

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

26 Financial Risk Management (Continued)

Currency risk. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors and the Assets and Liabilities Management Committee set limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2006:

In millions of Russian Roubles	RR	USD	Euro	Other	Total
Assets					
Cash and cash equivalents	5 421	521	163	-	6 105
Mandatory cash balances with the CBRF	1 099	-	-	-	1 099
Trading securities	3 024	1 178	34	-	4 236
Due from other banks	5 580	152	-	-	5 732
Loans and advances to customers	44 587	6 534	1 305	-	52 426
Premises, equipment and intangible assets	2 597	-	-	-	2 597
Other assets	1 084	49	71	27	1 231
Total assets	**63 392**	**8 434**	**1 573**	**27**	**73 426**
Liabilities					
Due to other banks	39	136	243	-	418
Customer accounts	52 733	6 267	1 510	164	60 674
Debt securities in issue	2 975	1 112	-	-	4 087
Subordinated loans	1 000	1 467	-	-	2 467
Other liabilities	240	31	-	-	271
Total liabilities	**56 987**	**9 013**	**1 753**	**164**	**67 917**
Net balance sheet position	**6 405**	**(579)**	**(180)**	**(137)**	**5 509**
Credit related commitments (Note 27)	**7 779**	**17**	**871**	**-**	**8 667**

26 Financial Risk Management (Continued)

At 31 December 2005, the Bank had the following positions in currencies:

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

26 Financial Risk Management (Continued)

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

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

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

The liquidity position of the Bank at 31 December 2006 is set out below.

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**No stated maturity**	**Total**
Assets						
Cash and cash equivalents	6 105	-	-	-	-	6 105
Mandatory cash balances with the CBRF	524	235	216	124	-	1 099
Trading securities	4 236	-	-	-	-	4 236
Due from other banks	5 732	-	-	-	-	5 732
Loans and advances to customers	4 005	15 770	24 194	8 457	-	52 426
Premises, equipment and intangible assets	**-**	**-**	**-**	**-**	**2 597**	**2 597**
Other assets	1 014	54	-	-	163	1 231
Total assets	**21 616**	**16 059**	**24 410**	**8 581**	**2 760**	**73 426**
Liabilities						
Due to other banks	180	36	52	150	-	418
Customer accounts	30 374	12 805	11 970	5 525	-	60 674
Debt securities in issue	508	1 025	772	1 782	-	4 087
Subordinated loans	-	-	-	2 467	-	2 467
Other liabilities	271	-	-	-	-	271
Total liabilities	**31 333**	**13 866**	**12 794**	**9 924**	-	**67 917**
Net liquidity gap	**(9 717)**	**2 193**	**11 616**	**(1 343)**	**2 760**	**5 509**
Cumulative liquidity gap at 31 December 2006	**(9 717)**	**(7 524)**	**4 092**	**2 749**	**5 509**	**-**

26 Financial Risk Management (Continued)

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

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

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

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

26 Financial Risk Management (Continued)

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

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

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The table below summarises the Bank's exposure to interest rate risks at 31 December 2006. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

In millions of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**Non-monetary**	**Total**
Assets						
Cash and cash equivalents	6 105	-	-	-	-	6 105
Mandatory cash balances with the CBRF	524	235	216	124	-	1 099
Trading securities	4 236	-	-	-	-	4 236
Due from other banks	5 732	-	-	-	-	5 732
Loans and advances to customers	4 005	15 770	24 194	8 457	-	52 426
Premises, equipment and intangible assets	-	-	-	-	2 597	2 597
Other assets	1 014	54	-	-	163	1 231
Total assets	**21 616**	**16 059**	**24 410**	**8 581**	**2 760**	**73 426**
Liabilities						
Due to other banks	180	36	52	150	-	418
Customer accounts	30 374	12 805	11 970	5 525	-	60 674
Debt securities in issue	508	1 025	772	1 782	-	4 087
Subordinated loans	-	-	-	2 467	-	2 467
Other liabilities	271	-	-	-	-	271
Total liabilities	**31 333**	**13 866**	**12 794**	**9 924**	-	**67 917**
Net sensitivity gap	**(9 717)**	**2 193**	**11 616**	**(1 343)**	**2 760**	**5 509**
Cumulative sensitivity gap at 31 December 2006	**(9 717)**	**(7 524)**	**4 092**	**2 749**	**5 509**	**-**

26 Financial Risk Management (Continued)

The following table summarises the Bank's exposure to interest rate risks at 31 December 2005 by showing assets and liabilities in categories based on the earlier of contractual repricing or maturity dates.

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

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

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

26 Financial Risk Management (Continued)

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

	2006				2005			
In % p.a.	**RR**	**USD**	**Euro**	**Other**	**RR**	**USD**	**Euro**	**Other**
Assets								
Cash and cash equivalents	2%	3%	2%	-	2%	2%	1%	0%
Trading securities	6%	5%	5%	-	5%	5%	5%	-
Due from other banks	3%	3%	-	-	2%	4%	-	-
Loans and advances to customers	13%	12%	9%	-	14%	12%	10%	-
Liabilities								
Due to other banks	0%	6%	5%	-	10%	0%	3%	-
Customer accounts								
- current and settlement accounts	1%	0%	0%	0%	1%	0%	0%	0%
- term deposits	8%	6%	4%	-	7%	7%	5%	-
Debt securities in issue	8%	10%	-	-	8%	10%	0%	-
Subordinated loans	11%	6%	-	-	-	7%	-	-

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

27 Contingencies and Commitments

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

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

Russian transfer pricing legislation introduced 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory.

27 Contingencies and Commitments (Continued)

Being conservative, the Bank estimates that it has certain potential obligations from exposure to other than remote tax risks. However, at 31 December 2006 no provision for potential tax liabilities had been recorded (2005: no provision), because the Bank's Management believes that its interpretation of the relevant legislation is appropriate and the Bank's tax, currency legislation and customs positions will be sustained.

Capital expenditure commitments. At 31 December 2006 the Bank has contractual capital expenditure commitments in respect of premises and equipment and software totalling RR 305 million (2005: RR 203 million).

The Bank has already allocated the necessary resources in respect of these commitments. The Bank believes that future net income and funding will be sufficient to cover this and any similar such commitments.

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

In millions of Russian Roubles	**2006**	**2005**
Not later than 1 year	99	105
Later than 1 year and not later than 5 years	210	185
Later than 5 years	329	351
Total operating lease commitments	**638**	**641**

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

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

In millions of Russian Roubles	**2006**	**2005**
Unused limits on overdraft loans	4 974	3 255
Guarantees issued	2 124	2 010
Undrawn credit lines	1 248	897
Import letters of credit	199	14
Letters of credit for payments in the Russian Federation	122	40
Less: Provision for losses on credit related commitments	-	-
Total credit related commitments	**8 667**	**6 216**

Deposits in the amount of RR 105 million (2005: RR 166 million) held as collateral for irrevocable commitments under import letters of credit are recorded in customer accounts. Refer to Note 14.

27 Contingencies and Commitments (Continued)

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

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

In millions of Russian Roubles	2006	2005
Provision for losses on credit related commitments as at 1 January	**-**	**33**
Release of provision for losses on credit related commitments during the period	-	(33)
Provision for losses on credit related commitments as at 31 December	**-**	**-**

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

In millions of Russian Roubles	2006 Nominal value	2005 Nominal value
Promissory notes held on behalf of the Bank's customers	213	721
Corporate bonds held on behalf of the Bank's customers	118	24
Client VEB securities held with Vneshtorgbank on behalf of the Bank's customers	91	86
OFZ held on behalf of the Bank's customers	90	171
Corporate shares held on behalf of the Bank's customers	84	-
Eurobonds held on behalf of the Bank's customers	26	58
Deposit certificates held on behalf of the Bank's customers	2	76
Other	-	16

Assets pledged and restricted. Mandatory cash balances with the CBRF in the amount of RR 1 099 million (2005: RR 923 million) represent mandatory reserve deposits which are not available to finance the Bank's day to day operations.

28 Derivative Financial Instruments

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

At 31 December 2006 the Bank did not have outstanding derivative contracts, except outstanding obligations from unsettled spot transactions with foreign currencies and forward agreements with precious metals. The fair value of these derivative contracts at 31 December 2006 is RR 3 million (31 December 2005: RR 13 million). Refer to Note 29.

29 Fair Value of Financial Instruments

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

The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

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

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

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period (“demandable liabilities”) is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Refer to Notes 13, 14, 15 and 16 for the estimated fair values of due to other banks, customer accounts, debt securities in issue and subordinated loans, respectively.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Fair value was determined by using appropriate techniques. Refer to Note 28.

30 Disposal of Associate

As at 31 December 2005 the Bank owned 20% of shares of Moscow Reinsurance Company. In September 2006 the Bank fully disposed of the associate. The calculation of the loss on disposal of the Company is as follows:

	RR million
Net assets of associate as at disposal date	778
Share of the Bank in the net assets of associate as at disposal date	156
Disposal consideration	(124)
Loss on disposal of associate	**32**

In accordance with the sale-purchase agreement RR 49 million out of the total disposal consideration will be paid to the Bank in April 2007 (Refer to Note 12).

31 Related Party Transactions

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

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

The outstanding balances with related parties were as follows:

In millions of Russian Roubles	**31 December 2006**		**31 December 2005**	
	Shareholders	**Directors and associate**	**Shareholders**	**Directors and associate**
Gross amount of loans and advances to customers				
Gross amount of loans and advances to customers (contractual interest rate: 31 December 2006: 4.4%; 31 December 2005: 4.8%)	-	50	-	33
Provision for impairment of loans and advances to customers	-	(2)	-	(2)
Other assets				
Investment in associate	-	-	-	168
Customer accounts				
Current/settlement accounts (contractual interest rate: 31 December 2006: 0%; 31 December 2005: 0%)	22	13	4	22
Term deposits (contractual interest rate: 31 December 2006: 5.3%-8.0%, 31 December 2005: 5.7%)	263	40	204	39
Debt securities in issue				
Debt securities issued (contractual interest rate: 31 December 2006: 6.5%-6.8%, 31 December 2005: 6.0%-14.0%)	578	-	915	-
Subordinated loans				
Subordinated loans (contractual interest rate: 31 December 2006: 6.5%-8.0%, 31 December 2005: 8.0%)	606	-	288	-

The income and expense items with related parties for the years 2006 and 2005 were as follows:

In millions of Russian Roubles	**2006**		**2005**	
	Shareholders	**Directors and associate**	**Shareholders**	**Directors and associate**
Interest income				
Loans and advances to customers	-	4	-	1
Interest expense				
Term deposits of legal entities	6	1	4	1
Debt securities in issue	44	-	23	-
Subordinated loans	36	-	7	-
Exchangeable convertible preference shares	-	-	4	-

In 2006 the remuneration of members of the Executive Board comprised salaries, discretionary bonuses and other short-term benefits totalling to RR 158 million (2005: RR 112 million).

32 Subsequent Events

In February 2007 the Central Bank of the Russian Federation registered an issue prospectus of 3 000 000 Russian Rouble bonds of the Bank with a nominal value of RR 1 000 per bond.

In February 2007 the Board of Directors of the Bank has authorised a decision to issue and an additional issue prospectus of 3 000 000 ordinary shares of the Bank with a nominal value of RR 10 per share.

In March 2007 the Bank has entered into a USD 50 million syndicated trade-related loan facility agreement with a group of foreign banks with original maturity in one year and interest of LIBOR + 1.8%.