National Bank TRUST

Consolidated Financial Statements

For the year ended 31 December 2006

Notes to Consolidated Financial Statements

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Independent Auditors' Report

To the Board of Directors of National Bank TRUST:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of National Bank TRUST and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2006, the consolidated income statement and consolidated 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

Management is responsible for the preparation and fair presentation of these consolidated 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 misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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 principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2006, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ЗАО КРМГ

ZAO KPMG
17 April 2007

(Thousands of Russian Rubles)

CONSOLIDATED BALANCE SHEET

	Notes	31 December 2006	31 December 2005
Assets			
Cash and cash equivalents	5	10 371 653	13 331 201
Obligatory reserves with the CBR		775 344	639 027
Financial assets at fair value through profit or loss			
- unpledged	6	6 149 572	7 301 662
- pledged under sale and repurchase agreements	6	112	110
Amounts due from credit institutions		14 988	14 988
Held-to-maturity securities		-	8 954
Loans to customers	7	24 847 152	16 378 762
Tax assets	17	89 252	55 353
Property, equipment and intangibles	8	1 965 042	1 202 809
Other assets		456 385	426 640
Total assets		**44 669 500**	**39 359 506**
Liabilities			
Financial liabilities at fair value through profit or loss	6	2 087	897
Amounts due to credit institutions	9	1 125 939	2 875 043
Amounts due to customers	10	34 867 976	30 564 335
Debt securities issued	11	3 713 465	1 001 635
Tax liabilities	17	451 597	465 274
Other liabilities		171 164	259 460
Total liabilities		**40 332 228**	**35 166 644**
Shareholders' equity			
Share capital	12	2 896 441	2 896 441
Additional paid-in capital		706 013	706 013
Revaluation reserve for buildings		439 382	359 387
Retained earnings		295 436	231 021
Total shareholders' equity		**4 337 272**	**4 192 862**
Total liabilities and shareholders' equity		**44 669 500**	**39 359 506**

Signed and authorized for release on behalf of the Board of the Bank on 17 April 2007.

Nikolay V. Fetisov **Managing Partner**

Katerina L. Sapozhnikova **Chief Financial Officer**

(Thousands of Russian Rubles)

CONSOLIDATED INCOME STATEMENT

	Notes	2006	2005
Interest income	14	4 621 577	2 726 051
Interest expense	14	(1 373 039)	(787 598)
Net interest income		**3 248 538**	**1 938 453**
Allowance for impairment	13	(664 918)	(304 714)
Net interest income after allowance for impairment		**2 583 620**	**1 633 739**
Fee and commission income	15	924 789	876 014
Fee and commission expense	15	(159 199)	(162 710)
Net fee and commission income		**765 590**	**713 304**
Net dealing gain		70 143	601 565
Net foreign exchange gain		210 512	104 907
Net translation (loss)/gain		(89 212)	10 301
Other income		78 684	246 204
Other non-interest income		**270 127**	**962 977**
Operating income		**3 619 337**	**3 310 020**
Salaries and employment benefits	16	(1 855 422)	(1 317 502)
Administrative expenses	16	(1 148 485)	(814 959)
Depreciation and amortisation	8	(164 835)	(152 644)
Other expenses		(147 975)	(178 337)
Operating expenses		**(3 316 717)**	**(2 463 442)**
Income before tax		**302 620**	**846 578**
Income tax expense	17	(110 879)	(558 134)
Net income		**191 741**	**288 444**

The accompanying Notes are an integral part of these consolidated financial statements.

(Thousands of Russian Rubles)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Additional paid-in capital	Revaluation reserve for buildings	Retained earnings/ (Accumulated deficit)	Total shareholders' equity
Balance as at 31 December 2004	**2 896 441**	**706 013**	**-**	**(57 423)**	**3 545 031**
Net income	-	-	-	288 444	288 444
Revaluation of buildings, net of deferred tax of RR 113 491 thousand	-	-	359 387	-	359 387
Balance as at 31 December 2005	**2 896 441**	**706 013**	**359 387**	**231 021**	**4 192 862**
Net income	-	-	-	191 741	191 741
Revaluation buildings, net of deferred tax of RR 27 839 thousand	-	-	88 157	-	88 157
Depreciation of revaluation reserve, net of deferred tax of RR 2 577 thousand	-	-	(8 162)	8 162	-
Dividends paid	-	-	-	(135 488)	(135 488)
Balance as at 31 December 2006	**2 896 441**	**706 013**	**439 382**	**295 436**	**4 337 272**

(Thousands of Russian Rubles)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2006	2005
Cash flows from operating activities			
Interest and fees and commissions received		5 208 407	3 369 456
Interest and fees and commissions paid		(1 334 744)	(1 016 253)
Net dealing gain		116 816	534 938
Net foreign exchange gain		213 397	104 659
Other income		107 214	302 056
Salaries and employment benefits		(1 917 133)	(1 208 280)
Administrative and other expenses		(1 275 629)	(944 758)
Cash flows provided from operating activities before changes in operating assets and liabilities		**1 118 328**	**1 141 818**
Net (increase)/ decrease in operating assets:			
Obligatory reserves with the CBR		(136 317)	(47 672)
Financial assets at fair value through profit or loss		1 109 289	(2 499 112)
Amounts due from credit institutions		-	94 612
Loans to customers		(8 900 329)	(7 398 618)
Held-to-maturity securities		8 954	-
Other assets		(37 650)	(159 276)
Net increase/ (decrease) in operating liabilities:			
Amounts due to credit institutions		(1 723 711)	1 629 559
Amounts due to customers		4 573 171	8 174 776
Other liabilities		(69 967)	(19 998)
Net cash flows (used in)/ provided from operating activities before income taxes		**(4 058 232)**	**916 089**
Income taxes paid		(187 090)	(695 846)
Net cash flows (used in)/ provided from operating activities		**(4 245 322)**	**220 243**
Cash flows used in investing activities			
Purchase of tangible fixed assets	8	(694 114)	(147 890)
Proceeds from sale of tangible fixed assets		19 169	51 979
Purchase of intangible assets	8	(141 555)	(54 337)
Net cash flows used in investing activities		**(816 500)**	**(150 248)**
Cash flows from financing activities			
Debt securities issued/(redeemed)		2 715 374	(1 038 547)
Dividends paid	12	(135 488)	-
Net cash flows provided from/ (used in) financing activities		**2 579 886**	**(1 038 547)**
Effect of change in exchange rates on cash and cash equivalents		(477 612)	114 400
Net change in cash and cash equivalents		**(2 959 548)**	**(854 152)**
Cash and cash equivalents as at the beginning of the year		**13 331 201**	**14 185 353**
Cash and cash equivalents as at the end of the year	5	**10 371 653**	**13 331 201**

1. Principal Activities

These consolidated financial statements include the financial statements of National Bank TRUST and its subsidiaries. The Bank and its subsidiaries together are referred to as the "Group".

National Bank TRUST ("the Bank") is the leading company in the Group. It was formed on 27 November 1995 as a closed joint stock company under the laws of the Russian Federation and was named Bank MENATEP St. Petersburg. On 18 December 2000 the Bank was re-organized into an open joint stock company. In March 2005 the Bank was re-named to National Bank TRUST. The Bank operates under general banking licence № 3279 from the Central Bank of the Russian Federation (the "CBR"), issued on 26 May 2003, and a licence for operations with precious metals from the CBR, issued on 18 December 2000. The Bank also possesses a licence for operations with securities from the Federal Stock Market Commission (the "FSMC"), granted on 27 November 2000, and a licence for custody services from the FSMC, granted on 7 December 2000. The Bank was accepted into the state deposit insurance scheme in December 2004. The Bank accepts deposits from the public and makes loans, transfers payments in Russia and abroad, exchanges currencies and provides other banking services to its corporate and retail customers.

The Bank has 55 branches in 50 regions of Russia. The Bank's registered legal address is: Ulansky Lane, 24/1, Moscow, Russia, 107045.

The Bank is ultimately controlled by TIB Holding Limited (the "ultimate parent company"), which in its turn is controlled by four individuals who have the power to direct the transactions of the Bank at their own discretion and for their own benefit. Those individuals are Ilya S. Yurov, Sergey L. Belyaev, Artashes A. Terzyan and Nikolay V. Fetisov.

A list of subsidiaries of the Bank is disclosed in Note 22.

2. Operating Environment

The Russian Federation has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks, which do not typically exist in other markets. These consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

3. Basis of Preparation

General
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB").

Basis of measurement
These consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss are stated at fair value, and buildings are revalued periodically.

Functional and presentation currency
The national currency of the Russian Federation is the Russian Ruble ("RR"). Management has determined the Group's functional currency to be the RR as it reflects the economic substance of the underlying events and circumstances of the Group. The RR is also the Group's presentation currency for the purposes of these consolidated financial statements. These consolidated financial statements are presented in thousands of Russian Rubles, except per share amounts and unless otherwise indicated.

Use of estimates and judgments
The preparation of these consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in the following Notes:

- Loan impairment estimates – refer to Note 7;
- Building revaluation estimates – refer to Note 8;
- Taxation – refer to Note 17.

4. Summary of Accounting Policies

The following significant accounting policies have been applied in the preparation of these financial statements. The accounting policies have been consistently applied. Changes in accounting policies as a result of revised accounting standards which have been applied retrospectively are described at the end of this Note.

Basis of consolidation

Subsidiaries
Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Foreign currency transactions
Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities that are stated at fair value and whose appraised value is denominated in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the consolidated income statement .

The official CBR exchange rates as at 31 December 2006 and 31 December 2005, were 26.3311 Russian Rubles and 28.7825 Russian Rubles to 1 US Dollar respectively.

Inflation accounting
The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation have been made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of the Group's assets, liabilities and equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

Cash and cash equivalents
The Group considers cash on hand, nostro accounts with the CBR, current accounts with other credit institutions and short-term deposits with other credit institutions with an original maturity of less then 90 days to be cash and cash equivalents. The obligatory reserves with the CBR are not considered to be a cash equivalent due to restrictions on their withdrawability.

Financial instruments

Classification
Financial instruments at fair value through profit or loss are financial assets or liabilities that are:
- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- a derivative (except for a derivative that is a designated and effective hedging instrument); or,
- upon initial recognition, designated by the entity as at fair value through profit or loss.

The Bank designates financial assets and liabilities at fair value through profit or loss upon initial recognition where either:
- the assets or liabilities are managed and evaluated on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Financial assets and liabilities at fair value through profit or loss are not reclassified subsequent to initial recognition.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that:

- the Group intends to sell immediately or in the near term;
- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group upon initial recognition designates as available-for-sale; or
- the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group designates as available-for-sale; or
- meet the definition of loans and receivables.

Available-for-sale assets are those financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

Recognition

Financial assets and liabilities are recognized in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction of transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method;
- held-to-maturity investments which are measured at amortised cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the balance sheet date without any deduction of transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

Gains and losses on subsequent measurement
A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in the consolidated income statement;
- a gain or loss on an available-for-sale financial asset is recognized directly in equity through the consolidated statement of changes in shareholders' equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognized, at which time the cumulative gain or loss previously recognised in equity is recognized in the consolidated income statement. Interest in relation to an available-for-sale financial asset is recognized as earned in the consolidated income statement calculated using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognized in the consolidated income statement when the financial asset or liability is derecognized or impaired, and through the amortisation process.

Derecognition
A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Group transfers substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

Repurchase and reverse repurchase agreements
Securities sold under sale and repurchase "repo" agreements are accounted for as secured financing transactions, with the securities retained in the consolidated balance sheet and the counterparty liability included in amounts due to credit institutions or customers. The difference between the sale and repurchase price represents interest expense and is recognized in the consolidated income statement over the term of the repo agreement using the effective interest rate method.

Securities purchased under agreements to resell "reverse repo" are recorded as amounts due from credit institutions or loans to customers. The differences between the purchase and resale prices are treated as interest income and accrued over the term of the reverse repo agreement using the effective interest method.

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

Financial guarantees
Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities are included within other liabilities.

Property and equipment

Owned assets
Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Leased assets
Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Revaluation
Buildings of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the buildings being revalued. A revaluation increase on an item of building is recognised directly in equity except to the extent that it reverses a previous revaluation decrease recognised in the consolidated income statement, in which case it is recognised in the consolidated income statement. A revaluation decrease on an item of buildings is recognised in the consolidated income statement except to the extent that it reverses a previous revaluation increase recognised directly in equity, in which case it is recognised directly in equity.

Depreciation
Depreciation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

	Years
Buildings and other premises	50
Fixtures and equipment	5-7

Intangible assets
Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of intangible assets, but not exceeding a period of 10 years.

Intangible assets under development are not amortised. Amortisation of these assets will begin when the related assets are placed in service.

Impairment

Financial assets carried at amortised cost
Financial assets carried at amortised cost consist principally of loans, other receivables and unquoted available-for-sale debt securities ("loans and receivables"). The Group reviews its loans and receivables, to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. These losses have been estimated based upon historical patterns of losses in each component, the credit rating assigned to the borrowers, and reflect the current economic environment in which the borrowers operate. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized in the consolidated income statement and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

Financial assets carried at cost
Financial assets carried at cost include unquoted equity instruments included in other assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognized in the consolidated income statement and can not be reversed.

Non financial assets
Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognized in the consolidated income statement and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Provisions
A provision is recognised in the consolidated balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Dividends
The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Russian legislation. Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation
Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Interest income and expenses and fee and commission income
With the exception of financial assets at fair value through profit or loss, interest income and expenses are recognized in the consolidated income statement as they accrue, taking into account the effective interest rate of the asset/liability or an applicable floating rate. Interest income on financial assets at fair value through profit or loss comprises coupon interest only. Interest income and expenses on the financial instruments other than financial assets at fair value through profit or loss and available-for-sale financial assets include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Loans are placed on "non-performing" (non-accrual) status if the loan has been in default as to payment of principal or interest for more then 90 days and the loan is neither well secured nor in the process of collection. When a loan is placed on non-performing status, the recognition of interest income is suspended.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortised to the interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fee and commission income is recognised when the corresponding service is provided.

Dividend income
Dividend income from investments in companies where the Group does not have control or significant influence is recognised in the consolidated income statement on the date that the dividend is declared.

Changes in accounting policies
During the current year the Group changed a number of its accounting policies as a result of new or revised Standards as discussed in the following paragraphs.

Fair value option
During the current period the Group adopted amendments to IAS 39 *"Financial Instruments: Recognition and Measurement"* in respect of the application of the fair value option for its financial instruments. The amendment restricts the designation of financial instruments as "at fair value through profit or loss".

Financial guarantees
During the current period the Group adopted amendments to IAS 39 *"Financial Instruments: Recognition and Measurement"* and IFRS 4 *"Insurance Contracts – Financial Guarantee Contracts"*. The amendment requires guarantees that are not insurance contracts to be measured at fair value upon initial recognition.

These changes had no impact on the Group's financial position or results of operations, nor resulted in changes in classification and presentation of numbers in these consolidated financial statements.

Segment reporting
The Group has elected to early adopt definitions and requirements included in IFRS 8 *"Operating Segments"*.

An operating segment is a component of a Group:
- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Group),
- whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- for which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues, for example, start-up operations may be operating segments before earning revenues.

Based on the analysis of the requirements listed above the Management of the Group came to a conclusion that it operates in one operating segment.

Comparative information

Comparative information has been reclassified to conform to changes in presentation in the current year as follows.

Financial instruments at fair value through profit or loss

In 2005, all debt and equity securities held for trading were presented in the caption "Trading securities", and all derivative financial instruments were presented within other assets. In 2006, all such items were presented in the caption "Financial assets at fair value through profit or loss".

The effect of the application of the new accounting policy on the consolidated balance sheet as of 31 December 2005 is as follows:

	Old classification RR' 000	Revised classification RR' 000
Trading securities	7 300 052	-
Other assets, including	428 360	426 640
- Derivative financial instruments	*1 720*	-
Financial assets at fair value through profit or loss	-	7 301 772

New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2006, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of these new standards on its financial statements.

IFRS 7 "Financial Instruments: Disclosures", which is effective for annual periods beginning on or after 1 January 2007, provides disclosure requirements regarding the significance of financial instruments to the Group's financial position and performance, and qualitative and quantitative information about the nature and extent of risks arising from financial instruments. The Standard supersedes *IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions"* and the disclosure requirements in *IAS 32 "Financial Instruments: Presentation and Disclosure"*. A large portion of existing disclosure requirements in International Financial Reporting Standard *IAS 32 "Financial Instruments: Presentation and Disclosure"* is transferred to the new Standard. The title of International Financial Reporting Standard IAS 32 is amended to *IAS 32 "Financial Instruments: Presentation"*.

IFRIC 10 "Interim Financial Reporting and Impairment", which is effective for annual periods beginning on or after 1 November 2006, clarifies that impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost should not be reversed.

IFRIC 9 "Reassessment of embedded derivatives", which is effective for annual periods beginning on or after 1 November 2006, clarifies that an embedded derivative shall be assessed for separation from the host contract and accounted for as a derivative when the Group first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a significant change in the terms of the contract, i.e. in the terms of either the host contract or the embedded derivative or both.

Amendment to IAS 1 "Presentation of Financial Statements - Capital Disclosures", which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Group's capital.

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(Thousands of Russian Rubles)

5. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	31 December 2006	31 December 2005
Cash on hand	1 319 588	1 299 270
Current accounts with the CBR	3 579 753	3 968 581
Current accounts with other credit institutions	624 864	909 997
Short-term deposits with other credit institutions	4 847 448	7 153 353
Cash and cash equivalents	**10 371 653**	**13 331 201**

As at 31 December 2006 the Group had two borrowers (31 December 2005: three borrowers) with aggregated short-term deposit amounts above 10% of shareholders' equity. The aggregate amount of these short-term deposits was RR 4 847 448 thousand (31 December 2005: RR 5 923 153 thousand).

Geographical, currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 18. The estimated fair value of cash and cash equivalents is disclosed in Note 20. Information on related party balances is disclosed in Note 21.

6. Financial Instruments at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss comprise:

	31 December 2006	31 December 2005
Unpledged – trading portfolio		
Debt and other fixed-income instruments		
Federal loan bonds (OFZ)	4 635 915	4 443 656
Corporate debt securities	843 573	1 254 736
Municipal government bonds	666 953	1 231 344
Ministry of Finance of the Russian Federation bonds	490	1 060
Corporate eurobonds	-	63 696
Promissory notes	-	52 570
Equity investments		
Corporate shares	2 616	252 880
Derivative financial instruments		
Foreign exchange contracts	25	-
Securities contracts	-	1 720
Total unpledged financial assets at fair value through profit or loss	**6 149 572**	**7 301 662**
Pledged under sale and repurchase agreements – trading portfolio		
Debt and other fixed-income instruments		
Federal loan bonds (OFZ)	112	-
Ministry of Finance of the Russian Federation bonds	-	110
Total pledged financial assets at fair value through profit or loss	**112**	**110**
Financial assets at fair value through profit or loss	**6 149 684**	**7 301 772**

Federal loan bonds (OFZ) are Ruble denominated government securities issued and guaranteed by the Ministry of Finance of the Russian Federation, with maturities between 2007 and 2036 (2005: between 2007 and 2021). The annual coupon rates on these bonds range from 6% to 10% (2005: 6% to 10%).

Corporate debt securities represent corporate bonds of large Russian companies, with maturities between 2008 and 2018 (2005: between 2006 and 2012). The annual coupon rates on these bonds range from 7.5% to 10.1% (2005: 7% to 14%).

Municipal government bonds comprise registered government bonds of the city of St. Petersburg, the regions of Yamalo-Nenetsk and Sakha-Yakutiya, with maturities between 2007 and 2014 (2005: between 2006 and 2014). The annual coupon rates range from 9% to 13% (2005: 8% to 14%).

Ministry of Finance of the Russian Federation bonds are US Dollar denominated bearer securities, which carry the guarantee of the Ministry of Finance of the Russian Federation, with maturity in 2007 (2005: 2007). The annual coupon rate on these bonds is 3%.

Corporate shares are mainly represented by non-marketable shares of a foreign company and marketable shares of Russian companies.

Geographical, currency, maturity and interest rate analyses of financial instruments at fair value through profit or loss are disclosed in Note 18. The estimated fair value of financial instruments at fair value through profit or loss is disclosed in Note 20. Information on related party balances is disclosed in Note 21.

Derivative Financial Instruments

Foreign exchange derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions.

The principal amounts of certain types of financial instruments provide a basis for comparison with instruments recorded on the consolidated balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments have potentially favorable (assets) or unfavorable (liabilities) conditions as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or principal amount of derivative financial instruments on hand, the extent to which instruments have favorable or unfavorable conditions and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The principal or agreed amounts and fair values of derivative financial instruments held are set out in the following table. This table reflects the gross position before the netting of any counterparty position by type of instrument and covers contracts with a maturity date subsequent to 31 December 2006.

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(Thousands of Russian Rubles)

The outstanding deals with derivative financial instruments are as follows:

31 December 2006					
	Notional principal			Fair values	
	Buy	Sell	Average rate	Asset	Liability
Foreign exchange contracts					
Forwards - foreign conterparties	121 806 thousand RR	4 625 thousand US Dollars	26.34	-	(97)
Spot deals - domestic conterparties	66 120 thousand US Dollars	1 743 003 thousand RR	0.04	-	(1 990)
	27 000 thousand EUR	35 577 thousand US Dollars	0.76	25	-
Spot deals - foreign conterparties	46 000 thousand US Dollars	1 211 231 thousand RR	0.04	-	-
Derivative financial instruments				**25**	**(2 087)**

31 December 2005					
	Notional principal		Average rate	Fair values	
	Buy	Sell		Asset	Liability
Foreign exchange contracts					
Forwards - domestic conterparties	718 665 thousand RR	25 000 thousand US Dollars	28.75	-	(897)
				-	**(897)**
Securities contracts					
Forwards - domestic conterparties	5 637 thousand US Dollars	5000 Government eurobonds	1.13	1 720	-
				1 720	-
Derivative financial instruments				**1 720**	**(897)**

All the above contracts mature within 1 month (2005 – 1 month) from the balance sheet date.

The fair value the Group's position on derivatives was calculated as follows:

- **Forward foreign exchange contracts** – based on the estimated RR/USD forward rates.
- **Spot foreign exchange contracts** – based on the estimated RR/USD and EUR/USD spot rates effective as of 31 December 2006 and 31 December 2005.
- **Forward securities contracts** – based on the estimated forward rates for securities.

(Thousands of Russian Rubles)

7. Loans to Customers

Loans to customers are made principally within the Russian Federation in the following industry sectors:

	31 December 2006	31 December 2005
Individuals	15 197 143	4 962 012
Trading enterprises	3 352 708	3 230 541
Financial intermediaries	1 695 836	2 111 493
Engineering and metal processing	1 543 987	1 692 029
Manufacturing	1 319 246	1 136 083
Construction	721 510	666 107
Oil and gas	497 286	106 995
Energy	481 065	595 552
Chemical and petrochemical	415 742	945 577
Agencies of state administrations	160 549	622 324
Transport	96 710	189 061
Pharmaceuticals	37 174	37 140
Other	415 220	967 027
Loans to customers	**25 934 176**	**17 261 941**
Less – Allowance for impairment	(1 087 024)	(883 179)
Loans to customers (net of allowance for impairment)	**24 847 152**	**16 378 762**

As at 31 December 2006 the Group had five borrowers with aggregated loan amounts above 10% of shareholders' equity each. The aggregate amount of these loans was RR 2 978 787 thousand or 11% of the gross loan portfolio.

As at 31 December 2005 the Group had five borrowers with aggregated loan amounts above 10% of shareholders' equity each. The aggregate amount of these loans was RR 2 867 035 thousand or 17% of the gross loan portfolio.

The Group's loan portfolio has been extended to the following types of customers:

	31 December 2006	31 December 2005
Individuals	15 197 143	4 962 012
Private companies	10 378 086	11 729 444
Regional state enterprises and local authorities	160 442	120 529
Private entrepreneurs	159 335	259 587
Federal state enterprises and federal authorities	39 170	190 369
Loans to customers	**25 934 176**	**17 261 941**

Loans to customers include promissory notes issued by third parties of RR 3 917 thousand as at 31 December 2006 (31 December 2005: RR 264 418 thousand).

Loans to individuals include loans treated as retail loans of RR 12 967 608 thousand (2005: RR 4 217 899 thousand), "micro" loans of RR 1 719 427 thousand (2005: none) and other loans to individuals granted before the launch of retail programme of RUR 510 108 thousand (2005: RR 744 113 thousand). "Micro" and "other" loans are included in the category of corporate and SME loans for the purposes of the analysis detailed below.

As at 31 December 2006 the aggregate amount of corporate and SME loans with contractually overdue principal or interest was RR 328 714 thousand, and the allowance for impairment created against such loans was RR 231 304 thousand (31 December 2005: RR 769 091 thousand and RR 570 856 thousand respectively). Included in this figure are past due but not impaired loans - loans where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

The Group reviewed its corporate and SME loan portfolio and identified loans which displayed indicators of impairment of RR 361 251 thousand (31 December 2005: RR 858 077 thousand). The Group created an allowance for impairment on these loans of RR 256 642 thousand (31 December 2005: RR 673 230 thousand). The amount of interest accrued on impaired loans was RR 89 thousand (31 December 2005: no interest accrued).

Included in the aggregate amount of impaired corporate and SME loans as at 31 December 2006 were non-performing loans with an aggregate amount of RR 259 970 thousand, and the allowance for impairment created against such loans was RR 189 587 thousand (31 December 2005: RR 636 956 thousand and RR 520 194 thousand respectively).

The Group created a collective allowance for impairment as at 31 December 2006 in amount of RR 75 383 thousand in respect of corporate and SME loans with no specific indicators of impairment of RR 12 605 317 thousand (31 December 2005: RR 79 405 thousand and RR 12 185 965 thousand respectively).

As at 31 December 2006 the aggregate amount of retail loans with contractually overdue principal or interest was RR 2 157 182 thousand, and the allowance for impairment created against such loans was RR 659 421 thousand (31 December 2005: RR 207 298 thousand and RR 122 147 thousand respectively). Included in this figure are past due but not impaired loans - loans where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group.

The Group reviewed its retail loan portfolio and identified loans which displayed indicators of impairment of RR 1 469 600 thousand (31 December 2005: RR 20 512 thousand). The Group created an allowance for impairment on these loans of RR 554 127 thousand (31 December 2005: RR 20 512 thousand). Such loans are also treated as non-performing for the purpose of interest accruals.

The Group created a collective allowance for impairment as at 31 December 2006 in amount of RR 200 872 on retail loans with no specific indicators of impairment of RR 11 498 008 (31 December 2005: RR 110 032 thousand and RR 4 197 387 thousand respectively).

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment allowance as at 31 December 2006 would be RR 248 472 thousand lower/higher (31 December 2005: RR 163 788 thousand).

Geographical, currency, maturity and interest rate analyses of loans to customers are disclosed in Note 18. The estimated fair value of loans to customers is disclosed in Note 20. Information on related party balances is disclosed in Note 21.

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(Thousands of Russian Rubles)

8. Property, Equipment and Intangibles

The movements of property, equipment and intangibles during the year ended 31 December 2006 were as follows:

	Buildings	Land and other premises	Fixtures and equipment	Software and licences	Total
Cost/ Revalued amount					
31 December 2005	**648 392**	**61 765**	**763 323**	**166 973**	**1 640 453**
Additions	261 493	219 064	213 557	141 555	**835 669**
Disposals	-	(9 985)	(37 377)	(8 708)	**(56 070)**
Revaluation	115 996				**115 996**
Elimination of depreciation on revalued buildings	(16 886)	-	-	-	**(16 886)**
31 December 2006	**1 008 995**	**270 844**	**939 503**	**299 820**	**2 519 162**
Accumulated depreciation and amortisation					
31 December 2005	-	**1 516**	**364 257**	**71 871**	**437 644**
Depreciation and amortisation charge	16 886	299	127 647	20 003	**164 835**
Disposals	-	(674)	(27 519)	(3 280)	**(31 473)**
Elimination of depreciation on revalued buildings	(16 886)	-	-	-	**(16 886)**
31 December 2006	-	**1 141**	**464 385**	**88 594**	**554 120**
Net book value					
31 December 2005	**648 392**	**60 249**	**399 066**	**95 102**	**1 202 809**
31 December 2006	**1 008 995**	**269 703**	**475 118**	**211 226**	**1 965 042**

As at 31 December 2006 land and other premises included assets under construction in the amount of RR 259 725 thousand (31 December 2005: RR 51 180 thousand).

As at 31 December 2006 the gross carrying amount of fully depreciated fixtures and equipment that is still in use by the Group was RR 152 364 thousand (31 December 2005: RR 153 394 thousand).

At 31 December 2005 and 2006 buildings were revalued by the management of the Group based on the results of an independent appraisal performed by LLC "Bureau of independent appraisals "INDEX".

The bases used for the appraisal were the market approach and the income capitalization approach. The market approach was based upon an analysis of comparable sales of similar buildings. The following key assumptions were used for the income capitalization approach:

- cash flows were based on a 1 year detailed projection, extended to the remaining useful life of the asset and using zero growth rate;
- the net cash flows were capitalised using the rates ranging from 12% to 19% depending on the type of property.

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external and internal sources of information.

As at 31 December 2006 the carrying value of buildings, if the buildings would not have been revalued, would be RR 430 860 thousand (31 December 2005: RR 175 514 thousand).

(Thousands of Russian Rubles)

9. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	31 December 2006	31 December 2005
Correspondent accounts	631 219	488 225
Term deposits	494 610	2 386 711
Repurchase agreements	110	107
Amounts due to credit institutions	**1 125 939**	**2 875 043**

As at 31 December 2005 the Group had one counterparty with aggregate balances on term deposits above 10% of shareholders' equity. The aggregate amount of these deposits was RR 2 349 415 thousand or 82% of the total amounts due to credit institutions (31 December 2006: no counterparties).

Geographical, currency, maturity and interest rate analyses of amounts due to credit institutions are disclosed in Note 18. The estimated fair value of amounts due to credit institutions is disclosed in Note 20. Information on related party balances is disclosed in Note 21.

10. Amounts Due to Customers

Amounts due to customers comprise:

	31 December 2006	31 December 2005
Current accounts	20 006 590	19 437 329
Term deposits	14 746 300	11 011 920
Subordinated debt	115 086	115 086
Amounts due to customers	**34 867 976**	**30 564 335**

Amounts due to customers by industries comprise:

	31 December 2006	31 December 2005
Individuals	11 754 908	7 299 341
Trading enterprises	4 159 121	1 431 402
Financials intermediaries	3 992 987	1 696 452
Oil and gas	3 608 657	7 517 542
Manufacturing	2 861 818	764 190
Chemical and petrochemical	2 624 845	1 069 237
Energy trade	2 281 524	8 208 258
Transport	1 375 303	1 129 305
Construction	926 873	481 975
Other	1 281 940	966 633
Amounts due to customers	**34 867 976**	**30 564 335**

As at 31 December 2006 the total amount of current accounts of a restricted nature included in customer accounts was RR 5 112 173 thousand (31 December 2005: RR 5 218 673 thousand).

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(Thousands of Russian Rubles)

As at 31 December 2006 customer accounts included current accounts of companies affiliated with JSC "Oil Company "YUKOS" of RR 7 314 632 thousand, out of which RR 1 663 425 thousand are current accounts of a restricted nature (31 December 2005: RR 12 344 170 thousand and RR 1 790 247 thousand respectively). As at 31 December 2006 and 31 December 2005 JSC "Oil Company "YUKOS" and affiliated companies were not related parties of the Group.

As at 31 December 2006 the Group had six counterparties which are not affiliated with JSC "Oil Company "YUKOS" (31 December 2005: three) with aggregate balances above 10% of shareholders' equity each. The aggregate amount of these accounts was RR 6 701 075 thousand (31 December 2005: RR 4 097 083 thousand).

Subordinated debt is a deposit with a nominal amount of RR 115 000 thousand, an interest rate of 2.5%, maturing on 30 April 2013. According to the terms of the agreement on the deposit, the creditor may not demand repayment of deposit before maturity. In case of bankruptcy, liabilities under the deposit are repaid after settlement of all other liabilities of the Group.

Amounts due to customers include accounts of the following types of customers:

	31 December 2006	31 December 2005
Private companies	22 853 543	23 088 029
Individuals	11 754 908	7 299 341
State companies and local authorities	259 525	176 965
Amounts due to customers	**34 867 976**	**30 564 335**

Geographical, currency, maturity and interest rate analyses of amounts due to customers are disclosed in Note 18. The estimated fair value of amounts due to customers is disclosed in Note 20. Information on related party balances is disclosed in Note 21.

11. Debt Securities Issued

Debt securities issued comprise:

	31 December 2006	31 December 2005
Credit linked notes	2 639 783	-
Promissory notes	1 073 389	994 828
Certificates of deposits	293	6 807
Debt securities issued	**3 713 465**	**1 001 635**

In December 2006 the Group issued credit linked notes with a nominal value of USD 100 000 thousand at an interest rate of 9.25% with maturity on 21 December 2008. Geographical, currency, maturity and interest rate analyses of debt securities issued are disclosed in Note 18. The estimated fair value of debt securities issued is disclosed in Note 20. Information on related party balances is disclosed in Note 21.

12. Share Capital

The share capital of the Group has been contributed by shareholders in Rubles. Shareholders are entitled to dividends and capital distributions in Rubles.

As at 31 December 2006 and 2005 the authorized number of shares was 677 000 000 of ordinary stock (with par value of 5 Rubles each) and 100 000 of preferred stock with par value of 10 Rubles each.

As at 31 December 2006 and 2005 the Group had 294 538 047 ordinary shares issued, outstanding and fully paid by shareholders and no preferred stock issued.

(Thousands of Russian Rubles)

Dividends payable are restricted to the maximum retained earnings of the Group, which are determined according to the legislation in the Russian Federation. In July 2006 the Group declared and paid dividends for the year 2005 of RR 135 488 thousand.

13. Allowance for Impairment

The movements in the allowance for impairment during the year ended 31 December 2006 and 31 December 2005 were as follows:

	Loans to customers	Other assets	Other risk	Total
31 December 2004	**547 605**	**18 194**	**19 993**	**585 792**
Allowance for impairment	342 901	(18 194)	(19 993)	304 714
Write-offs	(7 327)	-	-	(7 327)
31 December 2005	**883 179**	-	-	**883 179**
Allowance for impairment	664 918	-	-	664 918
Write-offs	(461 073)	-	-	(461 073)
31 December 2006	**1 087 024**	-	-	**1 087 024**

Allowance for impairment of loans and for impairment of other assets are deducted from the related assets.

The Group writes off a loan (and any related allowances for impairment) when Group's management determines that a loan is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

14. Interest Income and Interest Expense

	2006	2005
Interest income		
Loans to customers	3 621 854	1 903 648
Debt securities	679 165	614 888
Short-term deposits with credit institutions	320 558	207 515
Total interest income	**4 621 577**	**2 726 051**
Interest expense		
Amounts due to customers	1 247 203	633 808
Debt securities issued	98 860	80 622
Amounts due to credit institutions	26 976	73 168
Total interest expense	**1 373 039**	**787 598**
Net interest income	**3 248 538**	**1 938 453**

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(Thousands of Russian Rubles)

15. Fee and Commission Income and Fee and Commission Expense

	2006	2005
Fee and commission income		
Settlement operations	755 862	724 737
Agency fees	69 141	29 812
Rental fees	43 076	23 102
Currency control agent functions	29 008	9 445
Guarantees issued	7 986	12 870
Other	19 716	76 048
Fee and commission income	**924 789**	**876 014**
Fee and commission expense		
Settlement operations	150 079	157 578
Other	9 120	5 132
Fee and commission expense	**159 199**	**162 710**
Net fee and commission income	**765 590**	**713 304**

16. Salaries and Employment Benefits and Administrative Expenses

	2006	2005
Salaries and employment benefits		
Salaries and other compensation	1 557 448	1 127 074
Social security costs	287 641	185 569
Other	10 333	4 859
Salaries and employment benefits	**1 855 422**	**1 317 502**
Administrative expenses		
Business development	328 703	167 634
Rent	274 442	238 738
Operating taxes	157 032	130 466
Communication	116 486	97 897
Security	79 551	80 122
State deposit insurance scheme	52 938	34 545
Utilities	45 791	22 268
Other	93 542	43 289
Administrative expenses	**1 148 485**	**814 959**

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(Thousands of Russian Rubles)

17. Taxation

Income tax expense comprises:

	2006	2005
Current tax expense	125 545	614 617
Current tax over-provided last year	(15 534)	-
Deferred tax movement	868	(56 483)
Income tax expense	**110 879**	**558 134**

Russian legal entities must file individual tax declarations. The tax rate for banks for profits other than on state securities was 24% for 2006 and 2005. The tax rate for interest income on state securities is 15% for federal taxes. The tax rates for the Group's consolidated subsidiaries range from 4.25% to 10% based on the jurisdiction in which they are located.

The effective income tax rate differs from the statutory income tax rate. A reconciliation of the theoretical income tax expense at statutory rate with the actual income tax expense is as follows:

	2006	2005
Profit before tax	**302 620**	**846 578**
Statutory tax rate	24%	24%
Theoretical income tax expense at the statutory rate	**72 629**	**203 179**
Tax effect of items taxed in different jurisdictions	7 116	1 913
State securities income taxed at 15%	(42 964)	(34 371)
Non-deductible expenditures, net of non-taxable income	52 894	(22 315)
Provision for tax claims	-	506 500
Release of provision for tax claims	-	(84 000)
Other permanent differences	21 205	(12 772)
Income tax expense	**110 879**	**558 134**

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(Thousands of Russian Rubles)

Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of deductible temporary differences. Deferred tax liabilities are the amounts of profit taxes payable in future periods in respect of taxable temporary differences. Deferred tax assets and liabilities comprise:

	31 December 2004	Recognised in consolidated income statement	Recognised in equity	31 December 2005	Recognised in consolidated income statement	Recognised in equity	31 December 2006
Tax effect of deductible temporary differences							
Allowance for impairment	2 146	35 147	-	37 293	(24 228)	-	13 065
Interest expense accrued	-	34 341	-	34 341	(30 509)	-	3 832
Expenses accrued	20 638	15 362	-	36 000	(6 167)	-	29 833
Income accrued	-	-	-	-	5 715	-	5 715
Adjustments to fair value	5 279	(5 279)	-	-	574	-	574
Other	3 836	25 664	-	29 500	(20 450)	-	9 050
Deferred tax asset	**31 899**	**105 235**	**-**	**137 134**	**(75 065)**	**-**	**62 069**
Tax effect of taxable temporary differences							
Revaluation of buildings	-	-	(113 491)	(113 491)	2 578	(27 839)	(138 752)
Adjustments to fair value	-	(89 258)	-	(89 258)	54 409	-	(34 849)
Property, equipment and intangibles	(91 860)	40 506	-	(51 354)	17 210	-	(34 144)
Deferred tax liability	**(91 860)**	**(48 752)**	**(113 491)**	**(254 103)**	**74 197**	**(27 839)**	**(207 745)**
Net deferred tax asset (liability)	**(59 961)**	**56 483**	**(113 491)**	**(116 969)**	**(868)**	**(27 839)**	**(145 676)**

Tax assets and liabilities consist of the following:

	31 December 2006	31 December 2005
Current tax assets	89 252	55 353
Tax assets	**89 252**	**55 353**
Current tax liabilities	305 921	348 305
Deferred tax liabilities	145 676	116 969
Tax liabilities	**451 597**	**465 274**

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The Russian Federation currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, profit tax, a number of turnover based taxes and social tax, together with others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, different opinions regarding legal interpretation exist both among and within government ministries and organizations (like the Ministry of Taxes and Levies and its various inspectorates); thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Group is in full compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant.

As at 31 December 2004 the Group was engaged in litigation proceedings with the tax authorities related to claims against the Bank to pay additional taxes and corresponding fines for the total amount of RR 726 249 thousand as the result of tax audits of the income tax periods of 2000, 2001 and 2002. The Bank has appealed these claims in court. As at 31 December 2004 a provision for potential tax liabilities of RR 435 749 thousand in relation to these claims was recorded. During 2005, additional claims were made by the tax authorities related to the 2002 tax period of RR 216 000 thousand, RR 84 000 thousand of claims expired due to the claims limitation period, and RR 518 518 thousand was paid out by the Group in respect of these claims.

During the year ended 31 December 2005, the movement in the provisions for potential tax liabilities recorded in the consolidated income statement was RR 422 500 thousand, which included additional provisions for potential tax liabilities of RR 506 500 thousand less claims expired due to claims limitation period of RR 84 000 thousand. As a result the total provision for potential tax liabilities as at 31 December 2005 comprised RR 339 731 thousand, which represents the full amount of the outstanding tax claims as at 31 December 2005.

During the year ended 31 December 2006, RR 24 716 thousand of the above claims were paid out by the Group. No additional provisions for potential tax liabilities were recorded in the consolidated financial statements. As a result the total provision for potential tax liabilities as at 31 December 2006 comprised RR 315 015 thousand, which represents the full amount of outstanding tax claims as at 31 December 2006. Management believes that this provision is the best estimate of potential tax losses.

18. Risk Management Policies

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

Credit Risk

The Group is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to 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 borrower and product are approved monthly by the Group's 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 which are set by the Credit Committee which is called once a week. 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 capital 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 credit risk exposure on derivatives is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments.

(Thousands of Russian Rubles)

Geographical concentration

The geographical concentration of the Group's assets and liabilities is set out below:

	31 December 2006			
	Russia	**OECD***	**CIS** and other countries**	**Total**
Assets				
Cash and cash equivalents	5 066 565	5 304 516	572	**10 371 653**
Obligatory reserve with the CBR	775 344	-	-	**775 344**
Financial assets at fair value through profit or loss	6 147 601	2 083	-	**6 149 684**
Amounts due from credit institutions	14 988	-	-	**14 988**
Loans to customers	24 834 537	-	12 615	**24 847 152**
All other assets	2 328 862	-	181 817	**2 510 679**
Total assets	**39 167 897**	**5 306 599**	**195 004**	**44 669 500**
Liabilities				
Financial liabilities at fair value through profit or loss	2 087	-	-	**2 087**
Amounts due to credit institutions	749 673	374 249	2 017	**1 125 939**
Amounts due to customers	33 916 813	30 176	920 987	**34 867 976**
Debt securities issued	583 091	2 639 783	490 591	**3 713 465**
All other liabilities	622 761	-	-	**622 761**
Total liabilities	**35 874 425**	**3 044 208**	**1 413 595**	**40 332 228**
Net position	**3 293 474**	**2 262 391**	**(1 218 591)**	**4 337 272**

* OECD - Organisation for economic co-operation and development.

** CIS - Commonwealth of independent states.

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(Thousands of Russian Rubles)

	31 December 2005			
	Russia	**OECD**	**CIS and other countries**	**Total**
Assets				
Cash and cash equivalents	7 561 165	5 582 136	187 900	13 331 201
Obligatory reserves with the CBR	639 027	-	-	639 027
Financial assets at fair value through profit or loss	7 301 772	-	-	7 301 772
Amounts due from credit institutions	14 988	-	-	14 988
Held-to-maturity securities	8 954	-	-	8 954
Loans to customers	16 101 859	-	276 903	16 378 762
All other assets	1 581 684	-	103 118	1 684 802
Total assets	**33 209 449**	**5 582 136**	**567 921**	**39 359 506**
Liabilities				
Financial liabilities at fair value through profit or loss	897	-	-	897
Amounts due to credit institutions	487 529	2 353 974	33 540	2 875 043
Amounts due to customers	28 133 819	15 349	2 415 167	30 564 335
Debt securities issued	996 825	-	4 810	1 001 635
All other liabilities	724 734	-	-	724 734
Total liabilities	**30 343 804**	**2 369 323**	**2 453 517**	**35 166 644**
Net position	**2 865 645**	**3 212 813**	**(1 885 596)**	**4 192 862**

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(Thousands of Russian Rubles)

Market Risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Group manages market risks through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

Currency Risk

The Group is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group's Assets and Liabilities Management Committee sets limits on the level of exposure by currencies (primarily US Dollar), by branches and in total. These limits also comply with the minimum requirements of the Central Bank of the Russian Federation. The Group's exposure to foreign currency exchange rate is set out below.

	31 December 2006		
	Rubles	**Freely convertible**	**Total**
Assets			
Cash and cash equivalents	6 404 072	3 967 581	**10 371 653**
Obligatory reserve with the CBR	775 344	-	**775 344**
Financial assets at fair value through profit or loss	6 147 110	2 574	**6 149 684**
Amounts due from credit institutions	14 988	-	**14 988**
Loans to customers	23 180 408	1 666 744	**24 847 152**
All other assets	2 424 585	86 094	**2 510 679**
Total assets	**38 946 507**	**5 722 993**	**44 669 500**
Liabilities			
Financial liabilities at fair value through profit or loss	1 990	97	**2 087**
Amounts due to credit institutions	421 520	704 419	**1 125 939**
Amounts due to customers	30 267 457	4 600 519	**34 867 976**
Debt securities issued	1 026 871	2 686 594	**3 713 465**
All other liabilities	610 144	12 617	**622 761**
Total liabilities	**32 327 982**	**8 004 246**	**40 332 228**
Net balance sheet position	**6 618 525**	**(2 281 253)**	**4 337 272**
Net off-balance sheet position	**(2 832 428)**	**2 832 428**	**-**

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(Thousands of Russian Rubles)

	31 December 2005		
	Rubles	**Freely convertible**	**Total**
Assets			
Cash and cash equivalents	7 280 096	6 051 105	13 331 201
Obligatory reserves with the CBR	639 027	-	639 027
Financial assets at fair value through profit or loss	6 725 370	576 402	7 301 772
Amounts due from credit institutions	14 988	-	14 988
Held-to-maturity securities	8 954	-	8 954
Loans to customers	14 505 034	1 873 728	16 378 762
All other assets	1 582 099	102 703	1 684 802
Total assets	**30 755 568**	**8 603 938**	**39 359 506**
Liabilities			
Financial liabilities at fair value through profit or loss	-	897	897
Amounts due to credit institutions	235 528	2 639 515	2 875 043
Amounts due to customers	25 056 328	5 508 007	30 564 335
Debt securities issued	982 447	19 188	1 001 635
All other liabilities	712 218	12 516	724 734
Total liabilities	**26 986 521**	**8 180 123**	**35 166 644**
Net balance sheet position	**3 769 047**	**423 815**	**4 192 862**
Net off-balance sheet position	**718 665**	**(718 665)**	**-**

Freely convertible currencies represent mainly US Dollar amounts but also include currencies from other OECD and non-OECD countries.

The off-balance sheet currency position includes the notional amounts of foreign currency derivative instruments, which are principally used to reduce the Group's exposure to currency movements.

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(Thousands of Russian Rubles)

Liquidity Risk

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on derivatives settled by cash. The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The Group's Assets and Liabilities Management Committee sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The following table show assets and liabilities of the Group by their remaining contractual maturity as at 31 December 2006, with the exception of financial instruments at fair value through profit or loss, which are shown in the category "Less than 1 month" based on the fact that the Group's management believes that all of these financial instruments at fair value through profit or loss could be liquidated within one month in normal course of business.

Due to the fact that substantially all the financial instruments of the Group are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates.

	31 December 2006							
	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Overdue/ No stated maturity**	**Total**
Assets								
Cash and cash equivalents	5 524 205	4 847 448	-	-	-	-	-	**10 371 653**
Obligatory reserve with the CBR	-	-	577 454	185 015	5 782	7 093	-	**775 344**
Financial assets at fair value through profit or loss	-	6 149 684	-	-	-	-	-	**6 149 684**
Amounts due from credit institutions	-	-	-	5 312	9 676	-	-	**14 988**
Loans to customers	-	1 422 080	3 794 851	11 181 448	7 554 862	299 868	594 043	**24 847 152**
Tax assets	-	-	-	89 252	-	-	-	**89 252**
Other assets	-	252 842	83 649	94 986	12 147	3 776	8 985	**456 385**
Total assets	**5 524 205**	**12 672 054**	**4 455 954**	**11 556 013**	**7 582 467**	**310 737**	**603 028**	**42 704 458**
Liabilities								
Financial liabilities at fair value through profit or loss	-	2 087	-	-	-	-	-	**2 087**
Amounts due to credit institutions	631 219	115 395	7 000	372 325	-	-	-	**1 125 939**
Amounts due to customers	19 979 300	2 909 629	3 079 754	8 320 290	260 031	318 972	-	**34 867 976**
Debt securities issued	59 551	144 048	212 632	224 463	3 072 011	760	-	**3 713 465**
Tax liabilities	-	-	-	305 921	-	-	145 676	**451 597**
Other liabilities	1 724	40 851	118 490	1 117	8 982	-	-	**171 164**
Total liabilities	**20 671 794**	**3 212 010**	**3 417 876**	**9 224 116**	**3 341 024**	**319 732**	**145 676**	**40 332 228**
Net position	**(15 147 589)**	**9 460 044**	**1 038 078**	**2 331 897**	**4 241 443**	**(8 995)**	**457 352**	**2 372 230**
Accumulated liquidity gap	**(15 147 589)**	**(5 687 545)**	**(4 649 467)**	**(2 317 570)**	**1 923 873**	**1 914 878**	**2 372 230**	**-**

(Thousands of Russian Rubles)

	31 December 2005							
	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Overdue/ No stated maturity**	**Total**
Assets								
Cash and cash equivalents	6 177 848	7 153 353	-	-	-	-	-	13 331 201
Obligatory reserve with the CBR	-	-	580 834	50 068	2 114	6 011	-	639 027
Financial assets at fair value through profit or loss	-	7 301 772	-	-	-	-	-	7 301 772
Amounts due from credit institutions	-	-	-	-	14 988	-	-	14 988
Held-to-maturity securities	-	-	-	8 954	-	-	-	8 954
Loans to customers	21 082	2 537 120	3 801 649	5 576 321	3 842 907	401 448	198 235	16 378 762
Tax assets	-	-	-	55 353	-	-	-	55 353
Other assets	165 915	177 143	56 066	27 261	-	-	255	426 640
Total assets	**6 364 845**	**17 169 388**	**4 438 549**	**5 717 957**	**3 860 009**	**407 459**	**198 490**	**38 156 697**
Liabilities								
Financial liabilities at fair value through profit or loss	-	897	-	-	-	-	-	897
Amounts due to credit institutions	488 225	2 346 390	32 762	-	7 559	107	-	2 875 043
Amounts due to customers	19 437 329	4 066 095	4 074 883	2 596 986	69 192	319 850	-	30 564 335
Debt securities issued	191 539	346 581	320 841	101 452	37 203	4 019	-	1 001 635
Tax liabilities	-	-	-	348 305	-	-	116 969	465 274
Other liabilities	34 380	52 290	-	172 790	-	-	-	259 460
Total liabilities	**20 151 473**	**6 812 253**	**4 428 486**	**3 219 533**	**113 954**	**323 976**	**116 969**	**35 166 644**
Net position	**(13 786 628)**	**10 357 135**	**10 063**	**2 498 424**	**3 746 055**	**83 483**	**81 521**	**2 990 053**
Accumulated liquidity gap	**(13 786 628)**	**(3 429 493)**	**(3 419 430)**	**(921 006)**	**2 825 049**	**2 908 532**	**2 990 053**	-

The maturity of the loan portfolio shows the remaining period from the balance sheet date to the contractual maturity. Long-term credits are generally not available in Russia. However, in the Russian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. Accordingly, the effective maturity of a loan portfolio may be longer than indicated by the classification based on contractual terms.

While unpledged financial assets at fair value through profit or loss which are part of the category "Financial assets at fair value through profit or loss", are shown with maturity of less than one month, realisation of such assets is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects.

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(Thousands of Russian Rubles)

The following table shows remaining contractual maturity of financial assets at fair value through profit or loss of the Group as at 31 December 2006 and 31 December 2005:

	31 December 2006	31 December 2005
On demand	-	1 000
Less than 1 month	25	2 019
1 to 3 months	-	-
3 months to 1 year	5 488	686 155
1 to 5 years	1 805 062	2 454 372
Over 5 years	4 336 493	3 905 346
No maturity	2 616	252 880
Financial assets at fair value through profit or loss	**6 149 684**	**7 301 772**

Interest Rate Risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. The Group's expected repricing and maturity dates do not differ significantly from the contractual dates, which are disclosed in the liquidity risk table above.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Group's management. These limits restrict the potential effect of movements in interest rates on interest margin and on the value of interest-sensitive assets and liabilities.

The Group's interest rate policy is reviewed and approved by the Group's Assets and Liabilities Management Committee. As at 31 December 2006 and 31 December 2005 the effective average interest rates by currencies for interest earning/bearing monetary financial instruments were as follows:

	31 December 2006		31 December 2005	
	Rubles	Freely convertible	Rubles	Freely convertible
Short-term deposits with credit institutions	7.0%	5.5%	3.4%	4.2%
Financial assets at fair value through profit or loss	6.7%	5.6%	6.9%	5.0%
Held-to-maturity securities	-	-	7.2%	-
Loans to customers	23.5%	12.5%	19.2%	10.5%
Amounts due to credit institutions/Term deposits	6.0%	4.6%	7.0%	3.4%
Amounts due to customers/Term deposits	10.3%	8.4%	6.1%	8.5%
Debt securities issued	8.3%	9.2%	7.8%	5.8%

19. Commitments and Contingencies

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. In addition, as at 31 December 2006 the Group was engaged in litigation proceedings with tax authorities as described in Note 17. Management believes that it has made adequate provision in respect of these matters.

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to the Bank's operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

(Thousands of Russian Rubles)

Credit related commitments
In the normal course of business, the Group makes commitments to grant loans at a specified rate of interest during a fixed period of time. Substantially all loan contracts contain clauses that set out certain conditions including changes in market rates, under which the interest rate could be reconsidered or the possibility to draw the loan could be cancelled. Therefore such undrawn loan commitments were not treated as options issued by the Group to borrowers to obtain loans at specified interest rates.

Credit-related commitments ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions.

The credit related financial commitments comprise:

	31 December 2006	31 December 2005
Undrawn loan commitments	4 827 123	4 380 998
Guarantees	1 220 886	142 372
Letters of credit	105 327	257 817
Credit related commitments	**6 153 336**	**4 781 187**

The above undrawn loan commitments include only those loan commitments that are not fully cancellable at the Bank's discretion. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded. Consequently commitments listed above should not be treated as expected cash outflows.

Operating lease commitments
In the normal course of business, the Group enters into operating lease agreements for office equipment and premises. After 31 December 2006 and 2005 future minimum payments under non-cancellable operating leases are as follows:

	31 December 2006	31 December 2005
Not later than 1 year	205 417	233 488
Later than 1 year but not later than 5 years	339 919	376 623
Later than 5 years	130 421	82 451
Total operating lease commitments	**675 757**	**692 562**

During the current year RR 274 442 thousand was recognised as an expense in the consolidated income statement in respect of operating leases (2005: RR 238 738 thousand).

20. Fair Value of Financial Instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length, other than in forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

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(Thousands of Russian Rubles)

The following table summarises the carrying amounts and fair values of the Group's financial assets and liabilities:

	31 December 2006		31 December 2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	10 371 653	10 371 653	13 331 201	13 331 201
Obligatory reserves with the CBR	775 344	761 080	639 027	630 134
Financial assets at fair value through profit or loss	6 149 684	6 149 684	7 301 772	7 301 772
Amounts due from credit institutions	14 988	14 988	14 988	14 988
Held-to-maturity securities	-	-	8 954	8 954
Loans to customers	24 847 152	24 847 152	16 378 762	16 378 762
Financial liabilities at fair value through profit or loss	2 087	2 087	897	897
Amounts due to credit institutions	1 125 939	1 125 939	2 875 043	2 875 043
Amounts due to customers	34 867 976	34 867 976	30 564 335	30 564 335
Debt securities issued	3 713 465	3 713 465	1 001 635	1 001 635

The following methods and assumptions are used by the Group to estimate the fair value of these financial instruments:

Cash and cash equivalents and Obligatory reserves with the CBR
For liquid instruments, the carrying amount is a reasonable estimate of fair value. Reserve deposits with the Central Bank of the Russian Federation are non-interest bearing and are estimated to mature as the underlying deposits and other balances in respect of which those deposits are maintained mature.

Financial assets and liabilities at fair value through profit or loss
Financial assets and liabilities at fair value through profit or loss are stated at fair value. The fair value of financial assets and liabilities at fair value through profit or loss is determined with reference to an active market.

Amounts due from and due to credit institutions
For assets maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For longer-term deposits, the interest rates applicable reflect market rates and, consequently, the fair value approximates the carrying amounts.

Held-to-maturity securities
The fair value of held-to-maturity securities is based on discounted cash flows using the effective yield method.

Loans to customers
The fair value of loans to customers represents the discounted amount of estimated future cash flows expected to be received, and is based on the credit and interest rate characteristics of the individual loans within each sector of the portfolio. The estimation of the allowance for loan impairment includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation of the economic sector in which each borrower operates, the economic situation of each borrower and guarantees obtained.

Amounts due to customers
For balances maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For longer-term fixed interest bearing deposits and other borrowings the estimated fair value is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Debt securities issued
The estimated fair values of debt securities issued is based on discounted cash flows and discount rates for a similar instruments at the balance sheet date, except for loan participation notes, where fair values were based on quoted market prices.

21. Related Party Transactions

Related parties, as defined by IAS 24 *"Related Party Disclosures"*, are:

(a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);

(b) associates – enterprises in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;

(c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group, and anyone expected to influence, or be influenced by, that person in their dealings with the Group;

(d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group and close members of the families of such individuals; and

(e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Group and enterprises that have a member of key management in common with the Group.

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(Thousands of Russian Rubles)

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. As at 31 December 2006 and 31 December 2005 the Group had the following transactions outstanding with related parties:

31 December 2006

	Transactions with shareholders	Transactions with key management personnel	Transactions with non-consolidated subsidiaries	Transactions with group IBT*	Total category
Cash and cash equivalents					
Current accounts with other credit institutions (RR - 0%, FC - 0%)	-	-	-	7 647	624 864
Financial assets at fair value through profit or loss (FC - 0%)	-	-	-	25	6 149 684
Amounts due from credit institutions (RR - 0%, FC - 0%)	-	-	-	14 988	14 988
Loans to customers (gross amount) (RR: 14%, FC: 10%-15%)	-	21 113	-	-	25 934 176
Allowance for impairment	-	(150)	-	-	(1 087 024)
Other assets (0%)	-	-	622	-	456 385
	-	**20 963**	**622**	**22 660**	**32 093 073**
Financial liabilities at fair value through profit or loss (FC - 0%)	-	-	-	77	2 087
Amounts due to credit institutions					
Correspondent accounts (RR - 0%, FC - 0%)	-	-	-	1 729	631 219
Amounts due to customers					
Current accounts (RR : 0% - 0.1%, FC: 0%)	362 981	-	-	4 402	20 006 590
Term deposits (RR: 11.0% - 11.3%, FC: 4.75% - 11.5%)	332 664	-	-	80 029	14 746 300
Subordinated debt (RR - 2.5%)	-	-	-	115 086	115 086
Debt securities issued (RR - 9.6%)	440 816	-	-	11 152	3 713 465
	1 136 461	**-**	**-**	**212 475**	**39 214 747**

31 December 2005

	Transactions with shareholders	Transactions with key management personnel	Transactions with non-consolidated subsidiaries	Transactions with group IBT*	Total category
Cash and cash equivalents (0%)	-	-	-	1 611	13 331 201
Financial assets at fair value through profit or loss (FC - 5%)	-	-	-	509 927	7 301 772
Amounts due from credit institutions (0%)	-	-	-	14 988	14 988
Held-to-maturity securities (RR - 7%)	8 954	-	-	-	8 954
Loans to customers (RR - 17%, FC: 9% - 18%)	7 384	12 357	329 836	-	17 261 941
Allowance for impairment	-	(88)	(3 023)	-	(883 179)
Other assets (0%)	-	-	4 590	96	428 360
	28 607	**12 269**	**331 403**	**526 622**	**37 462 317**
Amounts due to credit institutions (0%)	-	-	-	2 529	2 875 043
Amounts due to customers					
Current accounts (RR : 0%)	-	-	43 790	4 266	19 437 329
Term deposits (RR: 0.5% - 3%, FC: 11%)	74 425	-	-	-	11 011 919
Subordinated debt (RR - 2.5%)	-	-	-	115 086	115 086
Other liabilities	-	-	-	305	260 357
	74 425	**-**	**43 790**	**122 187**	**33 699 735**

* group IBT represents companies which are under common control with the Bank: Investment Bank TRUST and its subsidiaries.

(Thousands of Russian Rubles)

The total remuneration of the key management, including pension contributions, and discretionary compensation included in salaries and employment benefits for 2006 amounted to RR 168 309 thousand (2005: RR 99 823 thousand).

The existing accounting system of the Group does not accumulate the amounts of income and expenses from related party transactions. Management of the Group believes that the majority of these amounts are proportionate to the average balances of the corresponding balance sheet captions.

22. Subsidiaries

As at 31 December 2006 and 31 December 2005 the Bank had investments in the following subsidiaries:

Name	Investment as at 31 Dec 2006	Investment as at 31 Dec 2005	Country	% Equity interest as at 31 Dec 2006	% Equity interest as at 31 Dec 2005
TIB Holding S.A.	2 775	2 775	Switzerland	100%	100%
Fiennes Investments Limited	41	41	Cyprus	100%	100%
TIB Financial Services Limited	556	556	Cyprus	100%	100%
Factoring company "EvrokommerzTrust"	-	4 590	RF	-	51%

TIB Holding S.A. is a closed joint stock company under the laws of Switzerland. The company's principal activity is providing financial and administrative services, consulting and trust activities.

Fiennes Investments Limited is a closed joint stock company under the laws of Cyprus. The company's principal activity is international trading and investments.

TIB Financial Services Limited is a closed joint stock company under the laws of Cyprus. The company's principal activity is financial services and investments.

Factoring company "EvrokommerzTrust" ("EvrokommerzTrust") is a limited liability company under the laws of the Russian Federation. The company's principal activity is factoring.

The consolidated financial statements of the Group as at 31 December 2006 and 31 December 2005 included the accounts of TIB Holdings S.A., Fiennes Investments Limited and TIB Financial Services Limited. As at 31 December 2005 the Bank did not consolidate its investment in "EvrokommerzTrust" nor account for it under the equity method as this shareholding had no material effect on these consolidated financial statements.

23. Capital Adequacy

The CBR requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on RAL. As at 31 December 2006 and 31 December 2005 the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

The Group's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines issued in 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December 2006 and 31 December 2005, was 14.2% and 17.0%, respectively. These ratios exceeded the minimum ratio of 8% recommended by the Basle Accord.

(End)