National Bank TRUST

Consolidated Financial Statements

For the year ended 31 December 2005
Together with Independent Auditors' Report

CONTENTS

Independent Auditors' Report

ZAO KPMG
11 Gogolevsky Boulevard
Moscow 119019
Russia

Telephone +7 (095) 937 4477
Fax +7 (095) 937 4400/99
Internet www.kpmg.ru

Independent Auditors' Report

To the Board of Directors of National Bank TRUST:

We have audited the accompanying consolidated balance sheet of National Bank TRUST (the "Bank") and its subsidiaries (the "Group") as of 31 December 2005, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

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

ZAO KPMG

ZAO KPMG
21 April 2006

(Thousands of Russian Rubles)

CONSOLIDATED BALANCE SHEETS

	Notes	31 December 2005	31 December 2004
Assets			
Cash and cash equivalents	5	13 331 201	14 185 353
Obligatory reserve with the CBR		639 027	591 355
Trading securities	6	7 300 052	4 656 478
Amounts due from credit institutions		14 988	106 988
Held-to-maturity securities	7	8 954	8 336
Loans to customers	8	16 378 762	9 005 012
Tax assets	18	55 353	144 337
Tangible fixed assets	9	1 107 707	653 297
Intangible assets	9	95 102	145 950
Other assets		428 360	217 514
Total assets		**39 359 506**	**29 714 620**
Liabilities			
Amounts due to credit institutions	10	2 875 043	1 162 820
Amounts due to customers	11	30 564 335	22 257 414
Debt securities issued	12	1 001 635	2 155 256
Tax liabilities	18	465 274	511 912
Other liabilities		260 357	82 187
Total liabilities		**35 166 644**	**26 169 589**
Shareholders' equity			
Share capital	13	2 896 441	2 896 441
Additional paid-in capital		706 013	706 013
Revaluation reserve for buildings	9	359 387	-
Retained earnings/(Accumulated deficit)		231 021	(57 423)
Total shareholders' equity		**4 192 862**	**3 545 031**
Total liabilities and shareholders' equity		**39 359 506**	**29 714 620**

Signed and authorized for release on behalf of the Board of the Bank on 21 April 2006.

Oleg R. Kolyada **Chairman of the Board**

Katerina L. Sapozhnikova **Chief Financial Officer**

(Thousands of Russian Rubles)

CONSOLIDATED STATEMENTS OF INCOME

	Notes	2005	2004
Interest income	15	2 726 051	2 490 189
Interest expense	15	(787 598)	(1 299 566)
Net interest income		**1 938 453**	**1 190 623**
(Allowance for impairment)/recovery of allowance for impairment	14	(342 901)	563 459
Net interest income after allowance for impairment		**1 595 552**	**1 754 082**
Fee and commission income	16	876 014	858 374
Fee and commission expense	16	(162 710)	(145 693)
Net fee and commission income		**713 304**	**712 681**
Dealing gains less losses		601 565	52 203
Foreign exchange gains less losses		104 907	327 252
Translation gains less losses/(losses less gains)		10 301	(68 605)
Other income		246 204	103 656
Other non-interest income		**962 977**	**414 506**
Salaries and employment benefits	17	(1 317 502)	(1 105 239)
Administrative expenses	17	(814 959)	(771 128)
Depreciation and amortization	9	(152 644)	(117 268)
Recovery of other provisions	14	38 187	48 696
Gain on disposal of subsidiaries	24	-	20 368
Other expenses		(178 337)	(100 721)
Operating expenses		**(2 425 255)**	**(2 025 292)**
Profit before tax		**846 578**	**855 977**
Income tax expense	18	(558 134)	(526 908)
Net profit		**288 444**	**329 069**

(Thousands of Russian Rubles)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Notes	Share capital	Additional paid-in capital	Revaluation reserve for buildings	Retained earnings/ (Accumulated deficit)	Total shareholders' equity
Balance as at 31 December 2003		**2 896 441**	**706 013**	**-**	**(386 492)**	**3 215 962**
Net profit		-	-	-	329 069	329 069
Balance as at 31 December 2004		**2 896 441**	**706 013**	**-**	**(57 423)**	**3 545 031**
Net profit		-	-	-	288 444	288 444
Revaluation of buildings, net of deferred taxation	9	-	-	359 387	-	359 387
Balance as at 31 December 2005		**2 896 441**	**706 013**	**359 387**	**231 021**	**4 192 862**

(Thousands of Russian Rubles)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	2005	2004
Cash flows from operating activities			
Interest income and fees and commissions received		3 369 456	3 324 377
Interest expense and fees and commissions paid		(1 016 253)	(1 630 814)
Dealing gains less losses		534 938	30 382
Foreign exchange gains less losses		104 659	327 252
Other income		302 056	103 656
Salaries and employment benefits		(1 208 280)	(1 105 239)
Administrative and other expenses		(944 758)	(839 473)
Cash flows provided from operating activities before changes in operating assets and liabilities		**1 141 818**	**210 141**
Net (increase) decrease in operating assets:			
Obligatory reserve with the CBR		(47 672)	1 547 209
Trading securities		(2 499 112)	977 526
Amounts due from credit institutions		94 612	(64 387)
Loans to customers		(7 398 618)	7 695 392
Investments in leases		-	197 343
Other assets		(159 276)	209 800
Net increase (decrease) in operating liabilities:			
Amounts due to credit institutions		1 629 559	(1 884 297)
Amounts due to customers		8 174 776	4 433 727
Other liabilities		(19 998)	388 457
Net cash flows provided from operating activities before income taxes		**916 089**	**13 710 911**
Income taxes paid		(695 846)	(42 893)
Net cash flows provided from operating activities		**220 243**	**13 668 018**
Cash flows from investing activities			
Purchase of tangible fixed assets	9	(147 890)	(193 753)
Proceeds from sale of tangible fixed assets		51 979	4 087
Purchase of intangible assets	9	(54 337)	(23 871)
Proceeds from disposal of subsidiary, net of cash disposed	24	-	(27 166)
Net cash flows used in investing activities		**(150 248)**	**(240 703)**
Cash flows from financing activities			
Debt securities redeemed		(1 038 547)	(4 078 619)
Net cash flows used in financing activities		**(1 038 547)**	**(4 078 619)**
Effect of change in exchange rates on cash and cash equivalents		114 400	(131 634)
Net change in cash and cash equivalents		**(854 152)**	**9 217 062**
Cash and cash equivalents as at the beginning of the year		14 185 353	4 968 291
Cash and cash equivalents as at the end of the year	5	**13 331 201**	**14 185 353**

1. Principal Activities

These consolidated financial statements include the financial statements of National Bank TRUST (the "Bank") 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 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 for its corporate and retail customers.

The Bank has 54 branches in 47 regions of Russia, one foreign branch in Ulan-Bator, Mongolia, and one representative office in Kursk, Russia. The Bank's registered legal address is: Nevsky prospect 1, Saint Petersburg, Russia, 191186.

In May 2004 management of the Bank completed a buyout of controlling stake in the Bank from its previous owners and as a result received full control over the Bank.

The Bank is ultimately controlled by TIB Holding Limited (the "ultimate parent company"), which in its turn is controlled by five 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, Oleg R. Kolyada, Sergey L. Belyaev, Artashes A. Terzyan and Nikolay V. Fetisov.

A list of subsidiaries of the Bank is disclosed in Note 23.

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. The accompanying 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").

The national currency of the Russian Federation is the Russian Ruble ("RR"). Management have 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.

The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in Russian Rubles in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These consolidated financial statements are based on the Group's statutory books and records, as adjusted and reclassified in order to comply with IFRS.

3 Basis of Preparation (continued)

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 8;
- Taxation – refer to Note 18;

Inflation Accounting
As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29 to current periods and only recognizes the cumulative impact of inflation indexing through 31 December 2002, on non-monetary elements of the consolidated financial statements.

Non-monetary assets and liabilities acquired prior to 31 December 2002, and share capital contributions occurring before 31 December 2002, have been restated by applying the relevant conversion factors to the historical cost ("restated cost") through 31 December 2002. Gains or losses on subsequent disposal are recognized based on the restated cost of non-monetary assets and liabilities.

4. Summary of Accounting Policies

Principles of consolidation
Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank 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.

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

Foreign Currency Translation
Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Russian Rubles at the official CBR exchange rates at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated statement of income as translation gains less losses.

Differences between the contractual exchange rate of a certain transaction and the CBR exchange rate on the date of the transaction are included in foreign exchange gains less losses. The official CBR exchange rates as of 31 December 2005 and 31 December 2004, were 28.7825 Russian Rubles and 27.7487 Russian Rubles to 1 US Dollar, respectively.

Cash and Cash Equivalents
Cash and cash equivalents consist of cash on hand, amounts due from the CBR – excluding obligatory reserves, current accounts with other credit institutions and short term deposits with other credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Obligatory Reserves with the CBR
The obligatory reserves with the CBR represent amounts deposited with the CBR. Credit institutions are required to maintain non-interest earning cash deposits (obligatory reserves) with the CBR, the amount of which depends on the level of funds attracted by the credit institution, and currency control regulation requirements. The Group's ability to withdraw such deposits is significantly restricted by the statutory legislation.

4. Summary of Accounting Policies (continued)

Measurement terms
Depending on their classification, financial instruments are carried at cost, fair value, or amortized cost, as described below.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

In other than active markets, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The most recent transaction prices are appropriately adjusted if they do not reflect current fair values, for example because the transaction was a distress sale. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale.

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

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

Purchases and sales of financial instruments are recognised on trade date, which is the date on which the Group commits to purchase or sell the financial instrument. Loans originated by the Group are recognized when cash is advanced to the borrowers.

Financial instruments
Financial instruments are classified in the following categories: financial instruments at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Management determines the appropriate classification of financial instruments at the time of the purchase or origination.

(i) Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss include financial instruments held for trading and other financial instruments designated at fair value through profit or loss at initial recognition. A financial instrument is classified as held for trading if it is acquired principally for the purpose of selling it in the near term or it is a part of a portfolio for which there is evidence of a recent actual pattern of short-term profit-taking, or it is a derivative. Financial instruments at fair value through profit or loss include trading securities, assets pledged under repurchased agreements and derivative financial instruments.

Financial instruments at fair value through profit or loss are recognised initially, and are subsequently carried at, fair value. Gains and losses arising from changes in the fair value of financial instruments at fair value through profit or loss are included in the consolidated statement of income in the period in which they arise.

4. Summary of Accounting Policies (continued)

(ii) Loans and receivables

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, which are classified as held for trading, or those which the Group designates at initial recognition as at fair value through profit or loss or available-for-sale. Loans and receivables include amounts due from credit institutions and loans to customers.

Loans and receivables are initially recorded at fair value, which is the fair value of the consideration given to originate or purchase those loans and receivables plus any related transaction costs, and subsequently are carried at amortised cost using the effective interest method.

Loans originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar loans. The difference between the fair value and the nominal value at origination is credited or charged to the consolidated statement of income as gains on origination of assets at rates above market or losses on origination of assets at rates below market. Subsequently, the carrying amount of such loans is adjusted for amortization of the gains/losses on origination and the related income/expense is recorded in interest income within the consolidated statement of income using the effective interest method.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

Held-to-maturity investments are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of these investments and are subsequently carried at amortised cost using the effective interest method.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss. Available-for-sale financial assets may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale financial assets are recognised initially, and are subsequently carried, at fair value. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity, except for impairment and the effect of changes in foreign exchange rates. When the asset is derecognised the cumulative gain or loss previously recognised in equity is recognized in the consolidated statement of income.

Repurchase and reverse repurchase agreements
Repurchase and reverse repurchase agreements are utilized by the Group as an element of its treasury management and trading business.

Repurchase agreements are accounted for as financing transactions. As such, the related securities are recorded in the Group's accounts and the related payable is included as an amount due to credit institutions or customers.

Reverse repurchase agreements are accounted for as amounts due from credit institutions and loans to customers respectively.

Any related income or expense arising from the pricing spreads of the underlying securities is recognized as interest income or expense, accrued using the effective interest method, during the period that the related transactions are open.

Promissory notes purchased
Promissory notes purchased are included in trading securities, loans to customers or amounts due from credit institutions, depending on their substance and are subsequently remeasured and accounted for in accordance with the accounting policies described above for these categories of assets.

4. Summary of Accounting Policies (continued)

Derivative Financial Instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are primarily held for trading and are initially recognized in the balance sheet at cost (including transaction costs, if any) and are subsequently measured at their fair value. Their fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets (unrealized gains) when fair value is positive and as liabilities (unrealized losses) when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of income as dealing gains less losses.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation or revalued amounts, as described below. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use. Land is not amortised. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

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

Expenses related to repairs and renewals are charged to the consolidated statement of income when incurred and included in other administrative expenses unless they qualify for capitalization.

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

Intangible Assets

Intangible assets include goodwill, computer software and licenses.

The excess of the cost of an acquisition over the Group's interest in the fair value of the net identifiable assets acquired as of the date of the transaction is recorded as goodwill and recognized as an asset in the consolidated balance sheet. The Group tests its goodwill for impairment on an annual basis.

Computer software development costs are recognized as assets at cost and are amortized using the straight-line method over their useful lives, but not exceeding a period of 10 years. Acquired computer software is accounted for under the same policies.

Licenses are stated at cost net of accumulated amortization. Amortization is provided so as to write down the cost of an asset on a straight-line basis over its estimated useful economic life. The useful life is 10 years.

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

Impairment

The carrying amounts of the Group's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amounts are estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the consolidated statement of income unless the asset is recorded at a revalued amount in which case it is treated as a revaluation decrease.

4. Summary of Accounting Policies (continued)

When a decline in the fair value of an asset available-for-sale has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in the consolidated statement of income even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in the consolidated statement of income is the difference between the acquisition cost and current fair value, less any impairment loss on that asset previously recognised in the consolidated statement of income.

(i) Recoverable amount

The recoverable amount of financial instruments at fair value through profit or loss and financial assets available-for-sale is their fair value. The recoverable amount of the Group's investments in held-to-maturity securities and loans and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate that is the effective interest rate computed at initial recognition of these financial assets (refer to "Loan impairment allowance" Note below).

The recoverable amount of other assets is the greater of their net selling price 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 largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a held-to-maturity security, a loan or a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the consolidated statement of income. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in the consolidated statement of income, then the impairment loss is reversed, with the amount of the reversal recognised in the consolidated statement of income.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only 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.

(iii) Loan impairment allowance

The Group reviews its loan portfolio to assess impairment at least on a quarterly basis. A loan (or a group of loans) 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 and that event (or events) has an impact on the estimated future cash flows of the loan (or the group of loans) that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for loans to customers that are individually significant, and individually or collectively for loans to customers that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans 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 has been incurred, the amount of the loss is measured as the difference between the loan carrying amount and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral (excluding future losses that have not been incurred) discounted at the loan 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.

4. Summary of Accounting Policies (continued)

In some cases the observable data required to estimate the amount of an impairment loss on a loan 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 limited available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss. The assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the allowance for loan impairment in the consolidated statement of income.

Amounts Due to Credit Institutions and Customers
Amounts due to credit institutions and customers are initially recognized at cost, which amounts to the fair value of consideration received less any transaction costs incurred. Subsequently amounts due to credit institutions and customers are stated at amortized cost and any difference between the fair value of consideration received and the redemption value is recognized in the consolidated statement of income over the period of the borrowings using the effective yield method.

Debt Securities Issued
Debt securities issued represent promissory notes and certificates of deposit issued by the Group. They are accounted for in accordance with the same principles used for amounts due to credit institutions and customers. If the Group purchases its own debt security issued, it is removed from the consolidated balance sheet and the difference between the carrying amount of a liability and the consideration paid is included in the consolidated statement of income as interest expense.

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

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

Share Capital
Share capital is recognized at restated cost. Dividends on ordinary shares are recognized in shareholders' equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event and disclosed accordingly.

Taxation
The current income tax expense is calculated in accordance with the regulations of the Russian Federation, of the cities in which the Bank has offices and branches and its subsidiaries are located and the countries in which the Bank has foreign subsidiaries. Deferred taxes are provided for temporary differences between the tax base of an asset or liability and its carrying amount in the accompanying consolidated balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not.

Russia also has various operating taxes, which are assessed on the Group's activities. These taxes are included in the consolidated statement of income as administrative expenses.

4. Summary of Accounting Policies (continued)

Income and Expense Recognition
Interest income and expense are recognized on an accrual basis calculated using the effective interest method. The recognition of interest income is suspended when loans become overdue by more then ninety days. Interest income includes coupon income earned on trading securities. Commissions and other income are recognised when the corresponding service is provided. 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 recognized as an adjustment to the loan's effective yield. Non-interest expense is recognized at the time the transaction occurs.

Dividend income is recognised in the consolidated statement of income on the date that the dividend is declared.

Staff costs and related contributions
The Group's contributions to State pension and social insurance funds in respect of its employees are expensed as incurred and included into salaries and employment benefits.

Operating Leases
Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under operating leases are recognized as expenses on a straight-line basis over the lease term and included in administrative expenses.

Credit related commitments
In the normal course of business, the Group enters into credit related commitments including undrawn loan commitments, letters of credit and guarantees. Specific provisions are recorded against credit related commitments when losses are considered probable.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Changes in accounting policies
Certain new IFRSs became effective for the Group from 1 January 2005. Listed below are those new or amended standards or interpretations which are relevant to the Group's operations and the nature of their impact on the Group's accounting policies.

IAS 1 (revised 2003) "Presentation of Financial Statements" (effective since 1 January 2005). The Group no longer discloses the number of employees. Certain new disclosures required by the revised standard were made in these financial statements, including disclosure of critical accounting estimates and judgements in applying accounting policies.

IAS 24 (revised 2003) "Related Party Disclosures" (effective since 1 January 2005). The definition of related parties was extended and additional disclosures required by the revised standard were made in these consolidated financial statements.

IAS 32 (revised 2003) "Financial Instruments: Disclosure and Presentation" (effective since 1 January 2005). Additional disclosures required by the revised standard were made in these consolidated financial statements.

IAS 39 (revised 2003) "Financial Instruments: Recognition and Measurement" (effective since 1 January 2005). In accordance with revised IAS 39, the Group has designated financial assets, which were previously recognised as available-for-sale securities with the carrying amount of RR 9 742 thousand as at 31 December 2004, as follows: trading securities (RR 354 thousand) and other financial instruments at fair value through profit or loss (RR 9 388 thousand) which are included in other assets in the consolidated balance sheet. There has been no effect on the Group's financial position or results of operations. In accordance with the specific transitional provisions in IAS 39, there was no requirement for the Group to have designated such investments as at fair value through profit or loss at the date of initial recognition.

4. Summary of Accounting Policies (continued)

The definition of 'originated loans and receivables' was amended to become 'loans and receivables'. This category now includes originated or purchased loans and receivables that are not quoted in an active market.

The Group now applies the guidance added to IAS 39 on how to determine fair values using valuation techniques and how to evaluate impairment in a group of loans, receivables or held-to-maturity investments which cannot yet be identified with any individual asset in the group.

Application of *IFRS 3 "Business Combinations", IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (revised 2003), IAS 10 "Events After the Balance Sheet Date" (revised 2003), IAS 16 "Property, Plant and Equipment" (revised 2003), IAS 17 "Leases" (revised 2003), IAS 27 "Consolidated and Separate Financial Statements" (revised 2003), IAS 28 "Investments in Associates" (revised 2003), IAS 36 "Impairment of Assets" (revised 2004), IAS 38 "Intangible Assets" (revised 2004)* did not result in substantial changes to the Group's accounting policies.

There was no impact on opening retained earnings as at 1 January 2005 from the adoption of any of the above-mentioned standards.

In addition to the above, the Bank changed its method of accounting for buildings from the cost method to the revaluation method as described in Note 9.

New Accounting Pronouncements
A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2005, 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.

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

IAS 39 (Amendment) – "The Fair Value Option" (effective from 1 January 2006). IAS 39 (revised 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ('fair value through profit or loss'). The amendment changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category. Specifically a group of financial instruments can be designated as part of this category if either the designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring financial instruments or recognising the gains and losses on them on different bases; or a group of financial instruments is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel, for example the entity's board of directors and chief executive officer.

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

IAS 39 (Amendment) and *IFRS 4 "Insurance Contracts – Financial Guarantee Contracts" (effective from 1 January 2006).* Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognition of financial assets or result in continuing involvement accounting.

(Thousands of Russian Rubles)

4. Summary of Accounting Policies (continued)

IFRS 7 "Financial Instruments: Disclosures" (effective from 1 January 2007). The standard will require increased disclosure in respect of the Group's financial instruments.

Amendment to IAS 1 "Presentation of Financial Statements – Capital Disclosures" (effective from 1 January 2007). The standard will require increased disclosure in respect of the Group's capital.

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

Reclassifications

Certain reclassifications have been made to 31 December 2004 amounts to conform to the current period presentation. Such reclassifications had no impact on net profit or shareholders' equity.

5. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	31 December 2005	31 December 2004
Cash on hand	1 299 270	1 875 218
Current accounts with the CBR	3 968 581	7 375 555
Current accounts with other credit institutions	909 997	698 527
Short term deposits with other credit institutions	7 153 353	4 236 053
Cash and cash equivalents	**13 331 201**	**14 185 353**

As at 31 December 2005 the Group had two borrowers with aggregated short term deposit amounts above RR 1 000 000 thousand each. The aggregate amount of these short term deposits was RR 5 123 090 thousand or 72% of the total short term deposits with other credit institutions.

As at 31 December 2004 the Group had five borrowers with aggregated short term deposit amounts above RR 100 000 thousand each. The aggregate amount of these short term deposits was RR 4 190 741 thousand or 99% of the total short term deposits with other credit institutions.

Geographical and currency analyses of cash and cash equivalents are disclosed in Note 19. The estimated fair value of cash and cash equivalents is disclosed in Note 21. The information on related party balances is disclosed in Note 22.

6. Trading Securities

Trading securities comprise:

	31 December 2005	31 December 2004
Federal loan bonds (OFZ)	4 443 766	357 505
Corporate debt securities	1 254 736	1 638 298
Municipal government bonds	1 231 344	1 619 039
Corporate shares	252 880	232 648
Corporate Eurobonds	63 696	177 731
Promissory notes	52 570	628 648
Ministry of Finance bonds	1 060	2 609
Trading securities	**7 300 052**	**4 656 478**

(Thousands of Russian Rubles)

6. Trading Securities (continued)

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 2021. The annual coupon rates on these bonds range from 6% to 10% (2004 - 19%).

Corporate debt securities represent corporate bonds of large Russian companies and notes linked to credits issued to Russian banks, with maturities between 2006 and 2012. The annual coupon rates on these bonds range from 7% to 14% (2004 – 4% to 16%).

Municipal government bonds comprise registered government bonds of the city of St. Petersburg and the regions of Moscow, Volgograd, Yamalo-Nenetsk, Belgorod, Chuvashiya, Saha-Yakutiya and Karelia, with maturities between 2006 to 2014. The average annual coupon rates range from 8% to 14% (2004 – 9% to 15%).

Corporate shares are marketable shares of Russian companies.

Corporate Eurobonds are US Dollar denominated interest bearing securities issued by a large Russian oil company and are freely tradable internationally, with maturity in 2007. The coupon rate on these bonds is 11%.

As of 31 December 2004 corporate Eurobonds with market value of RR 177 731 thousand were pledged under repurchase agreements. Corresponding liabilities to repurchase these securities were included in amounts due to credit institutions (Note 10).

Promissory notes comprise debt securities issued by Russian companies which are purchased at a discount to face value. The average annual rate of return on such promissory notes is 12%.

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

Geographical, currency, maturity and interest rate analyses of trading securities are disclosed in Note 19. The estimated fair value of trading securities is disclosed in Note 21. The information on related party balances is disclosed in Note 22.

7. Held-to-Maturity Securities

Held-to-maturity securities comprise:

	31 December 2005	31 December 2004
Promissory notes	8 954	8 336
Held-to-maturity securities	**8 954**	**8 336**

Geographical, currency, maturity and interest rate analyses of held-to-maturity securities are disclosed in Note 19. The estimated fair value of held-to-maturity securities is disclosed in Note 21. The information on related party balances is disclosed in Note 22.

(Thousands of Russian Rubles)

8. Loans to Customers

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

	31 December 2005	31 December 2004
Individuals	4 962 012	1 064 360
Trading enterprises	3 230 541	2 791 800
Financial intermediaries	2 111 493	540 465
Engineering and metal processing	1 692 029	837 321
Manufacturing	1 136 083	919 226
Chemical and petrochemical	945 577	839 827
Construction	666 107	398 653
Agencies of state administrations	622 324	308 324
Energy	595 552	422 927
Transport	189 061	172 165
Oil and gas	106 995	516 385
Pharmaceuticals	37 140	3 034
Other	967 027	738 130
Loans to customers	**17 261 941**	**9 552 617**
Less – Allowance for impairment (Note 14)	(883 179)	(547 605)
Loans to customers (net of allowance for impairment)	**16 378 762**	**9 005 012**

As at 31 December 2005 the Group had five borrowers with aggregated loan amounts above RR 400 000 thousand each. The aggregate amount of these loans was RR 2 867 035 thousand or 17% of the gross loan portfolio.

As at 31 December 2004 the Group had six borrowers with aggregated loan amounts above RR 150 000 thousand each. The aggregate amount of these loans was RR 1 353 578 thousand or 14% of the gross loan portfolio.

As at 31 December 2005 the Group has entered into reverse repurchase agreements with certain companies. The subjects of these agreements were promissory notes issued by Russian companies with a market value of RR 75 623 thousand (2004: RR 31 250 thousand).

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

	31 December 2005	31 December 2004
Private companies	11 729 444	7 754 917
Individuals	4 962 012	1 064 360
Private entrepreneurs	259 587	171 942
Federal state enterprises and federal authorities	190 369	255 083
Regional state enterprises and local authorities	120 529	306 315
Loans to customers	**17 261 941**	**9 552 617**

The Group reviewed its current loan portfolio and identified loans which displayed indicators of impairment of RR 858 077 thousand as at 31 December 2005. The Group created an allowance for impairment on these loans of RR 673 230 thousand. Also, the Group created a collective allowance for impairment as at 31 December 2005 in amount of RR 209 949 thousand on loans with no specific indicators of impairment of RR 16 403 864 thousand. Changes in these estimates could effect 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 2005 would be RR 172 619 thousand lower/higher.

(Thousands of Russian Rubles)

8. Loans to Customers (continued)

The aggregate amount of overdue loans as at 31 December 2005 is RR 769 091 thousand, the allowance for impairment created against overdue loans is RR 570 856 thousand (2004: RR 669 755 thousand and RR 326 979 thousand, respectively). Included in the aggregate amount of overdue loans as at 31 December 2005 are non-accrual loans with aggregate amount of RR 636 956 thousand (2004: RR 437 998 thousand).

Loans to customers include promissory notes issued by third parties in the total (gross) amount of RR 264 418 thousand as at 31 December 2005 (2004: RR 276 417 thousand).

Geographical, currency, maturity and interest rate analyses of loans to customers are disclosed in Note 19. The estimated fair value of loans to customers is disclosed in Note 21. The information on related party balances is disclosed in Note 22.

9. Tangible and Intangible Assets

The movements of tangible fixed assets during 2005 were as follows:

	Buildings	Land and other premises	Fixtures and equipment	Total
Cost				
31 December 2004	220 814	16 035	790 023	1 026 872
Additions	-	51 304	96 586	147 890
Disposals	(30 616)	(5 574)	(123 286)	(159 476)
Revaluation	458 194	-	-	458 194
31 December 2005	**648 392**	**61 765**	**763 323**	**1 473 480**
Accumulated depreciation				
31 December 2004	10 673	986	361 916	373 575
Depreciation charge	5 029	1 198	108 152	114 379
Disposals	(1 018)	(668)	(105 811)	(107 497)
Revaluation	(14 684)	-	-	(14 684)
31 December 2005	**-**	**1 516**	**364 257**	**365 773**
Net book value				
31 December 2004	**210 141**	**15 049**	**428 107**	**653 297**
31 December 2005	**648 392**	**60 249**	**399 066**	**1 107 707**

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

The basis used for the appraisal was the market approach and 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 projection period;
- the net cash flows were capitalised using the rates ranging from 14% to 18% 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.

(Thousands of Russian Rubles)

9. Tangible and Intangible Assets (continued)

Included in the above net book value of premises is RR 472 878 thousand representing revaluation surplus relating to premises of the Group. As at 31 December 2005 a cumulative deferred tax liability of RR 113 491 thousand was calculated with respect to this valuation adjustment and has been recorded directly to equity. Refer to Note 18. As at 31 December 2005 the carrying amount of buildings would have been RR 175 514 thousand had the assets been carried at cost less depreciation.

The movements of intangible assets during 2005 were as follows:

	Goodwill	Software and licences	Total
Costs of acquisition			
31 December 2004	**11 630**	**196 268**	**207 898**
Additions	-	54 337	54 337
Disposals	-	(83 632)	(83 632)
Write-offs	(11 630)	-	(11 630)
31 December 2005	**-**	**166 973**	**166 973**
Accumulated amortization			
31 December 2004	**4 652**	**57 296**	**61 948**
Amortisation charge	-	38 265	38 265
Disposals	-	(23 690)	(23 690)
Write-offs	(4 652)	-	(4 652)
31 December 2005	**-**	**71 871**	**71 871**
Net book value			
31 December 2004	**6 978**	**138 972**	**145 950**
31 December 2005	**-**	**95 102**	**95 102**

10. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	31 December 2005	31 December 2004
Time deposits	2 386 818	154 098
Correspondent accounts	488 225	870 443
Repurchase agreements	-	138 279
Amounts due to credit institutions	**2 875 043**	**1 162 820**

As at 31 December 2005 the Bank had one counterparty with aggregate balances of RR 2 349 415 thousand or 82% of the total amounts due to credit institutions.

Geographical, currency, maturity and interest rate analyses of amounts due to credit institutions are disclosed in Note 19. The estimated fair value of amounts due to credit institutions is disclosed in Note 21. The information on related party balances is disclosed in Note 22.

(Thousands of Russian Rubles)

11. Amounts Due to Customers

Amounts due to customers comprise:

	31 December 2005	31 December 2004
Current accounts	19 437 329	19 023 667
Time deposits	11 127 006	3 233 747
Amounts due to customers	**30 564 335**	**22 257 414**

Amounts due to customers by industries comprise:

	31 December 2005	31 December 2004
Energy trade	8 208 258	9 297 329
Oil and gas	7 517 542	1 738 455
Individuals	7 299 341	4 486 416
Financials intermediaries	1 696 452	1 324 480
Trading enterprises	1 431 402	2 047 696
Transport	1 129 305	473 515
Chemical and petrochemical	1 069 237	528 869
Manufacturing	764 190	1 005 390
Construction	481 975	616 579
Other	966 633	738 685
Amounts due to customers	**30 564 335**	**22 257 414**

As at 31 December 2005 no collateral was held for letters of credit (2004 - RR 22 121 thousand). Refer to Note 20.

As at 31 December 2005 customer accounts of RR 706 thousand (2004 - RR 15 612 thousand) were held as deposits of customers correspondent to the obligatory reserves with the CBR in accordance with currency control regulation requirements.

As at 31 December 2005 the total amount of current accounts of a restricted nature included in customer accounts was RR 7 218 673 thousand (2004 - RR 4 765 632 thousand).

As of 31 December 2005 customer accounts included current accounts of JSC "Oil Company "YUKOS" and its related companies in the amount of RR 6 704 088 thousand, out of which RR 3 790 247 thousand are current accounts of a restricted nature (2004 – RR 8 621 051 thousand and RR 1 312 696 thousand, respectively). As of 31 December 2005 and 2004 JSC "Oil Company "YUKOS" and its related companies were not related parties of the Group.

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

	31 December 2005	31 December 2004
Private companies	23 088 029	17 429 841
Individuals	7 299 341	4 486 416
State companies and local authorities	176 965	341 157
Amounts due to customers	**30 564 335**	**22 257 414**

Geographical, currency, maturity and interest rate analyses of amounts due to customers are disclosed in Note 19. The estimated fair value of amounts due to customers is disclosed in Note 21. The information on related party balances is disclosed in Note 22.

(Thousands of Russian Rubles)

12. Debt Securities Issued

Debt securities issued comprise:

	31 December 2005	31 December 2004
Promissory notes	994 828	1 815 788
Certificates of deposits	6 807	339 468
Debt securities issued	**1 001 635**	**2 155 256**

Geographical, currency, maturity and interest rate analyses of debt securities issued are disclosed in Note 19. The estimated fair value of debt securities issued is disclosed in Note 21.

13. 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 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 2005 the Group had 294 538 047 ordinary shares issued, outstanding and fully paid by shareholders and no preferred stock issued.

Dividends payable are restricted to the maximum retained earnings of the Group, which are determined according to the legislation in the Russian Federation.

14. Allowance for Impairment and Other Provisions

The movements in the allowance for impairment for interest earning assets during 2005 and 2004 were as follows:

	Loans to customers	Investment in leases	Held-to-maturity securities	Total
31 December 2003	**1 115 409**	**44 046**	**14 939**	**1 174 394**
Recoveries of allowance for impairment	(513 555)	(34 965)	(14 939)	(563 459)
Write-offs	(54 249)	-	-	(54 249)
Disposal of subsidiary	-	(9 081)	-	(9 081)
31 December 2004	**547 605**	-	-	**547 605**
Allowance for impairment	342 901	-	-	342 901
Write-offs	(7 327)	-	-	(7 327)
31 December 2005	**883 179**	-	-	**883 179**

(Thousands of Russian Rubles)

14. Allowance for Impairment and Other Provisions (continued)

The movements in the provision for impairment for other assets and other risks during 2005 and 2004 were as follows:

	Other assets	Other risks	Total
31 December 2003	**8 591**	**79 375**	**87 966**
Provision (recoveries of provision)	10 686	(59 382)	(48 696)
Write-offs	(1 083)	-	(1 083)
31 December 2004	**18 194**	**19 993**	**38 187**
Recoveries of provision	(18 194)	(19 993)	(38 187)
31 December 2005	-	-	-

Allowance for impairment and provision for impairment of other assets are deducted from the related assets. Provisions for other risks are recorded as liabilities. Provisions for potential tax liabilities are included in tax liabilities (refer to Note 18).

In accordance with the Russian legislation, loans may only be written off with the approval of the Shareholders' Council and with the respective decision of the Court.

15. Interest Income and Interest Expense

	2005	2004
Interest income		
Loans to customers	1 903 648	1 732 925
Debt securities	614 888	491 651
Amounts due from credit institutions	207 515	179 285
Finance lease income	-	86 328
Total interest income	**2 726 051**	**2 490 189**
Interest expense		
Amounts due to customers	633 808	698 867
Debt securities issued	80 622	469 708
Amounts due to credit institutions	73 168	130 991
Total interest expense	**787 598**	**1 299 566**
Net interest income	**1 938 453**	**1 190 623**

(Thousands of Russian Rubles)

16. Fee and Commission Income and Fee and Commission Expense

	2005	2004
Fee and commission income		
Settlement operations	484 462	505 854
Cash operations	240 275	230 490
Agency fees	29 812	-
Rental fees	23 102	17 463
Guarantees issued	12 870	26 096
Currency control agent functions	9 445	29 917
Safekeeping and securities operations	2 109	6 724
Other	73 939	41 830
Fee and commission income	**876 014**	**858 374**
Fee and commission expense		
Settlement operations	121 268	105 467
Cash operations	36 310	32 140
Other	5 132	8 086
Fee and commission expense	**162 710**	**145 693**
Net fee and commission income	**713 304**	**712 681**

17. Salaries and Employment Benefits and Administrative Expenses

	2005	2004
Salaries and employment benefits		
Salaries and other compensation	1 127 074	860 305
Social security costs	185 569	186 307
Other	4 859	58 627
Salaries and employment benefits	**1 317 502**	**1 105 239**
Administrative expenses		
Rent	238 738	225 920
Business development	167 634	124 547
Operating taxes	130 466	45 233
Security	97 897	106 710
Communication	80 122	66 846
Utilities	22 268	113 743
Other	77 834	88 129
Administrative expenses	**814 959**	**771 128**

(Thousands of Russian Rubles)

18. Taxation

Income tax expense comprises:

	2005	2004
Current tax expense	614 617	485 803
Deferred tax movement	57 008	41 105
Less: Deferred tax recorded directly to equity	(113 491)	-
Income tax expense	**558 134**	**526 908**

Russian legal entities must file individual tax declarations. The tax rate for banks for profits other than on state securities was 24% for 2005 and 2004. 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:

	2005	2004
Profit before taxation	**846 578**	**855 977**
Statutory tax rate	24%	24%
Theoretical income tax expense at the statutory rate	**203 179**	**205 434**
Tax effect of items taxed in different jurisdictions	1 913	18 050
State securities income taxed at 15%	(34 371)	(21 459)
Change in unrecognized deferred tax assets	-	(127 789)
Non-deductible expenditures, net of non-taxable income	(22 315)	23 553
Provision for tax claims	506 500	435 749
Release of provision for tax claims	(84 000)	-
Other permanent differences	(12 772)	(6 630)
Income tax expense	**558 134**	**526 908**

(Thousands of Russian Rubles)

18. Taxation (continued)

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:

	2003	Disposal of subsidiaries	Recognized in consolidated statement of income	2004	Recognized in consolidated statement of income /equity	2005
Tax effect of deductible temporary differences						
Provision for impairment	162 387	(2 179)	(158 062)	2 146	35 147	37 293
Interest income accrued	-	-	-	-	34 341	34 341
Expenses accrued	18 925	(48 924)	50 637	20 638	15 362	36 000
Depreciation of tangible and intangible assets	18 644	(7 772)	5 335	16 207	(7 844)	8 363
Adjustments to fair value	3 340	-	1 939	5 279	(5 279)	-
Other	346	-	3 490	3 836	25 664	29 500
Gross deferred tax assets	**203 642**	**(58 875)**	**(96 661)**	**48 106**	**97 391**	**145 497**
Unrecognized deferred tax assets	(129 968)	2 179	127 789	-	-	-
Deferred tax assets	**73 674**	**(56 696)**	**31 128**	**48 106**	**97 391**	**145 497**
Tax effect of taxable temporary differences						
Interest income accrued	(77 683)	-	77 683	-	-	-
Hyperinflationary impact on non-monetary assets	(13 930)	-	(33 905)	(47 835)	20 553	(27 282)
Capitalised expenses related to tangible assets	-	-	(18 267)	(18 267)	12 886	(5 381)
Revaluation of buildings	-	-	-	-	(113 491)	(113 491)
Adjustments to fair value	-	-	-	-	(89 258)	(89 258)
Other	-	55 779	(97 744)	(41 965)	14 911	(27 054)
Deferred tax liabilities	**(91 613)**	**55 779**	**(72 233)**	**(108 067)**	**(154 399)**	**(262 466)**
Net deferred tax liability	**(17 939)**	**(917)**	**(41 105)**	**(59 961)**	**(57 008)**	**(116 969)**

As at 31 December 2005 a deferred tax liability of RR 113 491 thousand (2004: none) was calculated with respect to the revaluation of the Group's buildings and has been recorded directly to equity. Refer to Note 9.

(Thousands of Russian Rubles)

18. Taxation (continued)

Tax assets and liabilities consist of the following:

	31 December 2005	31 December 2004
Current tax assets	55 353	144 337
Tax assets	**55 353**	**144 337**
Current tax liabilities	348 305	451 951
Deferred tax liabilities	116 969	59 961
Tax liabilities	**465 274**	**511 912**

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, differing 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 the 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 claims limitation period and RR 518 518 thousand was paid out by the Group in respect of these claims.

During 2005, additional provisions for potential tax liabilities were recorded in the consolidated statement of income of RR 506 500 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. Management believes that this provision is the best estimate of potential tax losses.

19. 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.

(Thousands of Russian Rubles)

19. Risk Management Policies (continued)

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.

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.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

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

	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 reserve with the CBR	639 027	-	-	639 027
Trading securities	7 300 052	-	-	7 300 052
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	1 583 404	-	103 118	1 686 522
Total assets	**33 209 449**	**5 582 136**	**567 921**	**39 359 506**
Liabilities				
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	725 631	-	-	725 631
Total liabilities	**30 343 804**	**2 369 323**	**2 453 517**	**35 166 644**
Net balance sheet position	**2 865 645**	**3 212 813**	**(1 885 596)**	**4 192 862**

(Thousands of Russian Rubles)

19. Risk Management Policies (continued)

	31 December 2004			
	Russia	OECD	CIS and other countries	Total
Assets				
Cash and cash equivalents	9 541 200	4 591 446	52 707	14 185 353
Obligatory reserve with the CBR	591 355	-	-	591 355
Trading securities	4 517 588	138 890	-	4 656 478
Amounts due from credit institutions	106 988	-	-	106 988
Held-to-maturity securities	8 336	-	-	8 336
Loans to customers	9 005 012	-	-	9 005 012
All other assets	1 023 217	552	137 329	1 161 098
Total assets	**24 793 696**	**4 730 888**	**190 036**	**29 714 620**
Liabilities				
Amounts due to credit institutions	993 143	12 614	157 063	1 162 820
Amounts due to customers	21 783 811	341 834	131 769	22 257 414
Debt securities issued	1 315 735	10 009	829 512	2 155 256
All other liabilities	564 085	6 554	23 460	594 099
Total liabilities	**24 656 774**	**371 011**	**1 141 804**	**26 169 589**
Net balance sheet position	**136 922**	**4 359 877**	**(951 768)**	**3 545 031**

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

(Thousands of Russian Rubles)

19. Risk Management Policies (continued)

Currency Risk

The Group is exposed to 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 risk follows.

	31 December 2005		
	Rubles	**Freely convertible**	**Total**
Assets			
Cash and cash equivalents	7 280 096	6 051 105	13 331 201
Obligatory reserve with the CBR	639 027	-	639 027
Trading securities	6 725 370	574 682	7 300 052
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	104 423	1 686 522
Total assets	**30 755 568**	**8 603 938**	**39 359 506**
Liabilities			
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	13 413	725 631
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	**2 003 437**	**(2 002 614)**	**823**

(Thousands of Russian Rubles)

19. Risk Management Policies (continued)

	31 December 2004		
	Rubles	Freely convertible	Total
Assets			
Cash and cash equivalents	9 183 261	5 002 092	14 185 353
Obligatory reserve with the CBR	591 355	-	591 355
Trading securities	3 918 713	737 765	4 656 478
Amounts due from credit institutions	106 988	-	106 988
Held-to-maturity securities	7 612	724	8 336
Loans to customers	6 568 216	2 436 796	9 005 012
All other assets	994 154	166 944	1 161 098
Total assets	**21 370 299**	**8 344 321**	**29 714 620**
Liabilities			
Amounts due to credit institutions	151 199	1 011 621	1 162 820
Amounts due to customers	16 148 767	6 108 647	22 257 414
Debt securities issued	1 251 539	903 717	2 155 256
All other liabilities	567 482	26 617	594 099
Total liabilities	**18 118 987**	**8 050 602**	**26 169 589**
Net balance sheet position	**3 251 312**	**293 719**	**3 545 031**
Net off-balance sheet position	-	-	-

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, adjusted for their fair values reported on the balance sheet.

The Group has extended loans denominated in foreign currencies. Although these loans are generally funded by the same currencies, their appreciation against the Rouble can adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

(Thousands of Russian Rubles)

19. Risk Management Policies (continued)

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 2005, with the exception of trading securities, which are shown in the category "Less than 1 month" based on the fact that the Group's management believes that all of these trading securities 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 2005							
	On demand	**Less than 1 month**	**1 to 3 month**	**3 month 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	373 257	125 410	82 167	50 068	2 114	6 011	-	639 027
Trading securities	7 300 052	-	-	-	-	-	-	7 300 052
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	167 635	177 143	56 066	27 261	-	-	255	428 360
Total assets	**14 039 874**	**9 993 026**	**3 939 882**	**5 717 957**	**3 860 009**	**407 459**	**198 490**	**38 156 697**
Liabilities								
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	53 187	-	172 790	-	-	-	260 357
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	**(6 111 599)**	**3 180 773**	**(488 604)**	**2 498 424**	**3 746 055**	**83 483**	**81 521**	**2 990 053**
Accumulated liquidity gap	**(6 111 599)**	**(2 930 826)**	**(3 419 430)**	**(921 006)**	**2 825 049**	**2 908 532**	**2 990 053**	

(Thousands of Russian Rubles)

19. Risk Management Policies (continued)

	31 December 2004							
	On demand	Less than 1 month	1 to 3 month	3 month to 1 year	1 to 5 years	Over 5 years	Overdue / No stated maturity	Total
Assets								
Cash and cash equivalents	9 956 612	4 228 741	-	-	-	-	-	14 185 353
Obligatory reserve with the CBR	464 486	42 296	24 151	46 785	6 404	7 233	-	591 355
Trading securities	4 656 478	-	-	-	-	-	-	4 656 478
Amounts due from credit institutions	-	-	-	92 000	9 676	5 312	-	106 988
Held-to-maturity securities	-	-	-	-	8 336	-	-	8 336
Loans to customers	50 586	1 295 013	2 140 968	3 417 851	1 084 625	673 193	342 776	9 005 012
Tax assets	-	-	-	144 337	-	-	-	144 337
Other assets	189 204	18 922	-	-	-	-	9 388	217 514
Total assets	**15 317 366**	**5 584 972**	**2 165 119**	**3 700 973**	**1 109 041**	**685 738**	**352 164**	**28 915 373**
Liabilities								
Amounts due to credit institutions	865 792	146 206	-	-	150 822	-	-	1 162 820
Amounts due to customers	19 039 281	1 031 903	757 754	1 085 410	30 662	312 404	-	22 257 414
Debt securities issued	183 435	651 166	286 761	937 995	95 479	420	-	2 155 256
Tax liabilities	-	-	-	451 951	-	-	59 961	511 912
Other liabilities	-	41 847	23 908	16 432	-	-	-	82 187
Total liabilities	**20 088 508**	**1 871 122**	**1 068 423**	**2 491 788**	**276 963**	**312 824**	**59 961**	**26 169 589**
Net position	**(4 771 142)**	**3 713 850**	**1 096 696**	**1 209 185**	**832 078**	**372 914**	**292 203**	**2 745 784**
Accumulated liquidity gap	**(4 771 142)**	**(1 057 292)**	**39 404**	**1 248 589**	**2 080 667**	**2 453 581**	**2 745 784**	

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.

As disclosed in Note 11, at 31 December 2005 amounts due to customers include current accounts of a restricted nature in amount of RR 7 218 673 thousand (2004 – RR 4 765 632 thousand), which are shown in the category "On demand".

While trading securities are shown as on demand, 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.

As at 31 December 2005 the contractual maturities of trading securities were: RR 1 000 thousand in "On demand", RR 299 thousand in "Less than one month", RR 686 155 thousand in "From 3 months to 1 year", RR 2 454 372 thousand in "From 1 to 5 years", RR 3 905 346 thousand in "Over 5 years" and RR 252 880 thousand represented equity securities with no stated maturity.

As at 31 December 2004 the contractual maturities of trading securities were: RR 30 465 thousand in "On demand", RR 210 471 thousand in "Less than one month", RR 534 043 thousand in "From 1 to 3 months", RR 449 259 thousand in "From 3 months to 1 year", RR 2 921 795 thousand in "From 1 to 5 years", RR 277 797 thousand in "Over 5 years" and RR 232 648 thousand represented equity securities with no stated maturity.

(Thousands of Russian Rubles)

19. Risk Management Policies (continued)

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 the effective average interest rates by currencies for interest earning/bearing monetary financial instruments were as follows:

	31 December 2005		31 December 2004	
	Rubles	**Freely convertible**	**Rubles**	**Freely convertible**
Short-term deposits with other credit institutions	3.4%	4.2%	0.5%	2.3%
Trading securities	6.9%	5.0%	10.3%	4.9%
Held-to-maturity securities	1.8%	-	1.8%	-
Loans to customers	19.2%	10.5%	15.5%	12.2%
Amounts due to credit institutions	7.0%	3.4%	0.0%	3.5%
Amounts due to customers	6.1%	8.5%	3.2%	2.8%
Debt securities issued	7.8%	5.8%	6.6%	7.4%

20. 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 2005 and 2004 the Group was engaged in litigation proceedings with tax authorities as described in Note 18. 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)

20. Commitments and Contingencies (continued)

Credit related commitments
The credit related financial commitments comprise:

	31 December 2005	31 December 2004
Undrawn loan commitments	4 380 998	2 636 234
Guarantees	142 372	712 820
Letters of credit	257 817	681 055
Total financial commitments	**4 781 187**	**4 030 109**
Less - Cash security held as security against letters of credit	-	(22 121)
Total financial commitments, net of cash security held	**4 781 187**	**4 007 988**

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 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 a specified interest rates.

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 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 2005.

The outstanding deals with derivative financial instruments are as follows:

	31 December 2005			
		Fair values		Net
	Notional principal	Asset	Liability	position
Foreign exchange contracts				
Forwards – domestic	718 665 thousand RR / 25 000 thousand USD	-	897	(897)
Securities contracts				
Forwards – domestic	5 637 thousand RR/ 5 000 Eurobonds of the Russian Federation	1 720	-	1 720
Derivative instruments		**1 720**	**897**	**823**

(Thousands of Russian Rubles)

20. Commitments and Contingencies (continued)

As at 31 December 2005 the fair values of derivative financial assets in the amount of RR 1 720 thousand and derivative financial liabilities in the amount of RR 897 thousand are included in other assets and other liabilities, respectively.

As at 31 December 2004 the Group had no outstanding deals with derivative financial instruments.

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

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

Operating lease commitments

In the normal course of business, the Group enters into operating lease agreements for office equipment and premises. After 31 December 2005 and 2004 future minimum payments under non-cancellable operating leases are as follows:

	31 December 2005	31 December 2004
Not later than 1 year	233 488	71 261
Later than 1 year but not later than 5 years	376 623	167 455
Later than 5 years	82 451	139 995
Total operating lease commitments	**692 562**	**378 711**

During the current year RR 238 738 thousand was recognised as an expense in the consolidated statement of income in respect of operating leases (2004: RR 225 920 thousand).

21. 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 transaction, 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.

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

	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	13 331 201	13 331 201	14 185 353	14 185 353
Obligatory reserve with the CBR	639 027	639 027	591 355	591 355
Trading securities	7 300 052	7 300 052	4 656 478	4 656 478
Amounts due from credit institutions	14 988	14 988	106 988	106 988
Held-to-maturity securities	8 954	8 954	8 336	8 336
Loans to customers	16 378 762	16 378 762	9 005 012	9 005 012
Other financial assets	405 339	405 339	198 592	198 592
Amounts due to credit institutions	2 875 043	2 875 043	1 162 820	1 162 820
Amounts due to customers	30 564 335	30 564 335	22 257 414	22 257 414
Debt securities issued	1 001 635	1 001 635	2 155 256	2 155 256
Other financial liabilities	252 397	252 397	80 717	80 717

21. Fair Value of Financial Instruments (continued)

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. As the underlying deposits and other balances are relatively short-term in nature, the carrying value of these reserve deposits is a reasonable estimate of their fair value.

Trading securities
Trading securities are stated at fair value. The fair value of trading securities 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 loan portfolio 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
Debt securities are issued at interest rates approximate to market rates and consequently the carrying amount of debt securities issued is a reasonable estimate of their fair value.

Other financial assets and liabilities
The fair values of the derivative financial instruments are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors.

The carrying amounts of other financial assets and other financial liabilities approximate their fair values due to the relatively short-term maturity of these financial instruments.

22. Related Party transactions

Related parties, as defined by IAS 24 "Related Party Disclosures", are those counterparties that represent:

(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;

(Thousands of Russian Rubles)

22. Related party transaction (continued)

(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.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

As of 31 December 2005 and 2004 the Group had the following transactions (gross of provisions) outstanding with related parties:

	31 December 2005				
	Transactions with shareholders	**Transactions with non-consolidated subsidiaries**	**Transactions with key management personnel**	**Transactions with group IBT***	**Total category**
Cash and cash equivalents (0%)	-	-	-	1 611	13 331 201
Trading securities (Foreign currencies – 5%)	-	-	-	509 927	7 300 052
Amounts due from credit institutions (0%)	-	-	-	14 988	14 988
Held-to-maturity securities (RR – 2%)	8 954	-	-	-	8 954
Loans to customers (Foreign currencies – 10%)	7 384	-	-	-	16 378 762
Loans to customers (RR – 13%)	-	326 813	-	-	16 378 762
Other assets (0%)	-	4 590	-	96	428 360
Amounts due to credit institutions (0%)	-	-	-	2 529	2 875 043
Amounts due to customers (0%)	-	43 790	-	4 266	30 564 335
Amounts due to customers (RR – 3%)	-	-	-	115 087	30 564 335
Amounts due to customers (Foreign currencies – 11%, RR –0.5%)	74 425	-	-	-	30 564 335
Other liabilities (0%)	-	-	-	305	260 357

	31 December 2004				
	Transactions with shareholders	**Transactions with non-consolidated subsidiaries**	**Transactions with key management personnel**	**Transactions with group IBT***	**Total category**
Cash and cash equivalents (0%)	-	-	-	1 839	14 185 353
Trading securities (Foreign currencies – 5%)	-	-	-	276 763	4 656 478
Amounts due from credit institutions (0%)	-	-	-	106 988	106 988
Held-to-maturity securities (RR – 2%)	8 336	-	-	-	8 336
Other assets (0%)	-	404	-	-	217 514
Amounts due to credit institutions (0%)	-	-	-	464 506	1 162 820
Amounts due to customers (0%)	41 295	-	10 178	-	22 257 414
Amounts due to customers (RR – 3%)	-	-	-	115 087	22 257 414

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

(Thousands of Russian Rubles)

22. Related party transaction (continued)

The total remuneration of the key management, including pension contributions, and discretionary compensation included in salaries and employment benefits for 2005 amounted to RR 99 823 thousand (2004: RR 27 090 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.

23. Subsidiaries

As at 31 December 2005 and 2004 the Bank had investments in the following subsidiaries:

Name	Investment	Shareholders' equity	Country	% Equity interest as at 31 December 2005	% Equity interest as at 31 December 2004
TIB Holding S.A.	2 775	7 310	Switzerland	100%	100%
Fiennes Investments Limited	41	520 199	Cyprus	100%	100%
TIB Financial Services Limited	556	158 740	Cyprus	100%	100%
Factoring company "EvrokommerzTrust"	4 590	9 016	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. The company has permission of the Central Bank of Cyprus for financial operations except for the following: (a) assuming any obligations to the public; (b) professional trustee activity; and (c) providing any financial services other than to its shareholders and the Group's companies.

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 domestic factoring. The company is financed through loans from the Bank and group IBT. On 12 January 2006 the Group sold a 32% stake in "EvrokommerzTrust" to a third party. The consideration received approximated the carrying value on the Group's books.

The consolidated financial statements of the Group as of 31 December 2005 included accounts of TIB Holdings S.A., Fiennes Investments Limited, TIB Financial Services Limited. The Bank did not consolidate its investment in "EvrokommerzTrust" nor account for it under the equity method as this shareholding does not have a material effect on the accompanying consolidated financial statements.

(Thousands of Russian Rubles)

24. Disposal of subsidiaries

Disposal of CJSC "Regionservice" and LLC "Dana Plus Group"

On 10 November 2004 the Group disposed of 100% of the share capital of CJSC "Regionservice" and LLC "Dana Plus Group". The disposed subsidiaries contributed operating loss of RR 33 795 thousand to the Group for the period from 1 January 2004 to 10 November 2004. The details of the assets and liabilities disposed and disposal consideration are as follows:

	10 November 2004
Cash and cash equivalents	27 166
Net investments in leases	318 928
Fixed assets	13 090
Tax assets	13 053
Other assets	351 178
Amounts due to credit institutions	(310 482)
Amounts due to customers	(68 127)
Tax liabilities	(12 137)
Other liabilities	(352 997)
Total carrying amount of net liabilities disposed	**(20 328)**
Total disposal consideration	40
Less: fair value of receivable arising on disposal	(40)
Less: cash and cash equivalents in subsidiary disposed	(27 166)
Cash outflow on disposal	**(27 166)**

The Group has recorded gain from disposal of subsidiaries in the amount of RR 20 368 thousand.