Open Joint Stock Company "Natsionalny Kosmicheski Bank"

Independent Auditors' Report

Consolidated Financial Statements
For the Year Ended 31 December 2005

OPEN JOINT STOCK COMPANY “NATSIONALNY KOSMICHESKI BANK”

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditor's audit report set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of OJSC "Natsionalny Kosmicheski Bank" and its subsidiary (the "Bank").

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

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

- selecting suitable accounting principles and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2005 were authorized for issue on 15 April 2006 by the Management Board.

On behalf of the Management Board:

Chairman	Открытое акционерное общество «Национальный космический банк» • г. Москва • Российская Федерация • НК БАНК	**Chief Accountant**
15 April 2006 Moscow		15 April 2006 Moscow

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of OJSC "Natsionalny Kosmicheski Bank":

We have audited the accompanying consolidated balance sheet of OJSC "Natsionalny Kosmicheski Bank" and it subsidiary (the "Bank") as at 31 December 2005, the related consolidated income statement and statements of cash flows and changes in equity ("the consolidated financial statements") 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 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 consolidated financial position of the Bank as at 31 December 2005, and the consolidated results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Deloitte & Touche

15 April 2006
Moscow

OPEN JOINT STOCK COMPANY "NATSIONALNY KOSMICHESKI BANK"

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000
Interest income	4,27	509,632	308,082
Interest expense	4,27	(286,510)	(216,725)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		223,122	91,357
Provision for impairment losses on interest bearing assets	5	(131,623)	(19,831)
NET INTEREST INCOME		91,499	71,526
Net gain on assets at fair value through profit or loss	6	80,635	47,415
Net gain on foreign exchange operations	7	44,328	7,123
Fee and commission income	8,27	38,401	33,404
Fee and commission expense	8	(2,879)	(1,854)
Dividend income	9,27	20,040	14,389
Gain from disposal of investments available-for-sale		5,865	2,105
Other income	10	18,274	6,215
NET NON-INTEREST INCOME		204,664	108,797
OPERATING INCOME		296,163	180,323
OPERATING EXPENSES	11,27	(114,514)	(112,153)
OPERATING PROFIT		181,649	68,170
Recovery/(provision) of other losses	5	10,959	(364)
PROFIT BEFORE INCOME TAX		192,608	67,806
Income tax expense	12	(11,734)	(30,562)
NET PROFIT		180,874	37,244

On behalf of the Management Board:

Открытое акционерное общество «Национальный космический банк» • г. Москва • Российская Федерация • НК БАНК

Chairman	Chief Accountant
15 April 2006	15 April 2006
Moscow	Moscow

The notes on pages 8-43 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 2.

OPEN JOINT STOCK COMPANY "NATSIONALNY KOSMICHESKI BANK"

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2005

	Notes	31 December 2005 RUR'000	31 December 2004 RUR'000
ASSETS:			
Cash and balances with the Central bank of the Russian Federation	13	911,387	583,308
Precious metals		4,258	32,876
Assets at fair value through profit or loss	14	2,992,277	1,473,325
Loans and advances to banks	15,27	698,904	692,469
Loans to customers, less allowance for impairment losses	16,27	3,411,098	1,693,888
Investments available-for-sale	17,27	212,175	181,804
Fixed and intangible assets, less accumulated depreciation	18	35,847	28,272
Current income tax assets	12	22,903	10,023
Other assets	19	4,975	3,943
TOTAL ASSETS		8,293,824	4,699,908
LIABILITIES AND EQUITY			
LIABILITIES:			
Deposits from banks	20,27	192,550	156,951
Customer accounts	21,27	3,247,472	1,398,466
Debt securities issued	22	3,505,986	1,990,871
Provision for guarantees issued	5,26	-	10,959
Deferred income tax liabilities	12	8,871	-
Other liabilities	23	1,762	2,397
		6,956,641	3,559,644
Subordinated debt	24,27	293,913	288,744
Total liabilities		7,250,554	3,848,388
EQUITY:			
Share capital	25	623,777	623,777
Share premium		449,358	449,358
Accumulated deficit		(50,741)	(221,615)
Investments-available-for-sale fair value reserve		20,876	-
Total equity		1,043,270	851,520
TOTAL LIABILITIES AND EQUITY		8,293,824	4,699,908

On behalf of the Management Board:

Chairman	Chief Accountant
15 April 2006	15 April 2006
Moscow	Moscow

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OPEN JOINT STOCK COMPANY "NATSIONALNY KOSMICHESKI BANK"

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2005

	Share capital	Share premium	Investments available-for-sale fair value reserve	Accumulated deficit	Total Equity
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
31 December 2003	**623,777**	**449,358**	**-**	**(258,859)**	**814,276**
Net profit	-	-	-	37,244	37,244
31 December 2004	**623,777**	**449,358**	**-**	**(221,615)**	**851,520**
Gains on revaluation of available-for-sale investments	-	-	27,468	-	27,468
Deferred tax on revaluation of available-for-sale investments	-	-	(6,592)	-	(6,592)
Dividends declared	-	-	-	(10,000)	(10,000)
Net profit	-	-	-	180,874	180,874
31 December 2005	**623,777**	**449,358**	**20,876**	**(50,741)**	**1,043,270**

On behalf of the Management Board:

Chairman

15 April 2006
Moscow

Chief Accountant

15 April 2006
Moscow

The notes on pages 8-43 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 2.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		192,608	67,806
Adjustments for:			
Provision for impairment losses on interest bearing assets		131,623	19,831
Other provisions		(10,959)	364
Unrealised (gain)/loss on financial assets at fair value through profit or loss		(288)	11,215
Gain from disposal of investments available-for-sale		(5,865)	-
Depreciation and amortisation		5,443	5,011
(Gain)/loss on disposal of fixed and intangible assets		(1,286)	54
Dividends received		(20,040)	(14,389)
Change in interest accruals, net		30,707	22,106
Cash flows from operating activities before changes in operating assets and liabilities		321,943	111,998
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the Central Bank of the Russian Federation		(41,065)	34,103
Assets at fair value through profit or loss		(1,489,427)	(173,492)
Loans and advances to banks		(64,099)	(337,817)
Loans to clients		(1,793,920)	(555,676)
Other assets		(1,051)	1,294
Increase/(decrease) in operating liabilities			
Deposits from banks		34,949	(177,792)
Customer accounts		1,829,074	200,599
Other liabilities		(666)	(176)
Cash outflows from operating activities before taxation		(1,204,262)	(896,959)
Income tax paid		(22,335)	(38,759)
Net cash outflows from operating activities		(1,226,597)	(935,718)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed and intangible assets		(13,038)	(10,528)
Proceeds on sale of fixed and intangible assets		1,304	126
Purchase of investments available-for-sale		-	(180,336)
Dividends received		20,040	14,389
Net proceeds on sale of investments available-for-sale		11,414	-
Net cash inflow/(outflow) from investing activities		19,720	(176,349)

OPEN JOINT STOCK COMPANY "NATSIONALNY KOSMICHESKI BANK"

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	Year ended 2005 RUR'000	Year ended 2004 RUR'000
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from debt securities issued		1,439,339	1,099,183
Subordinated debt		-	150,000
Dividends paid		(10,000)	-
Net cash inflow from financing activities		1,429,339	1,249,183
Effect of foreign exchange rate changes in cash and cash equivalents		(26,178)	(99,273)
NET INCREASE IN CASH AND CASH EQUIVALENTS		196,284	37,843
CASH AND CASH EQUIVALENTS, beginning of year	13	758,341	720,498
CASH AND CASH EQUIVALENTS, end of year	13	954,625	758,341

Interest paid and received by the Bank during the year ended 31 December 2005 amounted to RUR 226,323 thousand and RUR 480,152 thousand, respectively.

Interest paid and received by the Bank during the year ended 31 December 2004 amounted to RUR 191,106 thousand and RUR 304,569 thousand, respectively.

On behalf of the Management Board:

Chairman

15 April 2006
Moscow

Открытое акционерное общество «Национальный космический банк» • г. Москва • Российская Федерация
НК БАНК

Chief Accountant

15 April 2006
Moscow

The notes on pages 8-43 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 2.

1. ORGANISATION

OJSC "Natsionalny Kosmicheski Bank" (the "Bank") is a joint-stock bank, which was incorporated in the Russian Federation in 1993. The Bank is regulated by the Central Bank of the Russian Federation (the "CBR") and conducts its business under license number 2755. The Bank's primary business consists of commercial activities, trading with securities, foreign currencies, originating loans and guarantees.

The registered office of the Bank is located at: 2/22, bldg. 6, ul. Lva Tolstogo, Moscow, Russia.

The Bank is a parent company of the following enterprise consolidated in the financial statements:

Name	Country of operation	The Bank ownership interest 31 December 2005	The Bank ownership interest 31 December 2004	Type of operation
LLC "Inkor Trading"	Russian Federation	99.94%	-	Real estate operations

As of 8 December 2005 the Bank acquired 99.94% of share in LLC "Inkor Trading". As of 31 December 2005 the financial statements of LLC "Inkor Trading" were consolidated into the Bank's financial statements. The company's principal activity is operations with real estate.

As at 31 December 2005, the following shareholders owned the issued shares.

Shareholder	%
Bank shareholders: ***(shareholders of the first level)***	
LLC "StroySector"	15.80%
LLC "Business i Investicii"	15.00%
LLC "Attenium"	14.75%
Arshinov A.M.	14.20%
LLC "Milaren"	12.66%
Grigoriev V.E.	10.00%
LLC "UK AGANA"	5.00%
Other	12.59%
Total	100.00%
Ultimate shareholders:	
Shirokiy G.V.	14.89%
Arshinov A.M.	14.20%
Ignatiev I.V.	12.66%
Gusev A.I.	11.85%
Grigoriev V.E.	10.00%
Dvoreckiy B.N.	5.93%
Barinberg V.S.	5.93%
Other	24.54%
Total	100.00%

These consolidated financial statements were authorized for issue by the Bank's Board of Directors on 15 April 2006.

2. BASIS OF PRESENTATION

Accounting basis

These consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements are presented in thousands of Russian Roubles ("RUR"), unless otherwise indicated. These consolidated financial statements have been prepared on accrual basis and under the historical cost conversion, except for the revaluation of certain properties and financial instruments and according to International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29").

The Bank maintains its accounting records in accordance with Russian law. These consolidated financial statements have been prepared from the Russian statutory accounting records and have been adjusted to conform with IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statements caption.

Equity as at 31 December 2005 and 2004 and profit for the years then ended are reconciled between Russian Accounting Legislation and IFRS as follows:

	31 December 2005 RUR'000 Equity	Year ended 31 December 2005 RUR'000 Profit	31 December 2004 RUR'000 Equity	Year ended 31 December 2004 RUR'000 Profit
Russian Accounting Legislation	**1,048,754**	**104,930**	**983,473**	**136,001**
Effect of accrued interest, net	(50,853)	(23,072)	(27,495)	(29,455)
Fair value adjustments, net	27,756	(658)	425	(10,183)
Provisions for impairment losses	45,855	125,141	(79,286)	(34,696)
Deferred taxation	(8,871)	(2,279)	-	-
Current taxation	(7,875)	(33,088)	(4,425)	(6,525)
Expenses recorded to funds	-	(10)	-	(663)
Fixed and intangible assets, less accumulated depreciation	5,672	2,646	(651)	(1,902)
Accruals of income and expense	(2,712)	(908)	(1,804)	889
Write off of materials	(1,112)	(364)	(1,453)	580
Dividends accrued	(13,277)	6,488	(19,765)	(19,765)
Other, net	(67)	2,048	2,501	2,963
International Financial Reporting Standards	**1,043,270**	**180,874**	**851,520**	**37,244**

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

Functional currency

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

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiary) made up to 31 December each year. Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition. The minority interest is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

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

Investments in other subsidiaries

Investments in corporate shares where the Bank owns more than 20% of share capital, but does not have ability or intent to control or exercise significant influence over operating and financial policies, or non-consolidation of such companies does not significantly affect the financial statements of the Bank as a whole, as well as investments in corporate shares where the Bank owns less than 20% of share capital, are accounted for at fair value or at approximate fair value. If such value cannot be estimated, investments are accounted for at cost. Management periodically assesses the carrying values of such investments and provides valuation allowances, if necessary. Such investments are accounted for as investments available-for-sale.

Recognition and measurement of financial instruments

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

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the Central Bank of the Russian Federation with original maturity within 90 days, advances to banks in countries included in the Organization for Economic Co-operation and Development ("OECD"), except for margin deposits for operations with plastic cards, which may be converted to cash within a short period of time and precious metals in vault. For purposes of determining cash flows, the minimum reserve deposit required by the Central Bank of the Russian Federation is not included as a cash equivalent due to restrictions on its availability (Note 13).

Precious metals

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

Loans and advances to banks

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

Assets at fair value through profit or loss

Assets at fair value through profit or loss represent assets acquired principally for the purpose of selling them in the near term, or it is a part of portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit-taking, or it is a derivative (except if it is designated and effective hedging instrument). Assets at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Bank uses quoted market prices to determine fair value for the Bank's assets at fair value through profit or loss. When reliable market prices are not available or if liquidating the Bank's position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or management's estimates of the amounts that can be realized from an orderly disposition over a period of time, assuming current market conditions. Fair value adjustment on assets at fair value through profit or loss is recognized in profit and loss for the period.

Derivative financial instruments

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

Derivative financial instruments are initially recorded and subsequently measured at fair value which approximates the fair value of the consideration given. Fair values are obtained from the interest rates model. Most of the derivatives the Bank enters into are of a short-term and speculative nature. The results of the valuation of derivatives are reported in assets (aggregate of positive market values) or liabilities (aggregate of negative market values), respectively. Both positive and negative valuation results are recognized in the profit and loss for the year in which they arise under net gain on foreign exchange operations for foreign currency derivatives.

Originated loans

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

Loans granted by the Bank with fixed maturities are initially recognized in accordance with the policy stated above. The difference between the nominal amount of consideration given and the amortized cost of loans issued at lower than market terms is recognized in the period the loan is issued as initial recognition adjustment discounting using market rates at inception and included in profit and loss as losses on origination of assets. Subsequently, the carrying amount of such loans is adjusted for amortization of the losses on origination and the related income is recorded as interest income within profit and loss using the effective interest method. Loans to customers that do not have fixed maturities are carried at cost. Loans to customers are carried net of any allowance for impairment losses.

Purchased loans

Loans acquired from another lender subsequently to the original date are either classified as loans or as available-for-sale investments. For purchased loans classified as available-for-sale investments, fair value is based on an active market or on a discounted cash flow ("DCF") model. If market price is not available and DCF model is not practicable, the price for similar assets is used.

Write off of loans and advances

Loans and advances are written off against allowance for impairment losses in case of uncollectibility of loans and advances, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral. The decision on writing off bad debt against allowance for impairment losses for all major, preferential, unsecured and insider loans should necessarily be confirmed with a procedural document of judicial or notary bodies certifying that at the time of the decision the debt could not be repaid (partially repaid) with the debtor's funds.

Non-accrual loans

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

Allowance for impairment losses

The Bank establishes an allowance for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The allowance for impairment losses is measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate, for financial assets which are carried at amortised cost. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusted an allowance account. For financial assets carried at cost the allowance for impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

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

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

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

Investments available-for-sale

Investments available-for-sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at fair value. Subsequently the securities are measured at fair value, with such re-measurement recognized directly in equity, plus accrued coupon income recognized in consolidated profit or loss for the period as interest income on investment securities. The Bank uses quoted market prices to determine the fair value for the Bank's investments available-for-sale. If such quotes do not exist, management estimation is used. Dividends received are included in dividend income in the consolidated income statement.

Non-marketable debt securities are stated at amortized cost, less impairment losses, unless there are other appropriate and workable methods of reasonably estimating their fair value. Impairment is recognised in profit and loss.

Non-marketable securities that do not have fixed maturities are stated at cost, less allowance for impairment unless there are other appropriate and workable methods of reasonably estimating their fair value. Allowance for impairment is recognized in consolidated profit or loss for the period.

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

Fixed and intangible assets

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

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

Buildings	2%
Furniture, equipment and other	20-30%

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

Taxation

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

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

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

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

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

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

The Russian Federation also have various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the consolidated income statement.

Deposits from banks and customers

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

Debt securities issued

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

Other provisions

Other provisions are recognized when the Bank 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.

Financial guarantees and letters of credit

Financial guarantees issued by the Bank represent obligation to pay certain amount to a beneficiary as a compensation of loss, incurred as a result of the payer's failure to make payment in specified period in accordance with the original or modified terms of the financial instrument. Such guarantees are initially recognized at fair value. Subsequently they are measured at the higher of created allowance and initial cost less, were applicable, accumulated amortization of commission income, received under the financial guarantee.

Share capital and share premium

Contributions to share capital, made before 1 January 2003 are recognized at their cost restated for inflation. Contributions to share capital, made after 1 January 2003 are recognized at cost. Non-cash contributions are not included into the share capital until realized in cash. Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses on sales of treasury stock are charged or credited to share premium.

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

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

Retirement and other benefit obligations

In accordance with the requirements of the Russian legislation, the Bank withholds amounts of pension contributions from employee salaries and pays them to the state pension fund. In addition such pension system provides for calculation of current payments by the employer as a percentage of current total disbursements to staff. Such expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by pension funds selected by employees. The Bank does not have any pension arrangements separate from the State pension system of the Russian Federation. In addition, the Bank has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of income and expense

Interest income and expense are recognized on an accrual basis using effective interest rate method. Interest income also includes income earned on investments in securities. Other income is credited to profit and loss when the related transactions are completed. Loan origination fees, if significant, are deferred (together with related direct costs) and recognized as an adjustment to the loan's effective yield. Commission incomes/expenses are recognized on an accrual basis.

Foreign currency translation

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

Rates of exchange

The exchange rates at year-end used by the Bank in the preparation of the consolidated financial statements are as follows:

	31 December 2005	**31 December 2004**
RUR/1 US Dollar	28.7825	27.7487
RUR/1 Euro	34.1850	37.8104
RUR/Gold (1 ounce)	14,765.4	12,087.3

Fiduciary activities

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

Adoption of new and revised standards not yet effective

The Bank assessed the effect on its financial position and results of operations reported under IFRS as a result of new and revised standards that become effective for accounting periods beginning on or after 1 January 2006.

As of 1 January 2006 the scope of IAS 39 "Financial Instruments: Recognition and Measurement" has been amended to include financial guarantee contracts issued, and remove them from IFRS 4 "Insurance Contracts". Under IAS 39 financial guarantee contracts issued are accounted and disclosed substantially the same as under IFRS 4, therefore the effect of this change on the financial statements of the Bank will not be significant.

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

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

Effect of adoption of new and revised standards

In accordance with the revised "IAS" 39 "Financial Instruments: Recognition and Measurement" the Bank revised it's classification of securities portfolio. Certain reclassifications have been made to the financial statements as of 31 December 2004 and for the year then ended to conform to the new classification.

Balance sheet/Income statement item	As previously reported RUR'000	Restated RUR'000	Effect on the financial statements RUR'000
Securities held-for-trading	15,356	-	(15,356)
Investments available-for-sale	1,639,773	181,804	(1,457,969)
Assets at fair value through profit or loss	-	1,473,325	1,473,325
			-
Net gain on securities held-for -trading	11,288	-	(11,288)
Net gain on investments available-for-sale	38,232	2,105	(36,127)
Net gain on assets at fair value through profit or loss	-	47,415	47,415
			-

Reclassifications

Certain reclassifications have been made to the financial statements as at 31 December 2004 and for the year then ended to conform to the presentation as at 31 December 2005 and for the year then ended.

4. NET INTEREST INCOME

	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000
Interest income		
Interest on loans to customers	418,008	259,622
Interest on debt securities	54,061	29,272
Interest on loans and advances to banks	37,563	19,188
Total interest income	**509,632**	**308,082**
Interest expense		
Interest on debt securities issued	164,781	147,117
Interest on customer accounts	88,821	35,257
Interest on subordinated debt	22,204	20,224
Interest on deposits from banks	10,704	14,127
Total interest expense	**286,510**	**216,725**
Net interest income before provision for impairment losses on interest bearing assets	**223,122**	**91,357**

5. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

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

	Loans and advances to banks RUR'000	Loans to customers RUR'000	Total RUR'000
31 December 2003	3,178	104,549	107,727
(Recovery)/Provision	(3,178)	23,009	19,831
31 December 2004	-	127,558	127,558
Provision	-	131,623	131,623
Write-off of assets	-	(161)	(161)
31 December 2005	-	259,020	259,020

The movements in provisions for financial guarantees issued were as follows:

	Provisions for financial guarantees issued RUR'000
31 December 2003	10,595
Provision	364
31 December 2004	10,959
Recovery	(10,959)
31 December 2005	-

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

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

	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000
Net gain from realisation of financial assets at fair value through profit or loss	80,347	58,630
Adjustment of fair value of financial assets at fair value through profit or loss	288	(11,215)
Total net gain on assets at fair value through profit or loss	**80,635**	**47,415**

7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprise:

	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000
Dealing, net	19,033	25,541
Translation differences, net	25,295	(18,418)
Total net gain on foreign exchange operations	**44,328**	**7,123**

8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000
Fee and commission income:		
Currency control	14,720	10,257
Settlements	10,560	6,629
Guarantees	6,990	11,068
Cash operations	3,452	4,697
Other	2,679	753
Total fee and commission income	**38,401**	**33,404**
Fee and commission expense:		
Settlement operations	2,205	1,703
Other	674	151
Total fee and commission expense	**2,879**	**1,854**

9. DIVIDEND INCOME

Dividend income for the year ended 31 December 2005 includes dividends received from JSC "Belvneshekonombank" amounting to RUR 19,765 thousand for the year ended 31 December 2004.

Dividend income for the year ended 31 December 2004 includes dividends received from JSC "Belvneshekonombank" amounting to RUR 14,377 thousand for the year ended 31 December 2003.

10. OTHER INCOME

	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000
Gain on precious metals operations	15,051	1,705
Income from sale of fixed and intangible assets	1,286	-
Other	1,937	4,510
Total other income	**18,274**	**6,215**

11. OPERATING EXPENSES

	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000
Salary and bonuses	46,644	42,110
Administrative expenses	15,954	10,956
Unified social tax	10,879	10,302
Professional services	10,348	8,765
Taxes, other than income tax	8,746	8,654
Operating lease	8,505	5,579
Depreciation and amortization	5,443	5,011
Repairs and maintenance expense	1,681	14,955
Advertising costs	444	1,205
Loss from disposal of fixed and intangible assets	-	54
Other expenses	5,870	4,562
Total operating expenses	**114,514**	**112,153**

12. INCOME TAXES

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

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

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

Temporary differences as at 31 December 2005 and 2004 comprise:

	31 December 2005 RUR'000	31 December 2004 RUR'000
Deferred assets:		
Loans and advances to banks and customers	37,671	72,479
Other assets	1,163	5,066
Other liabilities	1,528	120
Total deferred assets	**40,362**	**77,665**
Deferred liabilities:		
Investment securities available-for-sale	27,468	-
Financial assets at fair value through profit or loss	45,296	831
Fixed and intangible assets	4,560	162
Total deferred liabilities	**77,324**	**993**
Net deferred (liability)/asset	(36,962)	76,672
Net deferred tax (liability)/asset at the statutory tax rate (24%)	(8,871)	18,401
Less: valuation allowance	-	(18,401)
Net deferred tax liability	**(8,871)**	-

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

	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000
Profit before income tax	**192,608**	**67,806**
Tax at the statutory tax rate (24%)	46,226	16,273
Change in valuation allowance	(18,401)	8,292
Tax effect of permanent differences	(16,091)	5,997
Income tax expense	**11,734**	**30,562**
Current income tax expense	9,455	30,562
Provision for deferred tax liabilities	2,279	-
Income tax expense	**11,734**	**30,562**

Deferred income tax liabilities	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000
1 January	-	-
Increase/(decrease) in deferred tax liabilities for the period charged to income statement	2,279	-
Increase in deferred tax liabilities relating to revaluation reserve of investments available-for-sale	6,592	-
31 December	**8,871**	-

Income tax assets and liabilities consist of the following:

Current income tax assets	22,903	10,023
Deferred income tax liability	(8,871)	-
Income tax assets, net	**14,032**	**10,023**

13. CASH AND BALANCES WITH THE CENTRAL BANK OF THE RUSSIAN FEDERATION

	31 December 2005 RUR'000	31 December 2004 RUR'000
Balances with the Central Bank of the Russian Federation	793,272	488,681
Cash on hand	118,115	94,627
Total cash and balances with the Central Bank of the Russian Federation	**911,387**	**583,308**

The balances with Central Bank of Russian Federation as at 31 December 2005 and 2004 include RUR 96,924 thousand and RUR 55,859 thousand, respectively, which represents the permanent minimum reserve deposits required by the CBR. The Bank is required to maintain the reserve balance at the CBR at all times.

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

	31 December 2005 RUR'000	31 December 2004 RUR'000
Cash and balances with the Central Bank of the Russian Federation	911,387	583,308
Loans and advances to banks in OECD countries	135,904	198,016
Precious metals in vault	4,258	32,876
	1,051,549	814,200
Less minimum reserve deposits and foreign currency deposits with the CBR	(96,924)	(55,859)
Total cash and cash equivalents	**954,625**	**758,341**

14. ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Assets at fair value through profit or loss are presented by debt and equity securities.

	31 December 2005 RUR'000	31 December 2004 RUR'000
Debt securities:		
Banks' promissory notes	2,488,507	1,100,490
Corporate bonds of Russian issuers	183,292	115,889
Russian State Bonds (OFZ)	152,956	142,316
Eurobonds of the Ministry of Finance of the Russian Federation	85,819	-
Municipal bonds	65,635	39,751
Promissory notes issued by Russian companies	9,871	54,655
Bonds issued by Bank of Russia	-	4,868
	2,986,080	1,457,969
Shares:		
Shares issued by Russian companies	6,197	15,356
Total assets at fair value through profit or loss	**2,992,277**	**1,473,325**

As at 31 December 2005 and 2004 included in assets at fair value through profit or loss is accrued interest income on debt securities amounting to RUR 48,839 thousand and RUR 21,261 thousand, respectively.

Banks' promissory notes are promissory notes issued by Russian banks. As of 31 December 2005 included in Bank's promissory notes, were promissory notes of CJSC "Uralo-Sibirskiy Bank" and CJSC "Impeksbank" totaling RUR 467,961 thousand, which represents 16% of the financial assets at fair value through profit or loss. As of 31 December 2004, included in the Bank's promissory notes, were promissory notes of AB "Gazprombank" CJSC and LLC KB "Admiralteisky" totaling RUR 252,533 thousand, which represents 17% of financial assets at fair value through profit or loss.

Russian State Bonds (OFZ) are rouble-denominated government securities issued at a discount to face value and guaranteed by the Ministry of Finance of the Russian Federation. OFZ have medium to long-term maturities.

Corporate bonds of Russian issuers are bonds issued by Russian companies and banks.
As of 31 December 2005, included in corporate bonds, were bonds of CJSC "Master-Bank" and LLC "UBRiR-finance" totaling RUR 39,868 thousand, which represents 1% of financial assets through profit or loss. As of 31 December 2004, included in corporate bonds, were bonds of OJSC "Gazprom" and OJSC "Volga" totaling RUR 41,636 thousand, which represents 3% of financial assets at fair value through profit or loss.

Eurobonds of the Ministry of Finance of the Russian Federation are securities issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. The interest on these bonds is payable semi-annually.

Municipal bonds are bonds issued by local authorities of the Russian Federation.

Promissory notes issued by Russian companies as of 31 December 2005 and 2004 are promissory notes of CJSC "MKB "Vympel" and promissory notes of CJSC "Zapsibgazprom", respectively.

15. LOANS AND ADVANCES TO BANKS

	31 December 2005 RUR'000	31 December 2004 RUR'000
Loans to banks	395,392	376,000
Correspondent accounts with other banks	302,638	315,694
Accrued interest income on loans and advances to banks	874	775
Total loans and advances to banks	**698,904**	**692,469**

Movement in allowance for impairment losses on loans and advances to banks for the year ended 31 December 2004 is disclosed in Note 5.

As of 31 December 2005 and 2004 the Bank had loans and advances to 2 and 3 banks, totaling RUR 256,875 thousand and RUR 314,052 thousand, respectively, which individually exceeded 10% of the Bank's equity.

As of 31 December 2005 and 2004 the maximum credit risk exposure of loans and advances to banks amounted to RUR 698,904 thousand and RUR 692,469 thousand, respectively.

16. LOANS TO CUSTOMERS

	31 December 2005 RUR'000	31 December 2004 RUR'000
Originated loans	3,667,827	1,820,958
Accrued interest income on loans to customers	2,291	488
	3,670,118	1,821,446
Less allowance for impairment losses	(259,020)	(127,558)
Total loans to customers, net	**3,411,098**	**1,693,888**

	31 December 2005 RUR'000	31 December 2004 RUR'000
Analysis by type of collateral:		
Loans collateralized by real estate	1,329,740	355,103
Loans collateralized by Bank's own promissory notes	385,612	47,723
Loans collateralized by securities	318,970	279,327
Loans collateralized by equipment	51,298	11,614
Loans collateralized by guarantees of enterprises	2,326	44,127
Loans collateralized by inventories	-	168,413
Unsecured loans	1,579,881	914,651
Accrued interest income on loans to customers	2,291	488
	3,670,118	1,821,446
Less allowance for impairment losses	(259,020)	(127,558)
Total loans to customers, net	**3,411,098**	**1,693,888**

	31 December 2005 RUR'000	31 December 2004 RUR'000
Analysis by sector:		
Construction	1,128,916	287,316
Trade	690,526	168,420
Individuals	362,956	216,355
Service sector	349,939	55,052
Oil and gas	280,207	152,200
Agriculture	258,610	202,657
Finance sector	185,691	-
Production	148,174	73,668
Film production	100,853	96,427
Financial leases	61,557	155,469
Housing and communal services	51,000	61,000
Aviation manufacturing	17,950	166,896
Precious metals and diamond mining and processing	8,751	19,132
Food	3,105	161,456
Other	19,592	4,910
Accrued interest income on loans to customers	2,291	488
	3,670,118	1,821,446
Less allowance for impairment losses	(259,020)	(127,558)
Total loans to customers, net	**3,411,098**	**1,693,888**

Movements in allowances for impairment losses for the years ended 31 December 2005 and 2004 are disclosed in Note 5.

As at 31 December 2005 and 2004 the Bank provided loans to 11 and 8 clients totalling RUR 1,970,735 thousand and RUR 943,089 thousand, respectively, which individually exceeded 10% of the Bank's equity.

A significant amount of loans (97% of total portfolio) is granted to companies operating in the Russian Federation, which represents significant geographical concentration in one region.

As at 31 December 2005 and 2004 the maximum credit risk exposure of loans to customers amounted to RUR 3,670,118 thousand and RUR 1,821,446 thousand, respectively.

17. INVESTMENTS AVAILABLE-FOR-SALE

	Share %	31 December 2005 RUR'000	Share %	31 December 2004 RUR'000
Equity securities				
Shares issued by CJSC "Belvnesheconombank"	32.46%	184,545	32.46%	176,093
Shares issued by CJSC MEUZ "Uvelirprom"	4.17%	27,509	4.17%	41
Investment in LLC PSE "Polikom Securities"	10.00%	121	10.00%	121
Investment in LLC "Strahovoi Capital"	-	-	12.60%	5,549
Total investments available-for-sale		**212,175**		**181,804**

Investment in JSC MEUZ "Uvelirprom" was stated at cost as of 31 December 2004 due to inability to measure its fair value with sufficient reliability. As of 31 December 2005 the Bank was able to determine fair value of this investment with sufficient reliability and performed revaluation to fair value.

Investment in JSC "Belvneshekonombank" as of 31 December 2005 and 2004 is not treated as investment in associate as Bank does not have ability or intent to exercise significant influence over operating and financial polices. The investment is accounted for at cost since fair value can not be reliably estimated.

18. FIXED AND INTANGIBLE ASSETS

	Buildings	Furniture, equipment and other	Intangible assets	Total
	RUR'000	RUR'000	RUR'000	RUR'000
At initial/indexed/revalued cost				
31 December 2003	15,644	15,247	2,837	33,728
Additions	-	6,437	4,091	10,528
Disposals	-	(1,564)	-	(1,564)
31 December 2004	15,644	20,120	6,928	42,692
Additions	3,144	5,895	2,457	11,496
Transfers	1,540	(1,540)	-	-
Disposals	-	(2,379)	-	(2,379)
31 December 2005	20,328	22,096	9,385	51,809
Accumulated depreciation				
31 December 2003	198	8,275	2,320	10,793
Charge for the year	313	3,567	1,131	5,011
Disposal	-	(1,384)	-	(1,384)
31 December 2004	511	10,458	3,451	14,420
Charge for the year	407	3,802	1,234	5,443
Eliminated on disposals	-	(3,901)	-	(3,901)
31 December 2005	918	10,359	4,685	15,962
Net book value				
31 December 2005	**19,410**	**11,737**	**4,700**	**35,847**
31 December 2004	**15,133**	**9,662**	**3,477**	**28,272**

19. OTHER ASSETS

	31 December 2005 RUR'000	31 December 2004 RUR'000
Prepayments and other debtors	4,722	2,905
Tax settlements, other than income tax	233	792
Other	20	246
Total other assets	**4,975**	**3,943**

20. DEPOSITS FROM BANKS

	31 December 2005 RUR'000	31 December 2004 RUR'000
Deposits of banks	134,391	91,297
Correspondent accounts of other banks	58,105	65,456
Accrued interest expenses	54	198
Total deposits from banks	**192,550**	**156,951**

21. CUSTOMER ACCOUNTS

	31 December 2005 RUR'000	31 December 2004 RUR'000
Repayable on demand	1,812,595	824,804
Time deposits	1,416,530	564,767
Accrued interest expense on customer accounts	18,347	8,895
Total customer accounts	**3,247,472**	**1,398,466**

	31 December 2005 RUR'000	31 December 2004 RUR'000
Analysis by sector:		
Finance sector	1,002,053	350,346
Transport and communication	974,183	89,382
Individuals	683,923	362,057
Trade	269,831	255,882
Services	75,400	139,314
Machinery construction	64,073	6,083
Fuel	41,878	-
Construction	33,926	52,096
Real estate	14,547	22,169
Research activities	13,186	20,407
Light industry	10,617	63,527
Chemical	3,005	6,483
Agriculture	2,367	5,430
Energy	-	1,854
Other	40,136	14,541
Accrued interest expense on customer accounts	18,347	8,895
Total customer accounts	**3,247,472**	**1,398,466**

22. DEBT SECURITIES ISSUED

	31 December 2005 RUR'000	31 December 2004 RUR'000
Interest bearing promissory notes	3,246,302	500,000
Discount bearing promissory notes	129,100	935,440
Settlement promissory notes	46,128	521,854
Accrued interest on debt securities issued	84,456	33,577
Total debt securities issued	**3,505,986**	**1,990,871**

23. OTHER LIABILITIES

	31 December 2005 RUR'000	31 December 2004 RUR'000
Taxes payable, other than income tax	154	459
Creditors on operations with securities	-	120
Other creditors	1,608	1,818
Total other liabilities	**1,762**	**2,397**

24. SUBORDINATED DEBT

	Currency	Maturity date year	Interest Rate %	31 December 2005 RUR'000	31 December 2004 RUR'000
Indexed subordinated bonds of Lamotek Investment LTD	RUR	2014	10%	150,000	150,000
Indexed subordinated bonds of Lamotek Investment LTD	USD	2013	5%	143,913	138,744
Total subordinated debt				**293,913**	**288,744**

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

25. SHARE CAPITAL

As of 31 December 2005 and 2004 share capital authorized, issued and fully paid comprised of 500,000 ordinary shares with par value of RUR 1,000 each. All ordinary shares are of the same type and bear one vote. Share premium represents the excess of contributions received over the nominal value of shares issued.

During the year ended 31 December 2005 the Bank declared and paid dividends based on the results of operations for 2004 in the amount of RUR 10,000 thousand.

The Bank's distributable among shareholders reserves are limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statutes, that provide for the creation of a reserve for these purposes of not less than 5% of the Bank's share capital reported in statutory books.

26. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

Allowance for impairment losses on guarantees amounted to RUR 10,959 thousand as of 31 December 2004 as disclosed in Note 5.

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

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

	31 December 2005		**31 December 2004**	
	Nominal amount	**Risk weighted amount**	**Nominal amount**	**Risk weighted amount**
Contingent liabilities and credit commitments				
Guarantees issued and similar commitments	58,369	58,369	318,271	318,271
Commitments on loans and unused credit lines	390,598	31,890	341,138	35,268
Total contingent liabilities and credit commitments	**448,967**	**90,259**	**659,409**	**353,539**

Capital commitments - The Bank had no material commitments for capital expenditure outstanding as at 31 December 2005 and 2004.

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

	31 December 2005 RUR'000	**31 December 2004 RUR'000**
Not later than 1 year	9,209	4,088
Later than 1 year and not later than 5 years	15,599	8,978
Later than 5 years	9,000	9,330
Total operating lease commitments	**33,808**	**22,396**

Fiduciary activities - The Bank provides depositary services to its customers. As of 31 December 2005 and 2004, the Bank had customer securities totaling 12,797,834 items and 11,495,826 items, respectively, in its nominal holder accounts.

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

Taxes - Due to the presence in Russian civil legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on management's judgment of the Bank's business activities were to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest. Such uncertainty may relate to the valuation of financial instruments and market level of deals' pricing. In particular, an uncertainty may also relate to loss and impairment provisions created and made deductible by the Bank for profit tax purposes. The Bank believes that it has already made all tax payments and, therefore, no allowance has been made in the financial statements. However, there can be no assurance that the methods of tax calculations made by the Bank will not be re-assessed or challenged by the Russian tax authorities. If such re-assessment or challenge occurs, it could materially and adversely affect the Bank's business, financial condition and operating results. Tax years remain open for review by the tax authorities for three years.

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

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

27. TRANSACTIONS WITH RELATED PARTIES

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

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

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

(c) Individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank;

(d) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank (also non-executive directors and close members of the families of such individuals);

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

(f) Parties with joint control over the Bank;

(g) Joint ventures in which the Bank is a venture; and

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

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

	31 December 2005 RUR'000		31 December 2004 RUR'000	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Loans and advances to banks				
- *investments of the Bank*	148		98,571	
Total loans and advances to banks	**148**	**698,904**	**98,571**	**692,469**
Loans to customers				
- *the parent*	20,148		2,372	
- *entities with joint control or significant influence over the Bank*	9,242		97,897	
- *key management personnel of the Bank or its parent*	149		139	
- *other related parties*	-		26,355	
Total loans to customers, gross	**29,539**	**3,670,118**	**126,763**	**1,821,446**
Allowance for impairment losses				
- *the parent*	(1,007)		(166)	
- *entities with joint control or significant influence over the Bank*	(811)		(21,233)	
- *key management personnel of the Bank or its parent*	(7)		(10)	
- *other related parties*	-		(1,845)	
Total allowance for impairment losses on loans to customers	**(1,825)**	**(259,020)**	**(23,254)**	**(127,558)**
Investment securities available-for-sale				
- *investments of the Bank*	184,545		176,093	
- *entities with joint control or significant influence over the Bank*	121		121	
Total investments available-for-sale	**184,666**	**212,175**	**176,214**	**181,804**
Deposits from banks				
- *investments of the Bank*	21,657		13,786	
Total deposits from banks	**21,657**	**192,550**	**13,786**	**156,951**
Customer accounts				
- *the parent*	11,363		88,243	
- *entities with joint control or significant influence over the Bank*	8,222		3,436	

	31 December 2005 RUR'000		31 December 2004 RUR'000	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
- key management personnel of the Bank or its parent	1,194		300	
- other related parties	1,617		1,899	
Total customer accounts	**22,396**	**3,247,472**	**93,878**	**1,398,466**
Subordinated debt				
- other related parties	293,913		288,744	
Total subordinated debt	**293,913**	**293,913**	**288,744**	**288,744**

	31 December 2005 RUR'000		31 December 2004 RUR'000	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Key management personnel compensation:				
Salary	(6,575)		(6,758)	
Unified social tax	(1,252)		(1,250)	
	(7,827)	**(57,523)**	**(8,008)**	**(52,412)**

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

	Year ended 31 December 2005 RUR'000		Year ended 31 December 2004 RUR'000	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income				
- the parent	8		431	
- entities with joint control or significant influence over the Bank	2,376		4,555	
- investments of the Bank	11,353		4,905	
- key management personnel of the Bank or its parent	1,628		127	
- other related parties	79		4,520	
Total interest income	**15,444**	**509,632**	**14,538**	**308,082**
Interest expense				
- the parent	(711)		-	
- investments of the Bank	(100)		(171)	
- other related parties	(22,281)		(20,224)	
Total interest expense	**(23,092)**	**(286,510)**	**(20,395)**	**(216,725)**

	Year ended 31 December 2005 RUR'000		Year ended 31 December 2004 RUR'000	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Fee and commission income				
- *the parent*	111		1,414	
- *entities with joint control or significant influence over the Bank*	80		80	
- *key management personnel of the Bank or its parent*	47		953	
- *other related parties*	53		29	
Total fee and commission income	**291**	**38,401**	**2,476**	**33,404**
Dividend income				
- *investments of the Bank*	19,765		14,377	
Total dividend income	**19,765**	**20,040**	**14,377**	**14,389**
Operating expense				
- *entities with joint control or significant influence over the Bank*	(4,824)		(4,595)	
- *key management personnel of the Bank or its parent*	(7,852)		(4,437)	
- *other related parties*	-		(179)	
Total operating expenses	**(12,676)**	**(114,514)**	**(9,211)**	**(112,153)**

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

	31 December 2005		31 December 2004	
	Current value, RUR'000	**Fair value, RUR'000**	**Current value, RUR'000**	**Fair value, RUR'000**
Cash and balances with the Central Bank of the Russian Federation	911,387	911,387	583,308	583,308
Precious metals	4,258	4,258	32,876	32,876
Assets at fair value through profit or loss	2,992,277	2,992,277	1,473,325	1,473,325
Loans and advances to banks, less allowance for impairment losses	698,904	698,904	692,469	692,469
Investments available-for-sale	212,175	212,175	181,804	181,804
Deposits from banks	192,550	192,550	156,951	156,951
Customer accounts	3,247,472	3,247,472	1,398,466	1,398,466
Debt securities issued	3,505,986	3,505,986	1,990,871	1,990,871
Subordinated debt	293,913	278,251	288,744	271,397

As of 31 December 2005 and 2004, loans to customers, less allowance for impairment losses amounting to RUR 3,411,098 thousand and RUR 1,693,888 thousand, respectively, were accounted at amortized cost less allowance for impairment losses since fair value can not be reliably estimated. The management evaluates the impairment of loans to customers on a regular basis.

29. REGULATORY MATTERS

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

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

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

As at 31 December 2005 the Bank's total capital amount for capital adequacy purposes was RUR 1,337,183 thousand and tier 1 capital amount was RUR 1,043,270 thousand with ratios 34% and 26%, respectively.

As at 31 December 2004 the Bank's total capital amount for capital adequacy purposes was RUR 1,140,264 thousand and tier 1 capital amount was RUR 851,520 thousand with ratios 31% and 23%, respectively.

As at 31 December 2005 the Bank included in the computation of total capital for capital adequacy purposes the subordinated debt received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

30. RISK MANAGEMENT POLICIES

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

The Bank manages the following risks:

Liquidity risk

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

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Treasury sets limits on the minimum balance of funds available to cover such cash outflows and the minimum level of interbank and other sources of credit that the Bank should have to finance outflow of cash in the case of high demand.

Cash flow interest rate risk

Cash flow interest rate risk - the risk that the future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The Limit and Credit Committees manage assets and liabilities, interest rate and market risks by matching the Bank's interest rate position, which provides the Bank with a positive interest margin. The Control department monitors current financial results of the Bank, assesses the Bank's exposure to changing interest rates and their impact on the Bank's profitability.

Bank does not enter into option contracts, has insignificant open positions on floating rate financial instruments (shares), and, generally, does not open long and short positions on financial instruments of the same issuer at a time.

Interest rates are established following the Bank's interest rate policy.

In order to minimize interest rate risk, loan contracts and the majority of agreements related to other interest bearing financial assets and liabilities management, envisage that the interest rate may be changed at the option of the lender.

Valuation of interest rate risk (future interest rate gap) is performed on a regular basis by the Control department.

The Bank's divisions regularly monitor the factors affecting interest rates related to the operations carried out. Included in these factors are primarily: refinancing rate, contributions to the mandatory reserves, tax rates, dynamics of exchange rates. Upon changes of the above factors, the Management Board, the Credit and Limit Committees consider interest rate risk matters.

The Bank monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.
The following table presents an analysis of interest rate risk and thus the potential of the Bank for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Bank.

	2005			2004		
	RUR	**USD**	**Other currencies**	**RUR**	**USD**	**Other currencies**
ASSETS						
Assets at fair value through profit or loss	8.35%	6.38%	-	7.77%	-	-
Loans and advances to banks, less allowance for impairment losses	8.71%	14.00%	-	4.78%	5.75%	0.75%
Loans to customers, less allowance for impairment losses	16.69%	14.86%	15.76%	17.27%	15.01%	15.80%
LIABILITIES						
Deposits from banks	4.17%	3.00%	-	4.40%	5.50%	-
Customer accounts	9.32%	9.35%	6.90%	9.22%	8.54%	6.83%
Debt securities issued	9.48%	7.88%	5.58%	6.28%	8.59%	5.07%
Subordinated debt	10.00%	5.00%	-	10.00%	5.00%	-

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

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2005 Total RUR'000
ASSETS							
Assets at fair value through profit or loss	2,498,378	-	493,899	-	-	-	2,992,277
Loans and advances to banks	396,266	-	-	-	-	-	396,266
Loans to customers, less allowance for impairment losses	297,418	333,155	1,355,054	1,411,701	13,770	-	3,411,098
Total interest bearing assets	3,192,062	333,155	1,848,953	1,411,701	13,770	-	6,799,641
Cash and balances with the Central Bank of the Russian Federation	814,463	-	-	-	-	96,924	911,387
Precious metals	4,258	-	-	-	-	-	4,258
Loans and advances to banks	302,638	-	-	-	-	-	302,638
Investments available-for-sale	-	-	-	212,175	-	-	212,175
Fixed and intangible assets, less accumulated depreciation	-	-	-	-	-	35,847	35,847
Current income tax assets	-	22,903	-	-	-	-	22,903
Other assets	4,975	-	-	-	-	-	4,975
TOTAL ASSETS	4,318,396	356,058	1,848,953	1,623,876	13,770	132,771	8,293,824
LIABILITIES							
Deposits from banks	134,445	-	-	-	-	-	134,445
Customer accounts	541,175	174,468	1,085,810	1,105	2,862	-	1,805,420
Debt securities issued	97	145,819	2,878,571	435,371	-	-	3,459,858
Subordinated debt	-	-	-	-	293,913	-	293,913
Total interest bearing liabilities	675,717	320,287	3,964,381	436,476	296,775	-	5,693,636
Deposits from banks	58,105	-	-	-	-	-	58,105
Customer accounts	1,442,052	-	-	-	-	-	1,442,052
Debt securities issued	46,128	-	-	-	-	-	46,128
Deferred income tax liabilities	-	-	-	8,871	-	-	8,871
Other liabilities	1,762	-	-	-	-	-	1,762
TOTAL LIABILITIES	2,223,764	320,287	3,964,381	445,347	296,775	-	7,250,554
Liquidity gap	2,094,632	35,771	(2,115,428)	1,178,529	(283,005)		
Interest sensitivity gap	2,516,345	12,868	(2,115,428)	975,225	(283,005)		
Cumulative interest sensitivity gap	2,516,345	2,529,213	413,785	1,389,010	1,106,005		
Cumulative interest sensitivity gap as a percentage of total assets	30%	30%	5%	17%	13%		

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2004 Total RUR'000
ASSETS							
Assets at fair value through profit or loss	24,582	467,164	602,994	253,743	104,618	-	1,453,101
Loans and advances to banks, less allowance for impairment losses	485,365	-	-	-	-	-	485,365
Loans to customers, less allowance for impairment losses	199,329	435,030	478,036	569,614	11,879	-	1,693,888
Total interest bearing assets	709,276	902,194	1,081,030	823,357	116,497	-	3,632,354
Cash and balances with the Central Bank of the Russian Federation	527,449	-	-	-	-	55,859	583,308
Precious metals	32,876	-	-	-	-	-	32,876
Loans and advances to banks	207,104	-	-	-	-	-	207,104
Financial assets at fair value through profit or loss	20,224	-	-	-	-	-	20,224
Investments available-for-sale	-	-	181,804	-	-	-	181,804
Fixed and intangible assets, less accumulated depreciation	-	-	-	-	-	28,272	28,272
Current income tax assets	-	10,023	-	-	-	-	10,023
Other assets	3,943	-	-	-	-	-	3,943
TOTAL ASSETS	1,500,872	912,217	1,262,834	823,357	116,497	84,131	4,699,908
LIABILITIES							
Deposits from banks	105,402	-	11,099	-	-	-	116,501
Customer accounts	102,021	244,493	226,022	-	1,126	-	573,662
Debt securities issued	214,542	604,789	597,235	52,451	-	-	1,469,017
Subordinated debt	-	-	-	-	288,744	-	288,744
Total interest bearing liabilities	421,965	849,282	834,356	52,451	289,870	-	2,447,924
Deposits from banks	40,450	-	-	-	-	-	40,450
Customer accounts	824,804	-	-	-	-	-	824,804
Debt securities issued	72,164	139,000	310,690	-	-	-	521,854
Provision for guarantees	2,264	1,284	7,392	19	-	-	10,959
Other liabilities	2,397	-	-	-	-	-	2,397
TOTAL LIABILITIES	1,364,044	989,566	1,152,438	52,470	289,870	-	3,848,388
Liquidity gap	136,828	(77,349)	110,396	770,887	(173,373)		
Interest sensitivity gap	287,311	52,912	246,674	770,906	(173,373)		
Cumulative interest sensitivity gap	287,311	340,223	586,897	1,357,803	1,184,430		
Cumulative interest sensitivity gap as a percentage of total assets	6%	7%	12%	29%	25%		

Liquidity risk of derivative financial instruments and spot contracts

Net fair values of derivative financial instruments and spot contracts are included in the liquidity analysis above. Further analysis of liquidity risk of derivative financial instruments and spot contracts as of 31 December 2004 is presented in the table below:

	Up to 1 month	1 month to 3 month	3 months to 1 year	1 year to 5 years	Over 5 years	2004 Total RUR'000
Accounts payable on operations with securities	(10,539)	-	-	-	-	(10,539)
Accounts receivable on operations with securities	10,419	-	-	-	-	10,419
Accounts payable on spot transactions	(15,775)	-	-	-	-	(15,775)
Accounts receivable on spot transactions	15,766	-	-	-	-	15,766
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	(129)	-	-	-	-	(129)
TOTAL OPEN POSITION	136,699	(77,349)	110,396	770,887	(173,373)	

Currency risk

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

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

	RUR	USD USD 1 = RUR 28.7825	EUR EUR 1 = RUR 34.1850	Gold 1 ounce = RUR 14,765.4	Other currency	31 December 2005 Total RUR'000
ASSETS						
Cash and balances with the Central Bank of the Russian Federation	825,582	66,234	19,571	-	-	911,387
Precious metals	-	-	-	4,258	-	4,258
Assets at fair value through profit or loss	2,906,458	85,819	-	-	-	2,992,277
Loans and advances to banks	391,169	153,654	153,925	-	156	698,904
Loans to customers, less allowance for impairment losses	1,407,194	1,990,397	13,507	-	-	3,411,098
Investments available-for-sale	27,630	-	-	-	184,545	212,175
Fixed and intangible assets, less accumulated depreciation	35,847	-	-	-	-	35,847
Current income tax assets	22,903	-	-	-	-	22,903
Other assets	4,198	777	-	-	-	4,975
TOTAL ASSETS	5,620,981	2,296,881	187,003	4,258	184,701	8,293,824
LIABILITIES						
Deposits from banks	173,658	16,709	2,183	-	-	192,550
Customer accounts	2,612,999	573,607	60,833	-	33	3,247,472
Debt securities issued	1,797,804	1,580,438	27,744	-	-	3,505,986
Deferred income tax liabilities	8,871	-	-	-	-	8,871
Other liabilities	1,759	3	-	-	-	1,762
Subordinated debt	150,000	143,913	-	-	-	293,913
TOTAL LIABILITIES	4,745,091	2,314,670	190,760	-	33	7,250,554
OPEN BALANCE SHEET POSITION	875,890	(17,789)	(3,757)	4,258	184,668	

	RUR	USD USD 1 = RUR 27.7487	EUR EUR 1 = RUR 37.8104	Gold 1 ounce = RUR 12,087.3	Other currency	31 December 2004 Total RUR'000
ASSETS						
Cash and balances with the Central Bank of the Russian Federation	533,768	36,498	13,042	-	-	583,308
Precious metals		-	-	32,876	-	32,876
Assets at fair value through profit or loss	1,473,325	-	-	-	-	1,473,325
Loans and advances to banks	382,728	85,107	125,637	-	98,997	692,469
Loans to customers, less allowance for impairment losses	726,931	948,216	18,741	-	-	1,693,888
Investments available-for-sale	5,711	-	-	-	176,093	181,804
Fixed and intangible assets, less accumulated depreciation	28,272	-	-	-	-	28,272
Current income tax assets	10,023	-	-	-	-	10,023
Other assets	3,277	595	71	-	-	3,943
TOTAL ASSETS	3,164,035	1,070,416	157,491	32,876	275,090	4,699,908
LIABILITIES						
Deposits from banks	119,124	36,555	1,272	-	-	156,951
Customer accounts	1,025,010	313,263	60,172	-	21	1,398,466
Debt securities issued	1,310,881	521,801	158,189	-	-	1,990,871
Other provisions	5,415	180	5,364	-	-	10,959
Other liabilities	593	1,804	-	-	-	2,397
Subordinated debt	150,000	138,744	-	-	-	288,744
TOTAL LIABILITIES	2,611,023	1,012,347	224,997	-	21	3,848,388
OPEN BALANCE SHEET POSITION	553,012	58,069	(67,506)	32,876	275,069	

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

	RUR	USD USD 1 = RUR 27.7487	EUR EUR 1 = RUR 37.8104	Other currency	Currency undefined	31 December 2004 Total RUR'000
Accounts payable on operations with securities	(10,359)	-	-	-	-	(10,359)
Accounts receivable on operations with securities	10,419	-	-	-	-	10,419
Accounts payable on spot transactions	(13,000)	(2,775)	-	-	-	(15,775)
Accounts receivable on spot transactions	2,785	12,981	-	-	-	15,766
NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION	**(10,335)**	**10,206**	-	-	-	**(129)**
TOTAL OPEN POSITION	**542,677**	**68,275**	**(67,506)**	**32,876**	**275,069**	

Price Risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Bank manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits, limits on transactions with counterparties and margin and collateral requirements. With respect to undrawn loan commitments the Bank is potentially exposed to loss in the 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.

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Bank manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. Control department monitors current financial results of the Bank, assesses the Bank's exposure to changing interest rates and their impact on the Bank's profitability.

Credit risk

The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry and geographical segments. Bank analyses such risks regularly and reviews them on a monthly basis. The Credit Committee approves the credit risk limits by borrowers and types of loans.

The exposure to specific banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures. These sub-limits are established by the Bank's Limit Committee on a weekly basis. The relation of actual risk to the established limits is monitored on a daily basis.

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guaranties.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to inability of the counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than shorter-term commitments.

Geographical concentration

The ALMC exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Bank's activity. This approach allows the Bank to minimize potential losses from the investment climate fluctuations in the Russian Federation. The Bank's Management Board sets up country limits, which mainly applies to banks of the Commonwealth of Independent States and Baltic countries.

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

	Russian Federation	Other non-OECD countries	OECD countries	31 December 2005 Total RUR'000
ASSETS				
Cash and balances with the Central Bank of the Russian Federation	911,387	-	-	911,387
Precious metals	4,258	-	-	4,258
Assets at fair value through profit or loss	2,992,277	-	-	2,992,277
Loans and advances to banks	410,073	152,927	135,904	698,904
Loans to customers, less allowance for impairment losses	3,307,508	103,590	-	3,411,098
Investments available-for-sale	27,630	184,545	-	212,175
Fixed and intangible assets, less accumulated depreciation	35,847	-	-	35,847
Current income tax assets	22,903	-	-	22,903
Other assets	4,774	-	201	4,975
TOTAL ASSETS	7,716,657	441,062	136,105	8,293,824
LIABILITIES				
Deposits from banks	146,036	46,514	-	192,550
Customer accounts	3,215,744	26,341	5,387	3,247,472
Debt securities issued	3,146,199	-	359,787	3,505,986
Deferred income tax liabilities	8,871	-	-	8,871
Other liabilities	1,759	3	-	1,762
Subordinated debt	-	-	293,913	293,913
TOTAL LIABILITIES	6,518,609	72,858	659,087	7,250,554
NET POSITION	1,198,048	368,204	(522,982)	

	Russian Federation	Other non-OECD countries	OECD countries	31 December 2004 Total RUR'000
ASSETS				
Cash and balances with the Central Bank of the Russian Federation	583,308	-	-	583,308
Precious metals	32,876	-	-	32,876
Assets at fair value through profit or loss	1,473,325	-	-	1,473,325
Loans and advances to banks	395,383	99,070	198,016	692,469
Loans to customers, less allowance for impairment losses	1,579,420	91,759	22,709	1,693,888
Investments available-for-sale	5,711	176,093	-	181,804
Fixed and intangible assets, less accumulated depreciation	28,272	-	-	28,272
Current income tax assets	10,023	-	-	10,023
Other assets	3,832	-	111	3,943
TOTAL ASSETS	4,112,150	366,992	220,836	4,699,908
LIABILITIES				
Deposits from banks	110,277	46,674	-	156,951
Customer accounts	1,397,598	868	-	1,398,466
Debt securities issued	1,932,321	58,550	-	1,990,871
Other provisions	10,959	-	-	10,959
Other liabilities	2,397	-	-	2,397
Subordinated debt	-	288,744	-	288,744
TOTAL LIABILITIES	3,453,552	394,836	-	3,848,388
NET POSITION	658,598	(24,844)	220,836	