Open Joint Stock Company “Natsionalny Kosmicheski Bank”

Independent Auditors’ Report

Consolidated Financial Statements
For the Year Ended 31 December 2006

OPEN JOINT STOCK COMPANY
"NATSIONALNY KOSMICHESKI BANK"

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OPEN JOINT STOCK COMPANY "NATSIONALNY KOSMICHESKI BANK"

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2-3, 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 as of 31 December 2006, 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 2006 were authorised for issue by the Management Board of the Bank on 28 March 2007, except for Note 27, which was authorised for issue on 29 May 2007.

On behalf of the Management Board

Smirnov S.N.	**Merkulova E.M.**
Chairman of the Management Board	**Chief Accountant**
28 March 2007	28 March 2007
Moscow	Moscow

Открытое акционерное общество «Национальный космический банк» • г. Москва • Российская Федерация •
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Deloitte & Touche

18 June 2007
Moscow

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006
(in Russian Roubles and in thousands)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
Interest income	4, 28	644,324	509,632
Interest expense	4, 28	(322,670)	(286,510)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		321,654	223,122
Provision for impairment losses on interest bearing assets	5	(14,303)	(131,623)
NET INTEREST INCOME		307,351	91,499
Net gain on financial assets at fair value through profit or loss	6	173,459	80,635
Net (loss)/gain on foreign exchange operations	7	(8,030)	44,328
Fee and commission income	8, 28	50,595	38,401
Fee and commission expense	8	(3,937)	(2,879)
Dividend income	9, 28	23,415	20,040
Gain from disposal of investments available-for-sale		24,514	5,865
Other income	10	6,707	18,274
NET NON-INTEREST INCOME		266,723	204,664
OPERATING INCOME		574,074	296,163
OPERATING EXPENSES	11, 28	(174,673)	(114,514)
OPERATING PROFIT		399,401	181,649
Recovery of provision for impairment losses on other transactions	5	-	10,959
PROFIT BEFORE INCOME TAX		399,401	192,608
Income tax expense	12	(101,554)	(11,734)
NET PROFIT		297,847	180,874

On behalf of the Management Board

Smirnov S.N.
Chairman of the Management Board

28 March 2007
Moscow

Merkulova E.M.
Chief Accountant

28 March 2007
Moscow

The notes on pages 9-43 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on pages 2-3.

CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2006
(in Russian Roubles and in thousands)

	Notes	31 December 2006	31 December 2005
ASSETS:			
Cash and balances with the Central Bank of the Russian Federation	13	826,783	911,387
Precious metals		44,307	4,258
Financial assets at fair value through profit or loss	14	2,414,771	2,992,277
Loans and advances to banks	15, 28	277,128	698,904
Loans to customers	16, 28	3,789,031	3,411,098
Investments available-for-sale	17, 28	123,085	212,175
Fixed and intangible assets	18	39,495	35,847
Current income tax assets	12	-	22,903
Other assets	19	4,063	4,975
TOTAL ASSETS		7,518,663	8,293,824
LIABILITIES AND EQUITY			
LIABILITIES:			
Loans and advances from banks	20, 28	186,081	192,550
Customer accounts	21, 28	2,956,560	3,247,472
Debt securities issued	22	2,717,956	3,505,986
Current income tax liabilities	12	5,628	-
Deferred income tax liabilities	12	37,281	8,871
Other liabilities	23	8,559	1,762
Subordinated debt	24, 28	281,656	293,913
Total liabilities		6,193,721	7,250,554
EQUITY:			
Equity attributable to equity holders of the parent:			
Share capital	25	623,777	623,777
Share premium	25	449,358	449,358
Investments available-for-sale fair value reserve		26,101	20,876
Retained earnings/(accumulated deficit)		222,106	(50,741)
Total equity attributable to equity holders of the parent		1,321,342	1,043,270
Minority interest		3,600	-
Total equity		1,324,942	1,043,270
TOTAL LIABILITIES AND EQUITY		7,518,663	8,293,824

On behalf of the Management Board

Smirnov S.N.
Chairman of the Management Board

28 March 2007

Moscow

Merkulova E.M.
Chief Accountant

28 March 2007

Moscow

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006
(in Russian Roubles and in thousands)

	Attributable to the equity holders of the parent						
	Share capital	Share premium	Investments available - for-sale fair value reserve	Retained earnings/ (accumu-lated deficit)	Total	Minority interest	Total equity
31 December 2004	**623,777**	**449,358**	**-**	**(221,615)**	**851,520**	**-**	**851,520**
Gain on revaluation of available-for-sale investments, (net of deferred income tax of RUR 6,592 thousand)	-	-	20,876	-	20,876	-	20,876
Dividends paid	-	-	-	(10,000)	(10,000)	-	(10,000)
Net profit	-	-	-	180,874	180,874	-	180,874
31 December 2005	**623,777**	**449,358**	**20,876**	**(50,741)**	**1,043,270**	**-**	**1,043,270**
Gain on revaluation of available-for-sale investments, (net of deferred income tax of RUR 1,650 thousand)	-	-	5,225	-	5,225	-	5,225
Increase in share capital of subsidiary	-	-	-	-	-	3,600	3,600
Dividends paid	-	-	-	(25,000)	(25,000)	-	(25,000)
Net profit	-	-	-	297,847	297,847	-	297,847
31 December 2006	**623,777**	**449,358**	**26,101**	**222,106**	**1,321,342**	**3,600**	**1,324,942**

On behalf of the Management Board

Smirnov S.N.
Chairman of the Management Board

28 March 2007
Moscow

Merkulova E.M.
Chief Accountant

28 March 2007
Moscow

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CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2006
(in Russian Roubles and in thousands)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		399,401	192,608
Adjustments for:			
Provision for impairment losses on interest bearing assets		14,303	131,623
Recovery of provision for impairment losses on other transactions		-	(10,959)
Adjustment for fair value of financial assets at fair value through profit or loss		272	(288)
Gain from disposal of investments available-for-sale		(24,514)	(5,865)
Depreciation and amortisation		7,046	5,443
Gain on disposal of fixed and intangible assets		(700)	(1,286)
Dividends received		(23,415)	(20,040)
Change in interest accruals, net		(23,467)	30,707
Loss/(gain) from foreign currency revaluation		14,966	(21,198)
Cash flows from operating activities before changes in operating assets and liabilities		363,892	300,745
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the Central Bank of the Russian Federation		11,256	(41,065)
Precious metals		(40,049)	28,618
Financial assets at fair value through profit or loss		562,014	(1,489,602)
Loans and advances to banks		403,733	(64,616)
Loans to customers		(526,374)	(1,795,985)
Other assets		852	(1,050)
Increase/(decrease) in operating liabilities			
Loans and advances from banks		(4,932)	34,902
Customer accounts		(248,014)	1,829,557
Other liabilities		6,848	(670)
Cash inflow/(outflow) from operating activities before taxation		529,226	(1,199,166)
Income tax paid		(46,263)	(22,335)
Net cash inflow/(outflow) from operating activities		482,963	(1,221,501)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed and intangible assets		(10,922)	(13,038)
Proceeds on sale of fixed and intangible assets		928	1,304
Dividends received		23,415	20,040
Net proceeds on sale of investments available-for-sale		105,345	11,414
Net cash inflows from investing activities		118,766	19,720

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006
(in Russian Roubles and in thousands)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
CASH FLOWS FROM FINANCING ACTIVITIES:			
(Repayment of)/proceeds from debt securities issued		(656,321)	1,441,516
Increase in share capital of a subsidiary		3,600	-
Dividends paid		(25,000)	(10,000)
Net cash (outflow)/inflow from financing activities		(677,721)	1,431,516
Effect of changes in foreign exchange rate on cash and cash equivalents		(13,626)	(4,833)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(89,618)	224,902
CASH AND CASH EQUIVALENTS, beginning of year	13	950,367	725,465
CASH AND CASH EQUIVALENTS, end of year	13	860,749	950,367

Interest paid and received by the Bank during the year ended 31 December 2006 amounted to RUR 346,842 thousand and RUR 645,029 thousand, respectively.

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.

On behalf of the Management Board

Smirnov S.N.
Chairman of the Management Board

28 March 2007
Moscow

Merkulova E.M.
Chief Accountant

28 March 2007
Moscow

The notes on pages 9-43 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on pages 2-3.

(in Russian Roubles and in thousands, unless otherwise stated)

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, Lva Tolstogo street, Moscow, Russia.

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

Name	Country of operation	The Bank ownership interest 2006	The Bank ownership interest 2005	Type of operation
LLC "Inkor Trading"	Russian Federation	82.00%	99.94%	Real estate operations

As of 15 December 2005 the Bank acquired 99.94% of share in LLC "Inkor Trading". LLC "Inkor Trading" was formed as Limited Liability Company under the laws of the Russian Federation on 18 November 2003. During the year ended 31 December 2006 LLC "Inkor Trading" increased it's share capital by receiving additional capital from minority shareholders. As of 31 December 2006 and 2005 the financial statements of LLC "Inkor Trading" were consolidated into the Bank's financial statements and the resulting minority interest in amount of RUR 3,600 thousand was included in these consolidated financial statements. The company's principal activity is operations with real estate.

As of 31 December 2006 and 2005, the following shareholders owned the issued shares.

	31 December 2006 %	31 December 2005 %
Shareholder		
Bank shareholders: (shareholders of the first level)		
LLC "StroySector"	15.80	15.80
LLC "Business I Investicii"	15.00	15.00
LLC "Attenium"	14.75	14.75
Arshinov A.M.	14.20	14.20
Nedoroslev S.G.	12.66	-
Grigoriev V.E.	10.00	10.00
LLC "UK AGANA"	5.00	5.00
LLC "Milaren"	-	12.66
Other	12.59	12.59
Total	**100.00**	**100.00**
Ultimate shareholders:		
Shirokiy G.V.	14.89	14.89
Arshinov A.M.	14.20	14.20
Nedorosloev S.G.	12.66	-
Gusev A.I.	11.85	11.85
Grigoriev V.E.	10.00	10.00
Dvoreckiy B.N.	5.93	5.93
Barinberg V.S.	5.93	5.93
Ignatiev I.V.	-	12.66
Other	24.54	24.54
Total	**100.00**	**100.00**

These consolidated financial statements were authorized for issue by the Management Board of the Bank on 28 March 2007, except for Note 27, which was authorized on 29 May 2007.

2. BASIS OF PRESENTATION

Accounting basis

These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements are presented in thousands of Russian Roubles ("RUR"), unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments.

In accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29") the economy of Russian Federation was considered to be hyperinflationary until the end of 2002. Starting 1 January 2003, the Russian economy is no longer considered to be hyperinflationary and the values of the Bank's non-monetary assets, liabilities and shareholders' equity as stated in measuring units as of 31 December 2002 have formed the basis for the amounts carried forward to 1 January 2003.

The Bank maintains its accounting records in accordance with Russian law. These 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 statement captions.

Equity as of 31 December 2006 and 2005 and profits for the years then ended are reconciled between Russian Accounting Standards and IFRS as follows:

	31 December 2006 Equity	Year ended 31 December 2006 Profit	31 December 2005 Equity	Year ended 31 December 2005 Profit
Russian Accounting Standards (unaudited)	**1,282,558**	**323,636**	**1,048,754**	**104,930**
Effect of accrued interest, net	(27,852)	23,001	(50,853)	(23,072)
Fair value adjustments, net	27,279	(7,352)	27,756	(658)
Provisions for impairment losses	100,096	54,241	45,855	125,141
Deferred taxation	(37,281)	(26,760)	(8,871)	(2,279)
Current taxation	(17,837)	(74,794)	(7,875)	(33,088)
Expenses recorded to funds	-	-	-	(10)
Fixed and intangible assets, less accumulated depreciation	5,311	(361)	5,672	2,646
Accruals of income and expense	(8,278)	(5,566)	(2,712)	(908)
Dividends accrued	-	13,277	(13,277)	6,488
Other, net	946	(1,475)	(1,179)	1,684
International Financial Reporting Standards	**1,324,942**	**297,847**	**1,043,270**	**180,874**

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

Key assumptions

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

	31 December 2006	**31 December 2005**
Loans to customers	3,789,031	3,411,098

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

Functional currency

The functional currency of these 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 subsidiaries) 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 equity attributable to equity holders of the parent and net income attributable to minority shareholders' interests are shown separately in the balance sheet and income statement, respectively.

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Bank.

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

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. 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.

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 on operations with precious metals in other income.

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 method. Those that do not have fixed maturities are carried at amortized cost based on expected maturities.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss represent securities acquired principally for the purpose of selling them in the near future, or are 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 securities that upon initial recognition are designated by the Bank at fair value through profit or loss or is a derivative. Financial assets at fair value through profit or loss are initially recorded and subsequently measured at fair value. Fair values of derivative financial instruments are determined with the use of interest rate model. The Bank uses quoted market prices to determine fair value for financial assets at fair value through profit or loss. Fair value adjustment on financial assets at fair value through profit or loss is recognized in the consolidated income statement for the period. The Bank does not reclassify financial instruments in or out of this category while they are held.

The Bank enters into derivative financial instruments to manage currency and liquidity risks. Derivative financial instruments are entered into by the Bank principally for trading purposes and include forwards on foreign currency, precious metals and securities. No derivatives are used by the Bank for hedging purposes.

Repurchase and reverse repurchase agreements

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

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

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

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

Loans to customers

Loans to customers are financial assets that are non-derivative financial instruments with fixed or identifiable cash flows that do not have a quoted market price except for assets that are classified into other financial instruments categories.

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

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.

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 adjusting an allowance account. For financial assets carried at cost the allowance for impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The determination of the allowance for impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Allowances are made as a result of an individual appraisal of risk 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 loss 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.

Finance leases

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

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

The Bank presents assets leased in as loans in the amounts equal to the net investment in lease value. Finance expense is recognized so as to produce a constant periodic rate of return on the net liability outstanding. Initial direct costs are recognized as expenses when incurred.

Investments available-for-sale

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

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

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

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, as well as investments in corporate shares where the Bank owns less than 20% of share capital, are accounted for at fair value. If such value cannot be estimated, investments are accounted for at cost. Management periodically assesses realizability of the carrying values of such investments and provides valuation allowances, if necessary.

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 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%
Intangible assets	15% – 33.3%

Depreciation of assets under construction commences when the assets are put in use.

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 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 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.

Russian Federation also has 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.

Loans and advances from banks and customer accounts

Customer and bank deposits are initially recognized at fair value. Subsequently amounts due are stated at amortized cost and any difference between carrying and 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 issued by the Bank. They are accounted for according to the same principles used for customer and bank deposits.

Subordinated debt

Subordinated debt is initially recognized at fair value, which usually equals 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 income statement over the period of the borrowings using the effective interest method.

Provisions

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 guarantee contracts issued and letters of credit

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

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. 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 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. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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.

Interest income includes income earned on investments in securities. Other income is credited to income statement when the related transactions are completed.

Loan origination fees together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit and loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit and loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. All other commissions are recognized when services are provided.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into roubles 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 2006	**31 December 2005**
RUR/1 US Dollar	26.3311	28.7825
RUR/1 Euro	34.6965	34.1850
RUR/Gold (1 ounce)	16,738.7	14,765.4

Offset of financial assets and liabilities

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

Fiduciary activities

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 International Financial Reporting Standards

At the date of authorisation of these financial statements, the following Standards and Interpretations applicable to the Bank were issued but not yet effective:

- IFRS 7 "Financial Instruments: Disclosures" (effective 1 January 2007);
- IFRIC 10 "Interim Financial Reporting and Impairment" (effective 1 November 2006);
- Amendments to IAS 1 regarding disclosure on the Bank's objectives, policies and processes for managing capital (effective 1 January 2007).

The management is currently assessing the impact of the adoption of these new and revised Standards and Interpretations in future periods.

4. NET INTEREST INCOME

	Year ended 31 December 2006	Year ended 31 December 2005
Interest income		
Interest on loans to customers	595,735	418,008
Interest on debt securities	28,355	54,061
Interest on loans and advances to banks	19,069	37,563
Interest on reverse repurchase agreements	1,165	-
Total interest income	**644,324**	**509,632**
Interest expense		
Interest on debt securities issued	180,788	164,781
Interest on customer accounts	105,966	88,821
Interest on subordinated debt	21,590	22,204
Interest on loans and advances from banks	12,836	10,704
Interest on repurchase agreements	1,025	-
Other interest expenses	465	-
Total interest expense	**322,670**	**286,510**
Net interest income before provision for impairment losses on interest bearing assets	**321,654**	**223,122**

5. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

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

	Loans to customers
31 December 2004	**127,558**
Provision	131,623
Write-off of assets	(161)
31 December 2005	**259,020**
Provision	14,303
Write-off of assets	(1,626)
31 December 2006	**271,697**

The movements in provisions for impairment losses on other transactions were as follows:

	Other provision
31 December 2004	**10,959**
Recovery	(10,959)
31 December 2005	**-**

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

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

	Year ended 31 December 2006	**Year ended 31 December 2005**
Trading gain on operations with financial assets at fair value through profit or loss, net	173,731	80,347
Fair value adjustment on financial assets at fair value through profit or loss, net	(272)	288
Total net gain on financial assets at fair value through profit or loss	**173,459**	**80,635**

7. NET (LOSS)/GAIN ON FOREIGN EXCHANGE OPERATIONS

Net (loss)/gain on foreign exchange operations comprise:

	Year ended 31 December 2006	**Year ended 31 December 2005**
Dealing, net	27,834	19,033
Translation differences, net	(35,864)	25,295
Total net (loss)/gain on foreign exchange operations	**(8,030)**	**44,328**

8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2006	Year ended 31 December 2005
Fee and commission income:		
Settlements	15,543	10,560
Currency control	14,482	14,720
Cash operations	7,859	3,452
Brokerage services	7,243	931
Guarantees	3,524	6,990
Other	1,944	1,748
Total fee and commission income	**50,595**	**38,401**
Fee and commission expense:		
Settlement operations	2,800	2,205
Other	1,137	674
Total fee and commission expense	**3,937**	**2,879**

9. DIVIDEND INCOME

Dividend income for the year ended 31 December 2006 includes dividends received from JSC "Belvneshekonombank" amounting to RUR 13,277 thousand and RUR 9,973 thousand for the year ended 31 December 2005 and 9 months ended 30 September 2006, respectively.

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.

10. OTHER INCOME

	Year ended 31 December 2006	Year ended 31 December 2005
Gain on operations with precious metals	3,285	15,051
Gain on disposal of fixed and intangible assets	700	1,286
Other	2,722	1,937
	6,707	**18,274**

11. OPERATING EXPENSES

	Year ended 31 December 2006	Year ended 31 December 2005
Salary and bonuses	88,757	46,644
Administrative expenses	17,362	15,954
Unified Social Tax	14,788	10,879
Operating lease	11,006	8,505
Professional services	9,928	10,348
Taxes, other than income tax	7,986	8,746
Depreciation and amortization	7,046	5,443
Payments to the Deposit Insurance Fund	4,680	2,939
Repairs and maintenance expenses	3,149	1,681
Advertising expenses	1,184	444
Other expenses	8,787	2,931
	174,673	**114,514**

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 income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 December 2006 and 2005 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as of 31 December 2006 and 2005 comprise:

	31 December 2006	31 December 2005
Deferred assets:		
Other liabilities	4,747	1,528
Other assets	3,028	1,163
Loans to customers	-	37,671
Total deferred assets	**7,775**	**40,362**
Deferred liabilities:		
Loans to customers	93,609	-
Investments available-for-sale	34,343	27,468
Financial assets at fair value through profit or loss	29,629	45,296
Fixed and intangible assets	5,311	4,560
Precious metals	222	-
Total deferred liabilities	**163,114**	**77,324**
Net deferred liabilities	155,339	36,962
Net deferred tax liability	**37,281**	**8,871**

Relationships between tax expenses and accounting profits for the years ended 31 December 2006 and 2005 are explained as follows:

	Year ended 31 December 2006	Year ended 31 December 2005
Profit before income tax	399,401	192,608
Tax at the statutory tax rate	95,856	46,226
Change in unrecognised deferred tax assets	-	(18,401)
Tax effect of permanent differences	5,698	(16,091)
Income tax expense	**101,554**	**11,734**
Current income tax expense	74,794	9,455
Deferred income tax expense	26,760	2,279
Income tax expense	**101,554**	**11,734**

Deferred income tax liabilities	Year ended 31 December 2006	Year ended 31 December 2005
1 January	**8,871**	**-**
Increase in deferred tax liabilities for the period charged to income statement	26,760	2,279
Increase in deferred tax liabilities for the period charged to equity	1,650	6,592
31 December	**37,281**	**8,871**

Income tax assets and liabilities consist of the following:

	31 December 2006	31 December 2005
Current income tax assets	-	22,903
Current income tax liabilities	(5,628)	-
Deferred income tax liabilities	(37,281)	(8,871)

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

	31 December 2006	31 December 2005
Balances with the Central Bank of the Russian Federation	723,485	793,272
Cash on hand	103,298	118,115
Total cash and balances with the Central Bank of the Russian Federation	**826,783**	**911,387**

The balances with the Central Bank of the Russian Federation as of 31 December 2006 and 2005 include RUR 85,668 thousand and RUR 96,924 thousand, respectively, which represents the obligatory minimum reserve deposits with 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 the following:

	31 December 2006	31 December 2005
Cash and balances with the Central Bank of the Russian Federation	826,783	911,387
Loans and advances to banks in OECD countries	119,634	135,904
	946,417	1,047,291
Less minimum reserve deposits and foreign currency deposits with the CBR	(85,668)	(96,924)
Total cash and cash equivalents	**860,749**	**950,367**

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2006	31 December 2005
Debt securities:		
Banks' promissory notes	1,383,680	2,488,507
Russian State Bonds (OFZ)	399,965	152,956
Bonds issued by Russian banks	161,694	40,693
Corporate bonds issued by Russian companies	145,240	142,599
Promissory notes issued by Russian companies	47,796	9,871
Eurobonds of the Ministry of Finance of the Russian Federation	47,724	85,819
Municipal bonds	37,006	65,635
	2,223,105	2,986,080
Shares:		
Shares issued by Russian companies	191,666	6,197
Total financial assets at fair value through profit or loss	**2,414,771**	**2,992,277**

As of 31 December 2006 and 2005 included in financial assets at fair value through profit or loss is accrued interest income on debt securities amounting to RUR 39,924 thousand and RUR 48,839 thousand, respectively.

Banks' promissory notes are promissory notes issued by Russian banks. As of 31 December 2006 and 2005 banks' promissory notes have maturities from January 2007 to December 2007 and from January 2006 to April 2007, respectively.

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.

As of 31 December 2006 and 2005 bonds issued by Russian banks are rouble-denominated bonds with maturities from May 2008 to April 2011 and from April 2006 to May 2008, respectively.

As of 31 December 2006 and 2005 bonds issued by Russian companies are rouble-denominated bonds with maturities from February 2007 to November 2012 and from February 2006 to December 2010, respectively.

Promissory notes issued by Russian companies as of 31 December 2006 and 2005 are promissory notes of JSC "RKK "Energy" and FGUP "MMPP "Salut" and promissory notes of CJSC "MKB "Vympel", respectively, with maturities from February 2007 to October 2007 and in February 2006, respectively.

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. As of 31 December 2006 and 2005 these securities have maturities in June 2028 and from June 2028 to March 2030, respectively.

Municipal bonds are bonds issued by local authorities of the Russian Federation. As of 31 December 2006 and 2005 municipal bonds have maturities from March 2010 to April 2011 and from June 2008 to July 2014, respectively.

Shares issued by Russian companies are highly liquid shares of top Russian companies.

15. LOANS AND ADVANCES TO BANKS

	31 December 2006	31 December 2005
Correspondent accounts with other banks	156,335	302,638
Loans and advances to banks	120,793	396,266
Total loans and advances to banks	**277,128**	**698,904**

Included in loans and advances to banks are accrued interest in the amount of RUR 793 thousand and RUR 874 thousand as of 31 December 2006 and 2005, respectively.

As of 31 December 2005 the Bank had loans and advances to 2 banks totally amounting to RUR 256,875 thousand which individually exceeded 10% of the Bank's equity.

As of 31 December 2006 and 2005 the maximum credit risk exposure on loans and advances to banks amounted to RUR 277,128 thousand and RUR 698,904 thousand, respectively.

16. LOANS TO CUSTOMERS

	31 December 2006	31 December 2005
Originated loans	4,060,728	3,670,118
Less allowance for impairment losses	(271,697)	(259,020)
Total loans to customers, net	**3,789,031**	**3,411,098**

As of 31 December 2006 and 2005 accrued interest income included in loans to customers amounted to RUR 10,582 thousand and RUR 2,291 thousand, respectively.

Movements in allowances for impairment losses for the years ended 31 December 2006 and 2005 are disclosed in Note 5.

	31 December 2006	31 December 2005
Loans collateralized by real estate	1,204,522	1,330,571
Loans collateralized by securities	576,171	319,169
Loans collateralized by Bank's own promissory notes	550,292	385,853
Loans collateralized by chose in action	178,723	-
Loans collateralized by guarantees of enterprises	37,667	2,327
Loans collateralized by equipment	33,230	51,330
Unsecured loans	1,480,123	1,580,868
	4,060,728	3,670,118
Less allowance for impairment losses	(271,697)	(259,020)
Total loans to customers	**3,789,031**	**3,411,098**

	31 December 2006	31 December 2005
Analysis by sector:		
Trade	1,250,961	895,847
Individuals	898,389	363,183
Construction	880,465	1,129,621
Grain trade	382,301	227,389
Services	320,452	350,158
Finance sector	208,610	185,807
Film production	52,536	100,916
Manufacturing	44,065	166,228
Agriculture	13,900	31,383
Oil and gas	-	75,492
Financial leases	-	61,595
Housing and communal services	-	51,032
Other	9,049	31,467
	4,060,728	3,670,118
Less allowance for impairment losses	(271,697)	(259,020)
Total loans to customers, net	**3,789,031**	**3,411,098**

As of 31 December 2006 and 2005 the Bank provided loans to 9 and 11 customers, totalling RUR 1,709,147 thousand and RUR 1,970,735 thousand, respectively, which individually exceeded 10% of the Bank's equity.

As of 31 December 2006 and 2005 a significant amount of loans (99% and 97% of total portfolio, respectively) is granted to companies operating in the Russian Federation, which represents significant geographical concentration in one region.

As of 31 December 2006 and 2005 the maximum credit risk exposure of loans to customers amounted to RUR 3,789,031 thousand and RUR 3,411,098 thousand, respectively.

17. INVESTMENTS AVAILABLE-FOR-SALE

	Share %	31 December 2006	Share %	31 December 2005
Equity securities:				
Shares issued by JSC "Belvnesheconombank"	20.00%	88,580	32.46%	184,545
Shares issued by JSC MEUZ "Uvelirprom"	4.17%	34,384	4.17%	27,509
Investment in LLC PSE "Polikom Securities"	10.00%	121	10.00%	121
Total investments available-for-sale		**123,085**		**212,175**

Investment in JSC "Belvneshekonombank" as of 31 December 2006 and 2005 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 the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

18. FIXED AND INTANGIBLE ASSETS

	Buildings	Furniture, equipment and other	Intangible assets	Total
At initial cost				
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
Additions	-	8,407	2,515	10,922
Disposals	-	(1,892)	-	(1,892)
31 December 2006	20,328	28,611	11,900	60,839
Accumulated depreciation				
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
Charge for the year	18	4,983	2,045	7,046
Eliminated on disposals	-	(1,664)	-	(1,664)
31 December 2006	936	13,678	6,730	21,344
Net book value				
31 December 2006	**19,392**	**14,933**	**5,170**	**39,495**
31 December 2005	**19,410**	**11,737**	**4,700**	**35,847**

As of 31 December 2006 fixed assets with a net book value of RUR 3,228 thousand were received under agreements of finance lease.

Intangible assets include software, patents and licenses

19. OTHER ASSETS

	31 December 2006	31 December 2005
Prepayments and other debtors	3,826	4,722
Tax settlements, other than income tax	149	233
Other	88	20
Total other assets	**4,063**	**4,975**

20. LOANS AND ADVANCES FROM BANKS

	31 December 2006	31 December 2005
Deposits of banks	179,292	134,445
Correspondent accounts of other banks	6,789	58,105
Total loans and advances from banks	**186,081**	**192,550**

As of 31 December 2006 and 2005 accrued interest expense included in loans and advances from banks amounted to RUR 82 thousand and RUR 54 thousand, respectively.

21. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2006	31 December 2005
Repayable on demand	1,752,755	1,812,595
Time deposits	1,203,805	1,434,877
Total customer accounts	**2,956,560**	**3,247,472**

As of 31 December 2006 and 2005 accrued interest expense included in customer accounts amounted to RUR 25,083 thousand and RUR 18,347 thousand, respectively.

	31 December 2006	31 December 2005
Analysis by sector:		
Individuals	937,535	687,809
Trade	494,624	313,480
Finance sector	454,244	1,007,746
Transport and communication	326,994	921,122
Construction	186,285	34,119
Manufacturing	159,905	-
Information Technologies	139,375	-
Light industry	79,127	68,167
Energy	47,119	-
Services	39,091	75,828
Machinery construction	23,934	64,437
Other	68,327	74,764
Total customer accounts	**2,956,560**	**3,247,472**

22. DEBT SECURITIES ISSUED

	31 December 2006	31 December 2005
Discount bearing promissory notes	2,715,912	208,024
Settlement promissory notes	2,044	46,128
Interest bearing promissory notes	-	3,251,834
Total debt securities issued	**2,717,956**	**3,505,986**

As of 31 December 2006 and 2005 accrued interest expense included in debt securities issued amounted to RUR 53,520 thousand and RUR 84,456 thousand, respectively.

23. OTHER LIABILITIES

	31 December 2006	31 December 2005
Payable to employees	4,411	-
Payables under finance lease	2,535	-
Taxes payable, other than income tax	-	154
Other	1,613	1,608
Total other liabilities	**8,559**	**1,762**

The components of net investment in finance lease as of 31 December 2006 are as follows:

	31 December 2006
Total minimum lease payments	3,093
Less: unearned finance expense	(558)
Net payables under finance lease	2,535
Current portion	1,579
Long-term portion	956
Net payables under finance lease	2,535

The present value of future minimum lease payments under finance lease as of 31 December 2006 are as follows:

	31 December 2006
Not later than one year	2,062
Later than one year not later than five years	1,031
Total future minimum lease payments	3,093

24. SUBORDINATED DEBT

	Currency	Maturity date year	Interest rate %	31 December 2006	31 December 2005
Indexed subordinated loan from Lamotek Investment LTD	RUR	2014	10%	150,000	150,000
Indexed subordinated loan from Lamotek Investment LTD	USD	2013	5%	131,656	143,913
				281,656	**293,913**

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 AND SHARE PREMIUM

As of 31 December 2006 and 2005 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 2006 the Bank declared and paid dividends based on the results of operations for 2005 in the amount of RUR 25,000 thousand.

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

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.

The Bank's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Bank's uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

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 of 31 December 2006 and 2005, the nominal or contract amounts and risk-weighted amounts were:

	31 December 2006		31 December 2005	
	Nominal amount	Risk weighted amount	Nominal amount	Risk weighted amount
Contingent liabilities and credit commitments				
Guarantees issued and similar commitments	62,302	62,302	58,369	58,369
Commitments on loans and unused credit lines	565,080	69,158	390,598	31,890
Total contingent liabilities and credit commitments	**627,382**	**131,460**	**448,967**	**90,259**

Capital commitments – The Bank had no material capital commitments as of 31 December 2006.

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

	31 December 2006	31 December 2005
Not later than 1 year	7,185	9,209
Later than 1 year and not later than 5 years	11,480	15,599
Later than 5 years	13,036	9,000
Total operating lease commitments	**31,701**	**33,808**

Fiduciary activities – The Bank provides depositary services to its customers. As of 31 December 2006 and 2005, the Bank had customer securities totalling 31,364,273 items and 12,797,834 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.

Currently retail banks receive claims from individual customers concerning concealed additional commissions withheld by the banks under loan agreements. The CBR issued an instruction requiring banks to disclose effective interest rates on loans granted to individuals. Management is of the opinion that such claims would not have adverse consequences for the Bank, and is in the process of establishing procedures on disclosing additional information in loan agreements in compliance with the CBR instruction.

Taxes – Provisions of the Russian tax legislation are sometimes inconsistent and may have more than one interpretation, which allows the Russian tax authorities to take decisions based on their own arbitrary interpretation of these provisions. In practice, the Russian tax authorities often interpret the tax legislation not in favor of the taxpayers, who have to resort to court proceeding to defend their position against the tax authorities. It should be noted that the Russian tax authorities can use the clarifications issued by the judicial bodies that have introduced the concept of “unjustified tax benefit”, “primary commercial goal of transaction” and the criteria of “commercial purpose (substance) of transaction”.

Such uncertainty could, in particular, be attributed to tax treatment of financial instruments/derivatives and determination of market price of transactions for transfer pricing purposes. It could also lead to temporary taxable differences occurred due to loan loss provisions and liabilities being treated by the tax authorities as understatement of the tax base. The management of the Bank is confident that applicable taxes have all been accrued and, consequently, creation of respective provisions is not required.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Also according to the clarification of the Russian Constitutional Court the statute of limitation for tax liabilities may be extended beyond the three year term set forth in the tax legislation, if a court determines that the taxpayers has obstructed or hindered a tax inspection.

Pensions and retirement plans – Employees receive pension benefits in accordance with the laws and regulations of the Russian Federation. As of 31 December 2006 and 2005, 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. SUBSEQUENT EVENTS

As of 21 May 2007 Group's annual shareholders meeting decided to pay dividends for the year ended 31 December 2006 in the amount of RUR 150,000 thousand.

As of 28 April 2007 Group's Board of Directors approved attracting syndicated loan in the amount of RUR 500,000 thousand for the period of 6 months with a possibility of prolongation for another 6 months.

As of 24 April 2007 Group received dividends from JSC Belvneshekonombank for 3 months ended 31 December 2006 in the amount of RUR 1,979 thousand.

As of 3 May 2007 JSC Vneshekonombank offered to all other shareholders of JSC Belvneshekonombank to acquire their shares for the price of 403 Belorussian Rubles for 1 share. As of 31 December 2006 Group's investment in shares of JSC Belvneshekonombank amounted to RUR 88,580 thousand. Using ex-rate as of 31 December 2006 Group would be able to sell this investment for amount of RUR 239,314 thousand. Offer is effective until 2 November 2007.

28. TRANSACTIONS WITH RELATED PARTIES

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

(a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Bank that gives then significant influence over the Bank; and that have joint control over the Bank;
(b) Associates – enterprises on which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
(c) Joint ventures in which the Bank is a venturer;
(d) Members of key management personnel of the Bank or its parent;
(e) Close members of the family of any individuals referred to in (a) or (d);
(f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(g) Post-employment benefit plans for the benefit of employees of the Bank, or of any entity that is a related party of 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 2006		31 December 2005	
	Related party balances	**Total category as per financial statements caption**	**Related party balances**	**Total category as per financial statements caption**
Loans and advances to banks				
- investments of the Bank	4		148	
Total loans and advances to banks	**4**	**277,128**	**148**	**698,904**
Loans to customers				
- entities with joint control or significant influence over the Bank	62,615		29,390	
- key management personnel of the Bank	660		149	
- other related parties	990		-	
Total loans to customers	**64,265**	**4,060,728**	**29,539**	**3,670,118**
Allowance for impairment losses on loans to customers				
- entities with joint control or significant influence over the Bank	(190)		(1,818)	
- key management personnel of the Bank	(33)		(7)	
- other related parties	(50)		-	
Total allowance for impairment losses on loans to customers	**(273)**	**(271,697)**	**(1,825)**	**(259,020)**
Investments available-for-sale				
- investments of the Bank	88,580		184,545	
- entities with joint control or significant influence over the Bank	-		121	
Total investments available-for-sale	**88,580**	**123,085**	**184,666**	**212,175**
Loans and advances from banks				
- investments of the Bank	(5,942)		(21,657)	
Total loans and advances from banks	**(5,942)**	**(186,081)**	**(21,657)**	**(192,550)**
Customer accounts				
- entities with joint control or significant influence over the Bank	(30,662)		(19,585)	
- key management personnel of the Bank	(5,207)		(1,194)	
- other related parties	(3,620)		(1,617)	
Total customer accounts	**(39,489)**	**(2,956,560)**	**(22,396)**	**(3,247,472)**
Other liabilities				
- entities with joint control or significant influence over the Bank	(2,535)		-	
Total other liabilities	**(2,535)**	**(8,559)**	**-**	**(1,762)**
Subordinated debt				
- other related parties	(281,656)		293,913	
Total subordinated debt	**(281,656)**	**(281,656)**	**(293,913)**	**(293,913)**

	31 December 2006		31 December 2005	
	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	(13,337)		(6,575)	
Unified social tax	(1,392)		(1,252)	
	(14,729)	**(103,545)**	**(7,827)**	**(57,523)**

Included in the income statement for the years ended 31 December 2006 and 2005 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2006		Year ended 31 December 2005	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income				
- entities with joint control or significant influence over the Bank	2,003		2,384	
- investments of the Bank	-		11,353	
- key management personnel of the Bank	297		1,628	
- other related parties	67		79	
Total interest income	**2,367**	**644,324**	**15,444**	**509,632**
Interest expense				
- entities with joint control or significant influence over the Bank	(245)		(711)	
- investments of the Bank	(13)		(100)	
- key management personnel of the Bank	(207)		-	
- other related parties	(21,705)		(22,281)	
Total interest expense	**(22,170)**	**(322,670)**	**(23,092)**	**(286,510)**
Fee and commission income				
- entities with joint control or significant influence over the Bank	4,138		191	
- key management personnel of the Bank	72		47	
- other related parties	107		53	
Total fee and commission income	**4,317**	**50,595**	**291**	**38,401**
Net gain on financial assets at fair value through profit or loss				
- entities with joint control or significant influence over the Bank	6,957		172	
Total net gain on financial assets at fair value through profit or loss	**6,957**	**173,459**	**172**	**80,635**
Dividend income				
- investments of the Bank	23,250		19,765	
Total dividend income	**23,250**	**23,415**	**19,765**	**20,040**
Other income				
- entities with joint control or significant influence over the Bank	6		16	
- other related parties	2,031		-	
Total other income	**2,037**	**6,707**	**16**	**18,274**

	Year ended 31 December 2006		Year ended 31 December 2005	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Operating expense				
- *entities with joint control or significant influence over the Bank*	(3,116)		(4,824)	
- *key management personnel of the Bank*	(14,869)		(7,852)	
- *other related parties*	(1,980)		-	
Total operating expense	**(19,965)**	**(174,673)**	**(12,676)**	**(114,514)**

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are 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. 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 2006		31 December 2005	
	Current value	**Fair value**	**Current value**	**Fair value**
Cash and balances with the Central Bank of the Russian Federation	826,783	826,783	911,387	911,387
Precious metals	44,307	44,307	4,258	4,258
Financial assets at fair value through profit or loss	2,414,771	2,414,771	2,992,277	2,992,277
Loans and advances to banks	277,128	277,128	698,904	698,904
Investments available-for-sale	123,085	123,085	212,175	212,175
Loans and advances from banks	186,081	186,081	192,550	192,550
Customer accounts	2,956,560	2,956,560	3,247,472	3,247,472
Debt securities issued	2,717,956	2,717,956	3,505,986	3,505,986

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

30. 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
100%	Loans to customers
100%	Guarantees
50%	Obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Other assets

As of 31 December 2006 the Bank's total capital amount for Capital Adequacy purposes was RUR 1,606,598 thousand and tier 1 capital amount was RUR 1,324,942 thousand with ratios of 37% and 30%, respectively.

As of 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 of 34% and 26%, respectively.

As of 31 December 2006 and 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.

31. 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 Bank's Management Board and Credit Committee 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 Information – Analysis 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.

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.

	31 December 2006			31 December 2005		
	RUR	**USD**	**Other currencies**	**RUR**	**USD**	**Other currencies**
ASSETS						
Financial assets at fair value through profit or loss	8.62%	12.75%	-	8.35%	6.38%	-
Loans and advances to banks	11.50%	-	-	8.71%	14.00%	-
Loans to customers	15.12%	15.71%	15.39%	16.69%	14.86%	15.76%
LIABILITIES						
Loans and advances from banks	4.72%	6.50%	3.80%	4.17%	3.00%	-
Customer accounts	9.35%	6.88%	6.76%	9.32%	9.35%	6.90%
Debt securities issued	9.87%	6.99%	8.46%	9.48%	7.88%	5.58%
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 2006 Total
ASSETS							
Financial assets at fair value through profit or loss	2,223,105	-	-	-	-	-	2,223,105
Loans and advances to banks	120,793	-	-	-	-	-	120,793
Loans to customers	529,349	482,828	2,032,016	710,033	34,805	-	3,789,031
Total interest bearing assets	2,873,247	482,828	2,032,016	710,033	34,805	-	6,132,929
Cash and balances with the Central Bank of the Russian Federation	741,115	-	-	-	-	85,668	826,783
Precious metals	44,307	-	-	-	-	-	44,307
Financial assets at fair value through profit or loss	191,666	-	-	-	-	-	191,666
Loans and advances to banks	156,335	-	-	-	-	-	156,335
Investments available-for-sale	-	-	-	123,085	-	-	123,085
Fixed and intangible assets	-	-	-	-	-	39,495	39,495
Other assets	4,063	-	-	-	-	-	4,063
TOTAL ASSETS	**4,010,733**	**482,828**	**2,032,016**	**833,118**	**34,805**	**125,163**	**7,518,663**
LIABILITIES							
Loans and advances from banks	179,292	-	-	-	-	-	179,292
Customer accounts	117,858	520,689	563,870	1,092	296	-	1,203,805
Debt securities issued	193,958	228,129	1,468,574	825,251	-	-	2,715,912
Subordinated debt	-	-	-	-	281,656	-	281,656
Total interest bearing liabilities	491,108	748,818	2,032,444	826,343	281,952	-	4,380,665
Loans and advances from banks	6,789	-	-	-	-	-	6,789
Customer accounts	1,752,755	-	-	-	-	-	1,752,755
Debt securities issued	2,044	-	-	-	-	-	2,044
Current income tax liabilities	-	5,628	-	-	-	-	5,628
Deferred income tax liabilities	-	-	-	37,281	-	-	37,281
Other liabilities	6,140	241	1,222	956	-	-	8,559
TOTAL LIABILITIES	**2,258,836**	**754,687**	**2,033,666**	**864,580**	**281,952**	**-**	**6,193,721**
Liquidity gap	1,751,897	(271,859)	(1,650)	(31,462)	(247,147)		
Interest sensitivity gap	2,382,139	(265,990)	(428)	(116,310)	(247,147)		
Cumulative interest sensitivity gap	**2,382,139**	**2,116,149**	**2,115,721**	**1,999,411**	**1,752,264**		
Cumulative interest sensitivity gap as a percentage of total assets	**32%**	**28%**	**28%**	**27%**	**23%**		

	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							
Financial assets at fair value through profit or loss	2,492,181	-	493,899	-	-	-	2,986,080
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	3,185,865	333,155	1,848,953	1,411,701	13,770	-	6,793,444
Cash and balances with the Central Bank of the Russian Federation	814,463	-	-	-	-	96,924	911,387
Precious metals	4,258	-	-	-	-	-	4,258
Financial assets at fair value through profit or loss	6,197	-	-	-	-	-	6,197
Loans and advances to banks	302,638	-	-	-	-	-	302,638
Investments available-for-sale	-	-	-	212,175	-	-	212,175
Fixed and intangible assets	-	-	-	-	-	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	2,510,148	12,868	(2,115,428)	975,225	(283,005)		
Cumulative interest sensitivity gap	**2,510,148**	**2,523,016**	**407,588**	**1,382,813**	**1,099,808**		
Cumulative interest sensitivity gap as a percentage of total assets	**30%**	**30%**	**5%**	**17%**	**13%**		

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 manages currency risk by defining open currency position based on expected changes of ex-rates of Russian rouble and other macroeconomic indicators, these allows Bank minimize losses from fluctuations of foreign currency exchange rates. Treasury Department performs daily control of open currency position of the Bank to keep it in compliance with requirements of CB RF.

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

	RUR	USD USD 1 = RUR 26.3311	EUR EUR 1 = RUR 34.6965	Gold 1 ounce = RUR 16,738.7	Other currency	31 December 2006 Total RUR'000
ASSETS						
Cash and balances with the Central Bank of the Russian Federation	765,858	48,428	12,497	-	-	826,783
Precious metals	-	-	-	44,307	-	44,307
Financial assets at fair value through profit or loss	2,367,047	47,724	-	-	-	2,414,771
Loans and advances to banks	138,006	76,070	63,046	-	6	277,128
Loans to customers	2,342,926	1,144,272	301,833	-	-	3,789,031
Investments available-for-sale	34,505	-	-	-	88,580	123,085
Fixed and intangible assets	39,495	-	-	-	-	39,495
Other assets	3,547	516	-	-	-	4,063
TOTAL ASSETS	**5,690,342**	**1,318,052**	**377,376**	**44,307**	**88,586**	**7,518,663**
LIABILITIES						
Loans and advances from banks	145,047	26,808	14,226	-	-	186,081
Customer accounts	2,276,060	590,899	89,570	-	31	2,956,560
Debt securities issued	1,880,943	548,476	288,537	-	-	2,717,956
Current income tax liabilities	5,628	-	-	-	-	5,628
Deferred income tax liabilities	37,281	-	-	-	-	37,281
Other liabilities	7,000	1,559	-	-	-	8,559
Subordinated debt	150,000	131,656	-	-	-	281,656
TOTAL LIABILITIES	**4,501,959**	**1,299,398**	**392,333**	**-**	**31**	**6,193,721**
OPEN BALANCE SHEET POSITION	**1,188,383**	**18,654**	**(14,957)**	**44,307**	**88,555**	

Spot contracts

Fair value of spot contracts is included in the currency analysis presented above and the following table presents further analysis of currency risk by types of spot contracts as of 31 December 2006:

	RUR	USD USD 1 = RUR 26.3311	EUR EUR 1 = RUR 34.6965	Gold 1 ounce = RUR 16,738.7	Other currency	31 December 2006 Total RUR'000
Accounts payable on spot contracts	(75,139)	-	-	-	-	(75,139)
Accounts receivable on spot contracts	-	75,096	-	-	-	75,096
NET SPOT POSITION	**(75,139)**	**75,096**	**-**	**-**	**-**	**(43)**
TOTAL OPEN POSITION	**1,113,244**	**93,750**	**(14,957)**	**44,307**	**88,555**	

	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	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	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	127,744	-	-	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**	

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. Information-analysis 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.

Managing and monitoring risks is performed by Credit and Limit Committees. All recommendations for credit processes are considered and approved by managers of risk managing department prior to any action of Credit Committee. Daily risk management is performed by Risk Analysis Department, Heads of Credit Department and Treasury.

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 Management Board 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, but part of loans are loans to individuals for which obtaining a collateral or guarantee is not possible. Such risks are constantly monitored and analyzed quarterly.

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 Risk Analysis Department 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 2006 Total
ASSETS				
Cash and balances with the Central Bank of the Russian Federation	826,783	-	-	826,783
Precious metals	44,307	-	-	44,307
Financial assets at fair value through profit or loss	2,414,771	-	-	2,414,771
Loans and advances to banks	157,490	4	119,634	277,128
Loans to customers	3,734,869	54,162	-	3,789,031
Investments available-for-sale	34,505	88,580	-	123,085
Fixed and intangibles assets	39,495	-	-	39,495
Other assets	3,584	479	-	4,063
TOTAL ASSETS	**7,255,804**	**143,225**	**119,634**	**7,518,663**
LIABILITIES				
Loans and advances from banks	180,081	6,000	-	186,081
Customer accounts	2,938,353	15,878	2,329	2,956,560
Debt securities issued	2,465,612	-	252,344	2,717,956
Current income tax liabilities	5,628	-	-	5,628
Deferred income tax liabilities	37,281	-	-	37,281
Other liabilities	8,556	3	-	8,559
Subordinated debt	-	281,656	-	281,656
TOTAL LIABILITIES	**5,635,511**	**303,537**	**254,673**	**6,193,721**
NET POSITION	**1,620,293**	**(160,312)**	**(135,039)**	

	Russian Federation	Other non-OECD countries	OECD countries	31 December 2005 Total
ASSETS				
Cash and balances with the Central Bank of the Russian Federation	911,387	-	-	911,387
Precious metals	4,258	-	-	4,258
Financial 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	3,307,508	103,590	-	3,411,098
Investments available-for-sale	27,630	184,545	-	212,175
Fixed and intangible assets	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				
Loans and advances 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**	**366,771**	**365,174**	**7,250,554**
NET POSITION	**1,198,048**	**74,291**	**(229,069)**	