Commercial Bank
"Agropromcredit"
(Limited Liability Company)

Financial Statements
for the year ended 31 December 2006

Contents

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Independent Auditors' Report

To the Board of Directors of Commercial Bank "Agropromcredit" (LLC)

Report on the Financial Statements

We have audited the accompanying financial statements of Commercial Bank "Agropromcredit" (LLC) (the "Bank"), which comprise the balance sheet as at 31 December 2006, the income statement, cash flow statement 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 financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

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

ZAO KPMG

ZAO KPMG
16 April 2007

(in thousands of Russian Roubles)

	Notes	2006	2005
Assets			
Cash and cash equivalents	5	2,010,000	2,645,141
Mandatory cash balances with the CBRF		235,649	169,278
Financial assets held for trading	6	3,779,044	3,121,803
Due from banks and other financial institutions	7	1,463,224	1,080,540
Loans and advances to customers	8	10,526,150	7,773,596
Other assets	10	53,262	121,134
Property and equipment	11	388,676	238,834
Deferred tax asset	22	52,817	57,247
Total Assets		**18,508,822**	**15,207,573**
Liabilities			
Financial liabilities held for trading	6	-	53,671
Due to banks and other financial institutions	12	102,876	300,468
Customer accounts	13	11,891,090	9,607,099
Debt securities issued	14	4,610,400	3,495,070
Other liabilities	15	16,299	134,024
Net assets attributable to participants	16	**1,888,157**	**1,617,241**
Total Liabilities		**18,508,822**	**15,207,573**
Commitments and Contingencies	24		

Approved for issue by the Management Board and signed on its behalf on 16 April 2007.

Sogin Igor Alexandrovich
Chairman of the Board

Khmeleva Svetlana Aleksandrovna
Chief Accountant

The Notes form an integral part of the financial statements.

(in thousands of Russian Roubles)

	Notes	2006	2005
Interest income	18	1,527,288	1,630,305
Interest expense	18	(754,081)	(486,272)
Net interest income		**773,207**	**1,144,033**
Net (provision)/recovery of provision for loan impairment	8	(36,700)	269,190
Net interest income after (provision)/recovery of provision for loan impairment		**736,507**	**1,413,223**
Gains less losses arising from trading in financial instruments held for trading		221,711	294,559
Gains less losses arising from trading in foreign currencies		33,812	22,087
Foreign exchange translation (losses less gains)/gains less losses		(10,403)	3,500
Fee and commission income	19	417,244	434,065
Fee and commission expense	19	(15,484)	(23,590)
Gain on origination of debt securities issued at rates below market		9,370	24,837
(Provision)/recovery of provision for impairment other than loan impairment	9,10	(18,302)	17,780
Other operating income	21	16,148	26,566
Operating income		**1,390,603**	**2,213,027**
Operating expenses	20	(1,022,830)	(1,312,316)
Loss arising from assignment agreements		-	(81,253)
Profit before tax		**367,773**	**819,458**
Income tax expense	22	(96,857)	(226,344)
Net profit		**270,916**	**593,114**

(in thousands of Russian Roubles)

	Notes	2006	2005
Cash flows from operating activities			
Interest received		1,570,216	1,266,283
Interest paid		(591,099)	(334,578)
Income received from trading in financial instruments held for trading		109,607	357,470
Income received from trading in foreign currencies		33,812	22,103
Fees and commissions received		430,377	417,570
Fees and commissions paid		(17,687)	(21,387)
Other operating income received		16,148	19,397
Operating expenses paid		(974,986)	(1,275,671)
Losses on assignment agreements		-	(81,253)
Income tax paid		(64,549)	(100,947)
Cash flows from operating activities before changes in operating assets and liabilities		**511,839**	**268,987**
Changes in operating assets and liabilities			
Net (increase)/decrease in mandatory cash balances with the CBRF		(66,371)	78,580
Net increase in financial instruments held for trading		(593,119)	(3,072,707)
Net (increase)/decrease in due from banks and financial institutions		(382,881)	647,384
Net (increase)/decrease in loans and advances to customers		(2,840,672)	3,728,284
Net decrease in other assets		14,974	348
Net decrease in due to banks and other financial institutions		(197,329)	(1,503,922)
Net increase/(decrease) in customer accounts		2,253,935	(1,558,671)
Net increase/(decrease) in debt securities issued		988,314	(187,580)
Net (decrease)/increase in other liabilities		(120,836)	68,820
Net cash used in operating activities		**(432,146)**	**(1,530,477)**
Cash flows from investing activities			
Acquisition of available-for-sale assets		(4,410)	-
Proceeds from sale of investments in subsidiaries		-	36,464
Acquisition of property and equipment		(194,389)	(34,860)
Net cash (used in)/provided from investing activities		**(198,799)**	**1,604**
Effect of exchange rate changes on cash and cash equivalents		**(4,196)**	**2,412**
Net decrease in cash and cash equivalents		**(635,141)**	**(1,526,461)**
Cash and cash equivalents as at the beginning of the year		2,645,141	4,171,602
Cash and cash equivalents as at the end of the year	5	**2,010,000**	**2,645,141**

1. Principal Activities of the Bank

Commercial Bank "Agropromcredit" (LLC) was established by the decision of the participants on 7 July 1993 (Protocol No. 1 of 7 July 1993) as a limited liability partnership. In accordance with the decision of the general meeting of participants of the Bank dated 8 October 1998 (Protocol No. 23 of 8 October 1998) the name and the legal structure of the Bank was changed to its current name and legal structure. The Bank conducts its business on the basis of general banking license No. 2880 issued by the Central Bank of the Russian Federation ("CBRF"). The Bank was accepted into the Russian Federation state deposit insurance system for individuals in September 2005.

The principal activities of the Bank are deposits taking and customer accounts maintenance, lending and issuing guarantees, cash and settlement operations and operations with securities and foreign exchange.

As at 31 December 2006 the Bank had 12 branches and 29 representative offices in the Russian Federation. The branch network of the Bank is located in the key regions of the Russian Federation, including the following cities: Tyumen, Surgut, Vladivostok, Orenburg, St. Petersburg, Barnaul and others.

The average number of the Bank's employees during 2006 was 314 in the head office, 1 146 - in total (2005: 327 – in the head office, 1 046 – in total).

The registered address of the Bank: 140061, Moscow region, Lytkarino, Housing complex 5, Block 2, Building 13.

2. Operating Environment of the Bank

Whilst there have been improvements in economic trends in the country, the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

The banking sector in the Russian Federation is particularly sensitive to changes in economic conditions and depends on the general level of confidence in the banking system. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in the Russian Federation.

3. Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Bank maintains its accounting records in accordance with Russian banking regulations. These financial statements have been prepared from those accounting records and adjusted as necessary in order to be in accordance with IFRS.

These financial statements have been measured and presented in the national currency of the Russian Federation, Russian Roubles ("RUR"). As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Bank no longer applies the provisions of IAS 29 *"Financial Reporting In Hyperinflatory Economies"*. Refer to Note 4.

The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Information about significant areas of estimation uncertainty and critical judgments made by management in the application of accounting policies in respect of loan impairment allowance are described in Note 8 "Loans and advances to customers".

4. Significant Accounting Policies

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied except for the changes in accounting policies described at the end of Note 4.

Cash and cash equivalents

Cash and cash equivalents are assets which can be converted into cash within a day.

All short-term interbank placements, except for overnight placements, are included in due from banks and other financial institutions.

Amounts which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Mandatory cash balances with the CBRF

Mandatory cash balances with the CBRF represent mandatory reserve deposits which are not available to finance the Bank's day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Financial instruments

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

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

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

The Bank designates financial assets and financial liabilities at fair value through profit or loss where either:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or

- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel; or

- a contract contains one or more embedded derivatives, unless the embedded derivative does not significantly modify the cash flows that otherwise would be required by the contract or it is clear with little or no analysis when a similar combined instrument is first considered that separation of the embedded derivative is prohibited.

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

(ii) Loans and advances to customers

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank intends to sell immediately or in the near term, which are classified as held for trading, or those which the Bank designates at initial recognition as at fair value through profit or loss or available-for-sale. Loans and advances to customers include amounts due from banks and other financial institutions and loans and advances to customers.

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

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

(iii) Held-to-maturity investments

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

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

Interest earned whilst holding investment securities held-to-maturity is recorded in the statement of income as interest income on securities.

(iv) Available-for-sale assets

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

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

Measurement terms

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

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

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

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

Valuation techniques such as discounted cash flow models and consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition minus principal repayments, plus accrued interest, and minus any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount are included in the carrying values of related balance sheet items.

Recognition of financial instruments

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

Repurchase agreements and reverse repurchase agreements

Securities sold under agreements to repurchase ("repurchase agreements") are treated as secured financing transactions with the securities retained in the balance sheet and the counterparty liability included in amounts due to banks and other financial institutions or customer accounts, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognized in the statement of income over the terms of the repurchase agreement using the effective interest method.

Securities purchased under agreements to resell ("reverse repurchase agreements") are recorded as due from banks and other financial institutions or loans and advances to customers as appropriate. The difference between the sale and repurchase prices represents interest income and is recognized in the statement of income over the terms of the reverse repurchase agreement using the effective interest method.

Promissory notes purchased

Promissory notes purchased are included in financial instruments at fair value through profit or loss, loans and advances to customers or due from banks and other financial institutions, depending on their substance and are subsequently remeasured and accounted for in accordance with the accounting policies described above for these categories of assets.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Their fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets (unrealized gains) when fair value is positive and as liabilities (unrealized losses) when it is negative. Gains and losses resulting from these instruments are included in the statement of income as gains less losses arising from trading in foreign currencies.

Financial guarantees

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

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

Financial guarantee liabilities are included within other liabilities.

Property and equipment

Property and equipment and intangible assets are stated at cost less accumulated depreciation and impairment losses, where required. Property and equipment and intangible assets acquired prior to 1 January 2003 were stated at cost adjusted for inflation less accumulated depreciation and impairment losses, where required. Depreciation of assets under construction is charged from the time these assets are completed and ready for use. Depreciation is applied on a straight line basis over the estimated useful lives of the assets using the following rates.

	Depreciation rate
Buildings	2%
Vehicles	25%
Computers	25%
Office equipment	10%
Other equipment	20%
Intangible assets	25%

Impairment

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

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

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

(i) Recoverable amount

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

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

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

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(iii) Provision for loan impairment

The Bank reviews its loan portfolio to assess impairment on a regular basis. A loan (or a group of loans) is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan and that event (or events) has an impact on the estimated future cash flows of the loan (or the group of loans) that can be reliably estimated.

The Bank first assesses whether objective evidence of impairment exists individually for loans to customers that are individually significant, and individually or collectively for loans to customers that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan has been incurred, the amount of the loss is measured as the difference between the loan carrying amount and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the original effective interest rate.

Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is limited available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgement to estimate the amount of any impairment loss. The assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

Operating leases

Where the Bank is the lessee, the total lease payments are charged to the statement of income on a straight-line basis over the period of the lease.

Where a lease is cancelled prior to its maturity, any payment due to lesser as a penalty is charged to the statement of income of the period in which the operating lease is cancelled.

Borrowings

Borrowings are recorded initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the statement of income over the period of the borrowings using the effective yield method.

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

Debt securities issued

Debt securities issued are promissory notes and certificates of deposit issued by the Bank.

Debt securities issued are recorded initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, debt securities issued are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the statement of income over the term of the securities, using the effective yield method.

If the Bank purchases its own debt securities issued, they are removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

Net assets attributable to participants

Each participant in a Russian limited liability company has the unilateral right to withdraw his capital from the company and receive his share of the company's net assets within six months after the end of the year of the withdrawal. As a result, charter capital and retained earnings attributable to participants of the Bank are recorded as liabilities.

Distributions to participants

Distributions to participants are recorded in income statement in the period in which they are declared. The Bank distributes profits to participants on the basis of financial statements prepared in accordance with Russian Accounting Rules.

Income taxes

Taxation has been provided for in the financial statements in accordance with Russian legislation currently in force. The income tax charge in the statement of income for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the year, using the tax rates enacted at the balance sheet date. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recorded to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income and expense recognition

Interest income and interest expense are recorded in the statement of income for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability 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. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between the parties to the contract that are an integral part of the effective interest rate, incremental transaction costs and all other premiums or discounts. When loans become doubtful for collection, they are written down to their recoverable amounts and interest income is thereafter recorded based at the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Loan commitment fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recorded as an adjustment to the effective interest on the loan.

Foreign currency transactions

Transactions in foreign currencies are recorded at the exchange rate ruling on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the statement of income and calculated using the exchange rate ruling on that date.

Monetary assets and liabilities denominated in foreign currency are translated into functional currency at the official exchange rate of the CBRF at the balance sheet date. Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange translation gains and losses. Translation differences on non-monetary items such as equity securities held for trading or available-for-sale are recorded as part of the fair value gain or loss.

As at 31 December 2006 the official rate of exchange used for translating foreign currency balances was USD 1 = RUR 26.3311 and Euro 1 = RUR 34.6965 (2005: USD 1 = RUR 28.7825 and Euro 1 = RUR 34.185). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a freely convertible currency outside of the Russian Federation.

Fiduciary assets

Assets and liabilities held by the Bank in its own name, but on the account of third parties, are not reported on the balance sheet. Commissions received from such business are shown in fee and commission income within the statement of income.

Offsetting

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

Accounting for the effects of hyperinflation

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation have been made for periods subsequent to this date. Starting from 1 January 2003 the carrying amounts of the Bank's assets and liabilities became their carrying amounts for the purpose of subsequent accounting.

Provisions

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

Comparative information

Where necessary, comparative information have been adjusted to conform with changes in the presentation of the current year.

Changes in accounting policies

During the current year the Bank changed a number of its accounting policies as a result of new or revised Standards that are effective for periods beginning on or after 1 January 2006:

- Amendment to IAS 39 *"Financial Instruments: Recognition and Measurement – The Fair Value Option"*, which is effective for annual periods beginning on or after 1 January 2006. Upon application of this amendment, the Bank may designate a financial instrument at fair value through profit or loss only if certain conditions are met. Financial instruments which were designated as at fair value through profit or loss as at 31 December 2005 complied with the requirements of the amendment and were retained within this category upon its application.
- Amendment to IAS 39 *"Financial Instruments: Recognition and Measurement"* and IFRS 4 *"Insurance Contracts – Financial Guarantee Contracts"*, which is effective for annual periods beginning on or after 1 January 2006. Upon application of this amendment, a financial guarantee issued is recognised initially at its fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee.

(in thousands of Russian Roubles)

New standards and interpretations not yet adopted

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

- IFRS 7 *"Financial Instruments: Disclosures"*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Bank's financial instruments.
- Amendment to IAS 1 *"Presentation of Financial Statements – Capital Disclosures"*, which is effective for annual periods beginning on or after 1 January 2007. The Amendment will require increased disclosure in respect of the Bank's capital.

5. Cash and Cash Equivalents

	2006	2005
Cash on hand	720,145	625,413
Correspondent account with the CBRF	1,216,567	1,962,972
Correspondent accounts and overnight placements with other banks and other financial institutions of:		
- the Russian Federation	48,061	50,608
- other countries	25,227	6,148
Total cash and cash equivalents	**2,010,000**	**2,645,141**

Geographical and currency analyses of cash and cash equivalents are disclosed in Note 23.

6. Financial Instruments Held for Trading

Assets	**2006**	**2005**
Federal loan bonds of the Russian Federation	1,351,862	216,083
Debt securities of foreign governments	1,217,014	1,294,080
Promissory notes	1,195,324	1,522,735
Corporate shares	14,844	-
Corporate bonds	-	77,919
Municipal bonds	-	10,986
Total financial assets held for trading	**3,779,044**	**3,121,803**

Liabilities	**2006**	**2005**
Derivative financial instruments	-	53,671
Total financial liabilities held for trading	**-**	**53,671**

Federal loan bonds of the Russian Federation are Rouble denominated government securities issued and guaranteed by the Ministry of Finance of the Russian Federation, with maturities between 2012 and 2036. The yield to maturity on these bonds varied from 6% to 8%.

Debt securities of foreign governments represent US Dollar denominated securities issued by the US Treasury, traded at a discount to nominal value with maturities between 2007 and 2012. The yield to maturity on these notes was 5%.

(in thousands of Russian Roubles)

Promissory notes are Rouble denominated bills of exchange issued by large Russian banks and companies publicly traded or quoted on the over-the-counter market, with maturities in 2007. The yield to maturity on these promissory notes varied from 6% to 9%.

Corporate shares represent corporate shares of large Russian companies.

Geographical, currency, maturity and interest rate analyses of financial instruments held for trading are disclosed in Note 23.

7. Due from Banks and Other Financial Institutions

	2006	2005
Term placements with banks and other financial institutions	1,462,784	1,080,000
Accrued interest income	440	540
Total due from banks and other financial institutions	**1,463,224**	**1,080,540**

As at 31 December 2006, the Bank had six counterparties (31 December 2005: four counterparties), whose balances exceeded RUR 100 000 thousand. The gross value of these balances as of 31 December 2006 was RUR 1,050,278 thousand or 71.8% of total balances due from banks and other financial institutions (31 December 2005: RUR 720,175 thousand or 66.6% of total balances due from banks and other financial institutions).

As at 31 December 2006, the estimated fair value of balances due from banks and other financial institutions was RUR 1,463,224 thousand (2005: RUR 1,080,540 thousand). Refer to Note 25.

Geographical, currency, maturity and interest rate analyses of due from banks and other financial institutions are disclosed in Note 23.

8. Loans and Advances to Customers

	2006	2005
Current loans	10,439,125	7,412,541
Overdue loans	607,727	820,729
Accrued interest income	181,578	205,906
Less: Provision for loan impairment	(702,280)	(665,580)
Total loans and advances to customers	**10,526,150**	**7,773,596**

Movements in the provision for loan impairment for the year:

	2006	2005
Provision for loan impairment at the beginning of the year	**(665,580)**	**(934,770)**
Net (provision)/recovery of provision for loan impairment during the year	(36,700)	269,190
Provision for loan impairment at the end of the year	**(702,280)**	**(665,580)**

The Bank has reviewed its current commercial loan portfolio as at 31 December 2006 and has identified loans with a gross amount of RUR 24,046 thousand which have indications of impairment, and has recognised loan impairment for these loans of RUR 22,012 thousand. In respect of the remaining commercial loans, impairment of RUR 276,470 thousand has been recognised.

(in thousands of Russian Roubles)

The Bank has reviewed its current retail loan portfolio as at 31 December 2006 and has identified loans with a gross amount of RUR 583,681 thousand which have overdue payments. Of this amount overdue loans with a gross amount of RUR 122,949 thousand are less than 30 days overdue. The Bank estimates loan impairment on its retail loan portfolio based on its past historical loss experience for these types of loans, portfolio delinquency and collection rates. Based on these factors the Bank has provided RUR 403,798 thousand for retail loans.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment as of 31 December 2006 would be RUR 105,261 thousand lower/higher.

Loans and advances to customers are issued primarily to customers located within the Russian Federation, who operate in the following economic sectors:

	2006		2005	
	Amount	**%**	**Amount**	**%**
Individuals	4,463,381	42%	2,540,024	33%
Construction	1,860,556	18%	191,856	2%
Trade	1,725,411	16%	1,081,943	14%
Energy and mining	1,137,230	11%	2,091,131	27%
Investment and financial companies	656,793	6%	788,545	10%
Manufacturing	227,388	2%	500,824	6%
Food industry	211,065	2%	18,434	0%
Local government authorities	19,126	0%	272,280	4%
Transport	18,195	0%	2,388	0%
Other	207,005	3%	286,171	4%
Total loans and advances to customers	**10,526,150**	**100%**	**7,773,596**	**100%**

As at 31 December 2006, the Bank had seven borrowers (31 December 2005: four borrowers) whose loan balances exceeded RUR 300,000 thousand. The gross value of these balances as of 31 December 2006 was RUR 2,635,072 thousand or 25% of the gross loan portfolio (31 December 2005: RUR 1,613,710 thousand or 21% of the gross loan portfolio).

As at 31 December 2006, the estimated fair value of loans and advances to customers was RUR 10,526,150 thousand (31 December 2005: RUR 7,773,596 thousand). Refer to Note 25.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 23.

9. Available-for-sale assets

	2006	2005
Corporate shares		
CJSC Bureau of Credit History "National Credit Bureau"	4,410	-
Less: Provision for impairment	(4,410)	-
Total available-for-sale assets	**-**	**-**

Movements in the provision for impairment of available-for-sale assets for the year:

	2006	2005
Provision for impairment of available-for-sale assets at the beginning of the year	**-**	**-**
Provision for impairment of available-for-sale assets during the year	(4,410)	-
Provision for impairment of available-for-sale assets at the end of the year	**(4,410)**	**-**

(in thousands of Russian Roubles)

10. Other assets

	2006	2005
Trade debtors and prepayments	64,884	95,140
Tax prepayments	2,270	25,994
Less: Provision for impairment of other assets	(13,892)	-
Total other assets	**53,262**	**121,134**

As at 31 December 2005, the other assets of the Bank included receivables of RUR 37,626 thousand from LLC "Financial and construction corporation "Zapsibinterstroy" in respect of an assignment agreement for premises located in Surgut.

Movements in the provision for impairment of other assets for the year:

	2006	2005
Provisions for impairment of other assets at the beginning of the year	**-**	**(17,780)**
Net (provision)/recovery of provisions for impairment of other assets during the year	(13,892)	17,780
Provisions for impairment of other assets at the end of the year	**(13,892)**	**-**

Geographical, currency and maturity analyses of other assets are disclosed in Note 23.

11. Property and Equipment

	Buildings	Vehicles	Computers	Office equipment	Intangible assets	Other equip-ment	Assets under construc-tion	Total
Book value at cost								
At 1 January 2006	122,693	22,303	78,679	49,307	15	52,955	10,822	336,774
Additions	81,292	4,471	14,476	22,830	6,606	8,886	63,771	202,332
Disposals	(4,864)	(1,276)	(3,974)	(1,959)	-	(246)	-	(12,319)
At 31 December 2006	**199,121**	**25,498**	**89,181**	**70,178**	**6,621**	**61,595**	**74,593**	**526,787**
Accumulated depreciation								
At 1 January 2006	6,005	8,945	46,934	7,872	5	28,179	-	97,940
Depreciation charge	3,378	5,675	17,928	5,730	457	11,380	-	44,548
Disposals	(193)	(722)	(2,744)	(597)	-	(121)	-	(4,377)
At 31 December 2006	**9,190**	**13,898**	**62,118**	**13,005**	**462**	**39,438**	**-**	**138,111**
Net book value as at 31 December 2006	**189,931**	**11,600**	**27,063**	**57,173**	**6,159**	**22,157**	**74,593**	**388,676**
Net book value as at 31 December 2005	**116,688**	**13,358**	**31,745**	**41,435**	**10**	**24,776**	**10,822**	**238,834**

(in thousands of Russian Roubles)

12. Due to Banks and Other Financial Institutions

	2006	2005
Term deposits of banks and other financial institutions	100,000	300,000
Correspondent accounts and overnight placements of banks and other financial institutions	2,725	49
Accrued interest expense	151	419
Total due to banks and other financial institutions	**102,876**	**300,468**

As at 31 December 2006, the Bank had one counterparty (31 December 2005: two counterparties), whose balances exceeded RUR 100,000 thousand. The gross value of these balances was RUR 100,151 thousand or approximately 97% of total balances due to banks and other financial institutions (31 December 2005: RUR 300,419 thousand or 100% of total balances due to banks and other financial institutions).

As at 31 December 2006, the estimated fair value of due to banks and other financial institutions was RUR 102,876 thousand (31 December 2005: RUR 300,468 thousand). Refer to Note 25.

Geographical, currency, maturity and interest rate analyses of due to banks and other financial institutions are disclosed in Note 23.

13. Customer Accounts

	2006	2005
State and public organizations		
- Current/settlement accounts	54,967	17,732
- Term deposits	20,250	8,250
Other legal entities		
- Current/settlement accounts	4,888,695	4,944,159
- Term deposits	2,972,135	2,521,071
Individuals		
- Current/demand accounts	899,806	762,325
- Term deposits	2,947,449	1,273,053
Accrued interest expense	107,788	80,509
Total customer accounts	**11,891,090**	**9,607,099**

As at 31 December 2006, the Bank had fourteen clients (31 December 2005: six clients) whose balances exceeded RUR 100,000 thousand. The gross value of these balances was RUR 4,116,165 thousand or 35% of total customer accounts (31 December 2005: RUR 2,893,852 thousand or 30% of total customer accounts).

As at 31 December 2006, the estimated fair value of customer accounts was RUR 11,891,090 thousand (31 December 2005: RUR 9,607,099 thousand). Refer Note 25.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 23.

(in thousands of Russian Roubles)

14. Debt Securities Issued

	2006	2005
Promissory notes	4,343,919	3,235,488
Certificates of deposit	36,230	155,931
Accrued interest expense	230,251	103,651
Total debt securities issued	**4,610,400**	**3,495,070**

As at 31 December 2006, the estimated fair value of debt securities issued was RUR 4,610,400 thousand (31 December 2005: RUR 3,495,070 thousand). Refer to Note 25.

Geographical, currency, maturity and interest rate analyses of debt securities issued are disclosed in Note 23.

15. Other liabilities

	2006	2005
Payables	7,204	124,921
Tax payables	5,483	1,828
Other	3,612	7,275
Total other liabilities	**16,299**	**134,024**

As at 31 December 2005, other liabilities included payables to the Municipal body of the city of Astrakhan of RUR 120,000 thousand. In 2003 the Bank extended a loan to the Municipal body of the city of Astrakhan of RUR 120,000 thousand maturing on 7 February 2004. This loan was not repaid within the stipulated terms, and the Bank took legal action against the debtor and the guarantors under the loan agreement in order to recover the principal amount and accrued interest. As a result, an agreement was concluded on 12 July 2004, in accordance with which obligations under the loan agreement were terminated by transfer of property to the Bank as compensation.

However, in 2005, the Municipal body of the city of Astrakhan remitted funds of RUR 120,000 thousand to repay the loan. As the agreement of July 2004 was still valid, the Bank recorded the funds received as payables. In 2006, the agreement of July 2004 was cancelled and the funds were used to repay the loan.

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 23.

16. Net Assets Attributable to Participants

	Charter capital	Retained earnings	Total
Balance at 31 December 2004	**1,000,000**	**24,127**	**1,024,127**
Net profit for the year	-	593,114	593,114
Balance at 31 December 2005	**1,000,000**	**617,241**	**1,617,241**
Net profit for the year	-	270,916	270,916
Balance at 31 December 2006	**1,000,000**	**888,157**	**1,888,157**

(in thousands of Russian Roubles)

Charter capital represents contributions made by the participants of the Bank. The participants of the Bank are entitled to vote at annual and general meetings of the Bank's participants proportionately to their contributions.

The Bank's charter capital consists of registered units with a total value of RUR 1,000,000 thousand.

The Bank's charter capital consists of the following contributions:

	2006		2005	
Name	**Amount**	**%**	**Amount**	**%**
LLC "Blaucent"	200,000	20.0%	200,000	20.0%
LLC "Denciborg"	200,000	20.0%	200,000	20.0%
LLC "Kinlaut"	200,000	20.0%	200,000	20.0%
LLC "Roleten"	200,000	20.0%	200,000	20.0%
LLC "Avtotransbureau"	200,000	20.0%	200,000	20.0%
Charter capital	**1,000,000**	**100.0%**	**1,000,000**	**100.0%**

Under the Russian legislation, each participant in a Russian limited liability company has the unilateral right to withdraw from the company, in which case the company would be obliged to pay such withdrawing participant's share of the net assets no later than six months after the end of the year of withdrawal.

17. Distribution to Participants

In accordance with the Russian legislation, the Bank distributes profits as payments to participants or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's reserves available for distribution as at 31 December 2006 amount to RUR 739,548 thousand (31 December 2005: RUR 552,872 thousand).

18. Interest Income and Interest Expense

	2006	2005
Interest income		
Loans and advances to customers	1,401,073	1,540,668
Securities	92,835	47,348
Due from banks and other financial institutions	33,380	42,289
Total interest income	**1,527,288**	**1,630,305**
Interest expense		
Customer accounts	(418,850)	(290,594)
Debt securities issued	(324,812)	(180,127)
Due to banks and other financial institutions	(10,419)	(15,551)
Total interest expense	**(754,081)**	**(486,272)**
Net interest income	**773,207**	**1,144,033**

(in thousands of Russian Roubles)

19. Fee and Commission Income and Fee and Commission Expense

	2006	2005
Fee and commission income		
Commissions on settlement transactions	252,127	336,837
Commissions on cash transactions	70,247	58,496
Commissions on guarantees	24,768	13,938
Commissions on cash collection	3,263	1,488
Other	66,839	23,306
Total fee and commission income	**417,244**	**434,065**
Fee and commission expense		
Commissions on settlement transactions	(6,749)	(12,877)
Commissions on cash collection	(6,167)	(5,244)
Commissions on cash transactions	(1,235)	(4,284)
Other	(1,333)	(1,185)
Total fee and commission expense	**(15,484)**	**(23,590)**
Net fee and commission income	**401,760**	**410,475**

20. Operating Expenses

	2006	2005
Staff costs	571,503	861,903
Rent	111,760	113,585
Taxes other than on income	69,169	58,609
Other expenses related to property and equipment	63,332	79,600
Depreciation	44,548	39,889
Security	33,940	34,010
Advertising	33,140	15,352
Postal and courier services	25,198	24,012
Property insurance	16,397	25,000
Travel expenses	9,411	7,692
Professional services	3,783	9,428
Office supplies	2,536	3,251
Other expenses related to administrative personnel	2,527	2,366
Other expenses	35,586	37,619
Total operating expenses	**1,022,830**	**1,312,316**

21. Other Operating Income

	2006	2005
Penalties and charges received	9,210	13,373
Income from rent	2,215	1,561
Gain from sale of investments in OJSC CB "KAMABANK"	-	7,169
Other	4,723	4,463
Total other operating income	**16,148**	**26,566**

(in thousands of Russian Roubles)

22. Income Tax Expense

Income tax expense comprises the following.

	2006	2005
Current income tax expense	92,427	77,808
Deferred taxation movement due to origination and reversal of temporary differences	4,430	148,536
Income tax expense for the year	**96,857**	**226,344**

The income tax rate applicable to the majority of the Bank's income is 24% (2005: 24%).

Reconciliation between the expected and the actual taxation charge is provided below.

	2006	2005
IFRS profit before tax	**367,773**	**819,458**
Theoretical tax charge at the applicable statutory rate (2006: 24%; 2005: 24%)	**88,265**	**196,670**
Tax effect of items which are not deductible or assessable for taxation purposes, and other permanent differences	13,454	32,852
Income on government securities taxed at different rates	(4,862)	(3,178)
Income tax expense for the year	**96,857**	**226,344**

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

	2005	Movement	2006
Tax effect of deductible temporary differences			
Provision for impairment of other assets	-	4,656	4,656
Property and equipment - depreciation	4,230	5,115	9,345
Accrued expenses	2,217	13,329	15,546
Valuation of financial instruments held for trading at fair value	16,218	(3,028)	13,190
Fair value of debt securities issued at origination	11,359	6,936	18,295
Accrued income	5,415	12,945	18,360
Other	2,017	222	2,239
Gross deferred tax asset	**41,456**	**40,175**	**81,631**
Tax effect of taxable temporary differences			
Provision for loan impairment	19,991	(42,964)	(22,973)
Property and equipment - cost	(4,200)	(1,641)	(5,841)
Gross deferred tax liability	**15,791**	**(44,605)**	**(28,814)**
Total net deferred tax asset	**57,247**	**(4,430)**	**52,817**

23. Financial Risk Management

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

Credit risk

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

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

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

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

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

Market risk

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

(in thousands of Russian Roubles)

Geographical risk

The geographical concentration of the Bank’s assets and liabilities as at 31 December 2006 is set out below.

	Russia	OECD countries	Non OECD countries	Total
Assets				
Cash and cash equivalents	1,984,773	25,226	1	**2,010,000**
Mandatory cash balances with the CBRF	235,649	-	-	**235,649**
Financial instruments held for trading	2,562,030	1,217,014	-	**3,779,044**
Due from banks and other financial institutions	1,463,224	-	-	**1,463,224**
Loans and advances to customers	10,526,150	-	-	**10,526,150**
Other assets	53,262	-	-	**53,262**
Property and equipment	388,676	-	-	**388,676**
Deferred tax asset	52,817	-	-	**52,817**
Total assets	**17,266,581**	**1,242,240**	**1**	**18,508,822**
Liabilities				
Due to banks and other financial institutions	102,876	-	-	**102,876**
Customer accounts	11,878,007	1,474	11,609	**11,891,090**
Debt securities issued	4,610,400	-	-	**4,610,400**
Other liabilities	16,299	-	-	**16,299**
Total liabilities	**16,607,582**	**1,474**	**11,609**	**16,620,665**
Net balance sheet position	**658,999**	**1,240,766**	**(11,608)**	**1,888,157**
Credit related commitments	**1,959,523**	**-**	**-**	**1,959,523**

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

The geographical concentration of the Bank’s net balance sheet position as at 31 December 2005 is set out below.

	Russia	OECD countries	Non OECD countries	Total
Net balance sheet position	**836,123**	**810,762**	**(29,644)**	**1,617,241**
Credit related commitments	**1,139,012**	**-**	**-**	**1,139,012**

(in thousands of Russian Roubles)

Currency risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Finance Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2006. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency.

As at 31 December 2006, the Bank has the following positions in currencies:

	RUR	USD	Euro	Other currencies	Total
Assets					
Cash and cash equivalents	1,879,330	89,803	40,842	25	**2,010,000**
Mandatory cash balances with the CBRF	235,649	-	-	-	**235,649**
Financial instruments held for trading	2,562,030	1,217,014	-	-	**3,779,044**
Due from banks and other financial institutions	1,410,536	52,688	-	-	**1,463,224**
Loans and advances to customers	10,171,105	319,505	35,540	-	**10,526,150**
Other assets	47,969	3,377	1,828	88	**53,262**
Property and equipment	388,676	-	-	-	**388,676**
Deferred tax asset	52,817	-	-	-	**52,817**
Total assets	**16,748,112**	**1,682,387**	**78,210**	**113**	**18,508,822**
Liabilities					
Due to banks and other financial institutions	100,192	-	16	2,668	**102,876**
Customer accounts	10,382,344	1,403,950	95,747	9,049	**11,891,090**
Debt securities issued	4,383,695	226,705	-	-	**4,610,400**
Other liabilities	14,200	2,099	-	-	**16,299**
Total liabilities except for net assets attributable to participants	**14,880,431**	**1,632,754**	**95,763**	**11,717**	**16,620,665**
Net balance sheet position	**1,867,681**	**49,633**	**(17,553)**	**(11,604)**	**1,888,157**
Credit related commitments	**1,950,654**	**8,869**	**-**	**-**	**1,959,523**

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

	RUR	USD	Euro	Other currencies	Total
Net balance sheet position	**1,662,789**	**(12,425)**	**(33,125)**	**2**	**1,617,241**
Credit related commitments	**1,133,256**	**5,756**	**-**	**-**	**1,139,012**
Off-balance sheet net notional position	**(14,391)**	**14,391**	**-**	**-**	**-**

The off-balance sheet net notional position represents notional currency positions on derivative financial instruments entered into at 31 December 2005.

(in thousands of Russian Roubles)

Liquidity risk

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

The table below shows assets and liabilities as at 31 December 2006 by their remaining contractual maturity except for financial instruments held for trading which are shown within demand and less than one month as these financial instruments are of a trading nature.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	2,010,000	-	-	-	-	**2,010,000**
Mandatory cash balances with the CBRF	140,906	33,749	14,257	46,737	-	**235,649**
Financial instruments held for trading	3,779,044	-	-	-	-	**3,779,044**
Due from banks and other financial institutions	1,463,224	-	-	-	-	**1,463,224**
Loans and advances to customers	930,761	1,757,179	2,556,244	5,055,938	226,028	**10,526,150**
Other assets	53,262	-	-	-	-	**53,262**
Property and equipment	-	-	-	-	388,676	**388,676**
Deferred tax asset	-	-	-	-	52 817	**52 817**
Total assets	**8,377,197**	**1,790,928**	**2,570,501**	**5,102,675**	**667 521**	**18 508 822**
Liabilities						
Due to banks and other financial institutions	102,876	-	-	-	-	**102,876**
Customer accounts	7,110,570	1,702,905	719,404	2,358,211		**11,891,090**
Debt securities issued	540,467	461,277	3,283,047	325,609	-	**4,610,400**
Other liabilities	8,290	6,274	19	1,716	-	**16,299**
Total liabilities except for net assets attributable to participants	**7,762,203**	**2,170,456**	**4,002,470**	**2,685,536**	**-**	**16,620,665**
Net gap	**614,994**	**(379,528)**	**(1,431,969)**	**2,417,139**	**667,521**	**1,888,157**
Cumulative gap as at 31 December 2006	**614,994**	**235,466**	**(1,196,503)**	**1,220,636**	**1,888,157**	**-**
Cumulative gap as at 31 December 2005	**1,130,270**	**350,367**	**72,239**	**1,321,160**	**1,617,241**	**-**

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

(in thousands of Russian Roubles)

Some of the assets, however, may be of a longer term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer term duration.

Management believes that in spite of a substantial portion of current and settlement customer accounts, diversification of these accounts by number and type of customers, and the past experience of the Bank would indicate that in normal circumstances these customer accounts provide a long-term and stable source of funding for the Bank.

Financial instruments held for trading are classified within demand and less than one month as these financial instruments are of a trading nature and the management believes this is a fairer portrayal of the Bank's liquidity position. As at 31 December 2006, the contractual maturity of financial instruments held for trading was RUR 75 332 thousand in "Demand and less than 1 month", RUR 538,793 thousand in "From 1 to 6 months", RUR 1,258,345 thousand in «From 6 to 12 months", RUR 1,891,730 thousand in "More than 1 year", RUR 14,844 thousand in "No stated maturity".

Mandatory cash balances with the CBRF are classified in proportion with the liabilities, to which these balances relate.

Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates.

The table below summarises the effective interest rates by major currencies for major monetary financial instruments. The analysis has been prepared based on period-end effective rates.

	2006			2005		
	RUR	**USD**	**Other currencies**	**RUR**	**USD**	**Other currencies**
Assets						
Financial instruments held for trading	7.6%	4.9%	-	8.0%	4.4%	-
Due from banks and other financial institutions	4.3%	6.0%	-	4.9%	-	-
Loans and advances to customers	19.0%	16.3%	16.4%	14.5%	14.2%	14.1%
Liabilities						
Due to banks and other financial institutions	5.5%	-	0,0%	6.3%	-	-
Customer accounts	4,1%	7.7%	6,7%	2.7%	7.9%	4.8%
Debt securities issued	10.9%	10.9%	-	9.1%	-	-

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

24. Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings

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

Insurance

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

Tax contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

In 2005 tax inspections in respect of income taxes for 2004 and unified social taxes for 2002-2004 were carried out in the Bank. As a result of these tax inspections it was asserted that income tax for 2004 was understated by RUR 2,607 thousand and unified social tax was understated by RUR 176 thousand. The Bank is currently in the process of litigating the results of these tax inspections. On the basis of its own estimates, the management of the Bank is of the opinion that proceedings under these claims will have a positive outcome and accordingly no provision has been made in these financial statements.

Credit related commitments

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

(in thousands of Russian Roubles)

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	2006	**2005**
Unused limits of credit lines	1,275,311	600,110
Guarantees issued	677,094	537,942
Letters of credit	7,118	960
Total credit related commitments	**1,959,523**	**1,139,012**

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

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

Operating lease commitments

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

	2006	**2005**
Not later than 1 year	95,379	113,822
Later than 1 year and not later than 5 years	284,200	202,948
Total operating lease commitments	**379,579**	**316,770**

During the current year 111,760 RUR thousand was recognised as an expense in the statement of income in respect of operating leases (2005: RUR 113,585 thousand).

Fiduciary assets

The Bank provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Bank and are not recognized in the balance sheet.

Derivative financial instruments

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

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

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

	Principal or agreed amount	Negative fair value	Positive fair value
Deliverable forwards			
Securities			
- sale of securities	282,577	-	-
Total	**282,577**	**-**	**-**

25. Fair value of financial instruments

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

The estimated fair value of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value.

The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial market. Market quotations may not be reflective of the values for financial instruments, which would be determined in an efficient, active market involving willing buyers and willing sellers. While management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Cash and cash equivalents, financial instruments held for trading. Cash and cash equivalents, as well as financial instruments held for trading are carried on the balance sheet at their fair value.

Due from banks and other financial institutions, loans and advances to customers. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 7 and 8 for the estimated fair values of due from banks and other financial institutions and loans and advances to customers, respectively.

(in thousands of Russian Roubles)

Due to banks and other financial institutions, customer accounts and debt securities issued. The estimated fair value of instruments with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest rate instruments without a quoted market price is based on expected cash flows discounted at current interest rates for new instruments with similar remaining maturity. The estimated fair value of quoted fixed interest rate instruments is based on quoted market prices at the balance sheet date. Refer to Notes 12, 13, and 14 for the estimated fair values of due to banks and other financial institutions, customer accounts and debt securities issued, respectively.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of derivative financial instruments is disclosed in Note 24.

The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for a similar instruments at the balance sheet date.

26. Related Party Transactions

The Bank has no ultimate controlling participant, as none of the ultimate participants owns more than 50% of the charter capital.

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 *"Related Party Disclosures"*. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Banking transactions are entered into in the normal course of business with the participants of the Bank, members of the Board of Directors and the Management Board, entities, which are under common control with the Bank, and other entities, which are significantly influenced by the Bank's participants, members of the Board of Directors and the Management Board of the Bank. These transactions include settlements, loans and deposits taking. The outstanding balances as at the year end and income and expense items as well as other transactions for the year with related parties are as follows.

	2006			2005		
	Members of the Board of Directors and the Management Board	**Partici-pants**	**Other related parties**	**Members of the Board of Directors and the Management Board**	**Partici-pants**	**Other related parties**
Loans and advances to customers						
Loans and advances (contractual interest rate: 2006: 10.0% - 16.0%; 2005: 14.3%)	13,982	-	1,372,408	-	-	1,020,423
Interest income for the year	1,631	-	133,492	5	-	73,048
Customer accounts						
Current accounts	-	216	176,065	-	-	91,165
Term deposits (contractual interest rate: 2006: 4.0% - 12.5%; 2005: 4.0% - 9.0%)	385,129	-	137,913	96,787	-	85,349
Interest expense for the year	6,800	-	3,341	4,055	-	610
Debt securities issued						
Promissory notes (contractual interest rate: 2005: 5.5%)	-	-	-	1,110	-	-
Interest expense for the year	-	-	-	18	-	-

In 2006 the total remuneration of members of the Board of Directors and the Management Board of the Bank amounted to 37,536 RUR thousand (2005: RUR 485,251 thousand).