

COMMERCIAL BANK “LOCKO-BANK” (CJSC)

Consolidated Financial Statements

For the year ended 31 December 2005

Contents

Shareholders, Officers and Auditors.....	3
Independent Auditors' Report	4
Consolidated Income Statement	5
Consolidated Balance Sheet.....	6
Consolidated Statement of Cash Flows	7
Consolidated Statement of Changes in Shareholders' Equity	8
Notes to the Consolidated Financial Statements.....	9

Shareholders, Officers and Auditors as at 31 December 2005

Shareholders	<u>% Ownership</u>	<u>% Votes</u>
LLC "KAMMOS"	19.990%	19.990%
LLC "Corporation Jupiter-Invest"	19.990%	19.990%
LLC "Corporation "SADKO"	19.990%	19.990%
LLC "REALTY-INVEST"	19.990%	19.990%
LLC "Atol Invest"	12.961%	12.961%
OJSC "Asfaltobetonniiy zavod № 1"	6.071%	6.071%
Michael B. Belyak	1.008%	1.008%
	<u>100.00%</u>	<u>100.00%</u>

Board of Directors

Stanislav I. Boguslavsky
Victor Yu. Davydik
Vladimir Yu. Davydik
Andrey V. Kulikov
Dmitry N. Kurshakov

Board of Management

Victor Yu. Davydik	Chairman
Dmitry V. Kryukov	First Deputy Chairman
Victoria O. Konstantinova	Deputy Chairman
Andrey M. Lyushin	Deputy Chairman
Andrey V. Nekrasov	Deputy Chairman
Yaroslav R. Shteinberg	Deputy Chairman
Andrey D. Spivakov	Deputy Chairman
Andrey A. Samoylov	Deputy Chairman

Auditors

KPMG Limited, Moscow



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Independent Auditors' Report

To the Board of Directors of CB "Locko Bank" (CJSC)

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

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

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

KPMG Limited

KPMG Limited
24 March 2006

CB "Locko-bank" (CJSC)
Consolidated Income Statement for the year ended 31 December 2005

	Notes	2005 RUR'000	2004 RUR'000
Interest income	4	788,494	609,881
Interest expense	4	(338,586)	(222,441)
Net interest income		449,908	387,440
Fee and commission income	5	116,543	117,136
Fee and commission expense	6	(25,835)	(18,456)
Net fee and commission income		90,708	98,680
Net loss on financial instruments at fair value through profit or loss	7	(945)	(7,282)
Net foreign exchange income/(loss)	8	52,656	(120,227)
Income from sale of investment properties		48,113	-
Other income		39,699	9,706
Operating income		680,139	368,317
Reversal of/(charge for) impairment losses	9	22,114	(35,947)
General administrative expenses	10	(439,737)	(233,171)
Operating expenses		(417,623)	(269,118)
Income before taxes		262,516	99,199
Income tax expense	11	(56,804)	(28,818)
Net income		205,712	70,381

The consolidated financial statements as set out on pages 5 to 51 were approved by the Board of Management of the Group on 24 March 2006.

Chairman of the Board
Dmitry V. Kryukov



Chief Accountant
Nina N. Guseva

The consolidated income statement is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Notes	2005 RUR'000	2004 RUR'000
ASSETS			
Cash		283,564	137,792
Due from the Central Bank of the Russian Federation	12	874,617	655,381
Placements with banks and other financial institutions	13	1,325,236	867,833
Financial instruments at fair value through profit or loss			
- Unpledged	14	723,565	472,913
- Pledged	14	168,035	200,519
Loans to customers	15	5,323,953	3,712,151
Investments	16	15,520	15,520
Investment properties	17	182,946	-
Fixed assets held for further leasing		22,609	-
Property, equipment and intangible assets	18	422,571	105,107
Current income tax prepayments		179	10
Other assets	19	167,046	180,128
Total Assets		9,509,841	6,347,354
LIABILITIES AND SHAREHOLDERS' EQUITY			
Financial instruments at fair value through profit or loss	14	21	-
Deposits and balances from banks and other financial institutions	20	1,282,712	847,284
Amounts payable under repurchase agreements		-	133,777
Current accounts and deposits from customers	21	3,647,421	2,285,770
Own securities issued	22	2,111,884	887,133
Current income tax payable		62,799	50,303
Other liabilities	23	53,627	17,101
Deferred tax liability	24	157,960	138,281
Total Liabilities		7,316,424	4,359,649
Shareholders' Equity			
Share capital	25	2,181,047	2,181,047
Retained earnings/(accumulated loss)		12,370	(193,342)
Total Shareholders' Equity		2,193,417	1,987,705
Total Liabilities and Shareholders' Equity		9,509,841	6,347,354
Commitments and Contingencies	27-29		

The consolidated balance sheet is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

CB "Locko-bank" (CJSC)
Consolidated Statement of Cash Flows for the year ended 31 December 2005

	Notes	2005 RUR'000	2004 RUR'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest and fee and commission receipts		908,538	706,702
Interest and fee and commission payments		(323,423)	(246,136)
Net payments for financial instruments at fair value through profit or loss		(2,529)	(5,893)
Net receipts/(payments) from foreign exchange		18,443	(57,336)
Net receipts from investment properties		48,113	-
Other income		39,699	9,706
General and administrative expenses		(423,060)	(223,046)
(Increase)/decrease in operating assets			
Due from the Central Bank of the Russian Federation		(39,013)	98,973
Placements with banks and other financial institutions		(440,068)	(262,157)
Financial instruments at fair value through profit or loss		(212,084)	(39,568)
Loans to customers		(1,586,846)	(454,303)
Investments		-	(9,747)
Investment properties		221,163	-
Fixed assets held for further leasing		(22,610)	-
Other assets		(138,677)	(155,808)
Increase/(decrease) in operating liabilities			
Deposits and balances from banks and other financial institutions		293,882	(67,834)
Amounts payable under repurchase agreements		(133,749)	133,749
Current accounts and deposits from customers		1,322,540	286,815
Own securities issued		1,202,714	(372,411)
Other liabilities		21,647	12,401
Net cash provided from operating activities before taxes paid		754,680	(645,893)
Taxes paid		(24,808)	(30,283)
Cash flows from operations		729,872	(676,176)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net sale of investment		-	10
Net purchase of subsidiary	38	104	-
Net purchases of property, equipment and intangible assets		(193,817)	(24,190)
Cash flows from investing activities		(193,713)	(24,180)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of share capital		-	550,000
Net payments to minority participants of the subsidiary		(42,784)	-
Repayments of additional-paid-in capital to shareholders		(171,351)	-
Cash flows from financing activities		(214,135)	550,000
Net increase/(decrease) in cash and cash equivalents		322,024	(150,356)
Effect of changes in exchange rates on cash and cash equivalents		3,971	(5,228)
Cash and cash equivalents at the beginning of the year		735,380	890,964
Cash and cash equivalents at the end of the year	32	1,061,375	735,380

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

CB "Locko-bank" (CJSC)
Consolidated Statement of Changes in Shareholders' Equity
for the year ended 31 December 2005

	Share capital RUR'000	Additional paid-in- capital RUR'000	Retained earnings RUR'000	Total RUR'000
Balance at 1 January 2004	1,631,047	-	(263,723)	1,367,324
Net income for the year	-	-	70,381	70,381
Shares issued	550,000	-	-	550,000
Balance at 31 December 2004	2,181,047	-	(193,342)	1,987,705
Net income for the year	-	-	205,712	205,712
Additional paid-in-capital obtained (note 1)	-	171,351	-	-
Additional paid-in-capital withdrawn (note 1)	-	(171,351)	-	-
Balance at 31 December 2005	2,181,047	-	12,370	2,193,417

The consolidated statement of changes in shareholders' equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

1 Background

Principal activities and subsidiaries

The major operating companies of the "Locko-Bank" Group (the "Group") are the parent company "Locko-bank" (the "Bank"), its 100% subsidiaries LLC "OFLK" and CJSC "Resource group" and its 80.02% subsidiary LLC "Locko-Realty".

- Commercial bank "Locko-bank" was established in the Russian Federation as a limited liability company, converting in November 2005 to a closed joint-stock company. The Bank was granted its general banking license in 1994. The principal activities of the Bank are deposit taking and customer accounts maintenance, lending, cash and settlement operations and operations with securities and foreign exchange. The activities of the Bank are regulated by the Central Bank of the Russian Federation ("the CBR"). The majority of the Bank's assets and liabilities are located in the Russian Federation. The average number of persons employed by the Bank during the year was 351 (2004: 285).
- Limited liability company "OFLK" was established in the Russian Federation as a limited liability company in March 2002 and started performing active business operations in 2003. Its principal activity is providing finance leasing. The average number of persons employed during the year was 3 (2004: 6).
- Closed joint stock company "Resource group" was established in September 2003 and started performing active business operations in the second half 2005. Its principal activity is providing finance leasing. The average number of persons employed during the year was 1.
- "Locko-Realty" was established in the Russian Federation as a limited liability company in October 2003. Its principal activity is real estate trading. The average number of persons employed during the year was 29. At the end of June 2005, the shareholders of the Bank contributed a controlling stake of "Locko-Realty" to the Bank for a nominal amount. This transaction has been accounted for as additional capital paid in by the shareholders. The fair value of LLC "Locko-Realty" on the date of its contribution was estimated by the Group's management to approximate the fair value of its identifiable net assets. This amount less amounts attributable to minorities and less the nominal amount paid has been recorded as additional paid-in-capital (refer to note 38). In the second half of 2005, funds totaling the value of the contribution by the shareholders were withdrawn from "Locko-Realty" by the Bank and paid to the shareholders. This transaction was accounted for as a reduction in additional paid in capital.

Russian business environment

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

2 Basis of preparation

Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of measurement

The **Error! No document variable supplied. Error! No document variable supplied.** financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale assets are stated at fair value.

Functional and Presentation Currency

The national currency of the Russian Federation is the Russian Rouble ("RUR"). Management have determined the Group's functional currency to be the RUR as it reflects the economic substance of the underlying events and circumstances of the Group. The RUR is also the Group's presentation currency for the purposes of these consolidated financial statements.

Financial information presented in RUR has been rounded to the nearest thousand.

Use of estimates and judgments

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these **Error! No document variable supplied. Error! No document variable supplied.** financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in Note 15 regarding loan impairment estimates.

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. The accounting policies have been consistently applied except for the changes in accounting policies described at the end of Note 3.

Basis of consolidation

Subsidiaries

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

Special purpose entities

The Group has established a number of special purpose entities (SPE's) to act as intermediaries in investment and construction projects. The Group does not have any direct or indirect shareholdings in these entities. However, the SPE's are established under terms that impose strict limits on the decision-making powers of the SPE's management over the operations of the SPE. In addition, the benefits related to their operations and net assets are presently attributable to the Group via a number of agreements.

Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the Group's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Minority interest

Minority interest is that part of the profit or loss and net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the Parent company.

Minority interest is presented in the consolidated balance sheet within equity, separately from the equity attributable to equity holders of the parent. Minority interest in the profit or loss of the Group is separately disclosed in the consolidated statement of income.

Minority interest in subsidiaries established in the form of limited liability companies is presented in the consolidated balance sheet within liabilities. Each participant in a Russian limited liability company has the unilateral right to withdraw their capital from the company and receive their share of the company's net assets within six months after the end of the year of the withdrawal. As participants in Russian limited liability companies have the unilateral right to withdraw from the company and receive their share of the net assets of the company, the minority interest related to Russian limited liability subsidiaries of the Group, is recorded as a liability.

Foreign currency transactions

Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised in the income statement.

Inflation accounting

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

Cash and cash equivalents

The Group considers cash and nostro accounts with the CBR to be cash and cash equivalents. The minimum reserve deposit with the CBR is not considered to be a cash equivalent due to restrictions on its withdrawability.

Financial instruments

Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

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

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, those that the Group upon initial recognition designates as at fair value through profit or loss, or those which the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

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

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

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

Recognition

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

Measurement

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

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

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

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

Fair value measurement principles

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

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

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

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognized as follows:

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

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

Derecognition

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

Repurchase and reverse repurchase agreements

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

Securities purchased under agreements to resell ("reverse repo") are recorded as due from banks or customers as appropriate. The differences between the resale and purchase prices are treated as interest and accrued over the term of the reverse repo agreement using the effective interest method.

Offsetting

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

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

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

Leased assets

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

Depreciation

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

Buildings	40 years
Office furniture and equipment	5 to 15 years
Vehicles	5 to 10 years
Leasehold improvements	4 to 5 years

Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

Computer software	5 years
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Impairment

Financial assets carried at amortized cost

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

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

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

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

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

Financial Assets Carried at Cost

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

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

Non financial assets

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

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

Provisions

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

Share capital

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

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

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

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

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

Interest income and expenses and fee and commission income

Interest income and expense are recognised in the consolidated income statement as they accrue, taking into account the effective interest rate of the asset/liability or an applicable floating rate. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

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

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

Dividend income

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

Segment reporting

The Group operates in one business and geographical segment. Therefore separate segment reporting is not presented.

Comparative information

The presentation of certain items relating to trade finance operations and securities trading operations was changed in 2005 to better present the substance of the underlying transactions. For consistency of presentation, prior year figures have been reclassified. The effect of this change in presentation is as follows:

	2005	2004
	RUR '000	RUR '000
Reclassification of commission received from trade finance operations		
Interest income	30,080	33,744
Fee and commission income	(30,080)	(33,744)
Reclassification of commission paid from trade finance operations		
Interest expense	21,414	20,449
Fee and commission expense	(21,414)	(20,449)
Reclassification of interest income, other than coupon income, on trading securities from interest income to net loss on financial instruments at fair value through profit or loss		
Interest income	(11,232)	(21,088)
Net loss on financial instruments at fair value through profit or loss	11,232	21,088

Changes in accounting policies

During the current year the Group changed a number of its accounting policies as a result of new or revised Standards that are effective for periods beginning on or after 1 January 2005. The following changes had an impact on the Group’s financial position or results of operations, or resulted in changes in classification.

Application of IAS 1 “Presentation of Financial Statements” (revised 2003) has affected the presentation of minority interest, and has resulted in increased disclosures, including disclosure of critical accounting estimates and judgements in applying accounting policies.

Application of IAS 24 “Related Party Disclosures” (revised 2003) has resulted in increased disclosures in respect of related party transactions.

Application of IAS 32 “Financial Instruments: Disclosure and Presentation” (revised 2004) has resulted in increased disclosures in respect of financial instruments.

Application of IAS 39 “Financial Instruments: Recognition and Measurement” (revised 2004) has resulted in changes in accounting policies in respect of financial instruments.

There was no impact on opening retained earnings as at 31 December 2004 from the adoption of any of the above-mentioned standards.

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 2005, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group’s operations. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of these new standards on its financial statements.

- IFRS 7 *Financial Instruments: Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Group’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 Standard will require increased disclosure in respect of the Group’s capital.
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions*, which is effective for annual periods beginning on or after 1 January 2006. The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item if certain criteria are met.
- 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. The amendment restricts the designation of financial instruments as “at fair value through profit or loss”.
- 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. The amendment requires guarantees that are not insurance contracts to be measured at fair value upon initial recognition.

4 Net interest income

	2005 RUR '000	2004 RUR '000
Interest income		
Loans to customers	668,041	523,748
Financial instruments at fair value through profit or loss	50,770	32,242
Net investment in leases	44,750	37,114
Placements with banks and other financial institutions	24,901	16,623
Amounts receivable under reverse repurchase agreements	32	154
	788,494	609,881

	2005	2004
	RUR '000	RUR '000
Interest expense		
Current accounts and deposits from customers	139,436	71,483
Own securities issued	131,865	98,385
Deposits and balances from banks and other financial institutions	66,167	52,183
Amounts payable under repurchase agreements	1,118	390
	338,586	222,441

5 Fee and commission income

	2005	2004
	RUR '000	RUR '000
Settlement	46,592	48,553
Foreign exchange	28,757	26,944
Cash transactions	19,076	18,862
Trade finance and guarantees	16,353	18,438
Other	5,765	4,339
	116,543	117,136

6 Fee and commission expense

	2005	2004
	RUR '000	RUR '000
Trade finance and guarantees	13,787	11,118
Settlement	4,743	3,505
Brokerage	1,792	1,568
Cash transactions	1,668	2,264
Other	3,845	1
	25,835	18,456

7 Net loss on financial instruments at fair value through profit or loss

	2005	2004
	RUR '000	RUR '000
Debt instruments	(945)	(7,282)
	(945)	(7,282)

8 Net foreign exchange income/(loss)

	2005	2004
	RUR '000	RUR '000
Gain/(loss) from revaluation of financial assets and liabilities	34,213	(62,891)
Gain/(loss) on spot transactions and derivatives	18,443	(57,336)
	52,656	(120,227)

9 Reversal of/(charge for) impairment losses

	2005	2004
	RUR '000	RUR '000
Impairment losses		
Loans to customers	-	41,253
Other assets	14,216	-
	14,216	41,253
Reversals of impairment losses		
Loans to customers	(31,984)	-
Placements with banks and other financial institutions	(4,346)	(4,932)
Investments	-	(374)
	(36,330)	(5,306)
Net impairment losses	(22,114)	35,947

10 General administrative expenses

	2005	2004
	RUR '000	RUR '000
Employee compensation	247,174	104,463
Advertising and marketing	57,437	50,779
Taxes other than on income	26,420	18,911
Communication and information services	24,103	12,166
Occupancy	19,643	7,970
Depreciation and amortization	15,874	7,692
Security	9,377	2,436
Insurance	7,924	-
Professional services	6,344	3,888
Office supplies	6,289	1,886
Repairs and maintenance	3,855	12,092
Travel	1,116	162
Other	14,181	10,726
	439,737	233,171

11 Income tax expense

	2005	2004
	RUR '000	RUR '000
Current tax expense		
Current year	37,125	29,344
Deferred tax expense		
Origination and reversal of temporary differences	19,679	(526)
Total income tax expense in the income statement	56,804	28,818

The Group's applicable tax rate for current and deferred tax is 24% (2004: 24%).

Reconciliation of effective tax rate:

	2005		2004	
	RUR '000	%	RUR '000	%
Income before tax	262,516		99,199	
Income tax at the applicable tax rate	63,004	24	23,808	24
Non-deductible costs/(non-taxable income)	3,933	2	5,971	6
Income taxed at lower tax rates	(10,133)	(4)	(961)	(1)
	56,804	22	28,818	29

12 Due from the Central Bank of the Russian Federation

	2005	2004
	RUR '000	RUR '000
Minimum reserve deposit	96,806	57,793
Nostro accounts	777,811	597,588
	874,617	655,381

The minimum reserve deposit is a mandatory non-interest bearing deposit calculated in accordance with regulations issued by the CBR and whose withdrawability is restricted. The nostro balances represent balances with the CBR related to settlement activity and were available for withdrawal at year end.

13 Placements with banks and other financial institutions

	2005	2004
	RUR '000	RUR '000
Nostro accounts	602,063	437,564
Loans and deposits	723,173	434,615
	1,325,236	872,179
Provision for impairment	-	(4,346)
	1,325,236	867,833

Concentration of placements with banks and other financial institutions

As at 31 December 2005 and 2004, term deposits and balances with banks and other financial institutions, which individually comprised more than 10% of placements with banks and other financial institutions were as follows:

	2005	2004
	RUR '000	RUR '000
Deutsche Bank Trust Americas Company	288,401	344,694
ОАО RosBank	163,156	-
Russian Commercial Bank	143,976	-
	595,533	344,694

Analysis of movements in the provision for impairment

	2005	2004
	RUR '000	RUR '000
Balance at the beginning of the year	4,346	9,278
Net recovery for the year	(4,346)	(4,932)
Balance at the end of the year	-	4,346

14 Financial instruments at fair value through profit or loss

	2005 RUR '000	2004 RUR '000
Assets		
Unpledged		
<i>Debt and other fixed-income instruments</i>		
Corporate bonds	423,361	28,676
Russian Government GKO/OFZ bonds	217,591	405,633
Promissory notes	78,055	25,942
Russian Government Eurobonds	1,295	-
Regional bonds	-	10,371
<i>Derivative financial instruments</i>		
Foreign currency contracts	3,263	2,291
	723,565	472,913
Pledged		
<i>Debt instruments</i>		
Russian Government GKO/OFZ bonds	29,640	92,250
Promissory notes	138,395	108,269
	168,035	200,519

All financial instruments at fair value through profit or loss are classified as held for trading.

Liabilities

Derivative financial instruments

Foreign exchange derivative contracts	21	-
	21	-

Foreign currency contracts

The table below summarises, by major currency, the contractual amounts of the Group's forward exchange contracts outstanding at 31 December 2005 with details of the contracted exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the balance sheet date. The resultant unrealised gains and losses on these unmatured contracts, along with the amounts payable and receivable on the matured but unsettled contracts, have been recognised in the consolidated income statement and in financial instruments at fair value through profit or loss, as appropriate.

	Notional amount		Weighted average contracted exchange rates	
	2005	2004	2005	2004
Sell USD buy RUR				
Less than three months	670,632	874,084	28,92	27,82

15 Loans to customers

Industry and geographical analysis of the loan portfolio

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

	2005 RUR '000	2004 RUR '000
Retail customers	487,903	203,660
Commercial customers		
Trade	2,271,070	1,945,996
Real estate and construction	1,050,174	455,892
Transport	370,048	745
Manufacturing	194,840	623,994
Agriculture	-	8,450
Other	225,708	138,878
Small business	859,621	502,284
	5,459,364	3,879,899
Provision for impairment	(135,411)	(167,748)
	5,323,953	3,712,151

Net investment in leases

Included within loans to customers are net investment in leases. As of 31 December 2005 and 2004 the gross investment in leases and the related unearned finance income and provision for impairment are as follows:

	2005	2004
	RUR '000	RUR '000
Net investment in leases		
Gross investment in leases	584,513	133,567
Unearned finance income	(210,715)	(36,118)
Net investment in leases	373,798	97,449
Provision for impairment	-	(1,271)
Net investment in leases less provision	373,798	96,178

The contractual maturity of the net investment in leases as at 31 December 2005 is as follows:

	Gross lease receivable	Unearned income	Net investment in leases
	RUR'000	RUR'000	RUR'000
Less than one year	110,570	(61,683)	48,887
One year to five years	346,462	(135,034)	211,428
More than 5 years	127,481	(13,998)	113,483
	584,513	(210,715)	373,798

The contractual maturity of the net investment in leases as at 31 December 2004 is as follows:

	Gross lease receivable	Unearned income	Provision for impairment	Net investment in leases
	RUR'000	RUR'000	RUR'000	RUR'000
Less than one year	65,347	(22,700)	(293)	42,354
One year to five years	68,220	(13,418)	(978)	53,824
	133,567	(36,118)	(1,271)	96,178

Significant credit exposures

As at 31 December 2005 and 2004, there were no loans to customers, which individually comprised more than 10% of gross loans to customers.

Contractually overdue loans

Information in relation to loans with contractually overdue principal or interest as at 31 December 2005 and 2004, is summarised as follows:

	2005	2004
	RUR '000	RUR '000
Gross loans with contractually overdue principal or interest	100,249	37,222
Provision for impairment	(36,060)	(14,699)
Net contractually overdue loans recorded in the balance sheet	64,189	22,523

Analysis of movements in the provision for impairment

	2005	2004
	RUR '000	RUR '000
Balance at the beginning of the year	167,748	126,495
Net (recovery)/charge for the year	(31,984)	41,253
Write-offs	(353)	-
Balance at the end of the year	135,411	167,748

The Group has reviewed its current loan portfolio and has identified loans to corporate clients totalling RUR 103,730 thousand, loans to small and medium sized enterprises totalling RUR 42,952 thousand, and retail loans totalling RUR 6,617 thousand which display indicators of impairment. The Group has created provisions for these loans of RUR 26,111 thousand, RUR 23,618 thousand, and RUR 1,746 thousand respectively as at 31 December 2005. In addition, as at 31 December 2005 the Group has created collective provisions for impairment in respect of remaining loans to corporate clients of RUR 49,739 thousand, in respect of remaining loans to small and medium sized enterprises of RUR 30,394 thousand and in respect of remaining loans to retail customers of RUR 3,803 thousand. 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 half of one percent, the level of impairment as of 31 December 2005 would be RUR 26,620 thousand lower/higher.

Loan maturities

The maturity of the Group's loan portfolio is presented in note 35, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio. Due to the short-term nature of the credits issued by the Group, it is likely that many of the Group's loans to customers will be prolonged on maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the classification indicated based on contractual terms.

16 Investments

	2005 RUR '000	2004 RUR '000
<i>Equity instruments – Unlisted</i>		
Equity securities - cost	16,484	16,484
Investment in associate	15	15
Provision for impairment	(979)	(979)
	15,520	15,520

Investment without a determinable fair value

The Group holds a 19,5% investment in LLC "ISK Euro-polis" which operates in the insurance industry, that is carried at its cost of RUR 16,484 thousand. There is no market for this investment and there have not been any recent transactions that provide evidence of the current fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty regarding future cash flows based on the high risk nature of the industry.

Analysis of movements in the provision for impairment

	2005 RUR '000	2004 RUR '000
Balance at the beginning of the year	979	1,441
Net recovery for the year	-	(374)
Write-off	-	(88)
Balance at the end of the year	979	979

Details of the associate are as follows:

Name	Country of Incorporation	Main Activity	% Controlled		2005	2004
			2005	2004	Carrying Value RUR '000	Carrying Value RUR '000
CJSC Udar	Russia	Security	50%	50%	15	15
					15	15

Due to the limited size and activities of the above listed associated company this investment has not been accounted for using the equity method of accounting.

17 Investment properties

RUR'000	Prepayments	Real estate	Total
Cost			
At 1 January 2005	-	-	-
Additions resulting from acquisition of LLC "Locko-Realty"	223,000	181,109	404,109
Additions	144,293	36,296	180,589
Disposals	(223,000)	(178,752)	(401,752)
At 31 December 2005	144,293	38,653	182,946

Investment properties as at 31 December 2005 comprises of the following items:

Type of investment properties	Description	Location	Purpose	Fair value in RUR'000
Prepayment for the real estate construction project	Construction project	Moscow region	Capital appreciation	149,122
Real estate	Rights on flats	Moscow region	Capital appreciation	40,219

The fair values of investment property as at 31 December 2005 were estimated by management based on publicly available information regarding market values of similar properties.

18 Property, equipment and intangible assets

RUR'000	Building	Office furniture and equipment	Vehicle	Intangible assets	Leasehold improve- ments	Const- ruction in progress	Total
Cost							
At 1 January 2005	66,828	40,126	5,790	17,011	-	-	129,755
Transfer from other assets	-	-	-	-	-	140,000	140,000
Additions	144	12,441	1,364	17,133	16,185	146,550	193,817
Disposals	-	(1,648)	-	(2,923)	-	-	(4,571)
At 31 December 2005	66,972	50,919	7,154	31,221	16,185	286,550	459,001
Depreciation							
At 1 January 2005	(6,070)	(13,958)	(1,083)	(3,537)	-	-	(24,648)
Depreciation charge	(1,674)	(6,582)	(808)	(3,554)	(3,256)	-	(15,874)
Disposals	-	758	-	3,334	-	-	4,092
At 31 December 2005	(7,744)	(19,782)	(1,891)	(3,757)	(3,256)	-	(36,430)
Carrying value							
At 31 December 2005	<u>59,228</u>	<u>31,137</u>	<u>5,263</u>	<u>27,464</u>	<u>12,929</u>	<u>286,550</u>	<u>422,571</u>
At 31 December 2004	<u>60,758</u>	<u>26,168</u>	<u>4,707</u>	<u>13,474</u>	<u>-</u>	<u>-</u>	<u>105,107</u>

Construction in progress represents payments made by the Group in respect of the construction of additional office space. In 2005, an amount of RUR 140,000 thousand was transferred from other assets to construction in progress.

19 Other assets

	2005 RUR '000	2004 RUR '000
Advances	99,983	25,569
VAT receivable	55,957	8,519
Fixed assets received under cancelled leased contracts	22,902	-
Materials and supplies	427	2,309
Prepayment for construction of office space	-	140,000
Other	1,993	3,731
	<u>181,262</u>	<u>180,128</u>
Provision for impairment	(14,216)	-
	<u>167,046</u>	<u>180,128</u>

Analysis of movements in the provision for impairment

	2005	2004
	RUR '000	RUR '000
Balance at the beginning of the year	-	-
Net charge for the year	(14,216)	-
Balance at the end of the year	(14,216)	-

20 Deposits and balances from banks and other financial institutions

	2005	2004
	RUR '000	RUR '000
Vostro accounts	5,726	3,188
Term deposits	1,276,986	844,096
	1,282,712	847,284

Concentration of deposits and balances from banks and other financial institutions

As at 31 December 2005 and 2004, deposits and balances from banks and other financial institutions, which individually comprised more than 10% of deposits and balances from banks and other financial institutions, were as follows:

	2005	2004
	RUR '000	RUR '000
Credit Lyonnais SA	165,707	111,482
Kazkomertsbank	129,680	-
OJSC Mezhprombank	-	100,020
	295,387	211,502

21 Current accounts and deposits from customers

	2005	2004
	RUR '000	RUR '000
Current accounts and demand deposits	1,643,704	1,166,697
Term deposits	2,003,717	1,119,073
	3,647,421	2,285,770

Concentrations of current accounts and customer deposits

As of 31 December 2005 and 2004, the Group had no exposure exceeding 10% of total current accounts and deposits from customers.

22 Own securities issued

	2005	2004
	RUR '000	RUR '000
Promissory notes	1,598,434	884,109
Bonds	513,450	-
Certificates of deposit	-	3,024
	2,111,884	887,133

In April 2005 the Group issued RUR denominated bonds of 500,000 RUR'000 due in April 2008 with a coupon rate of 12.75%.

23 Other liabilities

	2005	2004
	RUR '000	RUR '000
Payables for real estate	36,357	-
Advances obtained	8,291	8,262
Other	8,979	8,839
	53,627	17,101

24 Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as of 31 December 2005 and 2004.

These deductible temporary differences, which have no expiry dates, are listed below at their tax effected accumulated values:

RUR'000	Assets		Liabilities		Net	
	2005	2004	2005	2004	2005	2004
Placements with banks and other financial institutions	722	1,042	-	-	722	1,042
Financial instruments at fair value through profit or loss	1,137	1,456	(740)	(3,184)	397	(1,728)
Loans to customers	3,965	3,960	(163,045)	(132,468)	(159,080)	(128,508)
Investments	238	23	(212)	(1)	26	22
Property, equipment and intangible assets	2,288	2,679	(16,107)	(12,459)	(13,819)	(9,780)
Other assets	10,847	270	-	-	10,847	270
Deposits and balances from banks and other financial institutions	1,935	-	-	-	1,935	-
Amounts payable under repurchase agreements	-	7	-	-	-	7
Current accounts and deposits from customers	-	205	-	-	-	205
Own securities issued	-	-	-	(81)	-	(81)
Other liabilities	1,012	270	-	-	1,012	270
Net tax assets/(liabilities)	22,144	9,912	(180,104)	(148,193)	(157,960)	(138,281)

The rate of tax applicable for deferred taxes was 24% (2004: 24%).

The above deductible temporary differences do not expire under current tax legislation.

Movement in temporary differences during the year

RUR'000	Balance	Recognised	Balance
	1 January 2005	in income	31 December 2005
Placements with banks and other financial institutions	1,042	(320)	722
Financial instruments at fair value through profit or loss	(1,728)	2,125	397
Loans to customers	(128,508)	(30,572)	(159,080)
Investments	22	4	26
Property, equipment and intangible assets	(9,780)	(4,039)	(13,819)
Other assets	270	10,577	10,847
Deposits and balances from banks and other financial institutions	-	1,935	1,935
Amounts payable under repurchase agreement	7	(7)	-
Current accounts and deposits from customers	205	(205)	-
Own securities issued	(81)	81	-
Other liabilities	270	742	1,012
	(138,281)	(19,679)	(157,960)

25 Share capital

Issued capital and share premium

The authorised, issued and outstanding share capital comprises 1.4 million ordinary shares. All shares have a par value of RUR 1,000. In November 2005 the Bank converted from a limited liability company to a closed joint stock company.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation in the Russian Federation. In accordance with the legislation of the Russian Federation, as of the balance sheet date, reserves available for distribution amount to RUR 244,398 thousand.

26 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Group's operations. The major risks faced by the Group are those related to market risk, which includes price, fair value interest rate and currency risks, credit risk and liquidity risk. These risks are managed in the following manner:

Market risk

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 instrument or factors affecting all instruments traded in the market. Price risk arise when the Group takes a long or short position in a financial instrument.

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rate. Fair value interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period. For further information on the Group's exposure to fair value interest rate risk at year end refer to note 34.

Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Group's exposure to currency risk at year end refer to notes 14 and note 36.

The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions which are monitored on a regular basis and reviewed and approved by the Management Board.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Group's credit risk. The Group's credit policy is reviewed and approved by the Management Board.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group 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 Group’s liquidity policy is reviewed and approved by the Management Board. For further information on the Group’s exposure to liquidity risk at year end refer to note 35.

27 Commitments

At any time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for 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.

	2005	2004
	RUR '000	RUR '000
Contracted amount		
Loan and credit line commitments	374,513	258,516
Credit card commitments	110,637	59,749
Undrawn overdraft facilities	158,864	36,985
Guarantees and letters of credit	315,886	105,259

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as many of these commitments may expire or terminate without being funded.

28 Operating leases

Leases as lessee

Non-cancelable operating lease rentals are payable as follows:

	2005	2004
	RUR '000	RUR '000
Less than one year	27,290	7,320
Between one and five years	56,096	-
	83,386	7,320

The Group leases a number of premises and equipment under operating leases. The leases typically run for an initial period of one to five, with an option to renew the lease after that date. None of the leases includes contingent rentals.

During the current year RUR 19,643 thousand was recognised as an expense in the income statement in respect of operating leases (2004: RUR 7,970 thousand).

29 Contingencies

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 Group has full coverage for its premises and equipment. The Group does not have coverage for other assets, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position. In April 2006 the Group plans to sign an insurance agreement with Ingosstrakh to obtain insurance coverage through a public (or third party) liability policy and bankers blanket bond (BBB) / electronic and computer crime insurance (ECC) policies, covering the following risks: public (civil) liability, dishonest or fraudulent acts of employees, loss of money (valuables) and losses resulting from forged or altered valuable documents, securities and counterfeit currency, electronic fraud.

Litigation

Group management is unaware of any significant actual, pending or threatened claims against the Group.

Taxation 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. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. 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 **Error! No document variable supplied.** financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

30 Custody activities

Custody activities

The Group 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 Group and are not recognised in the consolidated balance sheet.

31 Related party transactions

There is no ultimate controlling party as none of the Group's ultimate shareholders own more than 20% of the Group.

Transactions with members of the Board of Directors and the Management Board

Members of the Board of Directors and the Management Board of the Group and their immediate relatives control 59.97% (2004: 66.53%) of the voting shares of the Group.

Total remuneration included in employee compensation (refer note 10):

	2005	2004
	RUR '000	RUR '000
Members of the Board of Directors	26,818	13,205
Members of the Management Board	26,205	21,784
	53,023	34,989

The outstanding balances and average interest rates as of 31 December 2005 and 2004 with members of the Board of Directors and the Management Board are as follows:

	2005		2004	
	RUR '000	Average Interest Rate	RUR '000	Average Interest Rate
Balance Sheet				
Assets				
Loans to customers	21,035	11%	19,802	10%
Less provision for impairment	(178)		(672)	
Current accounts and deposits from customers	202,230	4%	18,009	10%

Amounts included in the income statement in relation to transactions with members of the Board of Directors and the Management Board are as follows:

	2005	2004
	RUR '000	RUR '000
Income statement		
Interest income	2,061	1,762
Interest expense	(2,209)	(1,050)
Fee and commission income	65	307
Reversal of/(charge for) impairment losses	494	(455)
General administrative expense	(53,023)	(34,989)

Transactions with other related parties

The outstanding balances and the related average interest rates as of 31 December 2005 and related income statement amounts of transactions for the year ended 31 December 2005 with other related parties are as follows. Other related parties comprise of entities controlled by shareholders of the Group.

	Shareholders		Other related parties		Total
	RUR' 000	Average Interest Rate	RUR'000	Average Interest Rate	RUR'000
Balance Sheet					
Assets					
Loans to customers (gross amount)	73,096	9%	101,404	12%	174,500
Less provision for impairment	(726)		(1,636)		(2,362)
Liabilities					
Current accounts and deposits from customers	25,226	0%	152,236	5%	177,462
Own securities issued	244,879	1%	-	-	244,879
Income statement					
Interest income	6,890		20,770		27,660
Interest expense	(480)		(7,377)		(7,857)
Fee and commission income	863		12,505		13,368
Reversal of impairment losses	3,372		6,313		9,685

The outstanding balances and the related average interest rates as of 31 December 2004 and related income statement amounts of transactions for the year ended 31 December 2004 with other related parties are as follows. Other related parties comprise of entities controlled by shareholders of the Group.

	Shareholders		Other related parties		Total
	RUR' 000	Average Interest Rate	RUR'000	Average Interest Rate	RUR'000
Balance Sheet					
Assets					
Loans to customers (gross amount)	59,380	10%	268,892	9%	328,272
Less provision for impairment	(4,098)		(7,949)		(12,047)
Liabilities					
Current accounts and deposits from customers	15,908	0%	135,638	3%	151,546
Own securities issued	-	-	17,550	3%	17,550
Income statement					
Interest income	4,335		16,710		21,045
Interest expense	(1,265)		(3,251)		(4,516)
Fee and commission income	4,243		10,918		15,161
Impairment losses	(2,211)		(3,910)		(6,121)

32 Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flow is composed of the following items:

	2005 RUR '000	2004 RUR '000
Cash	283,564	137,792
Due from Central Bank – nostro accounts	777,811	597,588
	1,061,375	735,380

33 Fair value of financial instruments

The estimated fair values of financial instruments at fair value through profit or loss are based on quoted market prices at the balance sheet date without any deduction for transaction costs.

The estimated fair values of bonds issued are based on quoted market prices at the balance sheet date without any deduction for transaction costs.

Except as described in the following paragraph, the estimated fair values of all other financial assets and liabilities is calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the balance sheet date.

As disclosed in Note 16, the Group holds an interest in LLC "ISK Euro-polis" for which no fair value is determinable.

Management of the Group believes that fair value of financial instruments does not differ significantly from their carrying value.

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

34 Average effective interest rates

The table below displays the Group's interest bearing assets and liabilities as at 31 December 2005 and 2004 and their corresponding average effective interest rates as at that dates. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	Value RUR '000	2005 Average Effective Interest Rate	Value RUR '000	2004 Average Effective Interest Rate
Interest Bearing Assets				
Due from Central Bank of the Russian federation	874,617	0%	655,381	0%
Placements with banks and other financial institutions				
<i>Nostro accounts</i>				
- RUR	63,100	0%	6,896	0%
- USD	381,630	0%	391,512	0%
- other currencies	157,333	0%	39,156	0%
<i>Loans and deposits</i>				
- RUR	391,615	5%	169,711	4%
- USD	331,558	3%	245,999	5%
- other currencies	-	-	18,905	2%
Financial instruments at fair value through profit or loss				
- RUR	887,042	8%	615,004	7%
- USD	1,295	8%	56,137	10%
Loans to customers				
- RUR	2,598,613	17%	1,804,732	14%
- USD	2,591,697	14%	1,869,567	15%
- other currencies	269,054	7%	205,600	11%

	Value RUR '000	2005 Average Effective Interest Rate	Value RUR '000	2004 Average Effective Interest Rate
Interest Bearing Liabilities				
Deposits and balances from banks and other financial institutions				
<i>Vostro accounts</i>				
- RUR	1,763	0%	322	0%
- USD	315	0%	2,036	0%
- other currencies	3,648	0%	830	0%
<i>Term deposits</i>				
- RUR	425,616	5%	254,012	4%
- USD	585,700	8%	395,096	7%
- other currencies	265,670	7%	194,988	6%
Amounts payable under repurchase agreements				
- RUR	-	-	90,118	5%
- USD	-	-	43,659	5%
Current accounts and deposits from customers				
<i>Current accounts and demand deposits</i>				
- RUR	1,478,986	0%	970,100	0%
- USD	152,043	0%	187,732	0%
- other currencies	12,675	0%	8,865	0%
<i>Term deposits</i>				
- RUR	685,875	11%	435,383	12%
- USD	1,195,397	9%	601,777	9%
- other currencies	122,445	7%	81,913	7%
Own securities issued				
- RUR	1,475,414	9%	743,186	10%
- USD	580,828	8%	143,947	4%
- other currencies	55,642	13%	-	-

35 Maturity analysis

The following table show assets and liabilities of the Group by their remaining contractual maturity as at 31 December 2005, with the exception of financial instruments at fair value through profit or loss, which are shown in the category "Less than 1 month" based on the fact that the Group's management believes that all of these financial instruments could be liquidated within one month in normal course of business.

As at 31 December 2005, the contractual maturities of financial instruments at fair value through profit or loss are: RUR 96,303 thousand in "Less than 1 month", RUR 29,640 thousand in "1 to 3 months", RUR 213,178 thousand in "3 months to 1 year", RUR 473,019 thousand in "1 year to 5 years" and RUR 79,460 thousand in "More than 5 years".

	Overdue	Less than 1 month	1 to 3 Months	3 months to 1 year	1 year to 5 years	More than 5 years	No Maturity	Total
Assets	RUR '000	RUR '000	RUR '000	RUR '000	RUR '000	RUR '000	RUR '000	RUR '000
Cash	-	283,564	-	-	-	-	-	283,564
Due from the Central Bank of the Russian Federation	-	821,720	4,914	41,397	6,586	-	-	874,617
Placements with banks and other financial institutions	-	1,154,818	28,981	141,437	-	-	-	1,325,236
Financial instruments at fair value through profit or loss	-	891,600	-	-	-	-	-	891,600
Loans to customers	64,189	266,299	374,096	2,927,397	1,578,489	113,483	-	5,323,953
Investments	-	-	-	-	-	-	15,520	15,520
Investment properties	-	-	-	-	-	-	182,946	182,946
Fixed assets held for further leasing	-	-	22,609	-	-	-	-	22,609
Property, equipment and intangible assets	-	-	-	-	-	-	422,571	422,571
Current income tax prepayment	-	179	-	-	-	-	-	179
Other assets	-	100	113,193	8,767	29,274	15,712	-	167,046
Total assets	64,189	3,418,280	543,793	3,118,998	1,614,349	129,195	621,037	9,509,841
Liabilities								
Financial instruments at fair value through profit or loss	-	21	-	-	-	-	-	21
Deposits and balances from banks and other financial institutions	-	587,775	269,256	339,104	86,577	-	-	1,282,712
Current accounts and deposits from customers	-	1,980,209	339,908	1,222,970	104,334	-	-	3,647,421
Own securities issued	-	660,166	220,443	553,079	678,196	-	-	2,111,884
Current income tax payable	-	62,799	-	-	-	-	-	62,799
Other liabilities	-	4,148	47,399	-	-	-	2,080	53,627
Deferred tax liability	-	-	-	-	-	-	157,960	157,960
Total liabilities	-	3,295,118	877,006	2,115,153	869,107	-	160,040	7,316,424
Net position as at 31 December 2005	64,189	123,162	(333,213)	1,003,845	745,242	129,195	460,997	2,193,417
Net position as at 31 December 2004	22,523	352,352	183,017	988,637	330,306	-	110,870	1,987,705

36 Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2005:

	RUR	USD	Other currencies	Total
	RUR '000	RUR '000	RUR '000	RUR '000
Assets				
Cash	63,311	180,650	39,603	283,564
Due from the Central Bank of the Russian Federation	874,617	-	-	874,617
Placements with banks and other financial institutions	454,715	713,188	157,333	1,325,236
Financial instruments at fair value through profit or loss	890,305	1,295	-	891,600
Loans to customers	2,522,328	2,537,099	264,526	5,323,953
Investments	15,520	-	-	15,520
Investments properties	182,946	-	-	182,946
Fixed assets held for further leasing	22,609	-	-	22,609
Property, equipment and intangible assets	422,571	-	-	422,571
Current income tax prepayments	179	-	-	179
Other assets	167,046	-	-	167,046
Total assets	5,616,147	3,432,232	461,462	9,509,841
Liabilities				
Financial instruments at fair value through profit or loss	-	21	-	21
Deposits and balances from banks and other financial institutions	427,379	586,015	269,318	1,282,712
Current accounts and deposits from customers	2,164,861	1,347,440	135,120	3,647,421
Own securities issued	1,475,414	580,828	55,642	2,111,884
Current income tax payable	62,799	-	-	62,799
Other liabilities	50,696	2,931	-	53,627
Deferred tax liability	157,960	-	-	157,960
Total liabilities	4,339,109	2,517,235	460,080	7,316,424
Net on balance sheet position as of 31 December 2005	1,277,038	914,997	1,382	2,193,417
Net off balance sheet position as of 31 December 2005	670,632	(670,632)	-	-
Net on and off balance sheet positions as of 31 December 2005	1,947,670	244,365	1,382	2,193,417
Net on and off balance sheet positions as of 31 December 2004	1,675,036	334,774	(22,105)	1,987,705

37 Subsequent events

In February 2006, the Bank's shareholders agreed to sell, and the International Financial Corporation (IFC) agreed to buy, 15% of the voting shares of the Bank.

In addition, the IFC has opened a credit line for the Group in the amount of RUR 300,000 thousand with a maturity of 6 years. These funds will be mainly used for crediting of small and medium sized enterprises.

In January 2006 the Board of Directors appointed Mr. Dmitry V. Kryukov as the Chairman of the Board of Management and Mr. Michael G. Pavlov as the Deputy Chairman of the Board of Management; at the same time Mr. Victor Yu. Davydik was designated to the post of the President of the Bank.

In February 2006 Mr. Dmitry V. Kryukov was appointed as the Member of the Board of Directors; Mr. Dmitriy N. Kurshakov resigned from the Board of Directors.

38 Acquisition of subsidiary

On 30 June 2005 the Bank obtained a 80.02% stake in LLC “Locko-Realty” from its shareholders for a nominal amount. The impact of acquiring the subsidiary was to increase net profit for the year by RUR 1,281 thousand. The fair value of LLC “Locko-Realty” on the date of its contribution was estimated by the Group’s management to approximate the fair value of its identifiable net assets.

If the acquisition had occurred on 1 January 2005, the Group’s net profit for the year would have been RUR 206,766 thousand. In determining this figure it has been assumed that fair value adjustments at 1 January 2005 would have been not required, as was the case on the date of acquisition.

The net assets of the acquired subsidiary were as follows at the date of acquisition:

	Pre-acquisition carrying amount on a comparable IFRS basis RUR’000
	<hr/>
Assets	
Cash	114
Investment properties	404,109
Other assets	1,513
Property and equipment	413
Intra – group balances	58,215
Liabilities	
Loans received	(5,446)
Other liabilities	(13,866)
Intra – group balances	(230,866)
Net identifiable assets and liabilities	214,186
Less minority interest	(42,794)
Net identifiable assets and liabilities related to investment interest acquired	171,392
Additional paid-in-capital recognised on acquisition	(171,351)
Less: cash and cash equivalents	(114)
Less: payable on acquisition	(31)
Net cash inflow on acquisition	<hr/> (104) <hr/>