

**Bank Petrocommerce Group**  
**Consolidated Financial**  
**Statements and Auditor's Report**  
**31 December 2006**

**Bank "Petrocommerce" Group**  
**Consolidated Financial Statements and Auditor's Report**

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**CONTENTS**

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet.....	1
Consolidated Income Statement.....	2
Consolidated Statement of Changes in Equity.....	3
Consolidated Statement of Cash Flows.....	4

Notes to the Consolidated Financial Statements

1	Introduction.....	5
2	Operating Environment of the Group.....	6
3	Summary of Significant Accounting Policies.....	7
4	Critical Accounting Estimates, and Judgements in Applying Accounting Policies .....	15
5	Adoption of New or Revised Standards and Interpretations .....	15
6	New Accounting Pronouncements .....	16
7	Cash and Cash Equivalents .....	17
8	Trading Securities.....	18
9	Due from Other Banks.....	19
10	Loans and Advances to Customers.....	20
11	Investment Securities Available for Sale .....	21
12	Repurchase Receivable .....	21
13	Premises and Equipment .....	22
14	Other Assets .....	23
15	Due to Other Banks .....	23
16	Customer Accounts .....	24
17	Debt Securities in Issue.....	25
18	Other Borrowed Funds .....	25
19	Other Liabilities.....	26
20	Subordinated Debt .....	26
21	Share Capital.....	27
22	Retained Earnings.....	27
23	Interest Income and Expense.....	28
24	Fee and Commission Income and Expense.....	29
25	Administrative and Other Operating Expenses.....	29
26	Income Taxes.....	30
27	Dividends.....	32
28	Segment Analysis.....	33
29	Financial Risk Management.....	35
30	Contingencies and Commitments.....	44
31	Derivative Financial Instruments.....	48
32	Fair Value of Financial Instruments.....	48
33	Related Party Transactions .....	49
34	Principal Subsidiaries .....	51

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Bank Petrocommerce:

- 1 We have audited the accompanying consolidated financial statements of Bank Petrocommerce and its subsidiaries (the "Group") which comprise the consolidated balance sheet at 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditor's Responsibility*

- 3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
- 4 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
- 5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

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


*ZAO PricewaterhouseCoopers Audit*

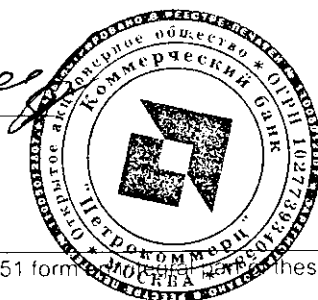
Moscow, Russian Federation  
17 May 2007


**Bank "Petrocommerce" Group  
Consolidated Balance Sheet**

<i>In thousands of Russian Roubles</i>	Note	31 December 2006	31 December 2005
<b>ASSETS</b>			
Cash and cash equivalents	7	16 319 839	14 350 855
Mandatory cash balances with central banks		2 243 064	1 687 934
Trading securities	8	14 450 761	17 408 215
Due from other banks	9	373 659	215 481
Loans and advances to customers	10	108 948 841	52 232 554
Investment securities available for sale	11	1 032 404	1 436 310
Repurchase receivable	12	1 230 240	101 017
Deferred income tax asset	26	15 329	15 867
Premises and equipment	13	2 638 913	2 305 754
Other assets	14	1 039 582	824 929
<b>TOTAL ASSETS</b>		<b>148 292 632</b>	<b>90 578 916</b>
<b>LIABILITIES</b>			
Due to other banks	15	13 801 709	6 996 230
Customer accounts	16	82 596 442	58 929 553
Debt securities in issue	17	11 978 734	7 808 471
Other borrowed funds	18	19 075 731	3 745 138
Deferred income tax liability	26	113 949	232 402
Other liabilities	19	973 070	911 836
Subordinated debt	20	4 002 016	-
<b>TOTAL LIABILITIES</b>		<b>132 541 651</b>	<b>78 623 630</b>
<b>EQUITY</b>			
Share capital	21	6 752 558	6 752 558
Fair value reserve for investment securities available for sale		(17 641)	(9 691)
Retained earnings	22	8 893 534	5 132 509
<b>Net assets attributable to the Bank's equity holders</b>		<b>15 628 451</b>	<b>11 875 376</b>
<b>Minority interest</b>		<b>122 530</b>	<b>79 910</b>
<b>TOTAL EQUITY</b>		<b>15 750 981</b>	<b>11 955 286</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>148 292 632</b>	<b>90 578 916</b>

Approved for issue by the Executive Board and signed on its behalf on 17 May 2007.

  
Nikitenko V.N.  
President



  
Funtova E.V.  
Chief Accountant

**Bank "Petrocommerce" Group  
Consolidated Income Statement**

<i>In thousands of Russian Roubles</i>	Note	2006	2005
Interest income	23	10 065 405	6 381 562
Interest expense	23	(4 812 317)	(3 265 899)
<b>Net interest income</b>		<b>5 253 088</b>	<b>3 115 663</b>
Provision for loan impairment	9, 10	(1 207 601)	(784 239)
<b>Net interest income after provision for loan impairment</b>		<b>4 045 487</b>	<b>2 331 424</b>
Fee and commission income	24	1 849 146	1 536 324
Fee and commission expense	24	(293 153)	(311 719)
Gains less losses from trading securities		2 944 538	3 329 457
Gains less losses from trading in foreign currencies		399 151	565 556
Foreign exchange translation losses net of gains		(16 652)	(385 961)
Gains less losses arising from investment securities available for sale		1 108	394 081
Other operating income		156 131	103 875
Administrative and other operating expenses	25	(3 985 509)	(3 078 696)
<b>Profit before tax</b>		<b>5 100 247</b>	<b>4 484 341</b>
Income tax expense	26	(1 260 682)	(1 166 690)
<b>Profit for the year</b>		<b>3 839 565</b>	<b>3 317 651</b>
<b>Profit is attributable to</b>			
Equity holders of the Bank		3 793 238	3 298 145
Minority interest		46 327	19 506
<b>Profit for the year</b>		<b>3 839 565</b>	<b>3 317 651</b>

The notes set out on pages 5 to 51 form an integral part of these consolidated financial statements.

**Bank "Petrocommerce" Group**  
**Consolidated Statement of Changes in Equity**

	Note	Attributable to equity holders of the Bank				Total	Minority interest	Total equity
		Share capital	Treasury shares	Fair value reserve for investment securities available for sale	Retained earnings			
<i>In thousands of Russian Roubles</i>								
<b>Balance at 1 January 2005</b>		<b>6 752 558</b>	<b>(482 887)</b>	<b>71 109</b>	<b>2 191 663</b>	<b>8 532 443</b>	<b>60 206</b>	<b>8 592 649</b>
Investment securities available for sale:								
- Fair value gains less losses		-	-	290 274	-	290 274	(1 935)	288 339
- Disposals		-	-	(395 387)	-	(395 387)	1 306	(394 081)
Income tax recorded in equity	26	-	-	26 024	-	26 024	(133)	25 891
Other movements		-	-	(1 711)	4 962	3 251	960	4 211
Net loss recognised directly in equity		-	-	(80 800)	4 962	(75 838)	198	(75 640)
Profit for the year		-	-	-	3 298 145	3 298 145	19 506	3 317 651
<b>Total recognised income for 2005</b>		<b>-</b>	<b>-</b>	<b>(80 800)</b>	<b>3 303 107</b>	<b>3 222 307</b>	<b>19 704</b>	<b>3 242 011</b>
Disposal of treasury shares		-	482 887	-	(32 888)	449 999	-	449 999
Dividends declared:								
- Ordinary shares	27	-	-	-	(229 373)	(229 373)	-	(229 373)
- Preference shares	27	-	-	-	(100 000)	(100 000)	-	(100 000)
<b>Balance at 31 December 2005</b>		<b>6 752 558</b>	<b>-</b>	<b>(9 691)</b>	<b>5 132 509</b>	<b>11 875 376</b>	<b>79 910</b>	<b>11 955 286</b>
Investment securities available for sale:								
- Fair value losses net of gains		-	-	(10 287)	-	(10 287)	(75)	(10 362)
- Disposals		-	-	(1 200)	-	(1 200)	92	(1 108)
Income tax recorded in equity	26	-	-	2 463	-	2 463	98	2 561
Other movements		-	-	1 074	(32 213)	(31 139)	(3 822)	(34 961)
Net loss recognised directly in equity		-	-	(7 950)	(32 213)	(40 163)	(3 707)	(43 870)
Profit for the year		-	-	-	3 793 238	3 793 238	46 327	3 839 565
<b>Total recognised income for 2006</b>		<b>-</b>	<b>-</b>	<b>(7 950)</b>	<b>3 761 025</b>	<b>3 753 075</b>	<b>42 620</b>	<b>3 795 695</b>
<b>Balance at 31 December 2006</b>		<b>6 752 558</b>	<b>-</b>	<b>(17 641)</b>	<b>8 893 534</b>	<b>15 628 451</b>	<b>122 530</b>	<b>15 750 981</b>

The notes set out on pages 5 to 51 form an integral part of these consolidated financial statements.

**Bank "Petrocommerce" Group**  
**Consolidated Statement of Cash Flows**

<i>In thousands of Russian Roubles</i>	<b>Note</b>	<b>2006</b>	<b>2005</b>
<b>Cash flows from operating activities</b>			
Interest received		9 573 397	6 157 979
Interest paid		(3 774 062)	(2 976 210)
Income received from trading in trading securities		3 674 127	1 597 655
Income received from trading in foreign currencies		404 943	565 556
Fees and commissions received		1 793 625	1 509 332
Fees and commissions paid		(293 028)	(310 929)
Other operating income received		115 844	50 596
Administrative and other operating expenses paid		(3 651 760)	(2 572 859)
Income tax paid		(1 321 361)	(735 357)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>6 521 725</b>	<b>3 285 763</b>
<b>Changes in operating assets and liabilities</b>			
Net increase in mandatory cash balances with central banks		(557 890)	(497 719)
Net decrease/(increase) in trading securities		1 823 586	(5 020 387)
Net (increase)/decrease in due from other banks		(180 914)	463 927
Net increase in loans and advances to customers		(59 231 879)	(26 130 330)
Net increase in repurchase receivable		(984 111)	(101 267)
Net (increase)/decrease in other assets		(183 320)	152 109
Net increase in due to other banks		6 944 150	5 387 654
Net increase in customer accounts		24 506 806	15 258 185
Net increase in debt securities in issue		3 864 775	1 179 795
Net increase in other liabilities		36 232	199 611
<b>Net cash used in operating activities</b>		<b>(17 440 840)</b>	<b>(5 822 659)</b>
<b>Cash flows from investing activities</b>			
Acquisition of investment securities available for sale		(2 018 128)	(4 688 149)
Proceeds from disposal of investment securities available for sale		2 390 781	5 236 222
Acquisition of premises and equipment	13	(694 945)	(670 217)
Proceeds from disposal of premises and equipment		17 564	23 440
Dividend income received		38 165	53 272
<b>Net cash used in investing activities</b>		<b>(266 563)</b>	<b>(45 432)</b>
<b>Cash flows from financing activities</b>			
Proceeds from other borrowed funds		17 246 518	1 746 038
Repayment of other borrowed funds		(1 496 818)	-
Proceeds from subordinated debt		4 058 409	-
Disposal of treasury shares		-	449 999
Dividends paid	27	(587)	(328 724)
<b>Net cash provided from financing activities</b>		<b>19 807 522</b>	<b>1 867 313</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>(132 774)</b>	<b>(16 407)</b>
<b>Accrued interest income on cash and cash equivalents</b>		<b>1 639</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1 968 984</b>	<b>(4 017 185)</b>
Cash and cash equivalents at the beginning of the year		14 350 855	18 368 040
<b>Cash and cash equivalents at the end of the year</b>		<b>16 319 839</b>	<b>14 350 855</b>

The notes set out on pages 5 to 51 form an integral part of these consolidated financial statements.

## **1 Introduction**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2006 for OAO Bank Petrocommerce (the "Bank") and its subsidiaries (together referred to as the "Group" or "Bank Petrocommerce Group").

The activities of the Group are regulated by the Central Bank of the Russian Federation (the "CBRF"), legislation of the Russian Federation and countries in which the subsidiaries are registered.

The Bank is an open joint-stock commercial bank owned by shareholders whose liability is limited. The Bank was established in the Russian Federation as a partnership in 1992 and was granted its general banking licence on 6 September 1993. In March 2000, the Bank changed its legal status from a partnership to an open joint stock company. The principal activity of the Bank includes deposit taking and lending, support of clients' export/import transactions, foreign exchange and securities trading. The Bank's operations are conducted in both Russian and international markets.

The Bank participates in the State deposit insurance scheme, which was introduced by the Federal Law №177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 100 thousand and repayment of 90% of individual deposits in excess of RR 100 thousand up to a limit of RR 400 thousand per individual in case of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments.

The Bank's registered address is: Petrovka 24, Moscow, Russia 127051. At 31 December 2006 the Bank has 18 branches (2006: 18 branches) within the Russian Federation. The average number of the Bank's employees during the year was 2 375 (2005: 2 182).

In 2004 the Bank's main shareholder was changed. OAO LUKOIL, a major Russian oil company, which was the Bank's main shareholder, sold a controlling block of ordinary shares (324 092 500 ordinary shares), accounting for 78.07% of the Bank's voting shares, to the financial group IFD Kapital. IFD Kapital is primarily focused on operations in the Russian Federation and participates in the following businesses: trading and brokerage activities, trust activities, investment advisory services, administration of pension funds and the provision of insurance services within the Russian Federation. IFD Kapital and OAO LUKOIL also concluded a preliminary agreement on the sale and purchase of an additional 87 350 700 ordinary shares of the Bank before 1 July 2007 for certain consideration. In October 2005 this preliminary agreement was cancelled. In December 2005 an open tender for the right to purchase 86 895 100 ordinary shares of the Bank was announced. Based on the results of the tender, IFD Kapital obtained the right to purchase these shares. Between 15 May and 2 June 2006 ownership rights on 86 895 100 ordinary shares of the Bank have been transferred to IFD Kapital.

The main subsidiaries of the Bank are OAO Komi Regional Bank Ukhtabank, ZAO Bank Petrocommerce-Ukraine, OAO Joint Stock Investment and Commercial Industrial and Construction Bank Stavropolie, CB UNIBANK S.A. and Petrocommerce Invest S.A. Also refer to Note 34.

Below is the description of the main operations of the principal subsidiaries:

**Joint-Stock Company Komi Regional Bank Ukhtabank** (hereinafter, "Ukhtabank") is a commercial bank owned by shareholders whose liability is limited. The Bank's principal business activity is commercial and retail banking operations, operations with securities and foreign exchange within the Russian Federation. The Bank has operated under a banking license issued by the CBRF since 1991. The head office of Ukhtabank is located at the following address: Russia, 169300, Komi Republic, Ukhta, Oktyabrskaya str., 14. At 31 December 2006 the Bank has six branches within the Russian Federation (2005: six branches). The average number of employees of Ukhtabank during the year was 544 (2005: 498). The controlling block of shares of Ukhtabank was acquired by the Group in 2002.



## **1 Introduction (Continued)**

**ZAO Bank Petrocommerce-Ukraine** ("Petrocommerce-Ukraine") was registered on 26 September 1996 in Ukraine by the National Bank of Ukraine as a joint-stock company under the name Aviatekbank. In January 2002, Aviatekbank was acquired by the Group and in February 2002 it was renamed as ZAO Petrocommerce-Ukraine. The current banking licence #108-1 was received by Petrocommerce-Ukraine on 9 April 2002. Petrocommerce-Ukraine's main activities include provision of banking services to companies representing various economic sectors, state bodies and individuals. These services include deposit taking, lending, investments in securities and execution of payments in Ukraine and abroad. Petrocommerce-Ukraine's head office is located in Kiev. At 31 December 2006 Petrocommerce-Ukraine had four branches in Ukraine (2005: four branches). The average number of Petrocommerce-Ukraine employees during the year was 510 (2005: 482).

**Joint-Stock Investment Commercial Industrial and Construction Bank Stavropolie**, an open joint-stock company (hereinafter, "Stavropolpromstroybank"), was created in December 1991 as the Commercial Bank Stavropolie as a result of restructuring of commercial bank "Stavropolye" previously founded on 26 December 1990. In March 1996 the bank changed its legal form and became an open joint-stock company. In May 2002, Stavropolpromstroibank was acquired by the Group. Stavropolpromstroibank has banking licence #1288. Stavropolpromstroibank's main activities include deposit taking, lending, cash and settlement services to clients and transactions with securities and foreign currencies. Stavropolpromstroibank's head office is located in Stavropol. At 31 December 2006 Stavropolpromstroibank had seven branches within the Russian Federation (2005: seven branches). The average number of employees of Stavropolpromstroibank during the year was 609 (2005: 558).

**Commercial Bank Unibank S.A.** (hereinafter, "Unibank") was created in the Republic of Moldova in August 1992. In December 2002 it became a subsidiary of the Bank. Unibank has a type "B" licence for all types of banking activities excluding trust activities. Unibank's main activities include deposit taking, lending, cash and settlement services to clients and transactions with securities. The head office of Unibank is located in Kishinev. At 31 December 2006 Unibank had five branches in the Republic of Moldova (2005: five branches). The average number of employees of Unibank during the year was 247 (2005: 222).

**Petrocommerce Invest S.A.** was created in Luxembourg in February 2006. The registration number is B 114800. Main activity of the company is attraction of medium- and long-term funds on international financial markets for the benefit of the Group.

**Presentation currency.** These consolidated financial statements are presented in thousands of Russian Roubles ("RR thousands").

In the normal course of business the Group enters into transactions with its related parties. These transactions include, but are not limited to, settlements, lending, deposit taking, guarantees, trade finance and foreign currency transactions. At 31 December 2006, a substantial portion of the Group's liabilities (14% of total liabilities) (2005: 24% of total liabilities) are due to related parties and a significant component of the Group's income and expense are derived from activities with related parties. Refer to Note 33.

## **2 Operating Environment of the Group**

The Russian Federation displays certain characteristics of an emerging market, including the existence of a currency that is in practice not convertible in most countries outside of the Russian Federation, relatively high inflation and strong economic growth. The banking sector in the Russian Federation is sensitive to adverse fluctuations in confidence and economic conditions and may occasionally experience reductions in liquidity. Management is unable to predict all developments which could have an impact on the banking sector and consequently what effect, if any, they could have on the financial position of the Group.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently. 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. 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. Operating environments in Ukraine and the Republic of Moldova, where the Group also operates, is broadly comparable to that of the Russian Federation described above.

### **3 Summary of Significant Accounting Policies**

**Basis of Preparation.** These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by revaluation of trading securities, investment securities available for sale and financial derivatives. The Bank maintains its accounting records in accordance with Russian banking regulations. Subsidiaries maintain their accounting records in accordance with Russian accounting regulations or applicable companies' law in respective jurisdictions. These consolidated financial statements have been prepared from the accounting records of the constituent entities of the Group and adjusted as necessary in order to be in accordance with IFRS. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5.

**Consolidated financial statements.** Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the acquirer's share of the fair value of the net assets of the acquiree at each exchange transaction is recorded as goodwill.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Minority interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Minority interest forms a separate component of the Group's equity.

Other movements in the consolidated statement of changes in equity include the result of net assets revaluation arising on the consolidation of the Group's subsidiaries whose functional currency differs from the Group's presentation currency (Russian Rouble). The cumulative balance of currency translation differences recorded in equity as at 31 December 2006 amounted to a loss of RR 54 634 thousand (2005: loss of RR 19 673 thousand).

**Key measurement terms.** Depending on their classification financial instruments are carried at fair value, or amortised cost as described below.

**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. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. 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.

### **3 Summary of Significant Accounting Policies (Continued)**

*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), advisors, 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.

*Amortised cost* is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less 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 or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related balance sheet items.

*The effective interest method* is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

**Initial recognition of financial instruments.** Trading securities and derivatives are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases and sales are recognised when the Group becomes the party of the contract and take contractual commitments.

**Cash and cash equivalents.** Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

**Mandatory cash balances with central banks.** Mandatory cash balances with the Central Bank of the Russian Federation and other central banks are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated cash flow statement.

**Trading securities.** Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within twelve months. Trading securities are not reclassified out of this category even when the Group's intentions subsequently change.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the consolidated income statement as interest income. Dividends are included in other operating income when the Group's right to receive the dividend payment is established. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading securities in the period in which they arise.

### **3 Summary of Significant Accounting Policies (Continued)**

**Due from other banks.** Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

**Loans and advances to customers.** Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

**Impairment of financial assets carried at amortised cost.** Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Impairment losses are recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

**Credit related commitments.** The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each balance sheet date, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date.

**Investment securities available for sale.** This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase.

### **3 Summary of Significant Accounting Policies (Continued)**

Investment securities available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired, at which time the cumulative gain or loss is removed from equity to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

**Sale and repurchase agreements.** Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognised. The securities are not reclassified in the balance sheet unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or customer accounts.

Securities purchased under agreements to resell ("reverse repo agreements") are recorded as cash and cash equivalents, due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

**Promissory notes purchased.** Promissory notes purchased are included in trading securities, or in due from other banks, or in loans and advances to customers, or in investment securities available for sale, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

**Derecognition of financial assets.** The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

**Premises and equipment.** Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required.

Construction in progress is carried at cost less provision for impairment where required. Upon completion, assets are transferred to premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

### **3 Summary of Significant Accounting Policies (Continued)**

**Depreciation.** Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives at the following annual rates:

Premises	2% per annum; and
Office and computer equipment	20-33% per annum.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

**Operating leases.** Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

**Due to other banks.** Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost.

**Customer accounts.** Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

**Debt securities in issue.** Debt securities in issue include promissory notes, bonds and deposit and saving certificates issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

**Other borrowed funds.** Other borrowed funds include medium and long-term funds attracted by the Group on the international financial markets. Other borrowed funds are carried at amortised cost. If the Group purchases its own other borrowed funds, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

**Subordinated debt.** Subordinated debt is non-derivative liability carried at amortised cost. The subordinated debt ranks after all other creditors in case of liquidation.

**Derivative financial instruments.** Derivative financial instruments, including foreign exchange contracts are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss as either gains less losses arising from trading in foreign currency or gains less losses arising from trading securities depending on the related contracts. The Group does not apply hedge accounting.

**Income taxes.** Income taxes have been provided for in the consolidated financial statements in accordance with applicable legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated income statement except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if consolidated financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

### 3 Summary of Significant Accounting Policies (Continued)

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded in the consolidated balance sheet only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

**Provisions for liabilities and charges.** Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

**Trade and other payables.** Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost.

**Preference shares.** Preference shares are classified as equity as they are not redeemable and with discretionary dividends.

**Treasury shares.** Where the Bank or its subsidiaries purchase the Bank's equity instruments, the consideration paid including any attributable incremental external costs net of income taxes is deducted from equity attributable to the equity holders of the Bank until they are cancelled or disposed of. Where such shares are subsequently disposed or reissued, any consideration received is included in equity. The difference between the amount of treasury shares disclosed in equity and the consideration received from disposal is recorded in retained earnings.

**Dividends.** Dividends are recorded in equity in the period in which they are declared. Dividends declared after the balance sheet date and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

**Income and expense recognition.** Interest income and expense are recorded in the consolidated income statement for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

### **3 Summary of Significant Accounting Policies (Continued)**

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded ratably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

**Foreign currency translation.** The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Bank's functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

The results and financial position of each group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified to profit or loss.

At 31 December 2006 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 26.3311 (2005: USD 1 = RR 28.7825).

**Fiduciary assets and trust activities.** Assets and liabilities held by the Group in its own name, but on the account of third parties, are not reported on the consolidated balance sheet. The extent of such balances and transactions is indicated in Note 30. For the purposes of disclosure, fiduciary and trust activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

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

**Accounting for the effects of hyperinflation.** The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the consolidated financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. It states that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.



**3 Summary of Significant Accounting Policies (Continued)**

The characteristics of the economic environment of the Russian Federation indicated that hyperinflation had ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to assets acquired or revalued and liabilities incurred or assumed prior to that date. For these balances, the amounts expressed in the measuring unit current at as 31 December 2002 are the basis for the carrying amounts in these consolidated financial statements. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992.

**Staff costs and related contributions.** Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave and bonuses are accrued in the year in which the associated services are rendered by the employees of the Group.

**Segment reporting.** A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Group have been reported separately within these consolidated financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

**Changes in accounting policies and presentation.** The Group changed its accounting policy for cash and cash equivalents and now also considers as part of cash and cash equivalents interbank deposits with original maturities of less than three months. The change was made to align the Group's policies with practices in other countries that apply IFRSs in order to enhance comparability of the Group's financial position.

The Group also reviewed its accounting treatment of securities sold under sale and repurchase agreements in those cases where the transferee has the right by contract or custom to sell or repledge the securities. In such cases, the Group now reclassifies the securities in the balance sheet as repurchase receivables. The comparatives were restated in order to comply with this IFRS requirement.

The effect of changes in accounting policies is as follows:

<i>In thousands of Russian Roubles</i>	<b>2005</b>
<b>Balance sheet</b>	
<b>Increase in</b>	
Cash and cash equivalents	779 396
Repurchase receivables	101 017
<b>Decrease in</b>	
Due from other banks	779 396
Trading securities	101 017
<b>Cash flow statement</b>	
<b>Increase in</b>	
Net (increase)/decrease in due from other banks	779 396
Net increase in repurchase receivable	101 267
<b>Decrease in</b>	
Net decrease/(increase) in trading securities	101 267
Net increase/(decrease) in cash and cash equivalents	779 396

These consolidated financial statements were approved on 17 May 2007 and any further changes to these consolidated financial statements require approval of the Executive Board who authorised these consolidated financial statements for issue.

#### **4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies**

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

**Impairment of investment securities available for sale.** The Group determines that investment securities available for sale are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows. Had all the declines in fair value below cost been considered significant or prolonged, the Group would suffer an additional impairment loss of RR 25 592 thousand (2005: RR 26 762 thousand). This unrealised impairment loss has been recorded in the consolidated statement of changes in equity in accordance with IAS 39.

**Impairment losses on loans and advances.** The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and 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.

**Special purpose entities.** Judgement is required to determine whether the substance of the relationship between the Group and a special purpose entity indicates that the special purpose entity is controlled by the Group. In assessing ability of the Group to control the special purpose entities management takes into consideration the factors presented in SIC 12 "Consolidation - Special Purpose Entities", such as the SPE conducting activities on behalf of the Group and whether the Group has right to obtain a majority of the benefits of the SPE's operations. Refer to Note 34.

**Tax legislation.** Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 30.

**Initial recognition of related party transactions.** In the normal course of business the Group enters into transactions with its related parties. IAS 39 "Financial Instruments: Recognition and Measurement" requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

#### **5 Adoption of New or Revised Standards and Interpretations**

Certain new IFRSs became effective for the Group from 1 January 2006. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to the retained earnings at 1 January 2005, unless otherwise described below.

## 5 Adoption of New or Revised Standards and Interpretations (Continued)

**IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006).** IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. The Group reassessed its arrangements and concluded that no adjustments are required as a result of adoption of IFRIC 4.

**IAS 39 (Amendment) – The Fair Value Option (effective from 1 January 2006).** IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ('fair value through profit or loss'). The amendment changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category. This amendment did not have a significant impact on these consolidated financial statements.

**IAS 39 (Amendment) – Financial Guarantee Contracts (effective from 1 January 2006).** As a result of this amendment, the Group measures issued financial guarantees initially at their fair value, which is normally evidenced by the amount of fees received. This amount is then amortised on a straight line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the balance sheet date. This amendment did not have a significant impact on these consolidated financial statements.

**Effect of Adoption of New or Revised Standards.** The effect of adoption of the above new or revised standards and interpretations on the Group's financial position at 31 December 2006 and 31 December 2005 and on the results of its operations for the years then ended was not significant.

## 6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods and which the Bank has not early adopted:

**IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007).** The IFRS introduces new disclosures to improve the information about financial instruments. The volume of disclosures will increase significantly with an emphasis on quantitative aspects of risk exposures and the methods of risk management. The quantitative disclosures will provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures will cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Group is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its consolidated financial statements.

**IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009).** The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management is currently assessing what impact the Standard will have on segment disclosures in the Group's consolidated financial statements.

**IAS 23, Borrowing costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009).** The revised Standard removed the option of immediate recognition as an expense of the borrowing costs related to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalize such borrowing costs as a part of the cost of the asset. The revised Standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. The Group is currently assessing what impact the new Standard will have on its consolidated financial statements.

**6 New Accounting Pronouncements (Continued)**

**Other new standards or interpretations.** The Group has not early adopted the following other new standards or interpretations:

- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007);
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007);
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006);
- IFRIC 11, IFRS 2—Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 March 2008).

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

**7 Cash and Cash Equivalents**

<i>In thousands of Russian Roubles</i>	<b>2006</b>	<b>2005</b>
Cash on hand	3 873 287	3 264 094
Balances with central banks (other than mandatory reserve deposits)	6 600 519	8 713 400
Correspondent accounts and overnight placements with other banks		
- Russian Federation	968 910	639 766
- Other countries	1 376 000	717 872
Placements with other banks with original maturities of less than three months	1 784 990	779 396
Settlement accounts with trading systems	913 358	236 327
Reverse sale and repurchase agreements with other banks with original maturities of less than three months	802 775	-
<b>Total cash and cash equivalents</b>	<b>16 319 839</b>	<b>14 350 855</b>

At 31 December 2006 cash and cash equivalents of RR 802 775 thousand (2005: nil) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of RR 1 006 728 thousand (2005: nil).

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 29. The information on related party balances is disclosed in Note 33.

**8 Trading Securities**

<i>In thousands of Russian Roubles</i>	<b>2006</b>	<b>2005</b>
Federal loan bonds (OFZ bonds)	5 643 697	4 710 428
Corporate shares	5 175 681	5 126 558
Corporate bonds	1 395 267	3 436 401
US Treasury Strip securities	676 846	721 790
Corporate Eurobonds	535 135	1 162 703
Promissory notes	250 362	8 555
Municipal bonds and bonds of the Russian Federation's regions	219 878	271 534
Russian Federation Eurobonds	150 500	761 132
Credit-linked notes	51 438	1 110 035
Other	351 957	99 079
<b>Total trading securities</b>	<b>14 450 761</b>	<b>17 408 215</b>

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds have maturity dates from June 2007 to November 2021 (2005: from July 2007 to November 2021), coupon rates from 6.0% to 10.0% (2005: from 6.0% to 10.0%) and yield to maturity from 5.7% to 6.5% (2005: from 5.6% to 6.8%), depending on the type of bond issue.

Corporate shares are mainly shares of major Russian companies in oil, gas, energy, metallurgical and other sectors. These shares are freely tradable in Russia.

Corporate bonds are debt securities denominated in Russian Roubles, issued by large Russian companies in banking, trading and transport sectors. These bonds have maturity dates from June 2008 to June 2018 (2005: from October 2006 to May 2015), coupon rates from 5.5% to 11.0% (2005: from 6.2% to 11.6%) and yield to maturity from 6.9% to 9.7% (2005: from 7.1% to 9.9%), depending on the type of bond issue.

US Treasury Strip securities represent zero-coupon debt securities issued in the United States of America under Separate Trading of Registered Interest and Principal securities (STRIP) program, and are freely tradable internationally. These bonds mature in February 2011 (2005: February 2011) and have yield to maturity of 4.6% (2005: 4.4%).

Corporate Eurobonds are interest bearing securities denominated in USD, issued by large Russian companies, and are freely tradable internationally. Corporate Eurobonds have maturity dates from June 2007 to October 2010 (2005: from June 2007 to October 2010), coupon rates from 8.0% to 10.5% (2005: from 6.9% to 10.9%) and yield to maturity from 6.6% to 13.2% (2005: from 6.2% to 10.8%), depending on the type of bond issue.

Promissory notes are debt securities issued by large Russian banks with maturity dates from January 2007 to July 2007 (2005: January 2006) and effective yield to maturity from 7.6% to 21.0% (2005: from 14.9% to 18.3%). These securities are traded on over-the-counter market.

Municipal bonds and bonds of Russian Federation's regions represent securities denominated in Russian Roubles, issued by the Moscow Government and other Russian regional authorities. These bonds have maturity dates from December 2007 to June 2015 (2005: from December 2007 to November 2013), coupon rates from 10.0% to 13.5% (2005: from 10.0% to 14.0%) and yield to maturity from 5.5% to 7.3% (2005: from 5.7% to 10.7%), depending on the type of bond issue.

Russian Federation Eurobonds are interest bearing securities denominated in USD, issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. These bonds mature in March 2030 (2005: from June 2028 to March 2030), have coupon rate of 5.0% (2005: from 5.0% to 12.8%) and yield to maturity of 5.9% (2005: from 5.6% to 6.0%).

**8 Trading Securities (Continued)**

Credit-linked notes represent debt securities denominated in USD. These securities are linked to the Russian Federation performance of its payment obligations under the Sovereign Debt Agreements and are freely tradable internationally. These securities mature in October 2014 (2005: October 2014), and have coupon rate of 9.6% (2005: 9.6%) and yield to maturity of 5.2% (2005: 5.4%).

At 31 December 2006, trading securities with a fair value of RR 2 485 872 thousand (2005: RR 1 852 515 thousand) were pledged as collateral with respect to a credit line opened with the CBRF. At 31 December 2006 the Group had no deposits from the CBRF attracted within this credit limit (2005: nil). Refer to Note 30.

The Bank is licensed by the Federal Commission on Securities Markets for trading in securities.

Geographical, currency and interest rate analyses of trading securities are disclosed in Note 29. The information on trading securities issued by related parties is disclosed in Note 33.

**9 Due from Other Banks**

<i>In thousands of Russian Roubles</i>	<b>2006</b>	<b>2005</b>
Term placements with other banks with original maturities of more than three months	374 253	209 127
Overdue placements with other banks	13 473	14 324
Less: Provision for impairment of due from other banks	(14 067)	(7 970)
<b>Total due from other banks</b>	<b>373 659</b>	<b>215 481</b>

Movements in the provision for impairment of due from other banks are as follows:

<i>In thousands of Russian Roubles</i>	<b>2006</b>	<b>2005</b>
<b>Provision for impairment of due from other banks at 1 January</b>	<b>7 970</b>	-
Provision for impairment of due from other banks during the year	6 734	7 970
Effect of translation to presentation currency	(637)	-
<b>Provision for impairment of due from other banks at 31 December</b>	<b>14 067</b>	<b>7 970</b>

At 31 December 2006, term placements with other banks totalling RR 353 416 thousand (2005: RR 143 433 thousand) were pledged to third parties as collateral with respect to term placements of other banks. Refer to Notes 15 and 30.

At 31 December 2006, the estimated fair value of due from other banks was RR 373 659 thousand (2005: RR 215 481 thousand).

Geographical, currency maturity and interest rate analyses of due from other banks are disclosed in Note 29. The information on related, party balances is disclosed in Note 33.

**Bank "Petrocommerce" Group**  
**Notes to the Consolidated Financial Statements – 31 December 2006**

**10 Loans and Advances to Customers**

<i>In thousands of Russian Roubles</i>	<b>2006</b>	<b>2005</b>
Current loans	100 025 388	53 118 975
Reverse sale and repurchase agreements	11 109 292	79 388
Overdue loans	1 378 353	1 454 770
Less: Provision for loan impairment	(3 564 192)	(2 420 579)
<b>Total loans and advances to customers</b>	<b>108 948 841</b>	<b>52 232 554</b>

At 31 December 2006, loans and advances to customers of RR 11 109 292 thousand (2005: RR 79 388 thousand) are effectively collateralised by securities purchased under reverse sale and repurchase agreements with a fair value of RR 13 749 193 thousand (2005: RR 86 400 thousand).

The overdue loans represent the total carrying value of loans on which any payment is overdue for 1 or more days.

Movements in the provision for loan impairment are as follows:

<i>In thousands of Russian Roubles</i>	<b>2006</b>	<b>2005</b>
<b>Provision for loan impairment at 1 January</b>	<b>2 420 579</b>	<b>1 644 703</b>
Provision for loan impairment during the year	1 200 867	776 269
Loans and advances to customers written off during the year as uncollectible	(44 684)	(13 381)
Effect of translation to presentation currency	(12 570)	12 988
<b>Provision for loan impairment at 31 December</b>	<b>3 564 192</b>	<b>2 420 579</b>

Economic sector risk concentrations within the customer loan portfolio are as follows:

<i>In thousands of Russian Roubles</i>	<b>2006</b>		<b>2005</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Trade	27 853 213	25	15 002 156	27
Manufacturing	20 000 396	18	12 050 965	22
Finance sector	18 481 540	16	1 459 534	4
Construction	8 504 500	8	2 371 372	4
Agriculture	8 389 447	8	2 971 576	5
Food processing	7 815 776	7	5 170 020	9
Transport	7 032 455	6	3 483 298	6
Individuals	6 938 323	6	3 711 142	7
Oil and energy	5 028 895	4	4 292 401	8
Other	2 468 488	2	4 140 669	8
<b>Total loans and advances to customers (before provision for impairment)</b>	<b>112 513 033</b>	<b>100</b>	<b>54 653 133</b>	<b>100</b>

At 31 December 2006, the estimated fair value of loans and advances to customers was RR 108 948 841 thousand (2005: RR 52 232 554 thousand).

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 29. The information on related party balances is disclosed in Note 33.

**Bank "Petrocommerce" Group**  
**Notes to the Consolidated Financial Statements – 31 December 2006**

**11 Investment Securities Available for Sale**

<i>In thousands of Russian Roubles</i>	<b>2006</b>	<b>2005</b>
Corporate bonds	659 830	840 426
Municipal bonds and bonds of the Russian Federation's regions	125 947	239 510
Promissory notes	67 189	241 389
State debt securities of non-OECD countries	57 358	-
Corporate shares	37 837	27 614
Other	84 243	87 371
<b>Total investment securities available for sale</b>	<b>1 032 404</b>	<b>1 436 310</b>

Corporate bonds represent mainly debt securities denominated in Russian Roubles and issued by large Russian companies and banks. These bonds have maturity dates from February 2007 to September 2013 (2005: February 2006 to December 2010), coupon rates from 7.8% to 12.0% (2005: from 8.0% to 18.0%) and yield to maturity from 7.5% to 10.1% (2005: from 4.5% to 19.1%), depending on the type of bond issue. These bonds are freely tradable in the Russian Federation.

Municipal bonds and bonds of Russian Federation's regions represent interest bearing securities denominated in Russian Roubles. These bonds are tradable on MICEX and other Russian stock exchanges. These bonds have maturity dates from September 2007 to October 2011 (2005: from July 2006 to December 2010), coupon rates from 7.8% to 12.0% (2005: from 9.5% to 14.0%) and yield to maturity from 6.9% to 8.3% at 31 December 2006 (2005: from 3.2% to 8.1%), depending on the type of bond issue.

Promissory notes represent mainly debt securities denominated in Russian Roubles and issued by large Russian companies and banks. These securities are traded on the over-the-counter market. At 31 December 2006, the promissory notes have maturity dates from "demand" to April 2007 (2005: from January 2006 to March 2010) and yield to maturity from 0.0% to 9.0% (2005: from 7.0% to 10.7%).

Geographical, currency, maturity and interest rate analyses of investment securities available for sale are disclosed in Note 29. The information on related party balances is disclosed in Note 33.

**12 Repurchase Receivable**

Repurchase receivable represents securities sold under sale and repurchase agreements which the counterparty has the right, by contract or custom, to sell or repledge.

<i>In thousands of Russian Roubles</i>	<b>2006</b>	<b>2005</b>
<b>Trading securities:</b>		
Corporate shares	617 064	-
Federal loan bonds (OFZ bonds)	613 176	-
Corporate bonds	-	101 017
<b>Total repurchase receivable</b>	<b>1 230 240</b>	<b>101 017</b>

At 31 December 2006, included in amounts due to other banks are liabilities of RR 685 918 thousand (2005: RR 93 843 thousand) under sale and repurchase agreements, with securities with a carrying value of RR 799 362 thousand (2005: RR 101 017 thousand). Refer to Notes 15 and 30.

At 31 December 2006, included in customer accounts are liabilities of RR 429 928 thousand (2005: nil) under sale and repurchase agreements with securities with a carrying value of RR 430 878 thousand (2005: nil). Refer to Notes 16 and 30.

At 31 December 2006 the estimated fair value of repurchase receivable was RR 1 230 240 thousand (2005: RR 101 017 thousand). Refer to Note 32.

Geographical, currency, maturity and interest rate analyses of repurchase receivable are disclosed in Note 29. The information on related party balances is disclosed in Note 33.



**Bank "Petrocommerce" Group**  
**Notes to the Consolidated Financial Statements – 31 December 2006**

**13 Premises and Equipment**

	Land and Premises	Office and computer equipment	Construction in progress	Total
<i>In thousands of Russian Roubles</i>				
<b>Carrying amount at 1 January 2005</b>	<b>1 075 410</b>	<b>585 708</b>	<b>316 330</b>	<b>1 977 448</b>
<b>Cost</b>				
Opening balance	1 157 698	1 077 344	316 330	2 551 372
Additions	112 475	372 365	185 377	670 217
Transfers	146 443	58 891	(205 334)	-
Disposals	(25 413)	(93 632)	(30 242)	(149 287)
Effect of translation to presentation currency	4 005	8 089	416	12 510
<b>Closing balance</b>	<b>1 395 208</b>	<b>1 423 057</b>	<b>266 547</b>	<b>3 084 812</b>
<b>Accumulated depreciation</b>				
Opening balance	82 288	491 636	-	573 924
Depreciation charge (Note 25)	26 058	228 345	-	254 403
Disposals	(172)	(55 878)	-	(56 050)
Transfers	11 378	(11 378)	-	-
Effect of translation to presentation currency	1 382	5 399	-	6 781
<b>Closing balance</b>	<b>120 934</b>	<b>658 124</b>	<b>-</b>	<b>779 058</b>
<b>Carrying amount at 31 December 2005</b>	<b>1 274 274</b>	<b>764 933</b>	<b>266 547</b>	<b>2 305 754</b>
<b>Cost</b>				
Opening balance	1 395 208	1 423 057	266 547	3 084 812
Additions	20 874	241 300	432 771	694 945
Transfers	29 966	103 633	(133 599)	-
Disposals	(8 466)	(49 330)	(24 102)	(81 898)
Effect of translation to presentation currency	(6 964)	(14 997)	(108)	(22 069)
<b>Closing balance</b>	<b>1 430 618</b>	<b>1 703 663</b>	<b>541 509</b>	<b>3 675 790</b>
<b>Accumulated depreciation</b>				
Opening balance	120 934	658 124	-	779 058
Depreciation charge (Note 25)	27 163	272 196	-	299 359
Disposals	(1 748)	(26 926)	-	(28 674)
Effect of translation to presentation currency	(1 982)	(10 884)	-	(12 866)
<b>Closing balance</b>	<b>144 367</b>	<b>892 510</b>	<b>-</b>	<b>1 036 877</b>
<b>Carrying amount at 31 December 2006</b>	<b>1 286 251</b>	<b>811 153</b>	<b>541 509</b>	<b>2 638 913</b>

Construction in progress consists of construction and refurbishment of premises and equipment not yet in operation. Upon completion, assets are transferred to premises and equipment.

**Bank "Petrocommerce" Group**  
**Notes to the Consolidated Financial Statements – 31 December 2006**

**14 Other Assets**

<i>In thousands of Russian Roubles</i>	<b>2006</b>	<b>2005</b>
Current income tax	322 783	97 908
Trade debtors and other prepayments	307 958	321 373
Settlements on other operations	252 380	202 405
Settlements on non-banking operations	154 011	197 516
Prepayments on other taxes	2 450	5 727
<b>Total other assets</b>	<b>1 039 582</b>	<b>824 929</b>

Geographical, currency and maturity analyses of other assets are disclosed in Note 29.

**15 Due to Other Banks**

<i>In thousands of Russian Roubles</i>	<b>2006</b>	<b>2005</b>
Term placements of other banks	11 531 173	6 493 854
Sale and repurchase agreements with other banks	1 088 049	93 843
Correspondent accounts and overnight placements of other banks	650 938	408 533
Sale and repurchase agreements with the CBRF	531 549	-
<b>Total due to other banks</b>	<b>13 801 709</b>	<b>6 996 230</b>

At 31 December 2006, the fair value of securities transferred to other banks under sale and repurchase agreements of RR 1 088 049 thousand (2005: RR 93 843 thousand) was RR 1 214 177 thousand (2005: RR 101 017 thousand). Part of these securities with the fair value of RR 528 406 thousand (2005: nil) was obtained by the Group under reverse sale and repurchase agreements. The rest of these securities with the fair value of RR 685 771 thousand are presented as repurchase receivable. Refer to Notes 12 and 30.

At 31 December 2006, the fair value of securities transferred to the CBRF under sale and repurchase agreements of RR 531 549 thousand (2005: nil) was RR 545 350 thousand (2005: nil). Part of these securities with the fair value of RR 431 759 thousand (2005: nil) was obtained by the Group under reverse sale and repurchase agreements with other counterparties. The rest of these securities with the fair value of RR 113 591 thousand are presented as repurchase receivable. Refer to Notes 12 and 30.

At 31 December 2006, term deposits of other banks of RR 353 505 thousand (2005: RR 143 436 thousand) were collateralised by term placements with other banks of RR 353 416 thousand (2005: RR 143 433 thousand). Refer to Notes 9 and 30.

At 31 December 2006, the estimated fair value of due to other banks was RR 13 801 709 thousand (2005: RR 6 996 230 thousand).

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 29. The information on related party balances is disclosed in Note 33.

**Bank "Petrocommerce" Group**  
**Notes to the Consolidated Financial Statements – 31 December 2006**

**16 Customer Accounts**

<i>In thousands of Russian Roubles</i>	<b>2006</b>	<b>2005</b>
<b>State and public organisations</b>		
- Current/settlement accounts	5 776 675	5 143 843
- Term deposits	2 872	2 466
<b>Corporate entities</b>		
- Current/settlement accounts	16 258 262	13 585 888
- Term deposits	26 640 859	16 260 710
- Sale and repurchase agreements	1 218 701	-
<b>Individuals</b>		
- Current/demand accounts	7 794 762	4 718 562
- Term deposits	24 904 311	19 218 084
<b>Total customer accounts</b>	<b>82 596 442</b>	<b>58 929 553</b>

Economic sector concentrations within customer accounts are as follows:

<i>In thousands of Russian Roubles</i>	<b>2006</b>		<b>2005</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Individuals	32 699 073	40	23 936 646	41
Trade	8 953 009	11	5 345 802	9
Services	8 501 359	10	3 638 994	6
Finance sector	7 504 260	9	4 274 519	7
Government bodies	5 779 547	7	5 146 309	9
Construction	5 428 506	7	1 155 188	2
Energy	4 829 457	6	809 263	2
Oil production and refining	4 377 750	5	10 241 893	17
Manufacturing	1 604 281	2	1 765 608	3
Other	2 919 200	3	2 615 331	4
<b>Total customer accounts</b>	<b>82 596 442</b>	<b>100</b>	<b>58 929 553</b>	<b>100</b>

At 31 December 2006 included in customer accounts are deposits of RR 2 138 918 thousand (2005: RR 1 889 825 thousand) held as collateral for irrevocable commitments under import letters of credit and letters of credit for settlements in the Russian Federation. Refer to Note 30.

At 31 December 2006, the fair value of securities transferred to customer accounts under sale and repurchase agreements of RR 1 218 701 thousand (2005: nil) was RR 1 197 668 thousand (2005: nil). Part of these securities with the fair value of RR 766 790 thousand (2005: nil) was obtained by the Group under reverse sale and repurchase agreements with other counterparties. The rest of these securities with the fair value of RR 430 878 thousand are presented as repurchase receivable. Refer to Notes 12 and 30.

At 31 December 2006, the estimated fair value of customer accounts was RR 82 596 442 thousand (2005: RR 58 929 553 thousand).

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 29. The information on related party balances is disclosed in Note 33.

**Bank "Petrocommerce" Group**  
**Notes to the Consolidated Financial Statements – 31 December 2006**

**17 Debt Securities in Issue**

<i>In thousands of Russian Roubles</i>	<b>2006</b>	<b>2005</b>
Promissory notes	8 466 696	6 555 423
Bonds	2 966 772	1 046 389
Deposit and saving certificates	545 266	206 659
<b>Total debt securities in issue</b>	<b>11 978 734</b>	<b>7 808 471</b>

Promissory notes represent debt securities denominated in Russian Roubles, US Dollars and Euro with maturity dates from "on demand" to December 2021 (2005: from "on demand" to December 2020) and effective interest rates from 0.0% to 12.7% (2005: from 0.0% to 14.0%).

Bonds are debt securities denominated in Russian Roubles and issued in the Russian Federation in August 2006 (2005: March 2003). These bonds have maturity date in August 2009 (2005: March 2006), fixed coupon rate of 8.5% (2005: 15.0%) and yield to maturity of 8.9% (2005: 14.0%).

At 31 December 2006, the estimated fair value of debt securities in issue was RR 11 991 959 thousand (2005: RR 7 778 966 thousand).

Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 29. The information on debt securities in issue held by related parties is disclosed in Note 33.

**18 Other Borrowed Funds**

<i>In thousands of Russian Roubles</i>	<b>2006</b>	<b>2005</b>
Term borrowings	15 581 019	1 903 916
Syndicated loans	3 494 712	1 841 222
<b>Total other borrowed funds</b>	<b>19 075 731</b>	<b>3 745 138</b>

Term borrowings include medium and long-term funds attracted by the Group on the international financial markets.

In February 2004, the Group issued Loan Participation Notes through a large foreign bank with a nominal of USD 120 000 thousand, a fixed interest rate of 9.0%, maturity date in February 2007 and the effective interest rate of 10.1%. In November 2004 part of the securities with a nominal value of USD 55 560 thousand were claimed by holders for early redemption and were repaid by the Group in connection with notification of holders on changes in the shareholding structure of the Bank. Refer to Note 1.

In March 2006 the Group issued Euro Medium Term Notes with a nominal value of USD 225 000 thousand, a fixed interest rate of 8.0%, maturity in March 2009 and an effective interest rate of 8.7%.

In December 2006 the Group issued Loan Participation Notes with a nominal value of USD 300 000 thousand, a fixed interest rate of 8.75%, maturity in December 2009 and the effective interest rate of 9.3%.

A syndicated loan in the amount of USD 14 000 thousand was received by the Group in October 2005 from two Croatian banks. The loan has maturity in October 2010 and a floating interest rate of 6 month LIBOR plus 1.25%. At 31 December 2006 the effective interest rate of the loan was 9.1% (2005: 8.2%).

**18 Other Borrowed Funds (Continued)**

A syndicated loan of USD 14 338 thousand was received by the Group in June 2006 from the above two Croatian banks. The loan has maturity in June 2011 and a floating interest rate of 6 month LIBOR plus 1.25%. At 31 December 2006 the effective interest rate of the loan was 7.4%.

A syndicated loan of USD 91 500 thousand was received by the Group in April 2006 from a consortium of Russian and foreign banks. This loan has maturity date in April 2007 and a floating interest rate of 3 month LIBOR plus 1.9%. At 31 December 2006 the effective interest rate of the loan was 8.6%.

A syndicated loan of USD 14 398 thousand was received by the Group in October 2006 from the above two Croatian banks. This loan matures in October 2011 and has a floating interest rate of 6 month LIBOR plus 1.25%. At 31 December 2006 the effective interest rate of the loan was 7.3%.

At 31 December 2005, the Group had a syndicated loan of USD 50 000 thousand, received in April 2005 from a consortium of foreign banks. This loan had maturity date in April 2006 and a floating interest rate of 6 month LIBOR plus 2.9%. At 31 December 2005 the effective interest rate of the loan was 8.6%. The loan was repaid at maturity.

At 31 December 2006 the estimated fair value of other borrowed funds was RR 19 356 756 thousand (2005: RR 3 816 202 thousand).

Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 29.

**19 Other Liabilities**

<i>In thousands of Russian Roubles</i>	<b>2006</b>	<b>2005</b>
Settlements on bank operations	581 969	502 531
Accrued staff costs	170 982	157 327
Other taxes payable	58 176	35 056
Current income tax	55 154	157 756
Other	106 789	59 166
<b>Total other liabilities</b>	<b>973 070</b>	<b>911 836</b>

Geographical, currency and interest rate analyses of other liabilities are disclosed in Note 29.

**20 Subordinated Debt**

In November 2006 the Group received a subordinated loan of USD 150 000 thousand from a related party with a floating interest rate of 3 month LIBOR plus 4.0% and maturity in May 2012. Under the contract, the loan ranks after all other creditors in case of liquidation of the Bank. At 31 December 2006 the effective interest rate of the loan was 9.7%.

At 31 December 2006, the estimated fair value of this subordinated debt was RR 4 002 016 thousand (2005: nil).

Geographical, currency and maturity analyses of subordinated debt are disclosed in Note 29. The information on related party balances is disclosed in Note 33.

**Bank "Petrocommerce" Group**  
**Notes to the Consolidated Financial Statements – 31 December 2006**

**21 Share Capital**

<i>In thousands of Russian Roubles</i>	2006			2005		
	Number of shares, in thousand units	Nominal value	Inflation adjusted amount	Number of shares, in thousand units	Nominal value	Inflation adjusted amount
Ordinary shares	450 000	4 500 000	6 228 658	450 000	4 500 000	6 228 658
Preference shares	500	500 000	523 900	500	500 000	523 900
<b>Total share capital</b>	<b>450 500</b>	<b>5 000 000</b>	<b>6 752 558</b>	<b>450 500</b>	<b>5 000 000</b>	<b>6 752 558</b>

All ordinary shares have a nominal value of RR 10 per share and rank equally. Each share carries one vote.

The preference shares have a nominal value of RR 1 000 and carry no voting rights but rank ahead of the ordinary shares in the event of liquidation of the Bank. The minimum dividend to be received by holders of preference stock shares is not stipulated by the Charter of the Bank. The amount of dividend is determined and approved at the Bank's annual general meeting.

In October 2005, treasury shares (34 887 thousand ordinary shares of the Bank) with a nominal value of RR 348 870 thousand and inflation adjusted amount of RR 482 887 thousand have been sold by the Group to non-state pension fund "Lukoil-Garant" and non-state pension fund "Pension Capital". The difference of RR 32 888 thousand between the sale price of shares and the amount adjusted for inflation has been debited directly to equity.

In December 2006 the ownership structure of the Bank was changed within the companies of IFD Kapital Group. As a result of this change and upon additional acquisition of shares from other shareholders, as at 31 December 2006 Reserve Invest Holding (Cyprus) Limited owns 89.25% of the Bank's share capital.

**22 Retained Earnings**

In accordance with Russian legislation, the Group allocates profits as dividends or transfers them to reserves (fund accounts) on the basis of statutory accounting reports prepared in accordance with the Russian Accounting Rules. The Group's reserves under Russian Accounting Rules at 31 December 2006 are RR 8 724 370 thousand (2005: RR 5 717 954 thousand).

**Bank "Petrocommerce" Group**  
**Notes to the Consolidated Financial Statements – 31 December 2006**

**23 Interest Income and Expense**

<i>In thousands of Russian Roubles</i>	<b>2006</b>	<b>2005</b>
<b>Interest income</b>		
Loans and advances to customers	8 768 415	5 185 590
Debt trading securities	751 061	759 570
Correspondent accounts and due from other banks	414 079	271 509
Debt investment securities available for sale	130 582	164 893
Other	1 268	-
<b>Total interest income</b>	<b>10 065 405</b>	<b>6 381 562</b>
<b>Interest expense</b>		
Deposits of individuals	1 907 670	1 723 910
Term deposits of legal entities	981 471	429 266
Other borrowed funds	812 219	268 474
Debt securities in issue	734 950	588 096
Due to other banks	315 012	163 867
Subordinated debt	52 351	-
Current accounts of legal entities	8 550	92 280
Other	94	6
<b>Total interest expense</b>	<b>4 812 317</b>	<b>3 265 899</b>
<b>Net interest income</b>	<b>5 253 088</b>	<b>3 115 663</b>

**Bank "Petrocommerce" Group**  
**Notes to the Consolidated Financial Statements – 31 December 2006**

**24 Fee and Commission Income and Expense**

<i>In thousands of Russian Roubles</i>	2006	2005
<b>Fee and commission income</b>		
Commission on settlement transactions	830 925	676 022
Commission on cash transactions	464 644	336 410
Commission for trust management	179 727	123 665
Guarantees issued	66 642	52 718
Commission on cash collection	63 387	29 276
Other	243 821	318 233
<b>Total fee and commission income</b>	<b>1 849 146</b>	<b>1 536 324</b>
<b>Fee and commission expense</b>		
Commission on settlement transactions	200 930	154 999
Commission on cash collection	43 318	25 813
Commission on cash transactions	15 506	18 221
Other	33 399	112 686
<b>Total fee and commission expense</b>	<b>293 153</b>	<b>311 719</b>
<b>Net fee and commission income</b>	<b>1 555 993</b>	<b>1 224 605</b>

**25 Administrative and Other Operating Expenses**

<i>In thousands of Russian Roubles</i>	Note	2006	2005
Staff costs		2 241 325	1 629 793
Administrative expenses		458 818	339 989
Depreciation of premises and equipment	13	299 359	254 403
Rent		224 955	207 521
State deposit insurance system membership fee		157 195	117 190
Other expenses related to premises and equipment		120 605	71 954
Taxes other than on income		83 914	67 608
Advertising and marketing services		68 436	90 562
Other		330 902	299 676
<b>Total administrative and other operating expenses</b>		<b>3 985 509</b>	<b>3 078 696</b>

Included in staff costs are statutory social security and pension contributions of RR 296 952 thousand (2005: RR 245 084 thousand).



**Bank "Petrocommerce" Group**  
**Notes to the Consolidated Financial Statements – 31 December 2006**

**26 Income Taxes**

Income tax expense comprises the following:

<i>In thousands of Russian Roubles</i>	<b>2006</b>	<b>2005</b>
Current tax	1 376 036	818 318
Deferred tax	(115 354)	348 372
<b>Income tax expense for the year</b>	<b>1 260 682</b>	<b>1 166 690</b>

The income tax rate applicable to the majority of the Group's income is 24% (2005: 24%). A reconciliation between the expected and the actual taxation charge is provided below.

<i>In thousands of Russian Roubles</i>	<b>2006</b>	<b>2005</b>
<b>IFRS profit before taxation</b>	<b>5 100 247</b>	<b>4 484 341</b>
Theoretical tax charge at statutory rate (2006: 24%; 2005: 24%)	1 224 059	1 076 242
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible expenses	31 356	35 120
- Income on government securities taxed at different rates	(68 834)	(44 497)
- Other non temporary differences	74 101	99 825
<b>Income tax expense for the year</b>	<b>1 260 682</b>	<b>1 166 690</b>

**Bank "Petrocommerce" Group**  
**Notes to the Consolidated Financial Statements – 31 December 2006**

**26 Income Taxes (Continued)**

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

<i>In thousands of Russian Roubles</i>	31 December 2005	Charged/ (credited) to profit or loss	Charged directly to equity	31 December 2006
<b>Tax effect of deductible temporary differences</b>				
Provision for loan impairment	211 214	(2 810)	-	208 404
Debt securities in issue	20 510	18 487	-	38 997
Fair valuation of investment securities available for sale	3 065	(5 626)	2 561	-
Other	94 143	30 310	-	124 453
<b>Gross deferred income tax asset</b>	<b>328 932</b>	<b>40 361</b>	<b>2 561</b>	<b>371 854</b>
<b>Tax effect of taxable temporary differences</b>				
Fair valuation of trading securities	(436 499)	98 957	-	(337 542)
Premises and equipment	(100 052)	2 156	-	(97 896)
Fair valuation of investment securities available for sale	-	(3 624)	-	(3 624)
Other	(8 916)	(22 496)	-	(31 412)
<b>Gross deferred income tax liability</b>	<b>(545 467)</b>	<b>74 993</b>	<b>-</b>	<b>(470 474)</b>
<b>Total net deferred income tax liability</b>	<b>(216 535)</b>	<b>115 354</b>	<b>2 561</b>	<b>(98 620)</b>

**Bank "Petrocommerce" Group**  
**Notes to the Consolidated Financial Statements – 31 December 2006**

**26 Income Taxes (Continued)**

<i>In thousands of Russian Roubles</i>	1 January 2005	Charged/ (credited) to profit or loss	Credited directly to equity	31 December 2005
<b>Tax effect of deductible temporary differences</b>				
Provision for loan impairment	159 119	52 095	-	211 214
Debt securities in issue	61 034	(40 524)	-	20 510
Fair valuation of investment securities available for sale	-	-	3 065	3 065
Other	11 078	83 065	-	94 143
<b>Gross deferred income tax asset</b>	<b>231 231</b>	<b>94 636</b>	<b>3 065</b>	<b>328 932</b>
<b>Tax effect of taxable temporary differences</b>				
Fair valuation of trading securities	(16 691)	(419 808)	-	(436 499)
Fair valuation of investment securities available for sale	(22 540)	(286)	22 826	-
Premises and equipment	(71 908)	(28 144)	-	(100 052)
Other	(14 146)	5 230	-	(8 916)
<b>Gross deferred income tax liability</b>	<b>(125 285)</b>	<b>(443 008)</b>	<b>22 826</b>	<b>(545 467)</b>
<b>Total net deferred income tax asset/(liability)</b>	<b>105 946</b>	<b>(348 372)</b>	<b>25 891</b>	<b>(216 535)</b>

In the context of the Group's current structure and Russian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

A deferred tax asset in the amount of RR 15 329 thousand (2005: RR 15 867 thousand) and a deferred tax liability in the amount of RR 113 949 thousand (2005: RR 232 402 thousand) have been recorded in the consolidated balance sheet after offsetting of the gross amounts presented above.

**27 Dividends**

<i>In thousands of Russian Roubles</i>	2006		2005	
	Ordinary	Preference	Ordinary	Preference
<b>Dividends payable at 1 January</b>	<b>1 306</b>	-	<b>657</b>	-
Dividends declared during the year	-	-	229 373	100 000
Dividends paid during the year	587	-	228 724	100 000
<b>Dividends payable at 31 December</b>	<b>719</b>	-	<b>1 306</b>	-

On 20 May 2005 the Annual General Meeting of Shareholders, based on the financial results of 2004 financial year, declared a dividend on ordinary shares in amount of RR 229 373 thousand and a dividend on preference shares in amount of RR 100 000 thousand.

On 26 May 2006, the Annual General Meeting of Shareholders resolved not to declare dividends based on the results for the 2005 financial year.

**28 Segment Analysis**

The Group's primary format for reporting segment information is business segments and the secondary format is geographical segments.

**Business Segments.** The Group is organised on a basis of three main business segments:

- Retail banking – representing banking services to individuals, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Other – this segment includes other operations not included in the above categories.

The Group does not have an internal management accounting system for reallocation of funds and/or operating expense between the segments. Funds are allocated between segments free of charge.

Segment information for the main reportable business segments of the Group for the years ended 31 December 2006 and 2005 is set out below:

<b>2006</b> <i>In thousands of Russian Roubles</i>	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Other</b>	<b>Total</b>
External revenues	1 567 738	13 812 414	35 327	15 415 479
<b>Segment results</b>	<b>(605 892)</b>	<b>9 672 973</b>	<b>35 327</b>	<b>9 102 408</b>
Unallocated costs				(4 002 161)
<b>Profit before tax</b>				<b>5 100 247</b>
Income tax expense				(1 260 682)
<b>Profit for the year</b>				<b>3 839 565</b>
Segment assets	8 925 277	135 725 986	987 127	145 638 390
Unallocated assets				2 654 242
<b>Total assets</b>				<b>148 292 632</b>
Segment liabilities	33 206 666	98 297 250	923 786	132 427 702
Unallocated liabilities				113 949
<b>Total liabilities</b>				<b>132 541 651</b>
<b>Other segment items</b>				
Capital expenditure	87 774	605 470	1 701	694 945
Depreciation charge	32 778	265 675	906	299 359

**Bank "Petrocommerce" Group**  
**Notes to the Consolidated Financial Statements – 31 December 2006**

**28 Segment Analysis (Continued)**

<b>2005</b> <i>In thousands of Russian Roubles</i>	<b>Retail banking</b>	<b>Commercial banking</b>	<b>Other</b>	<b>Total</b>
External revenues	923 339	11 363 080	24 436	12 310 855
<b>Segment results</b>	<b>(806 612)</b>	<b>8 731 174</b>	<b>24 436</b>	<b>7 948 998</b>
Unallocated costs				(3 464 657)
<b>Profit before tax</b>				<b>4 484 341</b>
Income tax expense				(1 166 690)
<b>Profit for the year</b>				<b>3 317 651</b>
<b>Segment assets</b>	<b>4 208 645</b>	<b>83 223 721</b>	<b>824 929</b>	<b>88 257 295</b>
Unallocated assets				2 321 621
<b>Total assets</b>				<b>90 578 916</b>
<b>Segment liabilities</b>	<b>24 143 305</b>	<b>53 336 087</b>	<b>911 836</b>	<b>78 391 228</b>
Unallocated liabilities				232 402
<b>Total liabilities</b>				<b>78 623 630</b>
<b>Other segment items</b>				
Capital expenditure	50 268	618 619	1 330	670 217
Depreciation charge	19 081	234 817	505	254 403

External revenues comprise interest income, gains less losses from trading securities, gains less losses arising from investment securities available for sale, gains less losses from trading in foreign currencies, fee and commission income and other operating income.

Unallocated costs in the tables above totalling RR 4 002 161 thousand for the year ended 31 December 2006 (2005: RR 3 464 657 thousand) represent administrative and other operating expenses and foreign exchange translation results of the Group.

## 28 Segment Analysis (Continued)

**Geographical segments.** Segment information for the main geographical segments of the Group is set out below for the years ended 31 December 2006 and 2005.

<i>In thousands of Russian Roubles</i>	Russia	OECD	Non OECD	Total
<b>2006</b>				
Total segment assets	136 636 136	3 901 047	7 755 449	148 292 632
Total segment liabilities	97 690 820	27 404 307	7 446 524	132 541 651
External revenues	13 406 504	299 653	1 709 322	15 415 479
Credit related commitments	4 847 214	22 482	1 839 414	6 709 110
Capital expenditure	669 375	-	25 570	694 945
<b>2005</b>				
Total segment assets	82 279 066	3 351 046	4 948 804	90 578 916
Total segment liabilities	66 617 176	8 386 752	3 619 702	78 623 630
External revenues	11 152 943	373 280	784 632	12 310 855
Credit related commitments	1 315 483	109 303	1 569 767	2 994 553
Capital expenditure	610 221	-	59 996	670 217

External revenues, assets, liabilities and credit related commitments have generally been allocated based on ultimate domicile of the counterparty, i.e. based on their respective geographical locations.

## 29 Financial Risk Management

The risk management function within the Group 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 Group 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 Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and are 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. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and 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 Group's maximum exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the consolidated balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

29 Financial Risk Management (Continued)

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 Group 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 Group 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 Financial-Economic Committee sets limits on the value of risk that may be accepted, which is monitored on a regular basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

**Geographical risk.** The geographical concentration of the Group's assets and liabilities at 31 December 2006 is set out below:

<i>In thousands of Russian Roubles</i>	<b>Russia</b>	<b>OECD</b>	<b>Non OECD</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	12 519 077	3 047 322	753 440	16 319 839
Mandatory cash balance with central banks	2 113 545	-	129 519	2 243 064
Trading securities	13 722 477	728 284	-	14 450 761
Due from other banks	11	6 907	366 741	373 659
Loans and advances to customers	102 774 868	38 987	6 134 986	108 948 841
Investment securities available for sale	826 652	7 435	198 317	1 032 404
Repurchase receivable	1 230 240	-	-	1 230 240
Deferred income tax asset	8 286	-	7 043	15 329
Premises and equipment	2 534 152	-	104 761	2 638 913
Other assets	906 828	72 112	60 642	1 039 582
<b>Total assets</b>	<b>136 636 136</b>	<b>3 901 047</b>	<b>7 755 449</b>	<b>148 292 632</b>
<b>Liabilities</b>				
Due to other banks	7 123 484	6 410 449	267 776	13 801 709
Customer accounts	73 842 638	3 651 228	5 102 576	82 596 442
Debt securities in issue	11 459 890	-	518 844	11 978 734
Other borrowed funds	245 859	17 334 790	1 495 082	19 075 731
Deferred income tax liability	113 141	-	808	113 949
Other liabilities	903 792	7 840	61 438	973 070
Subordinated debt	4 002 016	-	-	4 002 016
<b>Total liabilities</b>	<b>97 690 820</b>	<b>27 404 307</b>	<b>7 446 524</b>	<b>132 541 651</b>
<b>Net balance sheet position</b>	<b>38 945 316</b>	<b>(23 503 260)</b>	<b>308 925</b>	<b>15 750 981</b>
<b>Credit related commitments (Note 30)</b>	<b>4 847 214</b>	<b>22 482</b>	<b>1 839 414</b>	<b>6 709 110</b>

Assets, liabilities and credit related commitments have been based on the country, in which the counterparty is located. The column "OECD countries" in the table above includes mainly balances with counterparties from the USA, Germany and Great Britain. Balances with Russian counterparties actually outstanding to/from off-shore companies of these Russian counterparties are allocated to the caption "Russia". Cash on hand and premises and equipment have been allocated based on the region in which they are physically held.

**Bank "Petrocommerce" Group**  
**Notes to the Consolidated Financial Statements – 31 December 2006**

**29 Financial Risk Management (Continued)**

The geographical concentration of the Group's assets and liabilities at 31 December 2005 is set out below:

<i>In thousands of Russian Roubles</i>	<b>Russia</b>	<b>OECD</b>	<b>Non OECD</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	12 473 890	1 242 003	634 962	14 350 855
Mandatory cash balances with central banks	1 527 581	-	160 353	1 687 934
Trading securities	15 495 937	1 905 784	6 494	17 408 215
Due from other banks	-	11 838	203 643	215 481
Loans and advances to customers	48 667 322	43 060	3 522 172	52 232 554
Investment securities available for sale	1 223 502	4 608	208 200	1 436 310
Repurchase receivable	101 017	-	-	101 017
Deferred income tax asset	1 295	-	14 572	15 867
Premises and equipment	2 176 246	-	129 508	2 305 754
Other assets	612 276	143 753	68 900	824 929
<b>Total assets</b>	<b>82 279 066</b>	<b>3 351 046</b>	<b>4 948 804</b>	<b>90 578 916</b>
<b>Liabilities</b>				
Due to other banks	4 127 500	2 193 049	675 681	6 996 230
Customer accounts	53 375 045	3 321 986	2 232 522	58 929 553
Debt securities in issue	7 708 565	65 392	34 514	7 808 471
Other borrowed funds	290 798	2 805 390	648 950	3 745 138
Deferred income tax liability	232 402	-	-	232 402
Other liabilities	882 866	935	28 035	911 836
<b>Total liabilities</b>	<b>66 617 176</b>	<b>8 386 752</b>	<b>3 619 702</b>	<b>78 623 630</b>
<b>Net balance sheet position</b>	<b>15 661 890</b>	<b>(5 035 706)</b>	<b>1 329 102</b>	<b>11 955 286</b>
<b>Credit related commitments (Note 30)</b>	<b>1 315 483</b>	<b>109 303</b>	<b>1 569 767</b>	<b>2 994 553</b>



**Bank "Petrocommerce" Group**  
**Notes to the Consolidated Financial Statements – 31 December 2006**

**29 Financial Risk Management (Continued)**

**Currency risk.** The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Financial-Economic 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 Group's exposure to foreign currency exchange rate risk at 31 December 2006:

<i>In thousands of Russian Roubles</i>	<b>RR</b>	<b>USD</b>	<b>Euro</b>	<b>Other</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	11 665 967	2 089 756	1 853 262	710 854	16 319 839
Mandatory cash balances with central banks	2 113 545	36 956	6 461	86 102	2 243 064
Trading securities	12 990 167	1 413 919	46 675	-	14 450 761
Due from other banks	22	314 112	905	58 620	373 659
Loans and advances to customers	69 691 900	30 519 985	6 416 999	2 319 957	108 948 841
Investment securities available for sale	824 320	5 159	4 608	198 317	1 032 404
Repurchase receivable	1 230 240	-	-	-	1 230 240
Deferred income tax asset	8 286	-	2	7 041	15 329
Premises and equipment	2 534 151	-	-	104 762	2 638 913
Other assets	991 281	3 440	3 759	41 102	1 039 582
<b>Total assets</b>	<b>102 049 879</b>	<b>34 383 327</b>	<b>8 332 671</b>	<b>3 526 755</b>	<b>148 292 632</b>
<b>Liabilities</b>					
Due to other banks	6 910 398	3 436 686	2 897 230	557 395	13 801 709
Customer accounts	63 823 376	11 431 114	4 949 192	2 392 760	82 596 442
Debt securities in issue	11 053 311	821 112	104 311	-	11 978 734
Other borrowed funds	-	19 075 731	-	-	19 075 731
Deferred income tax liability	113 141	-	-	808	113 949
Other liabilities	869 809	44 460	8 498	50 303	973 070
Subordinated debt	-	4 002 016	-	-	4 002 016
<b>Total liabilities</b>	<b>82 770 035</b>	<b>38 811 119</b>	<b>7 959 231</b>	<b>3 001 266</b>	<b>132 541 651</b>
<b>Net balance sheet position</b>	<b>19 279 844</b>	<b>(4 427 792)</b>	<b>373 440</b>	<b>525 489</b>	<b>15 750 981</b>
<b>Currency derivatives (Note 31)</b>	<b>(4 237 145)</b>	<b>5 253 269</b>	<b>(1 021 916)</b>	<b>-</b>	<b>(5 792)</b>

**Bank "Petrocommerce" Group**  
**Notes to the Consolidated Financial Statements – 31 December 2006**

**29 Financial Risk Management (Continued)**

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

<i>In thousands of Russian Roubles</i>	RR	USD	Euro	Other	Total
<b>Assets</b>					
Cash and cash equivalents	11 607 979	1 303 979	884 841	554 056	14 350 855
Mandatory cash balances with central banks	1 527 581	30 600	4 259	125 494	1 687 934
Trading securities	13 511 306	3 829 619	60 796	6 494	17 408 215
Due from other banks	60	75 488	65	139 868	215 481
Loans and advances to customers	34 120 570	13 874 715	3 106 717	1 130 552	52 232 554
Investment securities available for sale	1 198 883	24 619	4 608	208 200	1 436 310
Repurchase receivable	101 017	-	-	-	101 017
Deferred income tax asset	1 295	-	-	14 572	15 867
Premises and equipment	2 176 244	-	-	129 510	2 305 754
Other assets	641 532	119 388	5 104	58 905	824 929
<b>Total assets</b>	<b>64 886 467</b>	<b>19 258 408</b>	<b>4 066 390</b>	<b>2 367 651</b>	<b>90 578 916</b>
<b>Liabilities</b>					
Due to other banks	2 710 586	2 977 649	810 467	497 528	6 996 230
Customer accounts	41 709 856	12 650 146	3 260 221	1 309 330	58 929 553
Debt securities in issue	6 906 351	902 120	-	-	7 808 471
Other borrowed funds	-	3 745 138	-	-	3 745 138
Deferred income tax liability	232 402	-	-	-	232 402
Other liabilities	727 595	33 488	556	150 197	911 836
<b>Total liabilities</b>	<b>52 286 790</b>	<b>20 308 541</b>	<b>4 071 244</b>	<b>1 957 055</b>	<b>78 623 630</b>
<b>Net balance sheet position</b>	<b>12 599 677</b>	<b>(1 050 133)</b>	<b>(4 854)</b>	<b>410 596</b>	<b>11 955 286</b>
<b>Currency derivatives (Note 31)</b>	<b>(86 271)</b>	<b>86 348</b>	<b>-</b>	<b>-</b>	<b>77</b>

The Group has extended loans and advances denominated in foreign currencies. Movements in foreign exchange rates affect the borrowers' repayment ability and incurrence of loan losses.

**Liquidity risk.** Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group 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 Finance-Economic Committee of the Bank.

The table below shows assets and liabilities at 31 December 2006 by their remaining contractual maturity unless there is evidence that any of these assets are impaired and will be settled after their contractual maturity dates in which case the expected date of settlement is used. Some of the assets and liabilities, 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.

The entire portfolio of trading securities is classified within demand and less than one month as the majority of these securities are freely tradable and therefore Management believe this is a fairer portrayal of its liquidity position.

**Bank "Petrocommerce" Group**  
**Notes to the Consolidated Financial Statements – 31 December 2006**

**29 Financial Risk Management (Continued)**

The liquidity position of the Group at 31 December 2006 is set out below:

<i>In thousands of Russian Roubles</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 1 year</b>	<b>No stated maturity</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	16 319 839	-	-	-	-	16 319 839
Mandatory cash balances with central banks	2 243 064	-	-	-	-	2 243 064
Trading securities	14 450 761	-	-	-	-	14 450 761
Due from other banks	364 420	1 208	-	8 031	-	373 659
Loans and advances to customers	13 239 866	29 093 389	20 939 427	45 676 159	-	108 948 841
Investment securities available for sale	98 814	211 003	55 628	629 120	37 839	1 032 404
Repurchase receivable	1 230 240	-	-	-	-	1 230 240
Deferred income tax asset	-	-	1 060	14 269	-	15 329
Premises and equipment	-	-	-	-	2 638 913	2 638 913
Other assets	405 318	336 598	15 778	281 888	-	1 039 582
<b>Total assets</b>	<b>48 352 322</b>	<b>29 642 198</b>	<b>21 011 893</b>	<b>46 609 467</b>	<b>2 676 752</b>	<b>148 292 632</b>
<b>Liabilities</b>						
Due to other banks	6 297 088	1 920 467	3 911 504	1 672 650	-	13 801 709
Customer accounts	47 857 869	18 429 880	15 289 939	1 018 754	-	82 596 442
Debt securities in issue	1 570 296	2 959 385	3 933 842	3 515 211	-	11 978 734
Other borrowed funds	-	4 368 046	121 171	14 586 514	-	19 075 731
Deferred income tax liability	24 516	-	89 433	-	-	113 949
Other liabilities	789 810	168 333	12 594	2 333	-	973 070
Subordinated debt	-	-	-	4 002 016	-	4 002 016
<b>Total liabilities</b>	<b>56 539 579</b>	<b>27 846 111</b>	<b>23 358 483</b>	<b>24 797 478</b>	<b>-</b>	<b>132 541 651</b>
<b>Net liquidity gap</b>	<b>(8 187 257)</b>	<b>1 796 087</b>	<b>(2 346 590)</b>	<b>21 811 989</b>	<b>2 676 752</b>	<b>15 750 981</b>
<b>Cumulative liquidity gap</b>	<b>(8 187 257)</b>	<b>(6 391 170)</b>	<b>(8 737 760)</b>	<b>13 074 229</b>	<b>15 750 981</b>	<b>-</b>

All financial assets and liabilities of the Group mature within 5 years (except for loans and advances to customers of RR 3 316 166 thousand, investment securities available for sale of RR 15 133 thousand, receivables of RR 272 610 thousand, due from other banks of RR 443 413 thousand, customer accounts of RR 11 329 thousand, debt securities in issue of RR 381 042 thousand and subordinated debt of RR 4 002 016 thousand).

29 Financial Risk Management (Continued)

The liquidity position of the Group at 31 December 2005 is set out below:

<i>In thousands of Russian Roubles</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
<b>Assets</b>						
Cash and cash equivalents	14 317 684	33 171	-	-	-	14 350 855
Mandatory cash balances with central banks	1 687 934	-	-	-	-	1 687 934
Trading securities	17 408 215	-	-	-	-	17 408 215
Due from other banks	166 445	33 596	7 500	7 940	-	215 481
Loans and advances to customers	6 993 517	15 925 067	11 029 523	18 284 447	-	52 232 554
Investment securities available for sale	24 763	329 300	322 428	732 205	27 614	1 436 310
Repurchase receivable	101 017	-	-	-	-	101 017
Deferred income tax asset	14 572	-	-	1 295	-	15 867
Premises and equipment	-	-	-	-	2 305 754	2 305 754
Other assets	349 773	106 699	25 271	343 186	-	824 929
<b>Total assets</b>	<b>41 063 920</b>	<b>16 427 833</b>	<b>11 384 722</b>	<b>19 369 073</b>	<b>2 333 368</b>	<b>90 578 916</b>
<b>Liabilities</b>						
Due to other banks	5 061 949	769 565	662 892	501 824	-	6 996 230
Customer accounts	36 035 652	10 761 186	10 486 990	1 645 725	-	58 929 553
Debt securities in issue	418 378	1 482 542	2 997 510	2 910 041	-	7 808 471
Other borrowed funds	-	1 504 516	47 564	2 193 058	-	3 745 138
Deferred income tax liability	-	-	232 402	-	-	232 402
Other liabilities	556 917	223 882	130 802	235	-	911 836
<b>Total liabilities</b>	<b>42 072 896</b>	<b>14 741 691</b>	<b>14 558 160</b>	<b>7 250 883</b>	<b>-</b>	<b>78 623 630</b>
<b>Net liquidity gap</b>	<b>(1 008 976)</b>	<b>1 686 142</b>	<b>(3 173 438)</b>	<b>12 118 190</b>	<b>2 333 368</b>	<b>11 955 286</b>
<b>Cumulative liquidity gap</b>	<b>(1 008 976)</b>	<b>677 166</b>	<b>(2 496 272)</b>	<b>9 621 918</b>	<b>11 955 286</b>	<b>-</b>

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted 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 Group and its exposure to changes in interest and exchange rates.

**29 Financial Risk Management (Continued)**

Management believes that in spite of a substantial portion of customers accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customers accounts provide a long-term and stable source of funding for the Group. Additionally the Management monitors that the asset base is comparable to liabilities within the first two maturity ranges – "On demand and less than 1 month" and "From 1 to 6 months".

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Russian Civil Code, individuals have a right to withdraw their deposits prior to maturity, if they forfeit their right to accrued interest.

**Interest rate risk.** The Group 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 table below summarises the Group's exposure to interest rate risks at 31 December 2006. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

<i>In thousands of Russian Roubles</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 1 year</b>	<b>Non-interest bearing</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	16 319 839	-	-	-	-	16 319 839
Mandatory cash balances with central banks	2 243 064	-	-	-	-	2 243 064
Trading securities	9 206 918	-	-	-	5 243 843	14 450 761
Due from other banks	364 420	1 208	-	8 031	-	373 659
Loans and advances to customers	13 239 866	29 925 412	20 734 084	45 049 479	-	108 948 841
Investment securities available for sale	98 814	211 003	55 628	629 120	37 839	1 032 404
Repurchase receivable	613 176	-	-	-	617 064	1 230 240
Deferred income tax asset	-	-	-	-	15 329	15 329
Premises and equipment	-	-	-	-	2 638 913	2 638 913
Other assets	-	-	-	-	1 039 582	1 039 582
<b>Total assets</b>	<b>42 086 097</b>	<b>30 137 623</b>	<b>20 789 712</b>	<b>45 686 630</b>	<b>9 592 570</b>	<b>148 292 632</b>
<b>Liabilities</b>						
Due to other banks	6 307 883	2 478 196	3 904 338	1 111 292	-	13 801 709
Customer accounts	47 857 869	18 429 880	15 289 939	1 018 754	-	82 596 442
Debt securities in issue	1 570 296	2 959 385	3 933 842	3 515 211	-	11 978 734
Other borrowed funds	2 489 335	2 759 972	-	13 826 424	-	19 075 731
Deferred income tax liability	-	-	-	-	113 949	113 949
Other liabilities	-	-	-	-	973 070	973 070
Subordinated debt	-	4 002 016	-	-	-	4 002 016
<b>Total liabilities</b>	<b>58 225 383</b>	<b>30 629 449</b>	<b>23 128 119</b>	<b>19 471 681</b>	<b>1 087 019</b>	<b>132 541 651</b>
<b>Net sensitivity gap</b>	<b>(16 139 286)</b>	<b>(491 826)</b>	<b>(2 338 407)</b>	<b>26 214 949</b>	<b>8 505 551</b>	<b>15 750 981</b>

29 Financial Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risks at 31 December 2005.

<i>In thousands of Russian Roubles</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-interest bearing	Total
<b>Assets</b>						
Cash and cash equivalents	14 317 684	33 171	-	-	-	14 350 855
Mandatory cash balances with central banks	1 687 934	-	-	-	-	1 687 934
Trading securities	12 182 577	-	-	-	5 225 638	17 408 215
Due from other banks	166 445	33 596	7 500	7 940	-	215 481
Loans and advances to customers	6 993 518	15 925 067	11 029 523	18 284 446	-	52 232 554
Investment securities available for sale	24 763	329 300	322 428	732 205	27 614	1 436 310
Repurchase receivable	101 017	-	-	-	-	101 017
Deferred income tax asset	-	-	-	-	15 867	15 867
Premises and equipment	-	-	-	-	2 305 754	2 305 754
Other assets	-	-	-	-	824 929	824 929
<b>Total assets</b>	<b>35 473 938</b>	<b>16 321 134</b>	<b>11 359 451</b>	<b>19 024 591</b>	<b>8 399 802</b>	<b>90 578 916</b>
<b>Liabilities</b>						
Due to other banks	5 091 277	1 605 896	87 250	211 807	-	6 996 230
Customer accounts	36 035 652	10 761 186	10 486 990	1 645 725	-	58 929 553
Debt securities in issue	418 378	1 482 547	2 997 506	2 910 040	-	7 808 471
Other borrowed funds	-	1 841 222	-	1 903 916	-	3 745 138
Deferred income tax liability	-	-	-	-	232 402	232 402
Other liabilities	-	-	-	-	911 836	911 836
<b>Total liabilities</b>	<b>41 545 307</b>	<b>15 690 851</b>	<b>13 571 746</b>	<b>6 671 488</b>	<b>1 144 238</b>	<b>78 623 630</b>
<b>Net sensitivity gap</b>	<b>(6 071 369)</b>	<b>630 283</b>	<b>(2 212 295)</b>	<b>12 353 103</b>	<b>7 255 564</b>	<b>11 955 286</b>

The Group is exposed to cash flow interest rate risk, principally through assets and liabilities for which interest rates are reset as market rates change. These assets and liabilities are presented in the above table as being repriced in the short-term. The Group is exposed to fair value interest rate risk as a result of assets and liabilities at fixed interest rates in amounts and periods which differ; these are primarily presented in the above table as being repriced in the long-term. In practice, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Group monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions.

## 29 Financial Risk Management (Continued)

The table below summarises the effective interest rate, by major currencies, for major debt instruments. The analysis has been prepared based on year-end effective rates used for amortisation of the respective assets/liabilities.

In % p.a.	2006				2005			
	RR	USD	Euro	Other	RR	USD	Euro	Other
<b>Assets</b>								
Correspondent accounts and overnight placements with other banks	2.3	4.4	2.1	3.1	1.5	2.8	0.9	1.4
Placements with other banks with original maturities of less than three months	6.5	5.3	3.6	13.9	5.2	3.5	2.2	14.0
Reverse sale and repurchase agreements with other banks with original maturities of less than three months	7.7	-	-	-	-	-	-	-
Debt trading securities	6.4	6.3	-	-	6.7	6.4	-	-
Due from other banks	-	5.0	2.2	8.4	-	3.5	-	9.5
Loans and advances to customers	12.1	12.3	8.9	17.3	13.4	12.6	9.3	18.6
Debt investment securities available for sale	8.5	6.2	-	12.8	9.6	9.8	-	7.8
Repurchase receivable	6.2	-	-	-	9.5	-	-	-
<b>Liabilities</b>								
Due to other banks	4.7	6.7	5.0	6.3	5.5	5.3	4.7	9.5
Customer accounts								
- current and settlement accounts	0.1	0.1	0.2	0.9	0.1	0.1	0.1	0.8
- term deposits	7.5	6.6	5.3	9.0	7.4	6.1	6.0	13.3
Debt securities in issue	7.7	4.8	2.5	-	8.0	6.5	-	-
Other borrowed funds	-	9.1	-	-	-	9.3	-	-
Subordinated debt	-	9.7	-	-	-	-	-	-

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

## 30 Contingencies and Commitments

**Legal proceedings.** From time to time and in the normal course of business, claims against the Group 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 consolidated financial statements.

**Tax legislation.** Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. The Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities scrutiny.

**30 Contingencies and Commitments (Continued)**

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation introduced 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

In addition to the above transfer pricing matters, management estimates that the Group has other possible tax obligations in the range from zero to RR 273 223 thousand (2005: nil). The Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2006, no provision for potential tax liabilities was recorded (2005: no provision).

**Capital expenditure commitments.** At 31 December 2006 the Group has contractual capital expenditure commitments in respect of premises totalling RR 67 324 thousand (2005: nil).

The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

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

<i>In thousands of Russian Roubles</i>	<b>2006</b>	<b>2005</b>
Not later than 1 year	188 887	197 543
Later than 1 year and not later than 5 years	420 892	492 708
Later than 5 years	783 860	835 676
<b>Total operating lease commitments</b>	<b>1 393 639</b>	<b>1 525 927</b>

**Compliance with covenants.** The Group is subject to certain covenants related primarily to its other borrowed funds. Non-compliance with such covenants may mainly result in claims from the creditors for early repayment of the debt by the Group.



**30 Contingencies and Commitments (Continued)**

**Credit related commitments.** The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group 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.

The Group 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 outstanding credit related commitments of the Group are as follows:

<i>In thousands of Russian Roubles</i>	<b>2006</b>	<b>2005</b>
Guarantees issued	3 841 829	1 931 538
Import letters of credit	2 566 825	998 316
Export letters of credit	133 287	64 699
Letters of credit for settlements in the Russian Federation	167 169	-
<b>Total non-cancellable credit related commitments</b>	<b>6 709 110</b>	<b>2 994 553</b>

Deposits of RR 2 138 918 thousand (2005: RR 1 889 825 thousand) held as collateral for irrevocable commitments under import letters of credit and letters of credit for settlements in the Russian Federation are recorded in customer accounts (Refer to Note 16). These letters of credit are not included in the above table.

At 31 December 2006 the Group has commitments in relation to unused credit lines totalling RR 15 576 861 thousand (2005: RR 17 891 232 thousand), that include non-cancellable commitments for the amount of RR 36 046 thousand (2005: RR 70 223 thousand).

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

Credit related commitments are denominated in currencies as follows:

<i>In thousands of Russian Roubles</i>	<b>2006</b>	<b>2005</b>
US Dollars	3 709 712	1 374 278
Russian Roubles	1 643 885	743 590
Euro	1 326 698	858 679
Other	28 815	18 006
<b>Total</b>	<b>6 709 110</b>	<b>2 994 553</b>

**30 Contingencies and Commitments (Continued)**

**Trust activities.** The Group provides asset management services to its customers. These are assets that are not included in the Group's balance sheet as they are not assets of the Group. The assets managed by the Group are disclosed at their fair value and fall into the following categories:

<i>In thousands of Russian Roubles</i>	<b>2006</b>	<b>2005</b>
Corporate shares	3 110 729	979 595
Corporate bonds	2 246 486	138 994
Federal loan bonds (OFZ bonds)	447 482	-
Cash funds	377 357	1 857 836
Municipal bonds and bonds of the Russian Federation's regions	333 634	-
Credit-linked notes	-	413 912
Russian Federation Eurobonds	-	316 830
Other	284 629	128 460
<b>Total assets in trust management</b>	<b>6 800 317</b>	<b>3 835 627</b>

**Fiduciary assets.** These assets held in custody of the Group are not included in the Group's consolidated balance sheet as they are not the assets of the Group. Shares in mutual investment funds are presented at their estimated fair value. Other securities are presented at nominal value. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets fall into the following categories:

<i>In thousands of Russian Roubles</i>	<b>2006</b>	<b>2005</b>
Shares in mutual investment funds	1 765 108	-
Corporate shares	1 613 157	1 637 885
Corporate Eurobonds	92 159	-
Corporate bonds	12 349	13 958
Promissory notes	28 069	30 500
Federal loan bonds (OFZ bonds)	-	6 600
Municipal bonds and bonds of the Russian Federation's regions	-	91 147
Other	15 302	-

**Assets pledged and restricted.** At 31 December 2006, the Group has the following assets pledged as collateral:

<i>In thousands of Russian Roubles</i>	Note	<b>2006</b>		<b>2005</b>	
		<b>Asset pledged</b>	<b>Related liability</b>	<b>Asset pledged</b>	<b>Related liability</b>
Trading securities pledged for the credit limit of the CBRF	8	2 485 872	-	1 852 515	-
Trading securities pledged under sale and repurchase agreements	12, 15, 16	1 230 240	1 115 846	101 017	93 843
Securities purchased under reverse sale and repurchase agreements and pledged under sale and repurchase agreements	15, 16	1 726 955	1 722 453	-	-
Term deposits of other banks	9, 15	353 416	353 505	143 433	143 436

### 31 Derivative Financial Instruments

Foreign exchange derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forwards contracts entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term in nature.

<i>In thousands of Russian Roubles</i>	2006		2005	
	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
<b>Foreign exchange forwards: fair values, at the balance sheet date, of</b>				
- USD receivable on settlement	121 541	5 653 083	86 348	143 913
- USD payable on settlement	(31 597)	(489 758)	(143 913)	-
- Euros receivable on settlement	1 631	-	-	-
- Euros payable on settlement	(121 438)	(902 109)	-	-
- RR receivable on settlement	31 605	489 575	143 950	-
- RR payable on settlement	(1 629)	(4 756 696)	(86 271)	(143 950)
<b>Net fair value of foreign exchange forwards</b>	<b>113</b>	<b>(5 905)</b>	<b>114</b>	<b>(37)</b>

### 32 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 values of financial instruments have been determined by the Group 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 markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

**Financial instruments carried at fair value.** Trading securities, investment securities available for sale, financial derivatives and repurchase receivable are carried on the consolidated balance sheet at their fair value. Fair values were determined based on quoted market prices. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

**Loans and receivables carried at amortised cost.** The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest bearing placements is based on estimated future cash flows expected to be received discounted at current money market interest rates for new instruments with similar credit risk and remaining maturity. See Notes 9 and 10 for estimated fair value of due from other banks and loans and advances to customers, respectively.

### **32 Fair Value of Financial Instruments (Continued)**

**Liabilities carried at amortised cost.** The fair value bonds and Eurobonds issued by the Group is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Refer to Notes 15, 16, 17, 18 and 20 for the estimated fair values of due to other banks, customer accounts, debt securities in issue, other borrowed funds and subordinated debt, respectively.

### **33 Related Party Transactions**

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

As set out in Note 1, the main shareholder of the Group is the financial group IFD Kapital. The majority stake of its share capital is beneficially owned by Mr. Alekperov and Mr. Fedun (the "ultimate beneficiaries") and is managed by a professional asset management company, which is not owned by the ultimate beneficiaries. Transactions with related parties are entered into in the normal course of business with the Bank's significant shareholders, ultimate beneficiaries, directors and companies with which the Bank has significant shareholders in common. These transactions include settlements, loans, deposit taking, guarantees, trade finance and foreign currency transactions. These transactions are priced at market rates.

**Bank "Petrocommerce" Group**  
**Notes to the Consolidated Financial Statements – 31 December 2006**

**33 Related Party Transactions (Continued)**

At 31 December 2006 and 2005, the outstanding balances with related parties were as follows:

<i>In thousands of Russian Roubles</i>	2006		2005	
	Share-holders	Other	Share-holders	Other
Cash and cash equivalents				
Correspondent accounts and overnight placements with other banks (2006: 0.0%; 2005: 0.0%)	-	2 575	-	8 054
Trading securities	-	1 124 321	322 467	-
Loans and advances to customers				
Loans and advances (contractual interest rate: 2006: 7.2%-16.0%; 2005: 7.0%-13.0%)	2 359 307	1 000 726	132 442	299 554
Provision for loan impairment	(9 014)	(6 546)	(3 902)	(10 679)
Debt investment securities available for sale (2006: 14.0%; 2005: 14.0%)	-	47 835	-	48 783
Equity investment securities available for sale	-	24 476	-	21 255
Repurchase receivables	-	178 135	-	-
Due to other banks				
Correspondent accounts and overnight placements of other banks (2006: 0.0%-0.1%; 2005: 0.0%-0.1%)	-	4 045	-	161 930
Term placements of other banks (contractual interest rate: 2006: 2.0%, 2005: 9.6%)	-	40 004	-	288 790
Customer accounts				
Current/settlement accounts (2006: 0.0%-0.1%, 2005: 0.0%-0.1%)	1 122 921	4 405 825	2 277 999	2 706 643
Term deposits (contractual interest rate: 2006: 0.5%-11.5%; 2005: 2.0-9.3%)	4 524 482	3 727 007	7 342 018	5 473 779
Debt securities in issue (contractual interest rate: 2006: 0.0%-11.0%; 2005: 0.0%-10.4%)	29 019	607 451	435 392	44 778
Subordinated debt (2006: 9.4%)	-	4 002 016	-	-
Guarantees issued by the Group	285	1 483 208	573 366	608 546
Guarantees received by the Group	67 321	129 500	736 490	334 882
Import letters of credit	-	48 530	-	944 966
Letters of credit for settlements in the Russian Federation	-	145 879	-	-
Assets in trust management	2 706 841	30 302	2 167 970	198 779

**33 Related Party Transactions (Continued)**

The income and expense items with related parties for the year 2006 and 2005 were as follows:

<i>In thousands of Russian Roubles</i>	2006		2005	
	Shareholders	Other	Shareholders	Other
Interest income:				
- Loans to customers	14 379	36 681	5 077	81 732
- Debt securities available for sale	-	3 250	-	-
Interest expense:				
- Due to other banks	-	(2)	-	(2 354)
- Customer accounts	(326 562)	(366 221)	(253 417)	(434 719)
- Debt securities issued	(910)	(7 490)	(5 406)	(3 441)
Gains less losses from trading securities	-	(31 370)	44 925	-
Gains less losses from trading in foreign currencies	4 066	173 291	118 691	21 769
Gains less losses from investment securities available for sale	-	2 029	-	-
Fee and commission income	4 298	345 462	305 558	162 884
Fee and commission expense	-	(123)	-	(169 331)

Aggregate amounts lent to and repaid by related parties during 2006 and 2005 were:

<i>In thousands of Russian Roubles</i>	2006		2005	
	Shareholders	Other	Shareholders	Other
Amounts lent to related parties during the year	5 231 645	1 780 239	387 389	7 813 806
Amounts repaid by related parties during the year	3 002 178	1 121 335	368 504	8 845 651

The "Shareholders" column in the table mainly represents IFD Kapital Group and its ultimate beneficiaries and companies which are controlled by IFD Kapital Group and have direct ownership in the Bank. The "Other" column in the table mainly represents companies that are not shareholders of the Bank, but are controlled by Lukoil Group or IFD Kapital Group.

At 31 December 2006, included in customer accounts are amounts of RR 2 860 571 thousand (2005: RR 841 678 thousand) belonging to the ultimate beneficiaries of IFD Kapital Group. Interest expense on these customer accounts comprised RR 83 920 thousand (2005: RR 31 921 thousand).

In 2006, the remuneration of members of the Management Board comprised salaries, discretionary bonuses and other short-term benefits of RR 290 816 thousand (2005: RR 173 473 thousand).

**34 Principal Subsidiaries**

Name	Nature of business	Percentage of the Bank's direct ownership	Percentage of Group's control	Country of registration
Komi Regional Bank "UKHTABANK"	Banking	96.74	96.74	Russia
Petrocommerce-Ukraine Bank	Banking	74.96	95.30	Ukraine
Stavropolpromstroybank	Banking	77.27	77.27	Russia
UNIBANK	Banking	100.00	100.00	Moldova
Petrocommerce Invest S.A.	Finance	96.80	100.00	Luxembourg

In addition to the above subsidiaries, the Group controls a number of special purpose entities. The principal activity of these special purpose entities is operations with securities on the Russian market.