OJSC “Bank “St Petersburg” Group

Consolidated Financial Statements and Auditors’ Report

31 December 2006

CONTENTS

INDEPENDENT AUDITORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS

PRICEWATERHOUSECOOPERS

ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya nab. 52/5
115054 Moscow
Russian Federation
Telephone +7 (495) 967 6000
Facsimile +7 (495) 967 6001

INDEPENDENT AUDITORS' REPORT

To the Supervisory Board of OJSC "Bank "St Petersburg":

1 We have audited the accompanying consolidated financial statements of OJSC "Bank "St Petersburg" and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cashflows 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 consolidated 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 consolidated financial statements are free from material misstatement.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 Group'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 consolidated 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 aspects, 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
28 April 2007

In thousands of Russian Roubles	Note	31 December 2006	31 December 2005
ASSETS			
Cash and cash equivalents	7	8 756 668	4 556 945
Mandatory cash balances with the Central Bank of the Russian Federation		773 158	500 453
Trading securities	8	6 084 480	3 024 055
Other securities at fair value through profit or loss	9	1 365 396	327 488
Due from other banks	10	1 853 807	2 086 821
Loans and advances to customers	11	39 704 896	19 044 576
Prepaid income tax		20 915	11 917
Deferred income tax asset	25	566	1 107
Premises, equipment and intangible assets	12	1 618 326	1 394 328
Other assets	13	401 439	187 052
TOTAL ASSETS		**60 579 651**	**31 134 742**
LIABILITIES			
Due to other banks	14	767 935	1 293 684
Customer accounts	15	44 751 809	23 438 211
Bonds issued	16	4 269 548	-
Other debt securities in issue	17	2 755 799	2 825 234
Other borrowed funds	18	3 266 929	35 926
Other liabilities	19	144 837	154 704
Deferred income tax liability	25	116 270	70 349
TOTAL LIABILITIES		**56 073 127**	**27 818 108**
EQUITY			
Share capital	20	3 483 580	3 284 230
Share premium	20	1 925 556	2 124 906
Revaluation reserve for premises and equipment	21	498 698	510 909
Accumulated deficit		(1 401 310)	(2 603 411)
TOTAL EQUITY		**4 506 524**	**3 316 634**
TOTAL LIABILITIES AND EQUITY		**60 579 651**	**31 134 742**

Approved for issue and signed on behalf of the Supervisory Board on 28 April 2007.

A.V. Savelev
Chairman of the Board

N.G. Tomilina
Chief Accountant

In thousands of Russian Roubles	Note	2006	2005
Interest income	22	4 365 201	2 629 314
Interest expense	22	(1 649 876)	(941 925)
Net interest income		**2 715 325**	**1 687 389**
Provision for loan impairment	10, 11	(483 894)	(476 956)
Net interest income after provision for loan impairment		**2 231 431**	**1 210 433**
Gains less losses from trading securities		110 370	127 138
Gains less losses from other securities at fair value through profit or loss		2 029	32 102
Gains less losses from trading in foreign currencies		282 935	9 320
Foreign exchange translation (losses less gains)/gains less losses		(147 961)	109 649
Fee and commission income	23	650 596	418 708
Fee and commission expense	23	(75 373)	(25 198)
Release of provision for impairment of premises	12	-	44 927
Provision for losses on credit related commitments	19	(1 929)	(10 466)
Other net operating income		44 690	13 298
Operating income		**3 096 788**	**1 929 911**
Administrative and other operating expenses	24	(1 527 936)	(1 133 463)
Profit before tax		**1 568 852**	**796 448**
Income tax expense	25	(375 921)	(166 398)
Profit for the year		**1 192 931**	**630 050**
Basic earnings per ordinary share (in Russian Roubles per share)	26	**5.9**	**3.5**

		Attributable to equity holders of the Bank				
		Share capital	**Share premium**	**Revaluation reserve for premises and equipment**	**Accumu-lated deficit**	**Total equity**
Balance as at 1 January 2005		**3 281 105**	**1 628 031**	**224 461**	**(3 240 584)**	**1 893 013**
Premises:						
- Revaluation	12	-	-	389 702	-	389 702
- Disposal of premises	12	-	-	(9 726)	9 726	-
Income tax recorded in equity	25	-	-	(93 528)	-	(93 528)
Net income recognised directly in equity		-	-	286 448	9 726	296 174
Profit for the year		-	-	-	630 050	630 050
Total recognised income for 2005		-	-	286 448	639 776	926 224
Share issue	20	3 125	496 875	-	-	500 000
Dividends declared						
- Ordinary shares	27	-	-	-	(2 382)	(2 382)
- Preference shares	27	-	-	-	(221)	(221)
Balance as at 31 December 2005		**3 284 230**	**2 124 906**	**510 909**	**(2 603 411)**	**3 316 634**
Premises:						
- Disposal of premises		-	-	(12 211)	12 211	**-**
Result recorded directly in equity		-	-	(12 211)	12 211	-
Profit for the year		-	-	-	1 192 931	1 192 931
Total recognised income for 2006		-	-	(12 211)	1 205 142	1 192 931
Share issue	20	199 350	(199 350)	-	-	-
Dividends declared						
- Ordinary shares	27	-	-	-	(2 820)	(2 820)
- Preference shares	27	-	-	-	(221)	(221)
Balance as at 31 December 2006		**3 483 580**	**1 925 556**	**498 698**	**(1 401 310)**	**4 506 524**

In thousands of Russian Roubles	Note	2006	2005
Cash flows from operating activities			
Interest income received on loans		4 081 669	2 392 955
Interest income received on securities		233 777	211 211
Interest expense paid on deposits		(1 253 445)	(673 926)
Interest expense paid on securities issued		(144 985)	(160 116)
Income received from trading in trading securities		95 809	125 684
Income received from trading in other securities at fair value through profit or loss		-	20 220
Income received from trading in foreign currencies		275 710	17 179
Fees and commissions received		650 596	418 708
Fees and commissions paid		(75 373)	(25 198)
Other net operating income received		26 093	13 965
Operating expenses paid		(1 452 437)	(915 819)
Income tax paid		(338 457)	(225 471)
Cash flows from operating activities before changes in operating assets and liabilities		**2 098 957**	**1 199 392**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(272 705)	(211 793)
Net increase in trading securities		(3 108 469)	(910 299)
Net (increase)/decrease in other securities at fair value through profit or loss		(1 042 583)	418 560
Net decrease/(increase) in due from other banks		206 393	(1 763 716)
Net increase in loans and advances to customers		(21 507 395)	(9 003 430)
Net (increase)/decrease in other assets		(202 205)	22 438
Net (decrease)/increase in due to other banks		(442 173)	647 870
Net increase in customer accounts		21 426 883	11 419 696
Net (decrease)/increase in other debt securities in issue		(80 113)	802 425
Net increase/(decrease) in other liabilities		37 500	(8 474)
Net cash (used in)/from operating activities		**(2 885 910)**	**2 612 669**
Cash flows from investing activities			
Acquisition of premises and equipment and intangible assets	12	(364 863)	(165 111)
Proceeds from disposal of premises and equipment and intangible assets		22 137	156
Dividend income received		3 369	3 137
Net cash used in operating activities		**(339 357)**	**(161 818)**
Cash flows from financing activities			
Issue of ordinary shares			
- Share capital	20	-	3 125
- Share premium	20	-	496 875
Issue of bonds		4 229 915	-
Attraction of other borrowed funds		3 233 303	-
Repayment of other borrowed funds		(13 286)	(65 445)
Dividends paid	27	(2 961)	(2 646)
Net cash from financing activities		**7 446 971**	**431 909**
Effect of exchange rate changes on cash and cash equivalents		**(21 981)**	**(4 793)**
Net increase in cash and cash equivalents		**4 199 723**	**2 877 967**
Cash and cash equivalents at the beginning of the year		4 556 945	1 678 978
Cash and cash equivalents at the end of the year	7	**8 756 668**	**4 556 945**

Notes on pages 5 to 56 are 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 OJSC “Bank “St Petersburg” (the “Bank”), its subsidiary Leasing Company “St Petersburg” and a controlled special purpose entity BSPB Finance plc (together referred to as the “Group” or OJSC “Bank “St Petersburg” Group”).

The Bank was formed in 1990 as an open joint stock company under the Laws of the Russian Federation as the result of the privatization process of the former Leningrad regional office of Zhilsotsbank. The Bank is an open joint stock company limited by shares.

50.8% (2005: 50.2%) of the ordinary shares of the Bank are ultimately controlled by top management of the Bank headed by Mr. Saveliev. Another 15.0% (2005: 14.9%) of the shares are ultimately controlled by Mr. Troitskiy, and 15.1% (2005: 15.1%) of the shares are ultimately controlled by Mr. Korzhev. 13.8% of the shares are ultimately controlled by “Vozrozhdenie” Group headed by Mr. Bukato. The remaining 5.3% (2005: 6%) of the shares are widely held.

Principal activity. The Bank’s principal business activity is commercial banking operations within the Russian Federation. The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation (“CBRF”) since 1997. In 2004, the Bank was admitted to the state deposit insurance scheme introduced by Federal Law No.177-FZ “Deposits of individuals insurance in the 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 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.

As at 31 December 2006 the Bank had 9 branches within the Russian Federation: 8 branches are located in the North-West region of Russia, and one branch in Moscow (2005: the Bank had 9 branches within the Russian Federation: 8 branches are located in the North-West region of Russia, and one branch in Moscow).

The principal business activity of Leasing Company “St Petersburg” is leasing. Special purpose entity BSPB Finance plc is used by the Group for Eurobond issue (Refer to Note 16).

Registered address and place of business. The Bank’s registered address and place of business is: 193167, Russian Federation, Saint Petersburg, Nevskiy Porspect, 178.

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

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.

3 Basis of Preparation and 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 the revaluation of premises and equipment, available-for-sale financial assets, and other securities categorised as at fair value through profit or loss. 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.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Consolidation. Subsidiaries are 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 Bank holds 100% of voting rights in a fully consolidated subsidiary Leasing Company "St Petersburg".

The Group holds zero interest in share capital in a fully consolidated special purpose entity BSPB Finance plc. However the Group obtains all the rewards and risks from the activities of this Company. Refer to Note 33.

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 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.

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

Minority interest in negative net assets of the subsidiary and all subsequent losses attributable to minority interest are recorded within the majority interest, i.e. the interest of Group shareholders. If the subsidiary subsequently reports profit, such profit is charged to majority interest until the minority share of losses previously recorded within majority interest is recovered.

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. *Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), 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.

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 an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arms length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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 effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees and points 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, derivatives and other securities at fair value through profit or loss 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 instruments 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 instrument. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading securities, derivatives and other securities at fair value through profit or loss; and recognised in equity for assets classified as available for sale.

Cash and cash equivalents. Cash and cash equivalents are items which can be converted into cash within a day. All short term interbank placements, beyond overnight deposits, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the CBRF. Mandatory cash balances with the CBRF 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 cash flow statement.

Trading securities. Trading securities are securities, which are either acquired for generating 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 1 to 6 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 Basis of Preparation and Significant Accounting Policies (Continued)

Other securities at fair value through profit or loss. Other securities at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if this group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented provision on risk management, and information on that basis is regularly provided to and reviewed by the top management of the Bank.

Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

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 cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group concludes 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 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 fully or partially have been completed and the amount of the loss has been determined.

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 and reassesses that classification at each subsequent balance sheet date.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Investment securities available for sale are carried at fair value. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement 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.

Advances. Advances are recognised, if the Group made a prepayment under a contract for services that are not yet provided, and are recorded at amortised cost.

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 due to other banks or customer accounts, depending on the counteragent.

Securities purchased under agreements to resell (“reverse repo agreements”) are recorded as 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 due from other banks and loans and advances to customers, based on their substance and are recorded and subsequently remeasured and accounted in accordance with the accounting policies for this category 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, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

Premises of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises and equipment being revalued. The revaluation reserve for premises and equipment included in equity is transferred directly to accumulated deficit when the surplus is realised, i.e. on the retirement or disposal of the asset.

All other items of premises and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

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.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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 to the extent it exceeds the previous revaluation surplus in equity. 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.

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives:

Premises: 50 years;

Office and computer equipment: 5 years;

Leasehold improvements: over the term of the underlying lease.

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 by the end of its physical life. The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Intangible assets. All of the Group’s intangible assets have definite useful life and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Capitalised computer software is amortised on a straight line basis over expected useful lives of 3 to 4 years. All other costs associated with computer software, eg its maintenance, are expensed when incurred.

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, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

Finance leases. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the consolidated income statement.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Impairment losses are recognised in consolidated profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of finance lease receivables. Impairment losses are recognised through an allowance account to write down the receivables’ net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The expected future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to 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. If the Group purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of a liability and the consideration paid is included in other operating income.

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 bonds and certificates of deposit 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 balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in other income.

***Other borrowed funds**.* Other borrowed funds include liabilities to state or corporate customers and are carried at amortised cost.

Derivative financial instruments. Derivative financial instruments, including foreign exchange forwards, futures and swaps, 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 recognized as gains less losses arising from trading in foreign currency in the consolidated statement of income. The Group does not enter into derivative financial instruments for hedging purposes.

Income taxes. Income taxes have been provided for in the financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax charge and deferred tax and is recognised in the consolidated statement of income 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 financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carryforwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred taxes are not recorded for temporary differences arising on initial recognition of an asset or a liability in a transaction 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 are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management as less likely than not to be sustained if challenged by tax authorities, based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the balance sheet date.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. Related provisions are provided for where there is a present obligation (legal or constructive) as a result of a past event. 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.

Credit related commitments. In the normal course of business, 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. 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.

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

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.

When loans and other debt instruments become doubtful of collection, they are written down to 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.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, that are payable upon completion of the deal (such as the acquisition of loans, shares or other securities or the purchase or sale of businesses), are recorded on completion of the underlying transaction.

Foreign currency translation. Functional currency of the Group’s entities is the currency of the primary economic environment in which the entity operates. The Bank’s and its subsidiaries’ functional currency and the Group’s presentation currency is the national currency of the Russian Federation, Russian Roubles (“RR”).

3 Basis of Preparation and Significant Accounting Policies (Continued)

Currency monetary assets and liabilities are translated into Russian Roubles at the official exchange rate of the CBRF at the respective balance sheet date. Translation differences on debt securities and other financial assets measured at fair value are included in foreign exchange translation gains and losses in the statement of income. Translation at the rates effective as at the end of the reporting period 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.

As at 31 December 2006, the official rate of exchange used for translating foreign currency balances was USD 1 = RR 26.3311 and EURO 1 = RR 34.6965 (2005: USD 1 = RR 28.7825 and EURO 1 = RR 34.1850).

Fiduciary assets. Assets and liabilities held by the Group in its own name, but on the account of third parties, are not reported on the balance sheet. The extent of such balances and transactions is indicated in Note 30. 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 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 financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. IFRS indicates that reporting operating results and financial position in the local currency without restatement is not useful. 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.

The characteristics of the economic environment of the Russian Federation indicate that hyperinflation has 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, bonuses, and non-monetary benefits 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.

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 consolidated 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 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. To the extent that the assessed delay in repayment of principal on 5% of the total loans and advances to customers differs by +/- one month, the provision would be approximately RR 21 329 thousand higher or RR 21 329 thousand lower (2005: RR 11 190 thousand higher or RR 11 190 thousand lower).

Revaluation of premises. Premises of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The Group’s management uses judgement for determining the materiality of changes in the fair values of premises during the reporting period for deciding whether a revaluation is necessary. To the extent that the assessed change in the fair value of premises differs by 10%, the effect of the revaluation adjustment would be approximately RR 125 307 (before deferred tax) as at 31 December 2006 (2005: RR 113 511 thousand).

Tax legislation. The tax legislation of the Russian Federation is subject to varying interpretations, and changes, which can occur frequently. Refer to Note 30.

Related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 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.

Special Purpose Entities. Judgement is also 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.

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 amended standards 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.

IAS 39 (Amendment) – The Fair Value Option (effective from 1 January 2006). IAS 39 (as revised in 2003) permitted entities to designate 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 certain financial instruments as part of this category. The Group amended its policies and management now designates financial instruments as part of this category only if a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented provision on risk management, and information on that basis is regularly provided to and reviewed by the top management of the Bank. The Group applies the amendment retrospectively in accordance with the transitional provisions of the Fair Value Option amendment to IAS 39. The amendment did not have an 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 financial statements.

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 financial statements.

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). This Standard applies to entities the debt instrument of which are traded in the open market, and entities which provide, or plan to provide, their financial statements to supervisory bodies in connection with placement of certain instruments in the open market. IFRS 8 requires to disclose financial and narrative information in respect of operating segments and clarifies how to disclose it in the financial statements. The management does not expect IFRS 8 to have an impact on the consolidated financial statements of the Group.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as 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 capitalisation is on or after 1 January 2009.

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 financial statements.

7 Cash and Cash Equivalents

In thousands of Russian Roubles	2006	2005
Cash on hand	1 493 524	1 136 818
Cash balances with the CBRF (other than mandatory reserve deposits)	3 145 336	2 023 956
Correspondent accounts and overnight placements with other banks		
- Russian Federation	2 265 220	547 003
- Other countries	1 540 619	705 418
Settlement accounts with trading systems	311 969	143 750
Total cash and cash equivalents	**8 756 668**	**4 556 945**

Geographical, currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 29.

8 Trading Securities

In thousands of Russian Roubles	2006	2005
Federal loan bonds (OFZ bonds)	2 476 819	1 554 638
Corporate bonds	1 614 032	214 823
Russian Federation Eurobonds	1 163 317	550 880
Municipal bonds	537 428	594 125
Corporate shares	292 884	19 177
Corporate Eurobonds	-	90 412
Total trading securities	**6 084 480**	**3 024 055**

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds have maturity dates from 30 April 2008 to 6 February 2036 (2005: 2 September 2006 to 29 August 2018), coupon rate of 5.8-10.0% p. a. (2005: 6.3-10.0% p. a.) and yield to maturity from 5.8% to 7.0% p. a. as at 31 December 2006 (2005: from 5.1% to 6.8% p. a.), depending on the type of bond issue.

Corporate bonds are interest bearing Russian Rouble denominated securities issued by Russian companies, and are freely tradable in the Russian market. These bonds have maturity dates from 19 April 2007 to 23 November 2011 (2005: from 20 March 2008 to 22 April 2010), coupon rate of 9.3% - 13.5% p.a. in 2006 (2005: 11.5 – 15.5% p.a.) and yield to maturity from 8.3% to 12.7% p. a. as at 31 December 2006 (2005: from 5.3% to 12.7% p.a.), 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 have maturity dates from 31 March 2010 to 31 March 2030 (2005: from 31 March 2010 to 31 March 2030), coupon rate of 5.0-8.3% p.a. in 2006 (2005: 5.0-8.3% p.a.) and yield to maturity from 5.4% to 5.7% p.a. as at 31 December 2006 (2005: from 4.8 % to 5.6% p.a.), depending on the type of bond issue.

8 Trading Securities (Continued)

Municipal bonds are Russian Rouble denominated securities issued by the municipal administrations of St. Petersburg and Moscow Region (2005: municipal administrations of St. Petersburg, Volgograd Region, Moscow Region and Krasnoyarsk Region). These bonds are issued at a discount to nominal value, have maturity dates from 18 June 2008 to 6 August 2014 (2005: from 18 May 2006 to 6 August 2014), coupon rate of 9.0 – 11.0% p.a. (2005: 9.0 – 12% p.a.) and yield to maturity from 6.6% to 6.9% p.a. as at 31 December 2006 (2005: from 6.3% to 11.5% p.a.), depending on the type of bond issue.

Corporate shares are shares of Russian companies which are freely tradable in the Russian market.

As at 31 December 2005 corporate Eurobonds were interest bearing securities denominated in USD, issued by Russian companies, and are freely tradable internationally. These bonds have maturity dates from 20 April 2008 to 24 February 2009, coupon rate of 8.5% to 8.6% p.a. and yield to maturity from 7.5% to 8.5% p. a. as at 31 December 2005, depending on the type of bond issue.

At 31 December 2006 there are no trading securities pledged under sale and repurchase agreements (2005: included in trading securities are municipal bonds pledged under sale and repurchase agreements whose fair value is RR 466 582 thousand). Refer to Notes 15 and 30.

Geographical, currency, maturity and interest rate analyses of trading securities are disclosed in Note 29.

The Bank is licensed by the Federal Agency of the Russian Federation for Financial Markets for trading in securities.

9 Other Securities at Fair Value Through Profit or Loss

In thousands of Russian Roubles	**2006**	**2005**
VneshEconomBank 3% coupon bonds (VEB bonds)	1 365 396	327 488
Total other securities at fair value through profit or loss	**1 365 396**	**327 488**

The Group irrevocably designated the above securities that are not part of its trading book as at fair value through profit or loss. The securities meet the criteria for classification as at fair value through profit or loss because management assesses performance of the investments based on their fair values in accordance with the documented provision on risk management.

VEB bonds are interest bearing securities denominated in USD issued by the Ministry of Finance of the Russian Federation. The bonds are purchased at a discount to nominal value and carry an annual effective annual yield of 3.0% p.a. The bonds have maturity dates from 14 May 2008 to 14 May 2011 (2005: from 14 May 2008 to 14 May 2011) and a yield to maturity from 6.2% to 6.9% p.a. as at 31 December 2006 (2005: from 5.0% to 5.2% p.a.), depending on the type of bond issue.

Geographical, currency, maturity and interest rate analyses of other securities at fair value through profit or loss are disclosed in Note 29.

10 Due from Other Banks

In thousands of Russian Roubles	2006	2005
Current term placements with other banks	1 855 593	2 098 951
Overdue placements with other banks	2 627	2 843
Net investment in lease	-	232
Less: Provision for impairment of due from other banks	(4 413)	(15 205)
Total due from other banks	**1 853 807**	**2 086 821**

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

In thousands of Russian Roubles	2006	2005
Provision for impairment of due from other banks as at 1 January	**15 205**	**6 829**
(Recovery of)/provision for loan impairment of due from other banks during the year	(10 792)	9 375
Due from other banks written off during the year as uncollectible	-	(999)
Provision for impairment of due from other banks as at 31 December	**4 413**	**15 205**

As at 31 December 2006, the estimated fair value of due from other banks was RR 1 853 807 thousand (31 December 2005: 2 086 821 thousand). Refer to Note 31.

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 32.

11 Loans and Advances to Customers

In thousands of Russian Roubles	2006	2005
Current loans	40 816 554	18 930 334
Net investment in lease	331 110	210 223
Sale and repurchase agreements	-	918 102
Overdue loans	161 988	164 187
Less: Provision for loan impairment of loans and advances to customers	(1 604 756)	(1 178 270)
Total loans and advances to customers	**39 704 896**	**19 044 576**

At 31 December 2005 loans and advances to customers of RR 918 102 thousand are effectively collateralised by securities purchased under sale and repurchase agreements with a fair value of RR 967 747 thousand, for all of which the Group has a right to sell or repledge.

11 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment are as follows:

In thousands of Russian Roubles	**2006**	**2005**
Provision for loan impairment of loans and advances to customers as at 1 January	**1 178 270**	**846 334**
Provision for loan impairment during the year	494 686	467 581
Loans and advances to customers written off during the year as uncollectible	(68 200)	(135 645)
Provision for loan impairment of loans and advances to customers as at 31 December	**1 604 756**	**1 178 270**

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

	2006		**2005**	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Real estate	8 077 938	19.6	3 008 856	14.9
Trade	6 557 787	15.9	3 263 736	16.1
Leasing and financial services	5 499 006	13.3	2 288 320	11.3
Construction	5 330 377	12.9	3 563 308	17.6
Heavy machinery and ship-building	4 684 695	11.3	3 444 567	17.0
Production and food industry	3 590 147	8.7	1 591 288	7.9
Individuals	2 054 874	5.0	450 519	2.2
Transport	1 230 455	3.0	60 037	0.3
Energy	1 182 027	2.9	591 571	2.9
Chemical industry	721 309	1.6	259 073	1.3
Other	2 381 037	5.8	1 701 571	8.5
Total loans and advances to customers (before impairment)	**41 309 652**	**100.0**	**20 222 846**	**100.0**

As at 31 December 2006, the Group had 25 borrowers with aggregated loan amounts above 10% of the consolidated equity of the Group as at this date. The aggregate amount of these loans was RR 15 921 926 thousand or 39% of the gross loan portfolio before impairment.

As at 31 December 2005, the Group had 12 borrowers with aggregated loan amounts above 10% of the consolidated equity of the Group as at this date. The aggregate amount of these loans was RR 7 007 824 thousand, or 35% of the gross loan portfolio before impairment.

As at 31 December 2006, the estimated fair value of loans and advances to customers was RR 39 704 896 thousand (2005: RR 19 015 996 thousand). Refer to Note 31.

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 32.

12 Premises and Equipment and Intangible Assets

	Note	Premises	Office and computer equipment	Construction in progress	Intangible assets	Total
Cost as at 1 January 2005		876 647	314 609	9 721	13 846	1 214 823
Accumulated depreciation and impairment losses		(123 618)	(166 538)	-	(10 246)	(300 402)
Net book amount as at 1 January 2005		**753 029**	**148 071**	**9 721**	**3 600**	**914 421**
Additions		7 443	144 785	9 001	3 882	165 111
Transfers between categories		-	9 717	(9 717)	-	-
Disposals		(38 916)	(688)	-	(2)	(39 606)
Depreciation charge	24	(21 070)	(56 082)	-	(3 075)	(80 227)
Revaluation		389 702	-	-	-	389 702
Release of provision for impairment through profit or loss		44 927	-	-	-	44 927
Net book amount as at 31 December 2005		**1 135 115**	**245 803**	**9 005**	**4 405**	**1 394 328**
Cost as at 31 December 2005		1 168 681	449 702	9 005	17 726	1 645 114
Accumulated depreciation and impairment losses		(33 566)	(203 899)	-	(13 321)	(250 786)
Net book amount as at 31 December 2005		**1 135 115**	**245 803**	**9 005**	**4 405**	**1 394 328**
Additions		162 321	188 342	13 473	727	364 863
Transfers between categories		5 710	1 601	(7 311)	-	-
Disposals		(19 600)	(1 881)	-	(1 058)	(22 539)
Depreciation charge	24	(30 475)	(86 770)	-	(1 081)	(118 326)
Net book amount as at 31 December 2006		**1 253 071**	**347 095**	**15 167**	**2 993**	**1 618 326**
Cost as at 31 December 2006		1 316 743	632 777	15 167	9 992	1 974 679
Accumulated depreciation and impairment losses		(63 672)	(285 682)	-	(6 999)	(356 353)

Construction in progress consists of construction and refurbishment of branch premises. Upon completion, assets are transferred to premises and equipment.

The premises of the Group have been revalued as at 31 December 2005. The revaluation has been performed by an independent professional real estate appraisal company, which is registered in St. Petersburg. The basis for the appraisal was market value. The fair value was calculated on the basis of three approaches to valuation: comparison approach, income approach and replacement approach.

12 Premises and Equipment and Intangible Assets (Continued)

- The *comparison* approach is based on the direct comparison of the revalued object with other objects sold or offered for sale. The market value of premises is determined by the price which an independent party would pay for an object similar by its quality and use. The market value of premises was estimated on the basis of the comparison approach based on information on sales of the comparable objects that took place in the market.

- When determining the value of the property on the basis of the *income* approach, the discounted cash flows method was applied. The basic principle used as a basis for this approach was the assumption that upon acquiring any property an investor expects to generate income from commercial operation of such property.

- The *replacement cost* approach represents a set of methods of valuation of property based on determination of costs required to recover or replace an object taking into account its depreciation. The basis of the cost approach is the principle of replacement, under which a buyer will not pay for an object an amount exceeding the cost of creation within a reasonable time of an object with equal utility.

The carrying value as at 31 December 2006 includes revaluation of the Group's premises in the amount of RR 656 311 thousand (2005: RR 672 247 thousand). As at 31 December 2005 the Bank has recorded a deferred tax liability of RR 157 513 thousand related to this amount (2005: RR 161 338 thousand).

13 Other Assets

In thousands of Russian Roubles	Note	2006	2005
Receivables and advance payments		249 004	71 699
Deferred expenses		42 323	9 953
Receivables on plastic cards transactions		39 270	29 043
Prepaid taxes other than on income		32 825	19 732
Settlements on conversion operations		22 561	4 946
Investment securities available for sale		11 368	11 368
Fair value of derivative financial instruments	30	2 238	4 112
Receivables on sale of investments in property for resale		-	17 831
Other		1 850	18 368
Total other assets		**401 439**	**187 052**

Receivables and advances as at 31 December 2006 included advances made by the Group in relation to purchase of new premises, computer software and leased out equipment and also prepayments for repair works of existing premises.

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

14 Due to Other Banks

In thousands of Russian Roubles	2006	2005
Correspondent accounts and overnight placements of other banks	17 726	11 929
Current term placements of other banks	750 209	1 281 755
Total due to other banks	**767 935**	**1 293 684**

As at 31 December 2006 the estimated fair value of due to other banks was RR 767 935 thousand (2005: RR 1 293 684 thousand). Refer to Note 31.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 29.

15 Customer Accounts

In thousands of Russian Roubles	**2006**	**2005**
State and public organisations		
- Current/settlement accounts	303 625	63 646
- Term deposits	2 347 817	740 000
Other legal entities		
- Current/settlement accounts	15 931 672	9 029 504
- Term deposits	10 536 393	4 217 631
- Sale and repurchase agreements	-	434 269
Individuals		
- Current/demand accounts	3 674 246	1 791 028
- Term deposits	11 958 056	7 162 133
Total customer accounts	**44 751 809**	**23 438 211**

State and public organisations exclude government owned profit orientated businesses.

Economic sector concentrations within customer accounts are as follows:

	2006		**2005**	
In thousands of Russian Roubles	**Amount**		**Amount**	**%**
Individuals	15 632 302	34.9	8 953 161	38.2
Construction	4 922 044	11.0	2 308 038	9.8
Production	3 828 411	8.6	1 984 581	8.5
Trade	3 443 186	7.7	1 425 077	6.1
Financial services	3 281 224	7.3	2 692 378	11.5
Real estate	3 130 467	7.0	1 402 752	6.0
Cities and municipalities	2 634 713	5.9	793 767	3.4
Transport	2 357 302	5.3	1 310 827	5.6
Public utilities	1 530 624	3.4	905 367	3.9
Energy	1 220 868	2.7	39 932	0.2
Art, science and education	1 110 816	2.5	800 266	3.4
Medical institutions	228 912	0.5	202 416	0.9
Communications	197 471	0.4	102 884	0.4
Other	1 233 469	2.8	516 765	2.1
Total customer accounts	**44 751 809**	**100.0**	**23 438 211**	**100.0**

15 Customer Accounts (Continued)

As at 31 December 2006, the Group had 11 borrowers with total balances above 10% of the consolidated equity of the Group as at this date. The aggregate balance of these customers was RR 10 537 798 thousand, or 23.5% of total customer accounts.

As at 31 December 2005, the Group had 6 borrowers with total balances above 10% of the consolidated equity of the Group as at this date. The aggregate balance of these customers was RR 3 729 030 thousand, or 15.9% of total customer accounts.

As at 31 December 2006, there were no sale and repurchase agreements included in customer accounts (2005: included in customer accounts were sale and repurchase agreements with legal entities in the amount of RR 434 269 thousand. Securities sold under these sale and repurchase agreements are municipal bonds with the fair value of RR 466 582 thousand). Refer to Notes 8 and 30.

As at 31 December 2006, included in customer accounts are deposits of RR 1 022 040 thousand held as collateral for irrevocable commitments under import letters of credit (2005: nil). Refer to Note 30.

As at 31 December 2006 the estimated fair value of customer accounts was RR 44 751 809 thousand (2005: RR 23 438 211 thousand). Refer to Note 31.

The 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 32.

16 Bonds Issued

In thousands of Russian Roubles	**2006**	**2005**
Eurobonds	3 271 546	-
Bonds	998 002	-
Total bonds issued	**4 269 548**	**-**

In 2006, the Group placed interest-bearing US Dollar-denominated Eurobonds (one bond – USD 100 000) in the amount of 1 250 bonds. The issue was registered on Ireland Stock Exchange. As at 31 December 2006 the carrying value of these bonds was USD 124 246 thousand, the equivalent of RR 3 271 546 thousand. Eurobonds have maturity on 25 November 2009, nominal coupon rate of 9.501% p.a. and effective interest rate of 10.44% p.a. The Group should observe certain covenants, relating to Eurobond issue (Refer to Note 30).

On 14 June 2006, the Group placed Russian Rouble denominated interest-bearing bonds (one bond – RR 1 000) in the amount of 1 000 000 bonds. As at 31 December 2006, the carrying value of these bonds was RR 998 002 thousand. The bonds have maturity date on 22 June 2009. Coupon rate established for the first four coupon periods is 9.6% p.a. For the coupon periods starting from the fifth period coupon rate shall be established by the issuer. These bonds bear an early redemption option at nominal value on the third day of the fifth coupon period, namely 20 June 2007.

As at 31 December 2006, the estimated fair value of bonds issued was RR 4 269 548 thousand.

Geographical, currency, maturity and interest rate analyses of bonds issued are disclosed in Note 29.

17 Other Debt Securities in Issue

In thousands of Russian Roubles	**2006**	**2005**
Promissory notes	2 488 345	2 586 036
Deposit certificates	267 454	239 198
Total other debt securities in issue	**2 755 799**	**2 825 234**

As at 31 December 2006, the estimated fair value of other debt securities in issue was RR 2 755 799 thousand (2005: RR 2 825 234 thousand).

Geographical, currency, maturity and interest rate analyses of other debt securities in issue are disclosed in Note 29.

18 Other Borrowed Funds

In thousands of Russian Roubles	**2006**	**2005**
Subordinated loans	2 185 167	-
Syndicated loan	795 166	-
Funds attracted from EBRD	267 379	-
Funds attracted from the Ministry of Finance and the Ministry of Construction of the Russian Federation under the Housing facility program	16 824	30 657
Funds attracted from the Ministry of Finance of the Russian Federation under FIDP facility	2 393	5 269
Total other borrowed funds	**3 266 929**	**35 926**

In September 2006, the Group attracted subordinated loans from shareholders and other companies in the amount of RR 875 000 thousand with maturity in September 2012. As at 31 December 2006, the carrying value of these subordinated loans was RR 875 000 thousand. These subordinated loans were attracted at fixed interest rates varying from 11.5% to 12.0% p.a.

In December 2006, the Group attracted a subordinated loan in the amount of USD 50 000 thousand with maturity in March 2012 financed by issuing credit linked notes. The provider of this subordinated loan was investment bank "TRUST". As at 31 December 2006, the carrying value of this subordinated loan was USD 49 757 thousand, the equivalent of RR 1 310 167 thousand. This subordinated loan was attracted at fixed interest rate of 11% p.a.

In the event of liquidation of the Bank, the claims of repayment of subordinated loans are subordinated to the claims of all other creditors and depositors of the Bank.

On 31 July 2006, the Group attracted a syndicated loan arranged by ABN AMRO Bank N.V. The participants of the loan are 10 non-resident banks, one non-resident company and one resident bank. The amount of the loan is USD 30 000 thousand. As at 31 December 2006, the carrying value of this loan was USD 30 199 thousand, the equivalent of RR 795 166 thousand. The syndicated loan has maturity date on 30 July 2007 with possibility to extend it for 364 days on the discretion of the Bank's management. The interest rate on this loan is LIBOR plus 2.4% p.a. (as at 31 December 2006, the interest rate was 7.8% p.a.).

On 25 October 2006, the Group attracted the first tranche of the loan provided by the European Bank of Reconstruction and Development (EBRD) in the amount of USD 10 000 thousand, which should be repaid in November 2010. This loan was issued for the purposes of funding small and medium businesses. As at 31 December 2006, the carrying value of this loan was USD 10 154 thousand, the equivalent of RR 267 379 thousand. The Group has an opportunity to attract 2 additional tranches of the loan in the total amount of USD 20 000 thousand, on condition that the first trance will be fully utilized and the Group complies with covenants, set out in the loan agreement (Refer to Note 30). The interest rate on this loan is LIBOR plus 3% p.a. (as at 31 December 2006, the interest rate was 8.4% p.a.).

18 Other Borrowed Funds (Continued)

As at 31 December 2006, the Group had USD 639 thousand, the equivalent of RR 16 824 thousand (2005: USD 1 065 thousand, the equivalent of RR 30 657 thousand) of funds attracted from the Ministry of Finance and the Ministry of Construction of the Russian Federation under a facility of the International Bank for Reconstruction and Development. The facility was provided for financing construction of houses and development of construction industry in Russia in 1996. As at 31 December 2006, the loan carried variable interest rates from 6.70% to 7.52% p. a. (2005: from 5.56% to 6.70% p. a.) depending on the tranche and should be repaid by 15 January 2008 in equal semi-annual instalments starting July 1998.

As at 31 December 2006, the Group had USD 91 thousand, the equivalent of RR 2 393 thousand (2005: USD 275 thousand, the equivalent of RR 5 269 thousand) of funds attracted from the Ministry of Finance of the Russian Federation. These funds were provided to the Group under Financial Institution Development Program in 1995. As at 31 December 2006 the loan carried variable interest rates from 6.21% to 7.95% p. a. depending on the tranche (2005: from 5.01% to 6.96% p. a. depending on the tranche) and should be repaid by 15 July 2008 in equal semi-annual instalments starting July 1999.

The Group should observe certain covenants relating to attraction of the syndicated loan and EBRD funds (Refer to Note 30).

As at 31 December 2006 the estimated fair value of due to other borrowed funds was RR 3 266 929 thousand (2005: RR 35 926 thousand).

Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 29. The information on related party balances is disclosed in Note 32.

19 Other Liabilities

Other liabilities comprise the following:

In thousands of Russian Roubles	**Note**	**2006**	**2005**
Accrued employee benefit costs		55 578	95 736
Plastic card payables		32 795	6 705
Payables		20 053	1 804
Taxes other than on income payable		14 503	6 449
Provision for losses on credit related commitments	30	13 982	12 053
Settlements on conversion operations		3 012	1 192
Dividends payable	27	475	395
Fair value of derivative financial instruments	30	40	9 139
Liabilities to construction company		-	17 831
Other		4 399	3 400
Total other liabilities		**144 837**	**154 704**

Movements in the provision for credit related commitments are as follows:

In thousands of Russian Roubles	**2006**	**2005**
Carrying amount as at 1 January	**12 053**	**1 587**
Provision for losses on credit related commitments during the year	1 929	10 466
Carrying amount as at 31 December	**13 982**	**12 053**

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

20 Share Capital

In thousands of Russian Roubles	Number of outstanding ordinary shares (thousand)	Number of outstanding preference shares (thousand)	Ordinary shares	Share premium	Preference shares	Total
As at 1 January 2005	**17 015**	**2 010**	**3 121 744**	**1 628 031**	**159 361**	**4 909 136**
New shares issued	3 125	-	3 125	496 875	-	500 000
As at 31 December 2005	**20 140**	**2 010**	**3 124 869**	**2 124 906**	**159 361**	**5 409 136**
New shares issued	181 260	18 090	181 260	(199 350)	18 090	-
As at 31 December 2006	**201 400**	**20 100**	**3 306 129**	**1 925 556**	**177 451**	**5 409 136**

Nominal registered amount of the Group's issued share capital prior to restatement of capital contributions made before 1 January 2003 to the purchasing power of the Russian Rouble at 31 December 2002 is RR 221 500 thousand (31 December 2005: RR 22 150 thousand). At 31 December 2006, all of the Group's outstanding shares were authorised, issued and fully paid in.

All ordinary shares have a nominal value of RR 1 per share (2005: RR 1 per share) and rank equally. Each share carries one vote.

The preference shares have a nominal value of RR 1 (2005: RR 1) and carry no voting rights but rank ahead of the ordinary shares in the event of the Bank's liquidation. The preference shares are not redeemable. Preference share dividends are set at 11% p.a. and rank above ordinary dividends. If preference dividends are not declared by ordinary shareholders, the preference shareholders obtain the right to vote as ordinary shareholders until such time that the dividend is paid. Dividend payments on preference shares for the periods where preference shares were given the right to vote are not subsequently compensated from future profit of the Bank.

On 28 July 2006, the St.Petersburg Office of the Central Bank of the Russian Federation registered the issue of 181 260 000 ordinary shares and 18 090 000 preference shares of the Bank. The Bank increased its share capital by means of capitalisation of share premium. According to the terms and conditions of additional share issue each shareholder received 9 newly issued shares per existing share. The share issue resulted in the increase in the Bank's share capital by RR 199 350 thousand.

On 30 September 2005, the St.Petersburg Office of the Central Bank of Russian Federation registered the issue of 3 125 000 ordinary shares of the Bank. The shares were sold for RR 160 each resulting in an increase of share capital in the amount of RR 3 125 thousand and a share premium in the amount of RR 496 875 thousand. This increase in share capital was received in cash.

Share premium represents the excess of contributions received over the nominal value of shares issued.

21 Other Reserves

In accordance with the Russian legislation, the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules as at 31 December 2006 are RR 2 643 234 thousand (2006: RR 1 551 134 thousand).

22 Interest Income and Expense

In thousands of Russian Roubles	**2006**	**2005**
Interest income		
Loans and advances to customers	3 999 024	2 349 093
Debt trading securities	215 696	202 016
Due from other banks	114 529	51 812
Other debt securities at fair value through profit or loss	31 283	21 242
Correspondent accounts with other banks	4 669	5 151
Total interest income	**4 365 201**	**2 629 314**
Interest expense		
Term deposits of individuals	748 023	477 252
Term deposits of legal entities	489 383	200 604
Other debt securities in issue	170 756	162 426
Bonds issued	88 033	-
Other borrowed funds	66 279	11 183
Current/settlement accounts	44 228	49 227
Due to other banks	43 174	41 233
Total interest expense	**1 649 876**	**941 925**
Net interest income	**2 715 325**	**1 687 389**

23 Fee and Commission Income and Expense

In thousands of Russian Roubles	2006	2005
Fee and commission income		
- Commission on settlement transactions	265 037	196 211
- Commission on plastic cards and cheques settlements	139 988	82 369
- Commission on cash transactions	118 280	65 829
- Commission on cash collection	39 054	30 328
- Commission on guarantees and letters of credit issued	54 286	26 250
- Commission on foreign exchange transactions	20 226	11 012
- Commission on underwriting transactions	7 031	281
- Commission on safekeeping operations	6 356	5 573
- Other	338	855
Total fee and commission income	**650 596**	**418 708**
Fee and commission expense		
- Commission on settlement transactions	36 534	13 104
- Commission on plastic cards and cheques settlements	14 845	9 576
- Commission on guarantees and letters of credit	13 260	17
- Commission on banknote transactions	8 088	1 402
- Commission on cash collection and cash transactions	594	766
- Other	2 052	333
Total fee and commission expense	**75 373**	**25 198**
Net fee and commission income	**575 223**	**393 510**

24 Administrative and Other Operating Expenses

In thousands of Russian Roubles	Note	2006	2005
Staff costs		745 727	550 236
Other costs, related to premises and equipment		146 296	132 254
Depreciation of premises, equipment and amortisation of intangible assets	12	118 326	80 227
Taxes other than on income		98 260	57 447
Property rent expenses		71 333	53 915
Security expenses		58 019	44 524
Contributions to deposits insurance scheme		57 798	29 644
Transportations costs		57 246	43 626
Postal, cable and telecommunication expenses		37 258	28 418
Advertising and marketing services		20 623	10 618
Professional services		14 814	5 585
Charity expenses		8 505	4 316
Other administrative expenses		93 731	92 653
Total administrative and other operating expenses		**1 527 936**	**1 133 463**

The information on related party transactions is disclosed in Note 32.

25 Income Taxes

Income tax expense comprises the following:

In thousands of Russian Roubles	2006	2005
Current tax	329 459	220 578
Deferred tax	46 462	(54 180)
Income tax expense for the year	**375 921**	**166 398**

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.

In thousands of Russian Roubles	2006	2005
IFRS profit before taxation	**1 568 852**	**796 448**
Theoretical tax charge at statutory rate (2006: 24%; 2005: 24%)	376 524	191 148
Tax effect of items which are not deductible for taxation purposes:		
- Income which is exempt from taxation	-	(13 112)
- Non deductible expenses	18 223	3 260
- Income on government securities taxed at different rates	(18 826)	(14 439)
- Utilisation of previously unrecorded tax losses	-	(459)
Income tax expense for the year	**375 921**	**166 398**

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

25 Income Taxes (Continued)

In thousands of Russian Roubles	31 December 2005	Charged to profit or loss	31 December 2006
Tax effect of deductible temporary differences			
Provision for loan impairment	139 999	(11 567)	128 432
Accruals	32 164	7 829	39 993
Fair valuation of loans and advances to customers	854	(854)	-
Other	7 688	(2 616)	5 072
Gross deferred tax asset	**180 705**	**(7 208)**	**173 497**
Less offsetting with deferred tax liabilities	(179 598)	6 667	(172 931)
Recognised deferred tax asset	**1 107**	**(541)**	**566**
Tax effect of taxable temporary differences			
Premises and equipment	(239 883)	(2 827)	(242 710)
Fair valuation of trading and other securities	(8 686)	(20 538)	(29 224)
Valuation of issued bonds at amortised cost	-	(5 242)	(5 242)
Valuation of other borrowed funds at amortised cost	-	(1 533)	(1 533)
Fair valuation of due from other banks	(1 359)	1 359	-
Other	(19)	(10 473)	(10 492)
Gross deferred tax liability	**(249 947)**	**(39 254)**	**(289 201)**
Less offsetting with deferred tax assets	179 598	(6 667)	172 931
Recognised deferred tax liability	**(70 349)**	**(45 921)**	**(116 270)**

25 Income Taxes (Continued)

In thousands of Russian Roubles	31 December 2004	Credited to profit or loss	Charged directly to equity	31 December 2005
Tax effect of deductible temporary differences				
Provision for loan impairment	37 518	102 481	-	139 999
Accruals	28 399	3 765	-	32 164
Fair valuation of loans and advances to customers	3 523	(2 669)	-	854
Losses on sale of investments in property for resale	36 968	(36 968)	-	-
Gain from disposal of subsidiaries	16 057	(16 057)	-	-
Other	778	6 910	-	7 688
Net deferred tax assets	**123 243**	**57 462**	**-**	**180 705**
Less offsetting with deferred tax liabilities	(123 243)	(56 355)	-	(179 598)
Recognised deferred tax asset	**-**	**1 107**	**-**	**1 107**
Tax effect of taxable temporary differences				
Premises and equipment	(136 937)	(9 418)	(93 528)	(239 883)
Fair valuation of trading and other securities	(10 441)	1 755	-	(8 686)
Fair valuation of due from other banks	(1 689)	330	-	(1 359)
Valuation of attracted funds at amortised cost	(1 933)	1 933	-	-
Other	(2 137)	2 118	-	(19)
Gross deferred tax liability	**(153 137)**	**(3 282)**	**(93 528)**	**(249 947)**
Less offsetting with deferred tax assets	123 243	56 355	-	179 598
Recognised deferred tax liability	**(29 894)**	**53 073**	**(93 528)**	**(70 349)**

26 Earnings per Share

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

The Group has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

In thousands of Russian Roubles	Note	2006	2005
Profit attributable to the Group’s shareholders		1 192 931	630 050
Less: preference dividends	27	(221)	(221)
Profit attributable to the Bank’s ordinary shareholders		1 192 710	629 829
Weighted average number of ordinary shares in issue (thousands)	20	201 400	178 030*
Basic ordinary earnings per share (expressed in RR per share)		**5,9**	**3,5**

* Weighted average number of ordinary shares in issue for year 2005 was adjusted by the coefficient of increase in share capital through capitalisation of the share premium in 2006.

27 Dividends

	2006		2005	
In thousands of Russian Roubles	Ordinary	Preference	Ordinary	Preference
Dividends payable as at 1 January	**395**	**-**	**438**	**-**
Dividends declared during the year	2 820	221	2 382	221
Dividends paid during the year	(2 740)	(221)	(2 425)	(221)
Dividends payable as at 31 December	**475**	**-**	**395**	**-**
Dividends per share declared during the year (RR per share)	**0,14**	**0,11**	**0,14**	**0,11**

All dividends are declared and paid in Russian Roubles.

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:

- Corporate banking – representing current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency transactions with commercial and state entities.

- Operations on financial markets – representing financial instruments trading, loans and deposits on the interbank market, dealing in foreign exchange and derivative financial instruments.

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages for individuals.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income/expense. Interest charged for these funds is based on the market interest rates. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of assets and liabilities of the Group, but excluding some premises, equipment and intangible assets, other assets and liabilities and balances on taxation settlements. Internal charges and transfer pricing adjustments have been reflected in the performance of each business segment.

28 Segment Analysis (Continued)

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

In thousands of Russian Roubles	**Corporate banking**	**Operations on financial markets**	**Retail banking**	**Unallo-cated**	**Elimina-tions**	**Total**
2006						
External revenues	4 303 958	389 34	367 18			**5 060 487**
Revenues from other segments	1 775 015	3 578 980	1 362 979		(6 716 974	
Total revenues	**6 078 973**	**3 968 322**	**1 730 166**		**(6**	**5 060 487**
Total revenues comprise:						
- Interest income	5 570 068	3 945 157	1 566 950		(6	4 365 201
- Fee and commission income	466 8	23 1	160 6			650 5
- Other operating income	42		2			44
Segment results	**1 113 315**	**606 7**	**583 2**			**2 303 276**
Unallocated costs						(734 42
Profit before tax						**1 568 852**
Income tax expense						(375 92
Profit						**1 192 931**
Segment assets	**40 084 778**	**16 647 638**	**2 849 067**	**998 1**		**60 579 651**
Segment liabilities	**31 900 600**	**8 304 412**	**15 632 302**	**235 8**		**56 073 127**
Other segment items						
Capital expenditures	(107 572)	(21 264)	(50 012)	(186 01		(364 86
Depreciation charge	(37 820)	(6 258)	(17 143)	(57 1		(118 32
(Provision)/Recovery of provision for loan impairment	(459 785)	10 792	(34 901)			(483 89
Other non-cash expenses	(57 669)	(1 888)	(149 596)	(16 5		(225 66

28 Segment Analysis (Continued)

In thousands of Russian Roubles	Corporate banking	Operations on financial markets	Retail banking	Unallocated	Elimina-tions	Total
2005						
External revenues	2 673 318	281 989	109 935	-	-	**3 065 242**
Revenues from other segments	977 532	2 082 353	883 971	-	(3 943 856)	**-**
Total revenues	**3 650 850**	**2 364 342**	**993 906**	**-**	(3 943 856)	**3 065 242**
Total revenues comprise:						
- Interest income	3 276 276	2 362 574	934 320	-	(3 943 856)	2 629 314
- Fee and commission income	370 461	1 768	46 479	-	-	418 708
- Other operating income	4 113		13 107	-	-	17 220
Segment results	**357 102**	**578 143**	**335 239**	**-**	**-**	**1 270 484**
Unallocated costs						(474 036)
Profit before tax						**796 448**
Income tax expense						(166 398)
Profit						**630 050**
Segment assets	**20 497 916**	**8 877 404**	**1 102 672**	**656 750**	**-**	**31 134 742**
Segment liabilities	**17 312 322**	**1 329 610**	**8 953 161**	**223 015**	**-**	**27 818 108**
Other segment items						
Capital expenditures	(60 627)	(1 002)	(23 670)	(79 812)	-	(165 111)
Depreciation charge	(29 483)	(486)	(11 496)	(38 762)	-	(80 227)
Reversals of impairment losses through profit or loss	-	-	-	44 927	-	44 927
Loan impairment provision	(461 089)	(9 375)	(6 492)	-	-	(476 956)
Other non-cash expenses	(51 543)	(280)	(84 980)	(75 742)	-	(212 545)

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.

In thousands of Russian Roubles	North-West Region	Moscow	Total
2006			
Segment assets	53 157 150	7 422 501	60 579 651
External revenues	4 416 976	643 255	5 060 231
Capital expenditures	(351 318)	(13 545)	(364 863)
Credit related commitments	10 352 421	351 705	10 704 126
2005			
Segment assets	27 005 624	4 129 118	31 134 742
External revenues	2 752 450	312 792	3 065 242
Capital expenditures	(164 645)	(466)	(165 111)
Credit related commitments	4 111 749	110 801	4 222 550

External revenues and assets, other than as detailed below, and credit related commitments have generally been allocated based on domicile of the counterparty. Cash on hand, premises and equipment and capital expenditure have been allocated based on the country in which they are physically held.

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 industry sectors. 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 borrower and industry sector are approved regularly by the Bank's Management Board and Credit Committee.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored 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 balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The 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.

29 Financial Risk Management (Continued)

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 Asset and Liability Management Committee of the Bank sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

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

In thousands of Russian Roubles	**Russia**	**OECD countries**	**Non OECD**	**Total**
Assets				
Cash and cash equivalents	7 216 049	1 533 332	7 287	8 756 668
Mandatory cash balances with CBRF	773 158	-	-	773 158
Trading securities	6 084 480	-	-	6 084 480
Other securities at fair value through profit or loss	1 365 396	-	-	1 365 396
Due from other banks	404 737	1 449 070	-	1 853 807
Loans and advances to customers	39 651 000	53 896	-	39 704 896
Prepaid income tax	20 915	-	-	20 915
Deferred income tax asset	566	-	-	566
Premises and equipment and intangible assets	1 618 326	-	-	1 618 326
Other assets	399 189	2 236	14	401 439
Total assets	**57 533 816**	**3 038 534**	**7 301**	**60 579 651**
Liabilities				
Due to other banks	767 935	-	-	767 935
Customer accounts	43 694 069	718 580	339 160	44 751 809
Bonds issued	998 002	3 271 546	-	4 269 548
Other debt securities in issue	2 755 799	-	-	2 755 799
Other borrowed funds	903 898	2 281 858	81 173	3 266 929
Other liabilities	144 064	767	6	144 837
Deferred income tax liability	116 270	-	-	116 270
Total liabilities	**49 380 037**	**6 272 751**	**420 339**	**56 073 127**
Net balance sheet position	**8 153 779**	**(3 234 217)**	**(413 038)**	**4 506 524**
Credit related commitments (Note 30)	**10 045 860**	**658 266**	**-**	**10 704 126**

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

29 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	Russia	OECD countries	Non OECD	Total
Assets				
Cash and cash equivalents	3 854 204	700 347	2 394	4 556 945
Mandatory cash balances with CBRF	500 453	-	-	500 453
Trading securities	3 024 055	-	-	3 024 055
Other securities at fair value through profit or loss	327 488	-	-	327 488
Due from other banks	1 886 543	200 278	-	2 086 821
Loans and advances to customers	19 006 871	37 705	-	19 044 576
Prepaid income tax	11 917			11 917
Deferred income tax asset	1 107	-	-	1 107
Premises and equipment and intangible assets	1 394 328	-	-	1 394 328
Other assets	187 052	-	-	187 052
Total assets	**30 194 018**	**938 330**	**2 394**	**31 134 742**
Liabilities				
Due to other banks	1 293 684	-	-	1 293 684
Customer accounts	23 389 764	27 402	21 045	23 438 211
Other debt securities in issue	2 825 234	-	-	2 825 234
Other borrowed funds	5 271	30 655	-	35 926
Other liabilities	154 704	-	-	154 704
Deferred income tax liability	70 349	-	-	70 349
Total liabilities	**27 739 006**	**58 057**	**21 045**	**27 818 108**
Net balance sheet position	**2 455 012**	**880 273**	**(18 651)**	**3 316 634**
Credit related commitments (Note 30)	**4 222 550**	**-**	**-**	**4 222 550**

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

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 Asset and Liability Management Committee of the Bank 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 as at 31 December 2006:

In thousands of Russian Roubles	RR	US Dollars	Euro	Other	Total
Assets					
Cash and cash equivalents	6 913 804	1 284 162	512 561	46 141	8 756 668
Mandatory cash balances with CBRF	773 158	-	-	-	773 158
Trading securities	4 921 163	1 163 317	-	-	6 084 480
Other securities at fair value through profit or loss	-	1 365 396	-	-	1 365 396
Due from other banks	342 666	1 511 141	-	-	1 853 807
Loans and advances to customers	32 234 915	6 175 146	1 294 835	-	39 704 896
Prepaid income tax	20 915	-	-	-	20 915
Deferred income tax asset	566	-	-	-	566
Premises and equipment and intangible assets	1 618 326	-	-	-	1 618 326
Other assets	394 885	3 991	2 032	531	401 439
Total assets	**47 220 398**	**11 503 153**	**1 809 428**	**46 672**	**60 579 651**
Liabilities					
Due to other banks	616 548	119 917	30 849	621	767 935
Customer accounts	37 936 076	5 114 302	1 674 477	26 954	44 751 809
Bonds issued	998 002	3 271 546	-	-	4 269 548
Other debt securities in issue	2 583 734	30 284	141 781	-	2 755 799
Other borrowed funds	877 347	2 389 582	-	-	3 266 929
Other liabilities	125 161	4 465	15 201	10	144 837
Deferred income tax liability	116 270	-	-	-	116 270
Total liabilities	**43 253 138**	**10 930 096**	**1 862 308**	**27 585**	**56 073 127**
Less fair value of currency derivatives	(2 198)	-	-	-	(2 198)
Net balance sheet position, excluding currency derivatives	**3 965 062**	**573 057**	**(52 880)**	**19 087**	**4 504 326**
Currency derivatives (Note 30)	**673 206**	**(636 312)**	**(34 696)**	**-**	**2 198**
Net balance sheet position, including currency derivatives	**4 638 268**	**(63 255)**	**(87 576)**	**19 087**	**4 506 524**
Credit related commitments (Note 30)	**8 212 084**	**1 860 551**	**631 491**	**-**	**10 704 126**

29 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	**RR**	**US Dollars**	**Euro**	**Other**	**Total**
Assets					
Cash and cash equivalents	3 519 302	669 431	340 183	28 029	4 556 945
Mandatory cash balances with CBRF	500 453	-	-	-	500 453
Trading securities	2 382 764	641 291	-	-	3 024 055
Other securities at fair value through profit or loss	-	327 488	-	-	327 488
Due from other banks	1 667 952	418 869	-	-	2 086 821
Loans and advances to customers	14 252 458	4 657 745	134 373	-	19 044 576
Prepaid income tax	11 917	-	-	-	11 917
Deferred income tax asset	1 107	-	-	-	1 107
Premises and equipment and intangible assets	1 394 328	-	-	-	1 394 328
Other assets	179 512	3 464	4 076	-	187 052
Total assets	**23 909 793**	**6 718 288**	**478 632**	**28 029**	**31 134 742**
Liabilities					
Due to other banks	278 519	975 238	38 375	1 552	1 293 684
Customer accounts	18 806 563	3 551 578	1 077 286	2 784	23 438 211
Other debt securities in issue	2 544 127	192 736	88 371	-	2 825 234
Other borrowed funds	-	35 926	-	-	35 926
Other liabilities	152 355	1 556	793	-	154 704
Deferred income tax liability	70 349	-	-	-	70 349
Total liabilities	**21 851 913**	**4 757 034**	**1 204 825**	**4 336**	**27 818 108**
Less fair value of currency derivatives	5 027	-	-	-	5 027
Net balance sheet position, excluding currency derivatives	**2 062 907**	**1 961 254**	**(726 193)**	**23 693**	**3 321 661**
Currency derivatives (Note 30)	**1 588 714**	**(2 260 348)**	**666 607**	**-**	**(5 027)**
Net balance sheet position, including currency derivatives	**3 651 621**	**(299 094)**	**(59 586)**	**23 693**	**3 316 634**
Credit related commitments (Note 30)	**3 435 604**	**456 710**	**330 236**	**-**	**4 222 550**

29 Financial Risk Management (Continued)

The currency derivatives position in each column represents the fair value, at the balance sheet date, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount). The amounts by currency are presented gross as stated in Note 30. The net total represents fair value of the derivatives.

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 the Asset and Liability Committee of the Bank.

The table below shows assets and liabilities as 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.

Overdue assets are allocated based on their expected maturity. The entire portfolio of trading securities is classified within demand and less than one month as the portfolio is of a trading nature and based on management’s assessment of portfolio’s realisability and their view that it is a fairer portrayal of the Group’s liquidity position. Mandatory cash balances with the CBRF are included within demand and less than one month as the requirement is to maintain as a reserve a specified percentage of certain liabilities which are also included within this category.

29 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Assets					
Cash and cash equivalents	8 756 668	-	-	-	8 756 668
Mandatory cash balances with CBRF	773 158	-	-	-	773 158
Trading securities	6 084 480	-	-	-	6 084 480
Other securities at fair value through profit or loss	-	-	-	1 365 396	1 365 396
Due from other banks	1 511 141	342 666	-	-	1 853 807
Loans and advances to customers	3 164 016	13 617 446	13 966 332	8 957 102	39 704 896
Prepaid income tax	-	20 915	-	-	20 915
Deferred income tax asset	-	-	-	566	566
Premises and equipment and intangible assets	-	-	-	1 618 326	1 618 326
Other assets	131 145	145 366	75 186	49 742	401 439
Total assets	**20 420 608**	**14 126 393**	**14 041 518**	**11 991 132**	**60 579 651**
Liabilities					
Due to other banks	738 353	29 582	-	-	767 935
Customer accounts	22 054 484	12 748 081	9 781 741	167 503	44 751 809
Bonds issued	-	998 002	-	3 271 546	4 269 548
Other debt securities in issue	1 191 822	1 271 595	292 382	-	2 755 799
Other borrowed funds	6 674	-	801 885	2 458 370	3 266 929
Other liabilities	79 512	59 699	1 419	4 207	144 837
Deferred income tax liability	-	-	-	116 270	116 270
Total liabilities	**24 070 845**	**15 106 959**	**10 877 427**	**6 017 896**	**56 073 127**
Net liquidity gap	**(3 650 237)**	**(980 566)**	**3 164 091**	**5 973 236**	**4 506 524**
Cumulative liquidity gap as at 31 December 2006	**(3 650 237)**	**(4 630 803)**	**(1 466 712)**	**4 506 524**	

29 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
Assets					
Cash and cash equivalents	4 556 945	-	-	-	4 556 945
Mandatory cash balances with CBRF	500 453	-	-	-	500 453
Trading securities	3 024 055	-	-	-	3 024 055
Other securities at fair value through profit or loss	-	-	-	327 488	327 488
Due from other banks	1 664 177	142 521	-	280 123	2 086 821
Loans and advances to customers	2 149 740	7 030 079	6 959 962	2 904 795	19 044 576
Prepaid income tax	-	11 917	-	-	11 917
Deferred income tax asset	-	-	-	1 107	1 107
Premises and equipment and intangible assets	-	-	-	1 394 328	1 394 328
Other assets	125 464	15 732	7 672	38 184	187 052
Total assets	**12 020 834**	**7 200 249**	**6 967 634**	**4 946 025**	**31 134 742**
Liabilities					
Due to other banks	669 971	623 713	-	-	1 293 684
Customer accounts	12 489 501	5 476 489	1 393 246	4 078 975	23 438 211
Other debt securities in issue	1 609 530	846 928	364 886	3 890	2 825 234
Other borrowed funds	-	-	-	35 926	35 926
Other liabilities	33 182	103 683	-	17 839	154 704
Deferred income tax liability	-	-	-	70 349	70 349
Total liabilities	**14 802 184**	**7 050 813**	**1 758 132**	**4 206 979**	**27 818 108**
Net liquidity gap	**(2 781 350)**	**149 436**	**5 209 502**	**739 046**	**3 316 634**
Cumulative liquidity gap as at 31 December 2005	**(2 781 350)**	**(2 631 914)**	**2 577 588**	**3 316 634**	

29 Financial Risk Management (Continued)

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.

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 customer accounts provide a long-term and stable source of funding for the Group. 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.

The Group provides an opportunity to the majority of its borrowers to roll-over credit agreements, the majority of loans are issued for project finance and the term of the roll-over is separately specified in the loan agreement. In accordance with its credit policy the Group issues short-term loans, with the possibility of their further prolongation to finance medium - and long-term projects of borrowers. Customers can extend the maturity of the loans, subject to approval by the Credit Committee and / or the Management Board. Most borrowers of the Group take the opportunity to prolong their loans, and this is regularly approved by the Group's Management Board. For such transactions contractual maturity of loans is shorter than their expected maturity which may have negative impact on the liquidity position of the Group presented above.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

29 Financial Risk Management (Continued)

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.

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Non-interest bearing**	**Total**
Assets						
Cash and cash equivalents	8 756 668	-	-	-	-	8 756 668
Mandatory cash balances with CBRF	773 158	-	-	-	-	773 158
Trading securities	5 791 596	-	-	-	292 884	6 084 480
Other securities at fair value through profit or loss	-	-	-	1 365 396	-	1 365 396
Due from other banks	1 511 141	342 666	-	-	-	1 853 807
Loans and advances to customers	3 164 016	13 617 446	13 966 332	8 957 102	-	39 704 896
Prepaid income tax	-	-	-	-	20 915	20 915
Deferred income tax asset	-	-	-	-	566	566
Premises and equipment and intangible assets	-	-	-	-	1 618 326	1 618 326
Other assets	-	-	-	-	401 439	401 439
Total assets	**19 996 579**	**13 960 112**	**13 966 332**	**10 322 498**	**2 334 130**	**60 579 651**
Liabilities						
Due to other banks	738 353	29 582	-	-	-	767 935
Customer accounts	22 054 484	12 748 081	9 781 741	167 503	-	44 751 809
Bonds issued	-	998 002	-	3 271 546	-	4 269 548
Other debt securities in issue	1 191 822	1 271 595	292 382	-	-	2 755 799
Other borrowed funds	6 674	1 062 545	801 885	1 395 825	-	3 266 929
Other liabilities	-	-	-	-	144 837	144 837
Deferred income tax liability	-	-	-	-	116 270	116 270
Total liabilities	**23 991 333**	**16 109 805**	**10 876 008**	**4 834 874**	**261 107**	**56 073 127**
Net sensitivity gap	**(3 994 754)**	**(2 149 693)**	**3 090 324**	**5 487 624**	**2 073 023**	**4 506 524**
Cumulative sensitivity gap as at 31 December 2006	**(3 994 754)**	**(6 144 447)**	**(3 054 123)**	**2 433 501**	**4 506 524**	

29 Financial Risk Management (Continued)

The following table summarises the Group’s exposure to interest rate risks at 31 December 2005 by showing assets and liabilities in categories based on the earlier of contractual repricing or maturity dates.

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Non-interest bearing**	**Total**
Assets						
Cash and cash equivalents	4 556 945	-	-	-	-	4 556 945
Mandatory cash balances with CBRF	500 453	-	-	-	-	500 453
Trading securities	3 004 878	-	-	-	19 177	3 024 055
Other securities at fair value through profit or loss	-	-	-	327 488	-	327 488
Due from other banks	1 664 177	142 521	-	280 123	-	2 086 821
Loans and advances to customers	2 149 740	7 030 079	6 959 962	2 904 795	-	19 044 576
Prepaid income tax	-	-	-	-	11 917	11 917
Deferred income tax asset	-	-	-	-	1 107	1 107
Premises and equipment and intangible assets	-	-	-	-	1 394 328	1 394 328
Other assets	-	-	-	-	187 052	187 052
Total assets	**11 876 193**	**7 172 600**	**6 959 962**	**3 512 406**	**1 613 581**	**31 134 742**
Liabilities						
Due to other banks	669 971	623 713	-	-	-	1 293 684
Customer accounts	12 489 501	5 476 489	1 393 246	4 078 975	-	23 438 211
Other debt securities in issue	1 609 530	846 928	364 886	3 890	-	2 825 234
Other borrowed funds	-	-	-	35 926	-	35 926
Other liabilities	-	-	-	-	154 704	154 704
Deferred income tax liability	-	-	-	-	70 349	70 349
Total liabilities	**14 769 002**	**6 947 130**	**1 758 132**	**4 118 791**	**225 053**	**27 818 108**
Net sensitivity gap	**(2 892 809)**	**225 470**	**5 201 830**	**(606 385)**	**1 388 528**	**3 316 634**
Cumulative sensitivity gap as at 31 December 2005	**(2 892 809)**	**(2 667 339)**	**2 534 491**	**1 928 106**	**3 316 634**	

29 Financial Risk Management (Continued)

The Group is exposed to cash flow interest rate risk, primarily as a result of lending and advance payments to clients and other banks at fixed interest rates, in amounts and for periods, which differ from those of deposits and other borrowed funds at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Asset and Liability Management Committee of the Bank sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored on a regular basis. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions.

The table below summarises the effective interest rates 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.

	2006				2005			
In % p.a.	**RR**	**USD**	**Euro**	**Other**	**RR**	**USD**	**Euro**	**Other**
Assets								
Cash and cash equivalents	0.88	4.16	2.56	0.00	0.58	2.29	1.81	0.75
Debt trading securities	8.24	5.63	-	-	7.07	5.78	-	-
Other debt securities at fair value through profit or loss	-	6.87	-	-	-	5.32	-	-
Due from other banks	11.99	5.35	-	-	7.73	5.25	-	-
Loans and advances to customers	13.09	12.42	12.25	-	13.52	13.76	14.30	-
Liabilities								
Due to other banks	2.45	4.70	2.88	0.00	3.41	6.08	2.46	-
Customer accounts								
- current and settlement accounts	0.33	0.02	0.05	0.01	0.61	0.12	0.12	0.11
- term deposits								
- individuals	9.80	8.15	7.27	-	10.10	8.03	8.12	-
- legal entities	7.14	6.81	6.26	-	7.63	5.53	8.34	-
Bonds issued	9.60	10.44	-	-	-	-	-	-
Other debt securities in issue	5.93	9.79	8.05	-	6.27	9.36	8.68	-
Other borrowed funds	11.85	9.59	-	-	-	4.43	-	-

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

30 Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings. From time to time and in the normal course of business, third parties' 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 loss provision has been made in these financial statements.

Tax legislation. Russian tax 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 regional and federal authorities. Recent events within the Russian Federation suggest that the 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. 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.

The tax consequence of transactions for Russian taxation purposes is frequently determined by the form in which transactions are documented and the underlying accounting treatment prescribed by Russian Accounting Rules. Accordingly, the Group structures certain transactions so as to take advantage of such form driven determinations to reduce the overall effective tax rate of the Group. The consolidated statement of income as presented in these financial statements includes reclassifications to reflect the underlying economic substance of those transactions. These reclassifications do not have an effect on the Group's profit before taxation or the tax charge recorded in these financial statements.

The Bank's management believes that its interpretation of the relevant legislation is appropriate and the Bank'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 had contractual capital expenditure commitments in respect of premises totalling RR 41 228 thousand. The Group has already allocated the necessary resources in respect of these commitments. Management believes that future net income and funding will be sufficient to cover this and any similar commitments.

As at 31 December 2005 the Group had no significant capital expenditure commitments.

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

In thousands of Russian Roubles	**2006**	**2005**
Within 1 year	25 462	13 209
Later than 1 year and not later than 5 years	17 292	7 661
Total operating lease commitments	**42 754**	**20 870**

30 Contingencies, Commitments and Derivative Financial Instruments (Continued)

Compliance with covenants. The Group should observe certain covenants, primarily, relating to loan agreements with foreign and international financial institutions. Covenants include:

General conditions in relation to activity, such as business conduct and reasonable prudence, conformity with legal requirements of the country, in which the company is located, maintenance of accurate accounting records, implementation of controls, performance of independent audits, etc.;

Restrictive covenants, including constraints (without lender's consent) in respect of dividend payments and other distributions, changes in the shareholders structure, limits on use of assets and some agreements;

Financial covenants, such as meeting certain capital adequacy requirements, credit portfolio diversification, limitation of risks associated with the Group's related and unrelated parties, the share of overdue balances in the Group's credit portfolio, meeting certain requirements to the level of risk provisions, monitoring the Group's expenditure pattern;

Reporting requirements, obliging the Group to provide its audited financial statements to the lender, as well as certain additional information and any other documents upon request.

Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group's management believes that the Group fully meets all covenants of loan agreements.

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 and 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.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to credit risk as at the year end in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The 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.

Outstanding credit related commitments are as follows:

In thousands of Russian Roubles	**2006**	**2005**
Revocable undrawn credit lines	7 575 739	3 306 551
Uncovered import letters of credit	1 622 911	201 690
Guarantees issued	1 471 497	372 507
Irrevocable undrawn credit lines	47 961	274 355
Letters of credit for settlements between residents	-	79 500
Less: Provision for losses on credit related commitments	(13 982)	(12 053)
Total credit related commitments	**10 704 126**	**4 222 550**

30 Contingencies, Commitments and Derivative Financial Instruments (Continued)

The total outstanding contractual 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. As at 31 December 2006 estimated fair value of credit related commitments was equal to RR 14 863 thousand (2005: 12 053 thousand).

Fiduciary assets. These assets are not included in the Group's consolidated balance sheet as they are not its assets. Nominal values disclosed below are normally different from the fair values of respective securities. In accordance with the common business practices no insurance cover was provided for these fiduciary assets. The fiduciary assets fall into the following categories:

In thousands of Russian Roubles	**2006 Nominal value**	**2005 Nominal value**
Corporate shares held in custody of:		
- Petersburg Central Registration Company	142 864	14 430
- Depository Clearing Company	220	68
- National Depository Centre	60	68
- other registrars and depositories	56 947	12 036
- registers of share issuers	171 162	171 176
Bonds of subjects of the Russian Federation held in custody of:		
- St. Petersburg Settlement-Depository Centre	58	59
- National Depository Centre	11 150	
Russian Federation Eurobonds held in custody of:		
- National Depository Centre	26	29

Assets pledged. As at 31 December 2006, the Group had no assets pledged as collateral:

		2006		**2005**	
In thousands of Russian Roubles	**Note**	**Asset pledged**	**Related liability**	**Asset pledged**	**Related liability**
Trading securities	8, 15	-	-	466 582	434 269
Total		**-**	**-**	**466 582**	**434 269**

In addition, mandatory cash balances with the CBRF in the amount of RR 773,158 thousand (2005: RR 500,453 thousand) represent mandatory reserve deposit which is not available to finance the Group's day to day operations.

Derivative financial instruments. Contracts on currency derivative financial instruments entered into by the Group have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in foreign exchange rates. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

30 Contingencies, Commitments and Derivative Financial Instruments (Continued)

The table below sets out fair values, at the balance sheet date, of receivables or payables under foreign exchange forwards and futures contracts entered into by the Group. This table reflects gross position before the netting of any counterparty position by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2006. The contracts are short term in nature.

		2006		2005	
In thousands of Russian Roubles		**Net asset forwards**	**Net liability forwards**	**Net asset forwards**	**Net liability forwards**
Foreign exchange forwards: fair values, at the balance sheet date, of					
- USD receivable on settlement (+)		87 367	-	345 426	85 189
- USD payable on settlement (-)		(1 210 804)	(947 920)	(458 289)	(951 852)
- Euros receivable on settlement (+)		52 045	-	170 925	922 995
- Euros payable on settlement (-)		(86 741)	-	(341 850)	(85 463)
- RR receivable on settlement (+)		1 247 716	947 880	287 900	19 992
- RR receivable on settlement (-)		(87 345)	-	-	-
Total on forwards		**2 238**	**(40)**	**4 112**	**(9 139)**

		2006		2005	
In thousands of Russian Roubles		**Net asset futures**	**Net liability futures**	**Net asset futures**	**Net liability futures**
Foreign exchange futures: fair values, at the balance sheet date, of					
- USD receivable on settlement (+)		1 984 048	737 271	34 539	57 565
- USD payable on settlement (-)		(737 271)	(549 003)	(561 259)	(811 667)
- RR receivable on settlement (+)		737 271	549 003	561 259	811 667
- RR payable on settlement (-)		(1 984 048)	(737 271)	(34 539)	(57 565)
Total on futures		**-**	**-**	**-**	**-**
Net fair value of currency derivative financial instruments	13, 19	**2 238**	**(40)**	**4 112**	**(9 139)**

31 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 a quoted market price. The best evidence of fair value is price quotations in an active market.

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. While management uses all available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Financial instruments carried at fair value. Trading securities, other securities at fair value through profit or loss and investment securities available for sale are carried on the balance sheet at fair value. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Loans carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and range from 10.0% to 15.0% per annum (2005: 12.0% to 16.5% per annum). Refer to Notes 10 and 11 for the estimated fair values of due from other banks and loans and advances to customers respectively.

Liabilities carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The 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. Refer to Notes 14, 15, 16, 17 and 18 for the estimated fair values of due to other banks, customer accounts, issued bonds, other debt securities in issue and other borrowed funds, respectively.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Their fair values are based on observable market prices. Refer to Note 30.

32 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.

Transactions are entered into in the normal course of business with shareholders, management and companies controlled by the Group's shareholders and management.

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

In thousands of Russian Roubles	**Shareholders**	**Management of the Group**	**Entities under common control**
Correspondent accounts and overnight placements with other banks	-	-	265
Due from other banks (contractual interest rate: 7.0%-7.5%)	-	-	104 164
Impairment provision for due from other banks	-	-	(1 789)
Loans and advances to customers (contractual interest rate: 5.5%-17.0%)	181 873	63 860	236 471
Impairment provision for loans and advances to customers	(11 701)	(2 082)	(9 697)
Customer accounts (contractual interest rate: 6.75%-10.5%)	623 859	112 881	810 969
Other borrowed funds (contractual interest rate: 11.5%-12.0%)	665 000	-	210 000
Guarantees issued by the Group as at the year end	-	-	505 092

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

In thousands of Russian Roubles	**Shareholders**	**Management of the Group**	**Entities under common control**
Interest income	14 912	1 767	45 529
Interest expense	(25 418)	(3 186)	(11 858)
(Provision)/recovery of provision for loan impairment	(5 039)	(2 082)	1 903
Fee and commission income	230	-	8 514
Rent expenses	-	-	(6 695)

32 Related Party Transactions (Continued)

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

In thousands of Russian Roubles	**Shareholders**	**Management of the Group**	**Entities under common control**
Amounts lent to related parties during the period	179 414	67 217	3 578 565
Amounts repaid by related parties during the period	76 968	6 512	3 519 580

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

In thousands of Russian Roubles	**Shareholders**	**Management of the Group**	**Entities under common control**
Correspondent accounts and overnight placements with other banks	-	-	264
Due from other banks (contractual interest rate: 9.0%-11.0%)	-	-	268 746
Impairment provision for due from other banks	-	-	(12 362)
Loans and advances to customers (contractual interest rate: 12.0%-21.0%)	79 427	3 155	12 905
Impairment provision for loans and advances to customers	(6 662)	-	(1 027)
Customer accounts (contractual interest rate: 5.5%-11.3%)	103 331	50 020	471 142

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

In thousands of Russian Roubles	**Shareholders**	**Management of the Group**	**Entities under common control**
Interest income	6 967	365	21 357
Interest expense	(3 962)	(3 841)	(12 098)
Recovery of provision for loan impairment	246	231	47 540
Fee and commission income	67	-	947

32 Related Party Transactions (Continued)

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

In thousands of Russian Roubles	**Shareholders**	**Management of the Group**	**Entities under common control**
Amounts lent to related parties during the period	67 227	4 223	15 633 938
Amounts repaid by related parties during the period	43 238	5 429	15 925 855

In 2006, remuneration of members of the Supervisory Board and the Management Board of the Bank, including pension contributions and discretionary bonuses, amounted to RR 171 525 thousand (2005: RR 103 900 thousand).

33 Consolidation of the Special Purpose Entity

As at 31 December 2006 the Group has consolidated the special purpose entity BSPB Finance plc for the first time. This special purpose entity was established in 2006 for the purpose of Group's Eurobonds issue.

As at 31 December 2006 the Group exercised its control over the activity of the special purpose entity as all financial and operational activities of this special purpose entity were conducted on behalf of the Group and according to Group's specific business needs. The Group had rights to obtain the majority of the benefits of the special purpose entity and therefore was exposed to risks incident to its activities.

34 Subsequent events

On 20 April 2007, the Central Bank of the Russian Federation registered the 12th additional issue of the Bank's shares with the nominal value of RR 30 000 thousand. Shares were authorised, issued and fully paid in. Share premium relating to the issue amounted to RR 1 560 000 thousand.

In February 2007 the Group attracted the second tranche of the loan provided by the European Bank of Reconstruction and Development in the amount of USD 10 000 thousand.

Subordinated loans in the amount of RR 665 000 thousand received from shareholders and other companies were repaid earlier than the maturity date, i.e. in March 2007.