RUSSIAN AGRICULTURAL BANK GROUP

Consolidated Financial Statements and Auditors’ Report

31 December 2005

PRICEWATERHOUSECOOPERS

ZAO PricewaterhouseCoopers Audit
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AUDITORS' REPORT

To the Shareholders and Board of Directors of Russian Agricultural Bank Group:

We have audited the accompanying consolidated balance sheet of Open Joint-Stock Company "Russian Agricultural Bank" and its subsidiary (the "Group") as at 31 December 2005, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of the Group's Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

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

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
26 April 2006

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Russian Agricultural Bank Group
Consolidated Balance Sheet

In thousands of Russian Roubles	Note	31 December 2005	31 December 2004
ASSETS			
Cash and cash equivalents	7	4 792 688	3 746 533
Mandatory cash balances with the Central Bank of the Russian Federation		484 714	235 991
Trading securities	8	4 523 052	2 672 572
Due from other banks	9	1 435 563	4 491 951
Loans and advances to customers	10	44 159 707	13 583 683
Deferred income tax asset	24	107 078	56 179
Intangible assets	11	67 643	59 516
Premises and equipment	11	1 313 533	307 028
Other assets	12	150 940	115 207
TOTAL ASSETS		**57 034 918**	**25 268 660**
LIABILITIES			
Due to other banks	13	6 691 641	1 103 726
Customer accounts	14	14 676 969	12 316 792
Debt securities in issue	15	16 803 012	6 810 835
Other borrowed funds	17	7 147 944	-
Other liabilities	18	518 495	30 957
Subordinated deposits	16	165 155	171 169
TOTAL LIABILITIES		**46 003 216**	**20 433 479**
EQUITY			
Share capital	20	11 519 833	5 398 833
Accumulated deficit		(488 568)	(564 031)
Net assets attributable to the Bank's equity holders		**11 031 265**	**4 834 802**
Minority interest	19	**437**	**379**
TOTAL EQUITY		**11 031 702**	**4 835 181**
TOTAL LIABILITIES AND EQUITY		**57 034 918**	**25 268 660**

Approved for issue and signed on behalf of the Management Board on 26 April 2006.

Yu.V. Trushin
Chairman of the Management Board

O.V. Nikonov
Chief Accountant

In thousands of Russian Roubles	**Note**	**2005**	**2004**
Interest income	21	4 878 881	2 316 493
Interest expense	21	(1 920 424)	(687 756)
Net interest income		**2 958 457**	**1 628 737**
Provision for loan impairment	9, 10	(790 120)	(171 510)
Net interest income after provision for loan impairment		**2 168 337**	**1 457 227**
Gains less losses from trading securities		82 027	9 993
Gains less losses from trading in foreign currencies		16 931	26 890
Foreign exchange translation losses net of gains/gains less losses		(12 177)	12 694
Fee and commission income	22	366 528	291 673
Fee and commission expense	22	(17 003)	(11 765)
Recovery of provisions/(Provisions) for other assets and credit related commitments	12, 28	59	(19 873)
Other operating income		52 951	33 062
Administrative and other operating expenses	23	(2 511 939)	(1 671 063)
Operating profit		**145 714**	**128 838**
Income tax expense	24	(55 566)	(46 034)
Profit for the year		**90 148**	**82 804**
Profit is attributable to			
Equity holders of the Bank		90 084	82 668
Minority interest	19	64	136
Profit for the year		**90 148**	**82 804**
Earnings per share for profit attributable to the equity holders of the Bank, basic and diluted	31	**14**	**18**

In thousands of Russian Roubles	Note	Attributable to equity holders of the Bank			Minority interest	Total equity
		Share capital	Retained earnings	Total		
Balance at 31 December 2003		**5 398 833**	**(636 006)**	**4 762 827**	**243**	**4 763 070**
Profit for the year		-	82 668	82 668	136	82 804
Dividends declared	25	-	(10 693)	(10 693)	-	(10 693)
Balance at 31 December 2004		**5 398 833**	**(564 031)**	**4 834 802**	**379**	**4 835 181**
Profit for the year		-	90 084	90 084	64	90 148
Share issue	20	6 121 000	-	6 121 000	-	6 121 000
Dividends declared	25	-	(14 621)	(14 621)	-	(14 621)
Dividends paid to minority shareholders		-	-	-	(6)	(6)
Balance at 31 December 2005		**11 519 833**	**(488 568)**	**11 031 265**	**437**	**11 031 702**

In thousands of Russian Roubles	Note	2005	2004
Cash flows from operating activities			
Interest received on loans		4 612 527	2 206 170
Interest received on securities		216 466	91 954
Interest paid on customer accounts and due to other banks		(872 857)	(269 375)
Interest paid on securities		(649 155)	(255 486)
Income received from trading in trading securities		76 199	(61)
Income received from trading in foreign currencies		21 285	25 174
Fees and commissions received		369 031	291 673
Fees and commissions paid		(19 506)	(11 765)
Other operating income received		52 540	27 691
Staff costs paid		(1 543 843)	(1 006 152)
Administrative and other operating expenses paid		(916 003)	(584 163)
Income tax paid		(151 238)	(24 016)
Cash flows from operating activities before changes in operating assets and liabilities		**1 195 446**	**491 644**
Changes in operating assets and liabilities			
Net (increase)/decrease in mandatory cash balances with the Central Bank of the Russian Federation		(248 723)	39 102
Net increase in trading securities		(1 787 024)	(1 276 001)
Net decrease/increase in due from other banks		3 126 297	(4 548 259)
Net increase in loans and advances to customers		(31 376 522)	(6 360 369)
Net decrease / (increase) in other assets		33 058	(44 842)
Net increase in due to other banks		5 545 437	549 011
Net increase in customer accounts		2 322 467	5 739 849
Net increase in debt securities in issue		9 882 483	2 521 725
Net (decrease)/increase in other liabilities		(934)	20 714
Net cash used in operating activities		**(11 308 015)**	**(2 867 426)**
Cash flows from investing activities			
Acquisition of premises and equipment	11	(1 080 225)	(119 043)
Proceeds from disposal of premises and equipment		3 902	1 909
Dividend income received		153	582
Acquisition of intangible assets	11	(34 345)	(19 525)
Net cash used in investing activities		**(1 110 515)**	**(136 077)**
Cash flows from financing activities			
(Repayment of) / Proceeds from bonds issued		(318 900)	3 000 000
Issue of ordinary shares	20	6 614 000	-
Proceeds from other borrowed funds	17	7 217 450	-
Repayment of subordinated deposits	16	(6 000)	(55 500)
Dividends paid	25	(14 627)	(10 693)
Net cash from financing activities		**13 491 923**	**2 933 807**
Effect of exchange rate changes on cash and cash equivalents		**(27 238)**	**(4 122)**
Net increase / (decrease) in cash and cash equivalents		**1 046 155**	**(73 818)**
Cash and cash equivalents at the beginning of the year		3 746 533	3 820 351
Cash and cash equivalents at the end of the year	7	**4 792 688**	**3 746 533**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005 for Open Joint-Stock Company “Russian Agricultural Bank” (the “Bank”) and its subsidiary, Closed Joint-Stock Company “Chelyabinsky Commercial Land Bank” (together referred to as the “Group”). Refer to Note 33 for information about the subsidiary.

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is an open joint stock company limited by shares and was set up in accordance with Russian regulations.

The Bank’s only shareholder is the Russian Federation represented by the Federal Agency for Managing State Property. The Bank’s principal business activity is corporate and retail banking operations in the Russian Federation, with an emphasis on lending to agricultural enterprises. The main objectives of the Bank are:

- To participate in the realisation of the monetary policy of the Russian Federation in the area of agricultural production;
- To develop within the agricultural industry a national system of lending to the domestic agricultural producers; and
- To maintain an effective and uninterrupted performance of the settlement system in the area of agricultural production across the Russian Federation.

The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation (“CBRF”) since 13 June 2000. In June 2004 the Bank applied for participation in the State deposit insurance scheme, which was introduced by the Federal Law #177-FZ “Deposits of individuals insurance in Russian Federation” dated 23 December 2003. In November 2004 the Bank was inspected by the CBRF to assess its compliance with the criteria set for the State deposit insurance scheme and in accordance with the decision of the CBRF, the Bank was accepted to the State deposit insurance scheme on 14 March 2005. The State deposit insurance scheme dictates that the State Deposit Insurance Agency will guarantee repayment of individual deposits up to RR 100 thousand (approximately US Dollars 3 thousand) per individual in case of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments.

The Bank has 66 (2004: 62) branches within the Russian Federation. The Bank’s registered address is: 119034 Russia, Moscow, Gagarinsky lane, 3.

The number of the Group’s employees as at 31 December 2005 was 5 324 (31 December 2004: 3 856).

Activities of the Group include deposit taking and commercial lending, foreign exchange dealing, cash operations and security trading. These activities are conducted principally in Russia.

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 not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, relatively high inflation and economic growth. The banking sector in the Russian Federation is sensitive to adverse fluctuations in confidence and economic conditions. The Russian economy occasionally experiences falls in confidence in the banking sector accompanied by reductions in liquidity. Management is unable to predict economic trends and developments in the banking sector and what effect, if any, a deterioration in the liquidity of or confidence in the Russian banking system could have on the consolidated financial position of the Group.

2 Operating Environment of the Group (Continued)

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 financial instruments categorised as at fair value through profit or loss (trading securities and derivatives). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5, Adoption of New or Revised Standards and Interpretations).

Consolidated financial statements. Subsidiaries are those companies 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 no longer consolidated from the date that control ceases.

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

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest. The difference, if any, between the fair values of the net assets at the dates of exchange and at the date of acquisition is recorded directly in equity.

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

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

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

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

3 Basis of Preparation and Significant Accounting Policies (Continued)

In other than active markets, the most recent arms length transactions are the basis of current fair values. Recent transaction prices are appropriately adjusted if they do not reflect current fair values, for example because the transaction was a distress sale. Fair value is not the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale.

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

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

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase. 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 within other operating income when the Group's right to receive the dividend payment is established.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

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

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

Impairment losses are recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the 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.

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

Credit related commitments. In the normal course of business, the Group enters into credit related commitments, including letters of credit and guarantees. Specific provisions are recorded against credit related commitments when losses are considered more likely than not.

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

Derecognition of financial assets. The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets otherwise expire 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.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Premises and equipment. Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required. Cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

Construction in progress is carried at cost. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets. Upon completion, assets are transferred to premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

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

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

Depreciation. Depreciation of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives at the following annual rates:

Premises	2.5%;
Equipment	5%-20%.

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

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. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of five years.

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.

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 consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

Other borrowed funds. Other borrowed funds include amounts attracted as result of a Eurobond issue. The issued Eurobonds carry a coupon and are redeemable on a specific date. Other borrowed funds are carried at amortised cost.

Subordinated deposits. Subordinated deposits represent funds obtained by the Group for a period of more than five years. Subordinated deposits are stated at amortised cost. Claims of the creditors on subordinated deposits are considered only after all claims of other creditors of the Bank are satisfied.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts (forward and swap), are carried at their fair value. Non-derivative transactions are aggregated and treated as a derivative when the transactions result, in substance, is a derivative.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss as gains less losses arising from trading in foreign currencies. The Group does not apply hedge accounting.

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

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if 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 carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

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

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

Dividends. Dividends are recorded in equity in the period in which they are declared. 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 interest-bearing 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.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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

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

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

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in the consolidated statement of income in the line "Foreign exchange translation gains less losses". At 31 December 2005 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 28.7825 (2004: USD 1 = RR 27.7487). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a freely convertible currency in most countries outside of the Russian Federation.

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 consolidated balance sheet. The extent of such balances and transactions is indicated in Note 28. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

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

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

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.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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.

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current year. The effect of reclassifications is as follows:

In thousands of Russian Roubles	**2004**
Increase in	
Trading securities	894 303
Due from other banks	40 415
Intangible assets	59 516
Other assets	5 067
Decrease in	
Investment securities available for sale	939 785
Premises and equipment	59 516

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. The Group currently lacks information systems to assess probabilities of default for its borrowers and collect all the required statistics on loss given default rate and loss identification period. In determining whether an impairment loss should be recorded in the consolidated 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.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 28.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Deferred income tax asset recognition. The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the consolidated balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future Management makes judgements and applies estimation based on last three years taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

Related party transactions. The Bank's only shareholder is the Russian Federation represented by the Federal Agency for Managing State Property (Refer to Note 1). As the Group adopted IAS 24 "Related Party Disclosures", disclosures are made in these consolidated financial statements for transactions with state-controlled entities and government bodies. Currently the Government of the Russian Federation does not provide to the general public or entities under its ownership/control a complete list of the entities which are owned or controlled directly or indirectly by the State. Judgement is applied by the Management in identification of related parties to be disclosed in the consolidated financial statements. Refer to Note 32.

5 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Group from 1 January 2005. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to the retained earnings at 1 January 2004, unless otherwise described below.

IAS 1 (revised 2003), Presentation of Financial Statements. Minority interest is now presented as equity and the Group discloses on the face of the income statement profit or loss for the period and the allocation of that amount between 'profit or loss attributable to minority interest' and 'profit or loss attributable to equity holders of the Bank'. Certain new disclosures and changes in presentation required by the revised standard were made in these consolidated financial statements.

IAS 16 (revised 2003) Property, Plant and Equipment. The residual value is now defined as the amount that the Group estimates it would receive currently for the asset if the asset were already of the age and in the condition expected at the end of its useful life. The Group's policy is now not to cease depreciating assets during temporary periods when the assets are idle.

IAS 24 (revised 2003) Related Party Disclosures. The definition of related parties was extended and additional disclosures required by the revised standard were made in these consolidated financial statements.

IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement. The definition of 'originated loans and receivables' was amended to become 'loans and receivables'. This category now comprises originated or purchased loans and receivables that are not quoted in an active market. The Group amended its policies and may designate any financial instrument on initial recognition as one to be measured at fair value, with changes in fair value recognised in profit or loss. Subsequent reclassifications into or out of the 'at fair value through profit or loss' category are prohibited.

The Group amended its policies for derecognition of financial assets. Under the original IAS 39, several concepts governed derecognition. The revised IAS 39 retains the two main concepts of risks and rewards and control, but clarifies that the evaluation of the transfer of risks and rewards precedes the evaluation of the transfer of control. The Group now applies the guidance added to IAS 39 on how to evaluate impairment in a group of loans and receivables which cannot yet be identified with any individual asset in the group. In accordance with the standard's transitional provisions the revised accounting policies are applied retrospectively except for the clarified derecognition rules which are applied prospectively from 1 January 2004.

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

Effect of Adoption of New or Revised Standards. The effect of adoption of the above new or revised standards and interpretations on the Group's consolidated financial position at 31 December 2005 and 31 December 2004 and on the consolidated results of its operations for the years then ended was not significant.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods and which the Bank has not early adopted:

IAS 39 (Amendment) – The Fair Value Option (effective from 1 January 2006). IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ('fair value through profit or loss'). The amendment changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category.

IAS 39 (Amendment) – Financial Guarantee Contracts (effective from 1 January 2006). Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognition of financial assets or result in continuing involvement accounting.

IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It 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 IFRS 7 and the amendment to IAS 1 will have on disclosures in its financial statements.

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

- IAS 19 (Amendment) - Employee Benefits (effective from 1 January 2006);
- IAS 21 (Amendment) - Net Investment in a Foreign Operation (effective from 1 January 2006);
- IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006);
- IFRS 1 (Amendment) - First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment) - Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006);
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006);
- IFRIC 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective for periods beginning on or after 1 December 2005, that is from 1 January 2006);
- 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).

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

7 Cash and Cash Equivalents

In thousands of Russian Roubles	2005	2004
Cash on hand	639 297	320 039
Cash balances with the CBRF (other than mandatory reserve deposits)	2 689 306	2 581 176
Correspondent accounts and overnight placements with other banks		
- Russian Federation	11 534	804 667
- United States of America	1 433 531	28 888
- Other countries	12 400	8 723
- Settlement accounts with MICEX and RTS	6 620	3 040
Total cash and cash equivalents	**4 792 688**	**3 746 533**

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 27. The information on related party balances is disclosed in Note 32.

8 Trading Securities

In thousands of Russian Roubles	2005	2004
Promissory notes	1 831 885	1 243 121
Federal loan bonds (OFZ bonds)	828 851	851 084
Corporate bonds	796 704	336 191
Corporate Eurobonds	562 646	57 450
Municipal bonds	493 251	3 987
Corporate shares	9 715	37 542
Russian Federation Eurobonds	-	143 197
Total trading securities	**4 523 052**	**2 672 572**

As at 31 December 2005 promissory notes in the Group's portfolio are represented by promissory notes issued by Russian banks. These promissory notes have maturities from demand to October 2006 (2004: from January 2005 to December 2005). As at 31 December 2005 yield to maturity ranges from 8.5% p.a. to 20% p.a. (2004: from 5.0% p.a. to 10.0% p.a.).

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds have maturity dates from July 2010 to August 2018 (2004: from April 2005 to August 2018), coupon rate of 10% p.a. (2004: from 10% p.a. to 12% p.a.) and yield to maturity from 7.5% p.a. to 7.6% p.a. as at 31 December 2005 (2004: from 7.6% p.a. to 8.1% p.a.), depending on the type of bond issue and the market conditions.

Corporate bonds are Russian Rouble denominated securities, issued by large Russian companies. Corporate bonds are traded at a discount or premium to a face value, carry a coupon charged on the nominal value of the bond and are paid quarterly or semi-annually, depending on the type of bond issue and the issuer. These bonds have maturity dates from April 2006 to June 2010 (2004: from June 2005 to February 2009), coupon rates from 7.2% p.a. to 14.2% p.a. (2004: from 8.1% p.a. to 17.5% p.a.) and yield to maturity from 6.6% p.a. to 14.0% p.a. (2004: 6.6% p.a. to 14.0% p.a.), depending on the type of bond issue and issuer and the market conditions.

Corporate Eurobonds are interest bearing securities denominated in USD, issued by large Russian companies, and are freely tradable internationally. These bonds have maturity dates from October 2006 to September 2015 (2004: to October 2010), coupon rates from 6.2% p.a. to 10.9% p.a. (2004: 8.4% p.a.) and yield to maturity from 6.0% p.a. to 8.2% p.a. (2004: 7.6% p.a.) as at 31 December 2005, depending on the type of bond issue and issuer and the market conditions.

8 Trading Securities (Continued)

Municipal bonds are represented by the bonds issued by municipal authorities of Russian Federation. They are traded at a discount or premium to face value, carry a coupon charged on the nominal value of the bond and are paid quarterly or semi-annually, depending on the type of bond issue and issuer. As at 31 December 2005 these bonds have maturity dates from July 2006 to November 2013 (2004: from July 2006 to June 2008), coupon rates from 6.8% p.a. to 14.0% p.a. (2004: from 10.0% p.a. to 13.5% p.a.) and yield to maturity from 6.0% p.a. to 13.5% p.a. (2004: from 7.2% p.a. to 13.5% p.a.), depending on the type of bond issue and issuer and the market conditions.

Corporate shares are shares of Russian companies.

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. As at 31 December 2004 these bonds had maturity in May 2011, coupon rate of 3% p.a. and yield to maturity of 5.7% p.a. depending on the market conditions.

Trading securities are tradable in Russian Stock Exchanges (RTS or MICEX), internationally or in an over-the-counter market depending on the type of security. The Bank is licensed by the Federal Commission on Securities Markets for trading in securities.

Geographical, currency and interest rate analyses of trading securities are disclosed in Note 27. The information on trading securities issued by related parties is disclosed in Note 32.

9 Due from Other Banks

In thousands of Russian Roubles	**2005**	**2004**
Current term placements with other banks	1 408 006	4 550 031
Restricted deposit relating to import letters of credit	27 557	-
Less: Provision for impairment of due from other banks	-	(58 080)
Total due from other banks	**1 435 563**	**4 491 951**

Restricted deposit represents balances on accounts with foreign banks placed by the Group on behalf of its customers for the settlements on letters of credit transactions. The Group does not have the right to use these funds for the purposes of funding its own activities. The Group has received restricted deposits from these customers in the same amounts which are recorded in customer accounts. Refer to Notes 14 and 28.

Movements in the provision for loan impairment are as follows:

In thousands of Russian Roubles	**2005**	**2004**
Provision for loan impairment at 1 January	**58 080**	**-**
(Recovery of provision) / Provision for loan impairment during the year	(58 080)	58 080
Provision for loan impairment at 31 December	**-**	**58 080**

At 31 December 2005 the estimated fair value of due from other banks was RR 1 435 563 thousand (2004: RR 4 491 951 thousand). Refer to Note 30.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 27. The information on related party balances is disclosed in Note 32.

As at 31 December 2005 the Group has placements in Russian Roubles with two Russian banks with aggregated balances of RR 1 277 091 thousand or 89% of total due from other banks (2004: five banks with aggregated amount of RR 3 940 542 thousand or 88% of total due from other banks), which mature in July 2006.

10 Loans and Advances to Customers

In thousands of Russian Roubles	2005	2004
Current loans	44 975 413	13 890 233
Overdue loans	632 289	302 716
Total loans and advances to customers before provision for loan impairment	**45 607 702**	**14 192 949**
Less: Provision for loan impairment	(1 447 995)	(609 266)
Total loans and advances to customers	**44 159 707**	**13 583 683**

Overdue loans represent the amount of overdue loan payments and do not include the entire outstanding balance of the loans with overdue payments.

Movements in the provision for loan impairment are as follows:

In thousands of Russian Roubles	2005	2004
Provision for loan impairment at 1 January	**609 266**	**497 523**
Provision for loan impairment during the year	848 200	113 430
Loans and advances to customers written off during the year as uncollectible	(9 471)	(1 687)
Provision for loan impairment at 31 December	**1 447 995**	**609 266**

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

	2005		2004	
In thousands of Russian Roubles	Amount	%	Amount	%
Agriculture	27 520 074	60	7 831 081	55
Trade	7 824 212	17	2 879 491	20
Manufacturing	7 661 241	17	2 334 112	17
Individuals	797 951	2	167 870	1
Construction	420 099	1	207 126	1
Other	1 384 125	3	773 269	6
Total loans and advances to customers (before impairment)	**45 607 702**	**100**	**14 192 949**	**100**

As at 31 December 2005 the Group has loans on the aggregate amount of RR 2 465 226 thousand (2004: none), issued at 6.5% p.a. to the company FGUP “FAP” (Federal Agency for Food Resources), which is 100% owned by the Federal Government of the Russian Federation.

As at 31 December 2005 the Group has no other borrowers, besides FGUP “FAP”, or groups of related borrowers with aggregated loan amounts to each borrower above 10% of total equity (31 December 2004: none).

As at 31 December 2005 included in gross amount of loans are loans in the amount of RR 19 495 644 thousand, for which interest rates are subsidized to the borrowers by the Federal Government in the amount equal to two thirds of the CBRF refinancing rate (2004: RR 6 103 801 thousand).

Included in the gross amount of loans to trade companies are loans to wholesalers of agricultural products in the amount of RR 1 956 751 thousand (2004: RR 2 825 190 thousand).

10 Loans and Advances to Customers (Continued)

At 31 December 2005 the estimated fair value of loans and advances to customers was RR 44 159 707 thousand (2004: RR 13 583 683 thousand). Refer to Note 30.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 27. The information on related party balances is disclosed in Note 32.

11 Premises, Equipment and Intangible Assets

In thousands of Russian Roubles	Note	Premises	Office and computer equipment	Intangible assets	Total
Cost at 1 January 2004		55 945	239 649	101 976	397 570
Accumulated depreciation and amortisation		(2 672)	(48 301)	(38 769)	(89 742)
Carrying amount at 1 January 2004		**53 273**	**191 348**	**63 207**	**307 828**
Additions		48 163	70 880	19 525	138 568
Disposals		(778)	(1 789)	(41)	(2 608)
Depreciation and amortisation charge	23	(4 237)	(49 832)	(23 175)	(77 244)
Carrying amount at 31 December 2004		**96 421**	**210 607**	**59 516**	**366 544**
Cost at 31 December 2004		103 271	307 022	121 453	531 746
Accumulated depreciation and amortisation		(6 850)	(96 415)	(61 937)	(165 202)
Carrying amount at 31 December 2004		**96 421**	**210 607**	**59 516**	**366 544**
Additions		899 663	180 562	34 345	1 114 570
Disposals		(1 637)	(7 532)	-	(9 169)
Depreciation and amortisation charge	23	(6 394)	(58 157)	(26 218)	(90 769)
Carrying amount at 31 December 2005		**988 053**	**325 480**	**67 643**	**1 381 176**
Cost at 31 December 2005		1 001 210	474 034	155 798	1 631 042
Accumulated depreciation and amortisation		(13 157)	(148 554)	(88 155)	(249 866)
Carrying amount at 31 December 2005		**988 053**	**325 480**	**67 643**	**1 381 176**

In December 2005 the Bank acquired a building situated on Gagarinsky lane, 3, Moscow, previously occupied by the Bank as a lessee. Cost of the building in the amount of RR 788 916 thousand is included in premises as at 31 December 2005.

Intangible assets primarily include capitalised computer software.

12 Other Assets

In thousands of Russian Roubles	2005	2004
Prepaid taxes	77 340	27 903
Trade debtors and other prepayments	46 587	27 492
Rent prepayments	22 057	15 295
Net amounts in course of settlements	2 211	19 733
Fair value of derivative instruments	2 673	57
Other	5 944	30 658
Less: Provision for impairment	(5 872)	(5 931)
Total other assets	**150 940**	**115 207**

Movements in the provision for impairment of other assets are as follows:

In thousands of Russian Roubles	2005	2004
Provision for impairment of other assets at 1 January	**5 931**	**-**
(Recovery of provision) / Provision for impairment of other assets during the year	(59)	5 931
Provision for impairment of other assets at 31 December	**5 872**	**5 931**

Geographical, currency and maturity analyses of other assets are disclosed in Note 27. The information on related party balances is disclosed in Note 32.

13 Due to Other Banks

In thousands of Russian Roubles	2005	2004
Term borrowings obtained from other banks	4 534 362	1 098 465
Syndicated loans	2 127 010	-
Correspondent accounts and overnight placements of other banks	30 269	5 261
Total due to other banks	**6 691 641**	**1 103 726**

At 31 December 2005, syndicated loans include a loan attracted from six Russian banks. This loan is denominated in Russian Roubles. The loan has maturity in July 2006, nominal interest rate of 8.5% p.a. and effective interest rate of 10.0% p.a.

As at 31 December 2005 the Group has placements from one bank with aggregated amount of RR 1 439 851 thousand or 23% of total due to other banks (2004: placements from two banks with aggregated amount of RR 712 162 thousand or 65% of total due to other banks).

At 31 December 2005 the estimated fair value of due to other banks was RR 6 691 641 thousand (2004: RR 1 103 726 thousand). Refer to Note 30.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 27. The information on related party balances is disclosed in Note 32.

14 Customer Accounts

In thousands of Russian Roubles	2005	2004
State and public organisations		
- Current/settlement accounts	1 033 234	5 419 380
- Term deposits	140 322	58 628
Other legal entities		
- Current/settlement accounts	3 450 795	1 971 010
- Term deposits	4 731 320	616 815
Individuals		
- Current/demand accounts	657 224	2 234 001
- Term deposits	4 664 074	2 016 958
Total customer accounts	**14 676 969**	**12 316 792**

Economic sector concentrations within customer accounts are as follows:

	2005		2004	
In thousands of Russian Roubles	Amount	%	Amount	%
Individuals	5 321 298	36	4 250 959	35
Insurance	2 821 221	19	456 391	4
Agriculture	1 443 796	10	616 444	5
Government bodies and municipal authorities	1 173 556	8	799 403	6
Finance	1 141 010	8	12 598	-
Trade	752 726	5	300 276	2
Real estate	556 357	4	4 752	-
Construction	508 557	3	440 824	4
Manufacturing	437 511	3	252 639	2
Leasing	60 379	1	4 678 605	38
Other	460 558	3	503 901	4
Total customer accounts	**14 676 969**	**100**	**12 316 792**	**100**

At 31 December 2005 the Group had two customers with aggregate balances above RR 1 100 000 thousand (2004: one customer with aggregate balances exceeding RR 485 000 thousand). The aggregate balances of these customers were RR 2 548 884 thousand (2004: RR 4 678 605 thousand) or 17% (2004: 38%) of total customer accounts.

At 31 December 2005 included in customer accounts are deposits of RR 27 557 thousand (2004: nil) held as collateral for irrevocable commitments under import letters of credit. Refer to Notes 9 and 28. Included in "Leasing" are accounts of OAO "Rosagroleasing" in the amount of RR 60 379 thousand (2004: RR 4 678 605 thousand). OAO "Rosagroleasing" is a leasing company 100% owned by the Russian Government.

At 31 December 2005 the estimated fair value of customer accounts was RR 14 676 969 thousand (2004: RR 12 316 792 thousand). Refer to Note 30.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 27. The information on related party balances is disclosed in Note 32.

15 Debt Securities in Issue

In thousands of Russian Roubles	**2005**	**2004**
Promissory notes issued	14 109 477	3 793 825
Bonds issued	2 693 535	3 017 010
Total debt securities in issue	**16 803 012**	**6 810 835**

The Group issued promissory notes at a discount to nominal value and interest bearing promissory notes denominated in Russian Roubles and US dollars with effective interest rate from 0% p.a. (for promissory notes on demand) to 11% p.a. and the maturity dates from January 2006 to November 2011.

In December 2004 the Group performed a placement of domestic bonds in the amount of RR 3 000 000 thousand maturing in June 2008 with the quarterly payment of coupon income. As at 31 December 2005 coupon rate is 7.5% p.a. (as at 31 December 2004: 9.0% p.a.) and yield to maturity is 7.53% p.a.

At 31 December 2005 the estimated fair value of debt securities in issue was RR 16 803 012 thousand (2004: RR 6 810 835 thousand). Refer to Note 30.

Geographical, currency, maturity and interest rate analyses of debt securities in issue are disclosed in Note 27.

16 Subordinated Deposits

Subordinated deposits represent funds obtained by the Group in 2001 from the Agency for Restructuring of Credit Organisations (“ARCO”, Russian government financial institution) for the purpose of financing the main activity of the Group. Due to liquidation of ARCO in December 2004 its rights and obligations were assigned to the Government corporation “Agency for Deposit Insurance”.

Interest rates on these funds amount to 3.25% p.a., maturity period is from April to June 2006.

As at 31 December 2005 the estimated fair value of subordinated deposits was RR 165 155 thousand (31 December 2004: RR 171 169 thousand). Refer to Note 30.

Geographical, currency, maturity and interest rate analyses of subordinated deposits are disclosed in Note 27. The information on related party balances is disclosed in Note 32.

17 Other Borrowed Funds

At 31 December 2005 the Group had borrowings of RR 7 147 944 thousand in US Dollars denominated Eurobonds. These borrowings mature on 29 November 2010, have coupon rate of 6.875% p.a. and yield to maturity of 6.9% p.a. as at 31 December 2005. Nominal amount of Eurobonds issued is USD 250 000 thousand.

At 31 December 2005 the estimated fair value of other borrowed funds was RR 7 147 944 thousand (2004: nil). Refer to Note 30.

Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 27.

18 Other liabilities

	Note	2005	2004
Contributions to share capital not yet registered	34	493 000	-
Taxation payable		11 585	11 722
Accrued bonuses to staff		4 373	3 715
Provision for credit related commitments	28	801	13 942
Fair valuation of derivative instruments	29	7 400	41
Other		1 336	1 537
Total other liabilities		**518 495**	**30 957**

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 27.

19 Minority Interest

The table below represents movements in the minority interest in respect of Chelyabinsky Commercial Land Bank:

	2005	2004
Minority interest as at 1 January	379	243
Share of net profit	64	136
Dividends paid	(6)	-
Minority interest as at 31 December	**437**	**379**

20 Share Capital

The authorised, issued and fully paid share capital of the Group comprises:

In thousands of RR	Number of outstanding shares	Ordinary shares
At 1 January 2004 and 31 December 2004	**4 649**	**5 398 833**
New shares issued	6 121	6 121 000
At 31 December 2005	**10 770**	**11 519 833**

20 Share Capital (Continued)

Total authorized share capital of the Group consists of 11 263 ordinary shares, of which 10 770 shares have been issued and outstanding. All ordinary shares have a nominal value of RR 1 000 thousand per share and rank equally. Each ordinary share carries one vote.

In 2005 the Bank increased its share capital by issuing 6 121 ordinary shares with a total nominal amount of RR 6 121 000 thousand. All shares have been issued to the Bank's only shareholder, the Russian Federation represented by Federal Agency for Managing State Property.

In December 2005 the Bank issued 493 ordinary shares with a total nominal amount of RR 493 000 thousand to the Bank's sole shareholder. This share issue has not yet been registered as at 31 December 2005. Refer to Note 34.

21 Interest Income and Expense

In thousands of Russian Roubles	**2005**	**2004**
Interest income		
Loans and advances to customers	4 531 284	2 147 224
Trading securities	268 012	124 064
Due from other banks	79 014	44 713
Correspondent accounts with other banks	571	492
Total interest income	**4 878 881**	**2 316 493**
Interest expense		
Promissory notes issued	(817 104)	(383 921)
Term deposits of individuals	(372 903)	(109 450)
Bonds issued	(265 211)	(17 010)
Term placements of other banks	(184 371)	(86 159)
Term deposits of legal entities	(203 414)	(77 239)
Other borrowed funds and Subordinated deposits	(50 123)	(7 557)
Current/settlement accounts	(27 298)	(6 420)
Total interest expense	**(1 920 424)**	**(687 756)**
Net interest income	**2 958 457**	**1 628 737**

22 Fee and Commission Income and Expense

In thousands of Russian Roubles	**2005**	**2004**
Fee and commission income		
Commission on cash transactions	215 225	151 673
Commission on settlement transactions	105 363	102 521
Agency fees	23 183	18 488
Commission on securities transactions	2 115	289
Commission on cash collection	2 065	1 328
Other	18 577	17 374
Total fee and commission income	**366 528**	**291 673**
Fee and commission expense		
Commission on cash collection	(13 397)	(9 688)
Commission on settlement transactions	(2 700)	(2 035)
Commission on cash transactions	(18)	(14)
Other	(888)	(28)
Total fee and commission expense	**(17 003)**	**(11 765)**
Net fee and commission income	**349 525**	**279 908**

23 Administrative and Other Operating Expenses

In thousands of Russian Roubles	**Note**	**2005**	**2004**
Staff costs		1 568 955	1 020 598
Rent expenses		251 513	171 015
Other expenses related to premises and equipment		163 775	93 041
Taxes other than income tax		92 290	77 943
Security		91 909	75 079
Depreciation and amortisation	11	90 769	77 244
Utility services		27 115	18 900
Advertising and marketing		22 138	12 552
Stationery		14 569	4 730
Other		188 906	119 961
Total administrative and other operating expenses		**2 511 939**	**1 671 063**

Included in staff costs are statutory social security and pension contributions of RR 237 166 thousand (2004: RR 173 889 thousand).

24 Income Taxes

Income tax expense comprises the following:

In thousands of Russian Roubles	**2005**	**2004**
Current tax	106 465	21 635
Deferred taxation	(50 899)	24 399
Income tax expense for the year	**55 566**	**46 034**

The income tax rate applicable to the majority of the Group's income is 24% (2004: 24%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Russian Roubles	**2005**	**2004**
IFRS profit before tax	**145 714**	**128 838**
Theoretical tax charge at statutory rate (2005: 24%; 2004: 24%)	34 971	30 921
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Tax-exempt income	(3 581)	(842)
- Non-deductible staff costs and charity expenses	11 345	7 769
- Other non-deductible expenses	24 210	13 861
- Income on government securities taxable at different rates	(11 379)	(5 675)
Income tax expense for the year	**55 566**	**46 034**

24 Income Taxes (Continued)

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 24% (2004: 24%), except for income on state securities that is taxed at 15% (2004: 15%).

	2004	Recognised in consolidated statement of income	2005
Tax effect of deductible temporary differences			
Provision for loan impairment	28 362	69 634	97 996
Fair valuation of securities	6 374	2 697	9 071
Premises and equipment: depreciation	2 876	86	2 962
Accruals	44 704	47 344	92 048
Other	1 212	2 571	3 783
Deferred tax asset	**83 528**	**122 332**	**205 860**
Tax effect of taxable temporary differences			
Fair valuation of securities	(554)	(14 570)	(15 124)
Premises and equipment: inflation and VAT capitalisation	(20 432)	(32 464)	(52 896)
Accruals	(4 418)	(20 516)	(24 934)
Other	(1 945)	(3 883)	(5 828)
Deferred tax liability	**(27 349)**	**(71 433)**	**(98 782)**
Net deferred tax asset	**56 179**	**50 899**	**107 078**

In the context of the Group's current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

	2003	Recognised in consolidated statement of income	2004
Tax effect of deductible temporary differences			
Provision for loan impairment	84 540	(56 178)	28 362
Fair valuation of securities	9 585	(3 211)	6 374
Premises and equipment: depreciation	13 075	(10 199)	2 876
Accruals	2 182	42 522	44 704
Other	129	1 083	1 212
Deferred tax asset	**109 511**	**(25 983)**	**83 528**
Tax effect of taxable temporary differences			
Recovery of provision for loan impairment	(10 584)	10 584	-
Fair valuation of securities	(3 796)	3 242	(554)
Premises and equipment: inflation and VAT capitalisation	(8 544)	(11 888)	(20 432)
Accruals	(6 009)	1 591	(4 418)
Other	-	(1 945)	(1 945)
Deferred tax liability	**(28 933)**	**1 584**	**(27 349)**
Net deferred tax asset	**80 578**	**(24 399)**	**56 179**

25 Dividends

In thousands of Russian Roubles	2005 Ordinary	2004 Ordinary
Dividends payable at 1 January	-	-
Dividends declared during the year	14 621	10 693
Dividends paid during the year	(14 621)	(10 693)
Dividends payable at 31 December	**-**	**-**
Dividends per share declared during the year	**3.1**	**2.3**

All dividends are declared and paid in Russian Roubles.

26 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 two main business segments:

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

- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.

The Group does not have an internal management accounting system for reallocation of funds and/or operating expense between the segments. Management of the Group is currently considering ways to improve the existing management accounting system to allow such reallocation.

26 Segment Analysis (Continued)

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

In thousands of Russian Roubles	Corporate banking	Retail banking	Unallocated funds	Total
2005				
External revenues	5 307 228	77 913	-	5 385 141
Total revenues	**5 307 228**	**77 913**	**-**	**5 385 141**
Total revenues comprise:				
- Interest income	4 820 820	58 061	-	4 878 881
- Net gains from trading securities	82 027	-	-	82 027
- Net gains from trading in foreign currencies	855	16 076	-	16 931
- Fee and commission income	357 514	9 014	-	366 528
- Other operating income	46 012	(5 238)	-	40 774
Total revenues	**5 307 228**	**77 913**	**-**	**5 385 141**
Total expenses comprise:				
- Interest expense	(1 547 521)	(372 903)	-	(1 920 424)
- Fee and commission expense	(17 003)	-	-	(17 003)
- Other administrative and operating expenses	-	-	(2 511 939)	(2 511 939)
- Provisions	(784 676)	(5 385)	-	(790 061)
Total expenses	**(2 349 200)**	**(378 288)**	**(2 511 939)**	**(5 239 427)**
Segment result	**2 958 028**	**(300 375)**	**(2 511 939)**	**145 714**
Income tax expense	-	-	(55 566)	(55 566)
Profit for the year	**2 958 028**	**(300 375)**	**(2 567 505)**	**90 148**
Segment assets	**56 052 549**	**797 951**	**-**	**56 850 500**
Current and deferred tax assets	-	-	184 418	184 418
Total assets	**56 052 549**	**797 951**	**184 418**	**57 034 918**
Segment liabilities	**40 670 333**	**5 321 298**	**-**	**45 991 631**
Current and deferred tax liabilities	-	-	11 585	11 585
Total liabilities	**40 670 333**	**5 321 298**	**11 585**	**46 003 216**
Other segment items				
Capital expenditure	(985 619)	(128 951)	-	(1 114 570)
Provisions	(784 676)	(5 385)	-	(790 061)
Depreciation and amortisation	(80 267)	(10 502)	-	(90 769)

26 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Group for the year ended 31 December 2004 is set out below:

In thousands of Russian Roubles	Corporate banking	Retail banking	Unallocated funds	Total
2004				
External revenues	2 637 117	53 688	-	2 690 805
Total revenues	**2 637 117**	**53 688**	**-**	**2 690 805**
Total revenues comprise:				
- Interest income	2 288 055	28 438	-	2 316 493
- Net gains from trading securities	9 993	-	-	9 993
- Net gains from trading in foreign currencies	12 667	14 223	-	26 890
- Fee and commission income	285 575	6 098	-	291 673
- Other operating income	40 827	4 929	-	45 756
Total revenues	**2 637 117**	**53 688**	**-**	**2 690 805**
Total expenses comprise:				
- Interest expense	(578 306)	(109 450)	-	(687 756)
- Fee and commission expense	(11 765)	-	-	(11 765)
- Other administrative and operating expenses	-	-	(1 671 063)	(1 671 063)
- Provisions	(190 162)	(1 221)	-	(191 383)
Total expenses	**(780 233)**	**(110 671)**	**(1 671 063)**	**(2 561 967)**
Segment result	**1 856 884**	**(56 983)**	**(1 671 063)**	**128 838**
Profit before tax	**1 856 884**	**(56 983)**	**(1 671 063)**	**128 838**
Income tax expense	-	-	(46 034)	(46 034)
Profit for the year	**1 856 884**	**(56 983)**	**(1 717 097)**	**82 804**
Segment assets	**25 016 708**	**167 870**	**-**	**25 184 578**
Current and deferred tax assets	-	-	84 082	84 082
Total assets	**25 016 708**	**167 870**	**84 082**	**25 268 660**
Segment liabilities	**16 170 798**	**4 250 959**	**-**	**20 421 757**
Current and deferred tax liabilities	-	-	11 722	11 722
Total liabilities	**16 170 798**	**4 250 959**	**11 722**	**20 433 479**
Other segment items				
Capital expenditure	(109 722)	(28 846)	-	(138 568)
Provisions	(190 162)	(1 221)	-	(191 383)
Depreciation and amortisation	(61 164)	(16 080)	-	(77 244)

26 Segment Analysis (Continued)

Geographical segments. Substantially all revenues of the Group have been received from contracting parties operating in the Russian Federation.

27 Financial Risk Management

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

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

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

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

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

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

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Management Board 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.

27 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	Russia	OECD*	Non OECD	Total
Assets				
Cash and cash equivalents	3 346 757	1 445 931	-	4 792 688
Mandatory cash balances with the Central Bank of the Russian Federation	484 714	-	-	484 714
Trading securities	4 523 052	-	-	4 523 052
Due from other banks	1 435 563	-	-	1 435 563
Loans and advances to customers	44 159 707	-	-	44 159 707
Deferred income tax asset	107 078	-	-	107 078
Intangible assets	67 643	-	-	67 643
Premises and equipment	1 313 533	-	-	1 313 533
Other assets	148 584	2 356	-	150 940
Total assets	**55 586 631**	**1 448 287**	**-**	**57 034 918**
Liabilities				
Due to other banks	5 064 560	1 623 270	3 811	6 691 641
Customer accounts	14 676 969	-	-	14 676 969
Debt securities in issue	16 803 012	-	-	16 803 012
Other borrowed funds	-	7 147 944	-	7 147 944
Other liabilities	511 095	7 400	-	518 495
Subordinated deposits	165 155	-	-	165 155
Total liabilities	**37 220 791**	**8 778 614**	**3 811**	**46 003 216**
Net balance sheet position	**18 365 840**	**(7 330 327)**	**(3 811)**	**11 031 702**
Credit related commitments	**439 341**	**-**	**-**	**439 341**

*OECD - Organisation for Economic Cooperation and Development

Assets, liabilities and credit related commitments have been based generally 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.

27 Financial Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities at 31 December 2004 is set out below:

In thousands of Russian Roubles	Russia	OECD	Non OECD	Total
Assets				
Cash and cash equivalents	3 708 922	37 611	-	3 746 533
Mandatory cash balances with the Central Bank of the Russian Federation	235 991	-	-	235 991
Trading securities	2 672 572	-	-	2 672 572
Due from other banks	4 491 951	-	-	4 491 951
Loans and advances to customers	13 583 683	-	-	13 583 683
Deferred income tax asset	56 179	-	-	56 179
Intangible assets	59 516	-	-	59 516
Premises and equipment	307 028	-	-	307 028
Other assets	114 535	672	-	115 207
Total assets	**25 230 377**	**38 283**	**-**	**25 268 660**
Liabilities				
Due to other banks	992 777	107 806	3 143	1 103 726
Customer accounts	12 316 792	-	-	12 316 792
Debt securities in issue	6 810 835	-	-	6 810 835
Other liabilities	30 957	-	-	30 957
Subordinated deposits	171 169	-	-	171 169
Total liabilities	**20 322 530**	**107 806**	**3 143**	**20 433 479**
Net balance sheet position	**4 907 847**	**(69 523)**	**(3 143)**	**4 835 181**
Credit related commitments	**104 055**	**-**	**-**	**104 055**

27 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 Bank's Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2005:

In thousands of Russian Roubles	RR	USD	Euro	Other	Total
Assets					
Cash and cash equivalents	3 240 242	1 521 661	29 327	1 458	4 792 688
Mandatory cash balances with the Central Bank of the Russian Federation	484 714	-	-	-	484 714
Trading securities	3 960 406	562 646	-	-	4 523 052
Due from other banks	1 408 006	-	27 557	-	1 435 563
Loans and advances to customers	43 802 653	151 396	205 658	-	44 159 707
Deferred income tax asset	107 078	-	-	-	107 078
Intangible assets	67 643	-	-	-	67 643
Premises and equipment	1 313 533	-	-	-	1 313 533
Other assets	147 658	3 164	118	-	150 940
Total assets	**54 531 933**	**2 238 867**	**262 660**	**1 458**	**57 034 918**
Liabilities					
Due to other banks	4 749 274	1 823 736	118 631	-	6 691 641
Customer accounts	14 339 274	200 982	136 713	-	14 676 969
Debt securities in issue	16 034 395	768 617	-	-	16 803 012
Other borrowed funds	-	7 147 944	-	-	7 147 944
Other liabilities	517 656	839	-	-	518 495
Subordinated deposits	165 155	-	-	-	165 155
Total liabilities	**35 805 754**	**9 942 118**	**255 344**	**-**	**46 003 216**
Net balance sheet position	**18 726 179**	**(7 703 251)**	**7 316**	**1 458**	**11 031 702**
Off-balance sheet notional position (Note 29)	**(6 949 245)**	**6 944 518**	**-**	**-**	**(4 727)**
Net currency position	**11 776 934**	**(758 733)**	**7 316**	**1 458**	**11 026 975**
Credit related commitments (Note 28)	**368 462**	**-**	**70 879**	**-**	**439 341**

27 Financial Risk Management (Continued)

At 31 December 2004, the Group had the following positions in currencies:

In thousands of Russian Roubles	**RR**	**USD**	**Euro**	**Other**	**Total**
Assets					
Cash and cash equivalents	3 648 917	80 227	16 747	642	3 746 533
Mandatory cash balances with the Central Bank of the Russian Federation	235 991	-	-	-	235 991
Trading securities	2 429 738	242 834	-	-	2 672 572
Due from other banks	4 469 370	22 581	-	-	4 491 951
Loans and advances to customers	13 532 664	51 019	-	-	13 583 683
Deferred income tax asset	56 179	-	-	-	56 179
Intangible assets	59 516	-	-	-	59 516
Premises and equipment	307 028	-	-	-	307 028
Other assets	113 455	1 079	673	-	115 207
Total assets	**24 852 858**	**397 740**	**17 420**	**642**	**25 268 660**
Liabilities					
Due to other banks	577 396	526 273	57	-	1 103 726
Customer accounts	12 167 614	124 356	24 822	-	12 316 792
Debt securities in issue	6 810 835	-	-	-	6 810 835
Other liabilities	30 583	374	-	-	30 957
Subordinated deposits	171 169	-	-	-	171 169
Total liabilities	**19 757 597**	**651 003**	**24 879**	**-**	**20 433 479**
Net balance sheet position, excluding currency derivatives	**5 095 261**	**(253 263)**	**(7 459)**	**642**	**4 835 181**
Off-balance sheet notional position (Note 29)	**55 456**	**(55 440)**	**-**	**-**	**16**
Net currency position	**5 150 717**	**(308 703)**	**(7 459)**	**642**	**4 835 197**
Credit related commitments (Note 28)	**104 055**	**-**	**-**	**-**	**104 055**

27 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 29. The net total represents fair value of the derivatives.

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 Treasury of the Group.

The table below shows assets and liabilities at 31 December 2005 by their remaining contractual maturity, unless there is evidence that any of the assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement of the assets is used. Some of the assets and liabilities, however, may be of a longer term nature; for example, loans are frequently renewed and accordingly short term loans can have a longer term duration.

The 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**	**Over 12 months/No stated matutity**	**Total**
Assets					
Cash and cash equivalents	4 792 688	-	-	-	4 792 688
Mandatory cash balances with the Central Bank of the Russian Federation	116 566	111 788	225 421	30 939	484 714
Trading securities	4 523 052	-	-	-	4 523 052
Due from other banks	85 175	486 595	846 343	17 450	1 435 563
Loans and advances to customers	2 166 330	13 378 485	17 459 876	11 155 016	44 159 707
Deferred income tax asset	-	107 078	-	-	107 078
Intangible assets	-	-	-	67 643	67 643
Premises and equipment	-	-	-	1 313 533	1 313 533
Other assets	34 730	72 920	30 122	13 168	150 940
Total assets	**11 718 541**	**14 156 866**	**18 561 762**	**12 597 749**	**57 034 918**
Liabilities					
Due to other banks	2 880 994	1 540 848	2 203 071	66 728	6 691 641
Customer accounts	6 921 316	3 863 760	3 846 266	45 627	14 676 969
Debt securities in issue	979 433	4 948 415	8 139 029	2 736 135	16 803 012
Other borrowed funds	-	43 973	-	7 103 971	7 147 944
Other liabilities	12 716	495 314	8 498	1 967	518 495
Subordinated deposits	-	165 155	-	-	165 155
Total liabilities	**10 794 459**	**11 057 465**	**14 196 864**	**9 954 428**	**46 003 216**
Net liquidity gap	**924 082**	**3 099 401**	**4 364 898**	**2 643 321**	**11 031 702**
Cumulative liquidity gap at 31 December 2005	**924 082**	**4 023 483**	**8 388 381**	**11 031 702**	**-**

27 Financial Risk Management (Continued)

Overdue liabilities, such as term deposits not withdrawn by the Bank's customers, are classified within the "demand and less than 1 month" column. Overdue assets are included in "demand and less than 1 month" category. Mandatory cash balances with the CBRF are allocated between different maturity categories in accordance with maturities of liabilities, to which these balances relate as the requirement is to maintain as a reserve a specified percentage of certain liabilities which are also included within these categories.

The entire portfolio of trading securities is classified within "Demand and less than one month" column based on the Group's Management assessment of portfolio's realisability and their view that it is a fairer portrayal of the Group's liquidity position.

The allocation of portfolio of trading securities according to the contractual maturities is the following: Demand and less than 1 month – RR 51 765 thousand; From 1 to 6 months – RR 1 247 947 thousand; From 6 to 12 months – RR 676 865 thousand; Over 12 months – RR 2 536 760; No stated maturity – RR 9 715 thousand.

The liquidity position of the Group at 31 December 2004 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**	**Over 12 months/No stated maturity**	**Total**
Assets					
Cash and cash equivalents	3 746 533	-	-	-	3 746 533
Mandatory cash balances with the Central Bank of the Russian Federation	155 310	42 652	36 092	1 937	235 991
Trading securities	2 672 572	-	-	-	2 672 572
Due from other banks	1 964 394	2 487 142	40 415	-	4 491 951
Loans and advances to customers	919 096	4 998 282	6 551 298	1 115 007	13 583 683
Deferred income tax asset	-	56 179	-	-	56 179
Intangible assets	-	-	-	59 516	59 516
Premises and equipment	-	-	-	307 028	307 028
Other assets	70 111	2 894	1 132	41 070	115 207
Total assets	**9 528 016**	**7 587 149**	**6 628 937**	**1 524 558**	**25 268 660**
Liabilities					
Due to other banks	912 198	3 006	114 159	74 363	1 103 726
Customer accounts	9 902 035	1 356 712	1 043 401	14 644	12 316 792
Debt securities in issue	526 024	1 754 581	1 477 788	3 052 442	6 810 835
Other liabilities	12 476	16 283	2 081	117	30 957
Subordinated deposits	-	6 169	-	165 000	171 169
Total liabilities	**11 352 733**	**3 136 751**	**2 637 429**	**3 306 566**	**20 433 479**
Net liquidity gap	**(1 824 717)**	**4 450 398**	**3 991 508**	**(1 782 008)**	**4 835 181**
Cumulative liquidity gap at 31 December 2004	**(1 824 717)**	**2 625 681**	**6 617 189**	**4 835 181**	**-**

27 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 customers 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.

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.

27 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 2005. 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	4 792 688	-	-	-	-	4 792 688
Mandatory cash balances with the Central Bank of the Russian Federation	116 566	111 788	225 421	30 939	-	484 714
Trading securities	4 513 337	-	-	-	9 715	4 523 052
Due from other banks	85 175	486 595	846 343	17 450	-	1 435 563
Loans and advances to customers	2 166 330	13 378 485	17 459 876	11 155 016	-	44 159 707
Deferred income tax asset	-	-	-	-	107 078	107 078
Intangible assets	-	-	-	-	67 643	67 643
Premises and equipment	-	-	-	-	1 313 533	1 313 533
Other assets	-	-	2 238	-	148 702	150 940
Total assets	**11 674 096**	**13 976 868**	**18 533 878**	**11 203 405**	**1 646 671**	**57 034 918**
Liabilities						
Due to other banks	2 937 343	1 540 848	2 203 071	10 379	-	6 691 641
Customer accounts	6 921 316	3 863 760	3 846 266	45 627	-	14 676 969
Debt securities in issue	979 263	4 948 584	10 819 346	55 819	-	16 803 012
Other borrowed funds	-	43 973	-	7 103 971	-	7 147 944
Other liabilities	-	-	7 400	-	511 095	518 495
Subordinated deposits	-	165 155	-	-	-	165 155
Total liabilities	**10 837 922**	**10 562 320**	**16 876 083**	**7 215 796**	**511 095**	**46 003 216**
Net sensitivity gap	**836 174**	**3 414 548**	**1 657 795**	**3 987 609**	**1 135 576**	**11 031 702**
Cumulative sensitivity gap at 31 December 2005	**836 174**	**4 250 722**	**5 908 517**	**9 896 126**	**11 031 702**	**-**

27 Financial Risk Management (Continued)

The following table summarises the Group's exposure to interest rate risks at 31 December 2004 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	3 746 533	-	-	-	-	3 746 533
Mandatory cash balances with the Central Bank of the Russian Federation	155 310	42 652	36 092	1 937	-	235 991
Trading securities	2 635 030	-	-	-	37 542	2 672 572
Due from other banks	1 964 394	2 487 142	40 415	-	-	4 491 951
Loans and advances to customers	919 096	4 998 282	6 551 298	1 115 007	-	13 583 683
Deferred income tax asset	-	-	-	-	56 179	56 179
Intangible assets	-	-	-	-	59 516	59 516
Premises and equipment	-	-	-	-	307 028	307 028
Other assets	-	-	-	-	115 207	115 207
Total assets	**9 420 363**	**7 528 076**	**6 627 805**	**1 116 944**	**575 472**	**25 268 660**
Liabilities						
Due to other banks	912 198	3 006	114 159	74 363	-	1 103 726
Customer accounts	9 902 035	1 356 712	1 043 401	14 644	-	12 316 792
Debt securities in issue	526 024	1 754 581	4 477 788	52 442	-	6 810 835
Other liabilities	-	-	-	-	30 957	30 957
Subordinated deposits	-	6 169	-	165 000	-	171 169
Total liabilities	**11 340 257**	**3 120 468**	**5 635 348**	**306 449**	**30 957**	**20 433 479**
Net sensitivity gap	**(1 919 894)**	**4 407 608**	**992 457**	**810 495**	**544 515**	**4 835 181**
Cumulative sensitivity gap as at 31 December 2004	**(1 919 894)**	**2 487 714**	**3 480 171**	**4 290 666**	**4 835 181**	**-**

27 Financial Risk Management (Continued)

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

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

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

	2005				2004			
In % p.a.	**RR**	**USD**	**Euro**	**Other**	**RR**	**USD**	**Euro**	**Other**
Assets								
Cash and cash equivalents								
-cash balances with CBRF and settlement accounts with MICEX and RTS	0	-	-	-	0	-	-	-
-correspondent accounts and overnight placements with banks	1	4	0	-	1	3	-	-
Mandatory cash balances with the Central Bank of the Russian Federation	0	-	-	-	0	-	-	-
Trading securities	9	7	-	-	8	6	-	-
Due from other banks	7	-	0	-	2	3	-	-
Loans and advances to customers	16	13	9	-	18	14	-	-
Liabilities								
Due to other banks	7	6	3	-	1	3	0	-
Customer deposits	8	7	4	-	12	6	4	-
Debt securities issued					-	-	-	-
- promissory notes issued	8	8	-	-	10	-	-	-
- bonds issued	8	-	-	-	9	-	-	-
Other borrowed funds	-	7	-	-	-	-	-	-
Subordinated deposits	3	-	-	-	3	-	-	-

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

28 Contingencies and Commitments

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

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

Transfer pricing legislation, which was introduced from 1 January 1999, provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect to all controlled transactions, provided that the transaction price differs from the market price by more than 20%. Controlled transactions include transactions with related parties, and transactions with unrelated parties if the price differs on similar transactions with two different counterparties by more than 20%. There is no formal guidance as to how these rules should be applied in practice.

The Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2005 no provision for potential tax liabilities had been recorded (2004: no provision).

Capital expenditure commitments. At 31 December 2005 the Group has no contractual capital expenditure commitments.

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

In thousands of Russian Roubles	**2005**	**2004**
Not later than 1 year	171 827	115 916
Later than 1 year and not later than 5 years	213 431	130 149
Later than 5 years	108 483	31 849
Total operating lease commitments	**493 741**	**277 914**

28 Contingencies and Commitments (Continued)

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, standby letters of credit and irrevocable undrawn credit lines, 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 loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The 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	**Note**	**2005**	**2004**
Undrawn credit lines		246 389	111 975
Import letters of credit	14	87 360	-
Guarantees issued		106 393	6 022
Less: Provision for losses on credit related commitments	18	(801)	(13 942)
Total credit related commitments		**439 341**	**104 055**

At 31 December 2005 included in customer accounts are deposits of RR 27 557 thousand (2004: nil) held as collateral for irrevocable commitments under import letters of credit. Refer to Notes 9, 14.

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.

Movements in the provision for losses on credit related commitments were as follows:

In thousands of Russian Roubles	**2005**	**2004**
Provision for losses on credit related commitments as at 1 January	**13 942**	**-**
Provision for losses on credit related commitments during the year	-	13 942
Use of provision for losses on credit related commitments during the year	(13 141)	-
Provision for losses on credit related commitments as at 31 December	**801**	**13 942**

Fiduciary assets. These assets are not included in the Group's consolidated balance sheet as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of respective securities.

28 Contingencies and Commitments (Continued)

The fiduciary assets fall into the following categories:

In thousands of Russian Roubles	2005 Nominal value	2004 Nominal value
Promissory notes and securities of Russian companies (on hand)	12 113 610	16 911
Client OFZ securities held on an account with MICEX	849 087	233 533
Promissory notes issued by the Bank	220 443	70 000
Municipal bonds held on an account with National Depository Center	113 000	398 208
Bonds of companies held with National Depository Centre	86 943	1 025 365
Corporate bonds held on an account with Vnesheconombank	-	166 492

Assets pledged and restricted. As at 31 December 2005 and 2004 the Group had no assets pledged. However, as at 31 December 2005 mandatory cash balances with the CBRF in the amount of RR 484 714 thousand (2004: RR 235 991 thousand) represented mandatory reserve deposits, which were not available to finance the Group's day to day operations.

29 Derivative Financial Instruments

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

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange spot and swap contracts entered into by the Group. Foreign exchange spot and forward contracts are valued by reference to the forward exchange rates as at 31 December as compared to the balance sheet carrying value of the contract at 31 December. The table reflects gross positions before the netting of any counterparty positions and covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term in nature.

	Notes	2005		2004	
In thousands of Russian Roubles		Principal or agreed amount at fair value	Principal or agreed amount at fair value	Principal or agreed amount at fair value	Principal or agreed amount at fair value
Foreign exchange spot: fair values, at the balance sheet date	3, 27				
- USD receivable on settlement (+)		287 825	-	55 497	-
- USD payable on settlement (-)		-	-	-	(55 497)
- RR receivable on settlement (+)		-	-		55 456
- RR payable on settlement (-)		(287 390)	-	(55 440)	-
Foreign Currency SWAP deals:	3, 27				
- USD receivable on settlement (+)		5 211 521	1 445 172	-	-
- RR payable on settlement (-)		(5 209 283)	(1 452 572)	-	-
Total net fair value	**12, 18**	**2 673**	**(7 400)**	**57**	**(41)**

The Group expects to settle spot and swap contracts net in cash and therefore recognised them in the balance sheet as an asset at net fair value of RR 2 673 thousand (2004: RR 57 thousand) and a liability at net fair value of RR 7 400 thousand (2004: RR 41 thousand). Refer to Notes 12 and 18.

29 Derivative Financial Instruments (Continued)

Foreign Currency SWAP deals represent placements made by the Group in US dollars with two OECD banks with maturity in December 2006 and placements received from the same banks in Russian Roubles with the same maturities. This transaction was aimed at reducing currency risk of the Group.

30 Fair Value of Financial Instruments

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.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

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

Loans and receivables carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Notes 9 and 10 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 is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Refer to Notes 13, 14, 15, 16 and 17 for the estimated fair values of due to other banks, customer accounts, debt securities in issue, subordinated deposits 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. Refer to Notes 3 and 29.

31 Earnings per Share

Basic earnings per share are calculated by dividing the 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 Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

In thousands of Russian Roubles	**Note**	**2005**	**2004**
Profit for the year attributable to ordinary shareholders		90 084	82 668
Profit for the year (all allocated to ordinary shareholders)		90 084	82 668
Weighted average number of ordinary shares in issue	20	6 494	4 649
Basic and diluted earnings per ordinary share		**14**	**18**

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. The Bank's only shareholder is the Russian Federation represented by the Federal Agency for Managing State Property (Refer to Note 1). As the Group adopted IAS 24 "Related Party Disclosures", disclosures are made in these consolidated financial statements for transactions with state-controlled entities and government bodies. The amended standard has been applied retrospectively and the new disclosures are also provided for the comparative period.

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

	2005	2004
Cash and cash equivalents		
Cash balances with the CBRF (other than mandatory reserve deposits)	2 689 306	2 581 176
Mandatory cash balances with the Central Bank of the Russian Federation	484 714	235 991
Nostro accounts with state-controlled banks	4 330	800 077
Provision for loan impairment at the period end		
State-owned companies	(63 044)	(30 571)
Loans and advances to customers		
Loans and advances at the period end		
State-owned companies	4 709 181	837 313
Managers and their family members	13 698	13 280
Trading securities		
Federal loan bonds (OFZ)	828 851	851 084
Municipal bonds	493 251	3 987
Eurobonds of the Russian Federation	-	143 197
Corporate bonds	234 373	193 479
Corporate shares	9 715	29 944
Promissory notes of the banks under state control	2 196	600 000
Due from other banks		
Current term placements	-	1 000 000
Due to other banks		
Current term placements	935 475	83 755
Subordinated deposits		
Subordinated deposits	165 155	171 169
Customer accounts		
Term deposits and current/settlement accounts as at the period end		
State-owned companies	2 353 231	5 490 215
Managers and their family members	100 713	58 893

32 Related Party Transactions (Continued)

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

	2005	2004
Loans and advances to customers		
Interest income for the period		
State-owned companies	258 212	150 608
Managers and their family members	926	840
Interest income on trading securities		
Government securities	110 444	79 557
State owned companies	26 206	5 476
Results from operations with trading securities		
Government securities	25 469	(30 668)
State owned companies	9 356	27 791
Provision for loan impairment		
State-owned companies	(32 473)	(22 462)
Due from other banks		
Interest income		
The Central Bank of the Russian Federatoin	323	2 357
Transactions with state-owned banks	23 542	11 647
Due to other banks		
Interest expense		
Transactions with state-owned banks	(73 398)	(27 473)
The Central Bank of the Russian Federatoin	(118)	(2 287)
Agency fees from the Ministry of Finance	**12 712**	**12 712**
Interest expense on subordinated deposits	**(5 356)**	**(7 557)**
Customer accounts		
Interest expense for the period		
State-owned companies	(35 894)	(30 473)
Managers and their family members	(7 299)	(3 586)

32 Related Party Transactions (Continued)

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

In thousands of Russian Roubles	**Amounts lent to related parties during the period**	**Amounts repaid by related parties during the period**
Cash and cash equivalents for the period		
Cash balances with the CBRF (other than mandatory reserve deposits)	457 026 173	456 918 043
Nostro accounts with state-controlled banks	6 116 566	6 912 313
Mandatory cash balances with the Central Bank of the Russian Federation	298 685	49 962
Loans and advances to customers		
State-owned companies	6 201 002	2 329 134
Managers and their family members	9 391	8 973
Securities at fair value through profit or loss		
Securities of the Russian Federation	9 682 489	9 358 655
Securities issued by state-owned entities	1 440 451	2 017 590
Due from other banks		
Current term placements with state-owned banks	31 105 102	32 105 102
Current term placements with CBRF	2 105 000	2 105 000
Due to other banks		
Current term placements from state-owned banks	36 936 465	36 084 745
Current term placements from CBRF	56 894	56 894
Customer accounts		
Term deposits and current/settlement accounts for the period		
State-owned companies	30 599 733	33 736 717
Managers and their family members	252 559	210 739

Aggregate amounts lent to and repaid by related parties during 2004 were:

In thousands of Russian Roubles	**Amounts lent to related parties during the period**	**Amounts repaid by related parties during the period**
Cash and cash equivalents for the period		
Cash balances with the CBRF (other than mandatory reserve deposits)	330 469 492	329 680 386
Nostro accounts with state-controlled banks	6 303 089	7 046 083
Mandatory cash balances with the Central Bank of the Russian Federation	405 600	444 702
Loans and advances to customers		
State-owned companies	1 545 435	1 189 555
Managers and their family members	7 074	3 841
Securities at fair value through profit or loss		
Securities of the Russian Federation	8 905 184	8 680 335
Securities issued by state-owned entities	3 941 354	3 588 798
Due from other banks		
Current term placements with state-owned banks	28 452 254	27 452 254
Current term placements with CBRF	856 129	856 129
Due to other banks		
Current term placements from state-owned banks	16 701 589	16 903 834
Current term placements from CBRF	12 215 000	12 215 000
Customer accounts		
Term deposits and current/settlement accounts for the period		
State-owned companies	41 133 608	39 303 651
Managers and their family members	178 638	144 767

32 Related Party Transactions (Continued)

In 2005 total remuneration of the directors and key management personnel of the Group, including pension contributions and discretionary compensation, amounted to RR 206 927 thousand (2004: RR 151 384 thousand), including remuneration of the members of the Management Board in the total amount of RR 49 756 thousand (2004: RR 36 824 thousand).

33 Principal Consolidated Subsidiary

At 31 December 2005, the Bank's principal consolidated subsidiary was as follows:

Name	Nature of business	Proportion of voting rights	Percentage of ownership	Country of incorporation
Closed Joint – Stock Company "Chelyabinsky Commercial Land Bank"	Bank	99.47%	99.47%	Russia

34 Subsequent Events

In February 2006 the share issue in the amount of RR 493 000 thousand has been registered by the CBRF. Refer to Note 20.

In January 2006 the Bank entered into a US Dollars 100 million 3 year loan facility agreement with Deutsche Bank AG, London Branch.

In February 2006, the Bank entered into a US Dollars 120 million 3 year loan facility agreement with Barclays Bank PLC.

In February 2006 the Group issued in US Dollar denominated Eurobonds in the total amount of USD 100 000 thousand in addition to the borrowings made in December 2005 (Refer to Note 17). These borrowings mature on 29 November 2010 and have a coupon rate of 6.875% p.a.

In February 2006, the Bank issued Rouble-denominated bonds in an aggregate amount of RR 7 000 000 thousand maturing in February 2011 with coupon rate of 7.85% p.a. Payment of coupon income on these bonds is on a quarterly basis.