RUSSIAN AGRICULTURAL BANK GROUP

Interim Consolidated Financial Statements and Review Report

30 June 2006

CONTENTS

PRICEWATERHOUSECOOPERS

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REVIEW REPORT

To the Shareholders and Board of Directors of Open Joint-Stock Company “Russian Agricultural Bank”:

We have reviewed the accompanying interim consolidated balance sheet of Open Joint-Stock Company “Russian Agricultural Bank” (the “Bank”) and its subsidiary (hereinafter the "Group") as at 30 June 2006, and the related interim consolidated statements of income, changes in equity and cash flows for the six months period ended 30 June 2006. These consolidated interim financial statements are the responsibility of the Bank’s management. Our responsibility is to issue a report on these interim consolidated financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the interim consolidated financial statements are free of material misstatement. A review is limited primarily to inquiries of the Bank’s personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

As detailed in Note 29 to the accompanying interim consolidated financial statements, the Group applied spot exchange rates for valuation of some of its currency derivative financial instruments instead of assessing their fair value, which is not in accordance with International Accounting Standard 39 Financial Instruments: Recognition and Measurement (“IAS 39”). Had the Group recorded the above instruments at fair value as required by IAS 39, and considering that the Group did not apply hedge accounting, an additional revaluation loss on foreign currency derivative transactions would have to be recognized in the interim consolidated statement of income for the six months ended 30 June 2006 in the amount of RR 334 075 thousand net of deferred tax. The Group’s total consolidated equity as at 30 June 2006 would have been lower by the same amount, total consolidated liabilities would have been higher by RR 241 289 thousand and total consolidated assets would have been lower by RR 92 786 thousand.

Based on our review, except for the effect on the interim consolidated financial statements of the matter referred to in the paragraph above, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements are not presented fairly, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
8 September 2006

In thousands of Russian Roubles	Note	30 June 2006 (unaudited)	31 December 2005
ASSETS			
Cash and cash equivalents	7	6 617 412	4 792 688
Mandatory cash balances with the Central Bank of the Russian Federation		960 210	484 714
Trading securities	8	9 371 710	4 523 052
Due from other banks	9	6 415 098	1 435 563
Loans and advances to customers	10	91 813 917	44 159 707
Deferred income tax asset	24	319 638	107 078
Intangible assets	11	86 424	67 643
Premises and equipment	11	1 519 863	1 313 533
Other assets	12	628 695	150 940
TOTAL ASSETS		**117 732 967**	**57 034 918**
LIABILITIES			
Due to other banks	13	19 517 366	6 691 641
Customer accounts	14	25 958 491	14 676 969
Debt securities in issue	15	27 687 616	16 803 012
Other borrowed funds	17	28 446 609	7 147 944
Other liabilities	18	908 829	518 495
Subordinated deposits	16	-	165 155
TOTAL LIABILITIES		**102 518 911**	**46 003 216**
EQUITY			
Share capital	20	15 712 833	11 519 833
Accumulated deficit		(499 221)	(488 568)
Net assets attributable to the Bank's equity holders		**15 213 612**	**11 031 265**
Minority interest	19	**444**	**437**
TOTAL EQUITY		**15 214 056**	**11 031 702**
TOTAL LIABILITIES AND EQUITY		**117 732 967**	**57 034 918**

Approved for issue and signed on behalf of the Management Board on 8 September 2006.

Y.V. Trushin
Chairman of the Management Board

O.V. Nikonov
Chief Accountant

ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО
«Российский Сельскохозяйственный банк»
ОАО «Россельхозбанк»
Г.Р. № 002.003.381
* МОСКВА *

In thousands of Russian Roubles	**Note**	**Six months ended 30 June 2006 (unaudited)**	**Six months ended 30 June 2005 (unaudited)**
Interest income	21	5 236 540	1 740 313
Interest expense	21	(2 343 123)	(638 296)
Net interest income		**2 893 417**	**1 102 017**
Provision for loan impairment	9, 10	(1 221 235)	(252 893)
Net interest income after provision for loan impairment		**1 672 182**	**849 124**
Gains less losses from trading securities		(28 285)	2 979
Losses, net of gains from trading in foreign currencies		(56 289)	(7 468)
Foreign exchange translation gains less losses		120 449	1 234
Losses, net of gains arising from foreign currency derivatives transactions	29	(96 031)	-
Fee and commission income	22	230 481	142 275
Fee and commission expense	22	(15 427)	(7 232)
Recovery of provisions/(provisions) for other assets	12	199	(46)
Other operating income		21 112	15 257
Administrative and other operating expenses	23	(1 777 773)	(1 040 052)
Operating profit/(loss)		**70 618**	**(43 929)**
Income tax (expense)/credit	24	(25 123)	6 581
Profit/(Loss) for the period		**45 495**	**(37 348)**
Profit/(Loss) is attributable to			
Equity holders of the Bank		45 458	(37 385)
Minority interest	19	37	37
Profit/(Loss) for the period		**45 495**	**(37 348)**
Earnings per share for profit/(loss) attributable to the equity holders of the Bank, basic and diluted	31	**4**	**(8)**

In thousands of Russian Roubles	Note	Attributable to equity holders of the Bank			Minority interest	Total equity
		Share capital	Retained earnings	Total		
Balance at 1 January 2005		**5 398 833**	**(564 031)**	**4 834 802**	**379**	**4 835 181**
Loss for the period		-	(37 385)	(37 385)	37	(37 348)
Dividends declared	25	-	(14 621)	(14 621)	-	(14 621)
Dividends paid to minority shareholders		-	-	-	(6)	(6)
Balance at 30 June 2005 (unaudited)		**5 398 833**	**(616 037)**	**4 782 796**	**410**	**4 783 206**
Balance at 1 January 2006		**11 519 833**	**(488 568)**	**11 031 265**	**437**	**11 031 702**
Profit for the period		-	45 458	45 458	37	45 495
Share issue	20	4 193 000	-	4 193 000	-	4 193 000
Dividends declared	25	-	(56 111)	(56 111)	-	(56 111)
Dividends paid to minority shareholders		-	-	-	(30)	(30)
Balance at 30 June 2006 (unaudited)		**15 712 833**	**(499 221)**	**15 213 612**	**444**	**15 214 056**

In thousands of Russian Roubles	Note	Six months ended 30 June 2006 (unaudited)	Six months ended 30 June 2005 (unaudited)
Cash flows from operating activities			
Interest received on loans		4 964 861	1 700 019
Interest received on securities		150 181	90 057
Interest paid on customer accounts and due to other banks		(760 907)	(308 283)
Interest paid on securities		(501 867)	(179 099)
Income received from trading in trading securities		18 614	(9 017)
Net loss from trading in foreign currencies		(55 991)	(7 452)
Net loss from currency derivatives		(18 527)	-
Fees and commissions received		234 174	144 778
Fees and commissions paid		(19 120)	(9 735)
Other operating income received		25 111	10 683
Staff costs paid		(1 083 353)	(637 033)
Administrative and other operating expenses paid		(675 423)	(364 327)
Income tax paid		(147 894)	(45 158)
Cash flows from operating activities before changes in operating assets and liabilities		**2 129 859**	**385 433**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(475 496)	(74 763)
Net (increase)/decrease in trading securities		(4 879 918)	1 147 514
Net increase in due from other banks		(5 017 249)	3 886 631
Net (increase)/decrease in loans and advances to customers		(48 770 545)	(9 780 111)
Net increase in other assets		(339 952)	(7 851)
Net increase in due to other banks		12 955 652	1 685 671
Net increase/(decrease) in customer accounts		11 257 275	(3 218 811)
Net increase in debt securities in issue		3 453 747	4 384 426
Net increase in other liabilities		43 410	56 325
Net cash used in operating activities		**(29 643 217)**	**(1 535 536)**
Cash flows from investing activities			
Acquisition of premises and equipment	11	(255 955)	(104 533)
Proceeds from disposal of premises and equipment		1 671	3 383
Dividend income received		349	62
Acquisition of intangible assets	11	(33 449)	(8 113)
Net cash used in investing activities		**(287 384)**	**(109 201)**
Cash flows from financing activities			
Proceeds from bonds issued, net of interest paid and commissions		7 014 121	(134 653)
Issue of ordinary shares	20	3 700 000	-
Proceeds from other borrowed funds, net of interest paid and commissions	17	21 255 818	-
Repayment of subordinated deposits	16	(166 912)	(8 681)
Dividends paid to minority shareholders		(30)	(6)
Net cash from/(used in) financing activities		**31 802 997**	**(143 340)**
Effect of exchange rate changes on cash and cash equivalents		**(47 672)**	**(513)**
Net increase/(decrease) in cash and cash equivalents		**1 824 724**	**(1 788 590)**
Cash and cash equivalents at the beginning of the period		4 792 688	3 746 533
Cash and cash equivalents at the end of the period	7	**6 617 412**	**1 957 943**

1 Introduction

These interim consolidated financial statements for the six months ended 30 June 2006 have been prepared 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. 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 190 thousand per individual in case of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments.

The Bank has 67 (31 December 2005: 66) 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 30 June 2006 was 7 467 (31 December 2005: 5 324).

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.

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, 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 interim consolidated financial statements for the six month period ended 30 June 2006 have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" under the historical cost convention, as modified by the revaluation of financial instruments categorised as at fair value through profit or loss (trading securities and derivatives). The Bank maintains its accounting records in accordance with Russian banking and accounting regulations. These interim consolidated financial statements have been prepared from those accounting records and adjusted as necessary in order to comply with International Accounting Standard 34 "Interim Financial Reporting".

The principal accounting policies applied in the preparation of these interim 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). These interim consolidated financial statements are measured and presented in thousands of Russian Roubles ("RR thousands").

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.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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.

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 and recognised in profit or loss for trading securities and derivatives.

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.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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 interim 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 interim 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.

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 currently exist.

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

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

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

3 Basis of Preparation and Significant Accounting Policies (Continued)

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.

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.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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.

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

Subordinated deposits. Subordinated deposits represent funds originally 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 interim 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.

3 Basis of Preparation and Significant Accounting Policies (Continued)

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. 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 period net profit.

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

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

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

All other fees, commissions and other income and expense items are generally recorded on an accruals 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. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The 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 30 June 2006 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 27.0789 (2005: USD 1 = RR 28.7825). 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 interim 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 interim 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.

3 Basis of Preparation and Significant Accounting Policies (Continued)

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 interim consolidated financial statements. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992.

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

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

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies.

Judgements that have the most significant effect on the amounts recognised in the interim 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 calculate 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 interim 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 interim 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 2006. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to the retained earnings at 1 January 2004, unless otherwise described below.

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.

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 interim consolidated financial statements as at 30 June 2006 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 after 1 January 2006 or later periods and which the Bank has not early adopted:

IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). 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.

6 New Accounting Pronouncements (Continued)

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

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

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

7 Cash and Cash Equivalents

In thousands of Russian Roubles	**30 June 2006 (unaudited)**	**31 December 2005**
Cash on hand	1 022 301	639 297
Cash balances with the CBRF (other than mandatory reserve deposits)	2 437 731	2 689 306
Correspondent accounts and overnight placements with other banks		
- Russian Federation	3 089 256	11 534
- United States of America	11 071	1 433 531
- Other countries	23 948	12 400
- Settlement accounts with Russian Stock Exchanges	33 105	6 620
Total cash and cash equivalents	**6 617 412**	**4 792 688**

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	**30 June 2006 (unaudited)**	**31 December 2005**
Promissory notes	4 809 689	1 831 885
Corporate Eurobonds	1 432 918	562 646
Corporate bonds	1 298 114	796 704
Federal loan bonds (OFZ bonds)	1 067 653	828 851
Municipal bonds	763 336	493 251
Corporate shares	-	9 715
Total trading securities	**9 371 710**	**4 523 052**

As at 30 June 2006 promissory notes in the Group's portfolio are represented by promissory notes issued by major Russian banks. These promissory notes have maturities from July 2006 to August 2007 (31 December 2005: from demand to October 2006). As at 30 June 2006 yield to maturity ranges from 6.8% p.a. to 16.3% p.a. (31 December 2005: from 8.5% p.a. to 20% p.a.).

8 Trading Securities (Continued)

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 May 2016 (31 December 2005: from October 2006 to September 2015), coupon rates from 7.5% p.a. to 10.9% p.a. (31 December 2005: from 6.2% p.a. to 10.9% p.a.) and yield to maturity as at 30 June 2006 from 6.0% p.a. to 8.5% p.a. (31 December 2005: from 6.0% p.a. to 8.2% 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 paid quarterly or semi-annually. These bonds have maturity dates from July 2006 to February 2016 (31 December 2005: from April 2006 to July 2010), coupon rates from 7.2% p.a. to 14.3% p.a. (31 December 2005: from 7.2% p.a. to 14.2% p.a.) and yield to maturity from 6.6% p.a. to 14.0% p.a. (31 December 2005: from 6.6% p.a. to 14.0% p.a.), depending on the type of bond issue and the market conditions.

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. As at 30 June 2006 OFZ bonds have maturity dates from July 2010 to August 2018 (31 December 2005: from July 2010 to August 2018), coupon rate of 10% p.a. (31 December 2005: 10%) and yield to maturity from 6.8% p.a. to 7.6% p.a. (31 December 2005: from 7.5% p.a. to 7.6% p.a.), depending on the type of bond issue and the market conditions.

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. These bonds have maturity dates from July 2006 to June 2015 (31 December 2005: from July 2006 to November 2013), coupon rates from 6.8% p.a. to 13.5% p.a. (31 December 2005: from 6.8% p.a. to 14.0% p.a.) and yield to maturity as at 30 June 2006 from 6.0% p.a. to 13.5% p.a. (31 December 2005: from 6.0% p.a. to 13.5% p.a.).

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	**30 June 2006 (unaudited)**	**31 December 2005**
Current term placements with other banks	4 645 771	1 408 006
Reverse sale and repurchase agreements with other banks	1 517 021	-
Restricted deposits relating to import letters of credit	252 306	27 557
Total due from other banks	**6 415 098**	**1 435 563**

As at 30 June 2006 the Group has placements in Russian Roubles with three Russian banks with aggregated balances of RR 2 865 058 thousand or 45% of total due from other banks (31 December 2005: two banks with aggregated amount of RR 1 277 091 thousand or 89% of the total due from other banks), which mature from July 2006 to April 2007.

9 Due from Other Banks (Continued)

Restricted deposits represent 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.

At 30 June 2006 amounts due from other banks of RR 1 517 021 thousand (2005: nil) are effectively collateralised by securities purchased under reverse sale and repurchase agreements at a fair value of RR 1 601 843 thousand (2005: nil).

Movements in the provision for loan impairment are as follows:

In thousands of Russian Roubles	**Six months ended 30 June 2006 (unaudited)**	**Six months ended 30 June 2005 (unaudited)**
Provision for loan impairment at 1 January	**-**	**58 080**
Release of provision during the period	-	(55 689)
Provision for loan impairment at 30 June (unaudited)	**-**	**2 391**

As at 30 June 2006 the estimated fair value of due from other banks was RR 6 415 098 thousand (31 December 2005: RR 1 435 563 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.

10 Loans and Advances to Customers

In thousands of Russian Roubles	**30 June 2006 (unaudited)**	**31 December 2005**
Current loans	93 553 782	44 975 413
Overdue loans	929 365	632 289
Total loans and advances to customers before provision for loan impairment	**94 483 147**	**45 607 702**
Less: Provision for loan impairment	(2 669 230)	(1 447 995)
Total loans and advances to customers	**91 813 917**	**44 159 707**

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

10 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment are as follows:

In thousands of Russian Roubles	**Six months ended 30 June 2006 (unaudited)**	**Six months ended 30 June 2005 (unaudited)**
Provision for loan impairment at 1 January	**1 447 995**	**609 266**
Provision for loan impairment during the period	1 221 235	308 582
Loans and advances to customers written off during the period as uncollectible	-	(9 453)
Provision for loan impairment at 30 June (unaudited)	**2 669 230**	**908 395**

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

	30 June 2006 (unaudited)		**31 December 2005**	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Agriculture	59 936 227	63	27 520 074	60
Manufacturing	12 135 674	13	7 661 241	17
Trade	9 971 845	11	7 824 212	17
Individuals	7 968 135	9	797 951	2
Construction	1 171 990	1	420 099	1
Other	3 299 276	3	1 384 125	3
Total loans and advances to customers (before impairment)	**94 483 147**	**100**	**45 607 702**	**100**

As at 30 June 2006 the Group has loans in the aggregate amount of RR 3 741 687 thousand (31 December 2005: RR 2 465 226 thousand), issued at 6.5% p.a. to the one company, which is 100% owned by the Federal Government of the Russian Federation.

As at 30 June 2006 included in gross amount of loans are loans in the amount of RR 52 130 000 thousand, for which interest rates are subsidized to the borrowers by the Federal Government in the amount ranging from two thirds of the CBRF refinancing rate to 95% of the CBRF refinancing rate (31 December 2005: RR 19 495 644 thousand).

Included in the gross amount of loans to trade companies are loans to wholesalers of agricultural products in the amount of RR 1 998 828 thousand (31 December 2005: RR 1 956 751 thousand).

Included in the gross amount of loans to individuals are loans to sole farmers in the amount of RR 6 063 002 thousand (31 December 2005: RR 396 064 thousand).

As at 30 June 2006 the estimated fair value of loans and advances to customers was RR 91 813 917 thousand (31 December 2005: RR 44 159 707 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 2005		103 271	307 022	121 453	531 746
Accumulated depreciation and amortisation		(6 850)	(96 415)	(61 937)	(165 202)
Carrying amount at 1 January 2005		**96 421**	**210 607**	**59 516**	**366 544**
Additions		32 941	71 592	8 113	112 646
Disposals (cost)		-	(9 995)	-	(9 995)
Disposals (depreciation and amortisation)		-	3 717	-	3 717
Depreciation and amortisation charge	23	(2 996)	(25 403)	(12 333)	(40 732)
Carrying amount at 30 June 2005 (unaudited)		**126 366**	**250 518**	**55 296**	**432 180**
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**
Additions		91 903	164 052	33 449	289 404
Disposals (cost)		(169)	(5 971)	(1 957)	(8 097)
Disposals (depreciation and amortisation)		-	4 037	1 947	5 984
Depreciation and amortisation charge	23	(6 181)	(41 341)	(14 658)	(62 180)
Carrying amount at 30 June 2006 (unaudited)		**1 073 606**	**446 257**	**86 424**	**1 606 287**
Cost at 30 June 2006		1 092 944	632 115	187 290	1 912 349
Accumulated depreciation and amortisation		(19 338)	(185 858)	(100 866)	(306 062)
Carrying amount at 30 June 2006 (unaudited)		**1 073 606**	**446 257**	**86 424**	**1 606 287**

In December 2005 the Bank acquired a building situated on Gagarinsky lane, 3, Moscow, previously occupied by the Bank as a lessee. The acquisition cost of the building in the amount of RR 788 916 thousand is included in premises as at 30 June 2006 and 31 December 2005.

Intangible assets primarily include capitalised computer software.

12 Other Assets

In thousands of Russian Roubles	Note	30 June 2006 (unaudited)	31 December 2005
Trade debtors and other prepayments		212 040	46 587
Fair value of derivative instruments and currency spots transations	29	202 474	2 673
Net amounts in course of settlement		125 307	2 211
Rent prepayments		51 131	22 057
Prepaid taxes		24 652	77 340
Other		18 721	5 944
Less: Provision for impairment		(5 630)	(5 872)
Total other assets		**628 695**	**150 940**

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

In thousands of Russian Roubles	Six months ended 30 June 2006 (unaudited)	Six months ended 30 June 2005 (unaudited)
Provision for impairment of other assets at 1 January	**5 872**	**5 931**
(Recovery of provision) / Provision for impairment of other assets during the period	(199)	46
Other assets written off during the reporting period as uncollectible	(43)	-
Provision for impairment of other assets at 30 June (unaudited)	**5 630**	**5 977**

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	30 June 2006 (unaudited)	31 December 2005
Term borrowings obtained from other banks	16 885 563	4 534 362
Syndicated loans	2 137 872	2 127 010
Correspondent accounts and overnight placements of other banks	493 931	30 269
Total due to other banks	**19 517 366**	**6 691 641**

As at 30 June 2006, syndicated loans represent a loan attracted from six 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.

13 Due to Other Banks (Continued)

As at 30 June 2006 the Group has placements from two foreign banks with aggregated amount of RR 12 947 393 thousand or 66% of total due to other banks (31 December 2005: placements from one bank with aggregated amount of RR 1 439 851 thousand or 22% of total due to other banks). These placements were made at interest rates ranged from 6.64% p.a. to 8.0% p.a. and mature from February to May 2009.

As at 30 June 2006 the estimated fair value of due to other banks was RR 19 517 366 thousand (31 December 2005: RR 6 691 641 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	**30 June 2006 (unaudited)**	**31 December 2005**
State and public organisations		
- Current/settlement accounts	879 658	1 033 234
- Term deposits	155 708	140 322
Other legal entities		
- Current/settlement accounts	10 396 349	3 450 795
- Term deposits	8 046 320	4 731 320
Individuals		
- Current/demand accounts	811 707	657 224
- Term deposits	5 668 749	4 664 074
Total customer accounts	**25 958 491**	**14 676 969**

Economic sector concentrations within customer accounts are as follows:

	30 June 2006 (unaudited)		**31 December 2005**	
In thousands of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Leasing	7 510 690	29	60 379	1
Individuals	6 480 456	25	5 321 298	36
Insurance	4 364 630	17	2 821 221	19
Agriculture	3 288 922	13	1 443 796	10
Trade	1 159 144	4	752 726	5
State and public organisations	1 035 366	4	1 173 556	8
Construction	516 593	2	508 557	3
Manufacturing	455 741	2	437 511	3
Finance	215 140	1	1 141 010	8
Real estate	48 707	0	556 357	4
Other	883 102	3	460 558	3
Total customer accounts	**25 958 491**	**100**	**14 676 969**	**100**

As at 30 June 2006 the Group had two customers with aggregate balances above RR 1 500 000 thousand (31 December 2005: two customers with aggregate balances exceeding RR 1 100 000 thousand). The aggregate balances of these customers were RR 9 718 114 thousand (31 December 2005: RR 2 548 884 thousand) or 37% (31 December 2005: 17%) of total customer accounts.

14 Customer Accounts (Continued)

As at 30 June 2006 included in customer accounts are deposits of RR 252 306 thousand (31 December 2005: RR 27 557 thousand) held as collateral for irrevocable commitments under import letters of credit. Refer to Notes 9 and 28. Included in "Leasing" are accounts of one leasing company in the amount of RR 7 490 643 thousand (31 December 2005: RR 51 039 thousand). The leasing company is 100% owned by the Russian Government.

As at 30 June 2006 the estimated fair value of customer accounts was RR 25 958 491 thousand (31 December 2005: RR 14 676 969 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	**30 June 2006 (unaudited)**	**31 December 2005**
Promissory notes issued	17 679 071	14 109 477
Bonds issued	10 008 545	2 693 535
Total debt securities in issue	**27 687 616**	**16 803 012**

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 10% p.a. and the maturity dates from July 2006 to November 2011.

Bonds issued have maturity from June 2008 to February 2011 with quarterly coupon payment. As at 30 June 2006 coupon rates ranged from 7.5% p.a. to 7.9% p.a. (31 December 2005: 7.5% p.a.) and yield to maturity ranged from 7.0% p.a. to 8.2% p.a. (31 December 2005: 7.5% p.a.).

As at 30 June 2006 the estimated fair value of debt securities in issue was RR 27 687 616 thousand (31 December 2005: RR 16 803 012 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", a Russian government financial institution) for the purpose of financing the main activity of the Group. Following the liquidation of ARCO in December 2004 its rights and obligations were assigned to the Government corporation "Agency for Deposit Insurance".

The interest rate on these funds was 3.25% p.a., maturity period was from April to June 2006.

The Group repaid these subordinated deposits in April 2006 and June 2006.

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

As at 30 June 2006 the Group had borrowings of RR 28 446 609 thousand in US Dollars denominated Eurobonds (31 December 2005: RR 7 147 944 thousand).

These borrowings mature from November 2010 to May 2013, have coupon rates from 6.875% p.a. to 7.175% p.a. and yield to maturity from 6.95% p.a. to 7.32% p.a. as at 30 June 2006. Nominal amount of Eurobonds issued is USD 1 050 000 thousand.

As at 30 June 2006 the estimated fair value of other borrowed funds was RR 28 446 609 thousand (31 December 2005: RR 7 147 944 thousand). Refer to Note 30.

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

18 Other liabilities

	Note	30 June 2006 (unaudited)	31 December 2005
Fair value of derivative instruments and spot currency transactions	29	780 312	7 400
Dividends payable	25	56 111	-
Taxation payable		42 889	11 585
Accrued bonuses to staff		23 572	4 373
Contributions to share capital not yet registered	20	-	493 000
Provision for credit related commitments	28	-	801
Other		5 945	1 336
Total other liabilities		**908 829**	**518 495**

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:

	Six months ended 30 June 2006 (unaudited)	Year ended 31 December 2005
Minority interest as at 1 January	437	379
Share of net profit	37	64
Dividends paid	(30)	(6)
Minority interest as at 30 June 2006 (unaudited)/31 December 2005	**444**	**437**

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 2005	**4 649**	**5 398 833**
New shares issued	6 121	6 121 000
At 31 December 2005	**10 770**	**11 519 833**
New shares issued	4 193	4 193 000
At 30 June 2006 (unaudited)	**14 963**	**15 712 833**

The total authorized share capital of the Bank as at 30 June 2006 consists of 14 963 ordinary shares, all of which have been issued and are outstanding. All ordinary shares have a nominal value of RR 1 000 thousand per share and rank equally. Each ordinary share carries one vote. All shares have been issued to the Bank's only shareholder, the Russian Federation represented by Federal Agency for Managing State Property.

In May 2006 the Bank increased its share capital by issuing 3 700 ordinary shares with a total nominal amount of RR 3 700 000 thousand.

In December 2005 the Bank issued 493 ordinary shares with a total nominal amount of RR 493 000. This share issue had not been registered as at 31 December 2005 and was registered by the CBRF in February 2006. In September 2005 the Bank issued 6 121 ordinary shares with a total nominal amount of RR 6 121 000 thousand.

21 Interest Income and Expense

In thousands of Russian Roubles	**Six months ended 30 June 2006 (unaudited)**	**Six months ended 30 June 2005 (unaudited)**
Interest income		
Loans and advances to customers	4 873 860	1 613 359
Trading securities	197 112	81 277
Due from other banks	130 979	45 421
Correspondent accounts with other banks	34 589	256
Total interest income	**5 236 540**	**1 740 313**
Interest expense		
Promissory notes issued	(650 520)	(216 824)
Other borrowed funds and Subordinated deposits	(481 106)	(2 651)
Term placements of other banks	(447 968)	(43 241)
Bonds issued	(304 319)	(133 903)
Term deposits of individuals	(256 036)	(155 100)
Term deposits of legal entities	(195 204)	(65 326)
Current/settlement accounts	(7 970)	(21 251)
Total interest expense	**(2 343 123)**	**(638 296)**
Net interest income	**2 893 417**	**1 102 017**

22 Fee and Commission Income and Expense

In thousands of Russian Roubles	**Six months ended 30 June 2006 (unaudited)**	**Six months ended 30 June 2005 (unaudited)**
Fee and commission income		
Commission on cash transactions	137 334	81 366
Commission on settlement transactions	70 601	43 761
Agency fees	15 097	6 984
Commission on cash collection	987	1 045
Commission on securities transactions	39	866
Other	6 423	8 253
Total fee and commission income	**230 481**	**142 275**
Fee and commission expense		
Commission on cash collection	(9 173)	(5 931)
Commission on settlement transactions	(1 154)	(837)
Commission on cash transactions	(32)	(6)
Other	(5 068)	(458)
Total fee and commission expense	**(15 427)**	**(7 232)**
Net fee and commission income	**215 054**	**135 043**

23 Administrative and Other Operating Expenses

In thousands of Russian Roubles	**Note**	**Six months ended 30 June 2006 (unaudited)**	**Six months ended 30 June 2005 (unaudited)**
Staff costs		1 099 312	649 885
Rent expenses		152 019	109 196
Other expenses related to premises and equipment		120 175	68 605
Security		61 698	42 158
Taxes other than income tax		78 903	37 827
Depreciation of premises and equipment	11	47 522	28 399
Utility services		24 089	13 370
Amortisation of intangible assets	11	14 658	12 333
Advertising and marketing		21 061	5 407
Stationery		7 631	4 390
Other		150 705	68 482
Total administrative and other operating expenses		**1 777 773**	**1 040 052**

Included in staff costs are statutory social security and pension contributions of RR 192 664 thousand (six months ended 30 June 2006: RR 113 747 thousand).

24 Income Taxes

Income tax expense comprises the following:

In thousands of Russian Roubles	Six months ended 30 June 2006 (unaudited)	Six months ended 30 June 2005 (unaudited)
Current tax	237 683	30 650
Deferred taxation	(212 560)	(37 231)
Income tax expense/(credit) for the period	**25 123**	**(6 581)**

The income tax rate applicable to the majority of the Group's income is 24% (31 December 2005: 24%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Russian Roubles	Six months ended 30 June 2006 (unaudited)	Six months ended 30 June 2005 (unaudited)
IFRS profit/(loss) before tax	**70 618**	**(43 929)**
Theoretical tax charge/(credit) at statutory rate (2006: 24%; 2005: 24%)	16 948	(10 543)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Tax-exempt income	-	(184)
- Non-deductible staff costs and charity expenses	7 279	9 057
- Other non-deductible expenses	6 247	1 091
- Income on government securities taxable at different rates	(5 351)	(6 002)
Income tax expense/(credit) for the period	**25 123**	**(6 581)**

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% (31 December 2005: 24%), except for income on state securities that is taxed at 15% (31 December 2005: 15%).

	31 December 2005	Recognised in interim consolidated income statement	30 June 2006 (unaudited)
Tax effect of deductible temporary differences			
Provision for loan impairment	97 996	234 217	332 213
Fair valuation of securities	-	17 112	17 112
Loans and advances to customers: accruals	17 838	14 808	32 646
Debt securities in issue: accruals	74 210	(28 281)	45 929
Other	3 783	13 409	17 192
Deferred tax asset	**193 827**	**251 265**	**445 092**
Tax effect of taxable temporary differences			
Fair valuation of securities	(6 053)	6 053	-
Premises and equipment	(49 934)	(5 410)	(55 344)
Due from other banks: accruals	(2 907)	(17 137)	(20 044)
Other borrowed funds: accruals	(22 027)	(28 030)	(50 057)
Other	(5 828)	5 819	(9)
Deferred tax liability	**(86 749)**	**(38 705)**	**(125 454)**
Net deferred tax asset	**107 078**	**212 560**	**319 638**

24 Income Taxes (Continued)

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.

	31 December 2004	Recognised in interim consolidated income statement	30 June 2005 (unaudited)
Tax effect of deductible temporary differences			
Provision for loan impairment	28 362	1 377	29 739
Fair valuation of securities	5 820	(5 427)	393
Loans and advances to customers: accruals	5 504	2 384	7 888
Debt securities in issue: accruals	39 200	16 983	56 183
Other	1 212	13 641	14 853
Deferred tax asset	**80 098**	**28 958**	**109 056**
Tax effect of taxable temporary differences			
Premises and equipment	(17 556)	5 159	(12 397)
Due from other banks: accruals	(627)	390	(237)
Subordinated deposits: accruals	(3 791)	2 358	(1 433)
Other	(1 945)	366	(1 579)
Deferred tax liability	**(23 919)**	**8 273**	**(15 646)**
Net deferred tax asset	**56 179**	**37 231**	**93 410**

25 Dividends

In thousands of Russian Roubles	Note	Six months ended 30 June 2006 (unaudited)	Year ended 31 December 2005
Dividends payable at 1 January		-	-
Dividends declared during the period		56 111	14 621
Dividends paid during the period		-	(14 621)
Dividends payable at 30 June (unaudited)/31 December	**18**	**56 111**	**-**
Dividends per share declared during the period		**3.7**	**3.1**

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 six months ended 30 June 2006 is set out below:

In thousands of Russian Roubles	Corporate banking	Retail banking	Unallocated funds	Total
Six months ended 30 June 2006 (unaudited)				
External revenues	5 179 642	248 335	-	5 427 977
Total revenues	**5 179 642**	**248 335**	**-**	**5 427 977**
Total revenues comprise:				
- Interest income	5 012 635	223 905	-	5 236 540
- Net losses from trading securities	(28 285)	-	-	(28 285)
- Net losses from trading in foreign currency	(65 204)	8 915	-	(56 289)
- Fee and commission income	225 904	4 577	-	230 481
- Other operating income	34 592	10 938	-	45 530
Total revenues	**5 179 642**	**248 335**	**-**	**5 427 977**
Total expenses comprise:				
- Interest expense	(2 087 087)	(256 036)	-	(2 343 123)
- Fee and commission expense	(15 427)	-	-	(15 427)
- Other administrative and operating expenses	-	-	(1 777 773)	(1 777 773)
- Provisions	(1 218 747)	(2 289)	-	(1 221 036)
Total expenses	**(3 321 261)**	**(258 325)**	**(1 777 773)**	**(5 357 359)**
Segment result	**1 858 381**	**(9 990)**	**(1 777 773)**	**70 618**
Income tax expense	-	-	(25 123)	(25 123)
Profit for the period	**1 858 381**	**(9 990)**	**(1 802 896)**	**45 495**
As at 30 June 2006 (unaudited)				
Segment assets	**109 253 899**	**8 134 778**	**-**	**117 388 677**
Current and deferred tax assets	-	-	344 290	344 290
Total assets	**109 253 899**	**8 134 778**	**344 290**	**117 732 967**
Segment liabilities	**95 995 566**	**6 480 456**	**-**	**102 476 022**
Current and deferred tax liabilities	-	-	42 889	42 889
Total liabilities	**95 995 566**	**6 480 456**	**42 889**	**102 518 911**
Other segment items as at 30 June 2006 (unaudited)				
Capital expenditure	(271 114)	(18 290)	-	(289 404)
Provisions	(1 218 747)	(2 289)	-	(1 221 036)
Depreciation and amortisation	(52 644)	(3 552)	-	(56 196)

26 Segment Analysis (Continued)

Segment information for the main reportable business segments of the Group for six months ended 30 June 2005 and as at 31 December 2005 is set out below:

In thousands of Russian Roubles	Corporate banking	Retail banking	Unallocated funds	Total
Six months ended 30 June 2005 (unaudited)				
External revenues	1 867 937	26 653	-	1 894 590
Total revenues	**1 867 937**	**26 653**	**-**	**1 894 590**
Total revenues comprise:				
- Interest income	1 720 780	19 533	-	1 740 313
- Net gains from trading securities	2 979	-	-	2 979
- Net losses from trading in foreign currencies	(13 653)	6 185	-	(7 468)
- Fee and commission income	138 849	3 426	-	142 275
- Other operating income	18 982	(2 491)	-	16 491
Total revenues	**1 867 937**	**26 653**	**-**	**1 894 590**
Total expenses comprise:				
- Interest expense	(483 196)	(155 100)	-	(638 296)
- Fee and commission expense	(7 232)	-	-	(7 232)
- Other administrative and operating expenses	-	-	(1 040 052)	(1 040 052)
- Provisions	(253 171)	232	-	(252 939)
Total expenses	**(743 599)**	**(154 868)**	**(1 040 052)**	**(1 938 519)**
Segment result	**1 124 338**	**(128 215)**	**(1 040 052)**	**(43 929)**
Income tax credit	-	-	6 581	6 581
Loss for the period	**1 124 338**	**(128 215)**	**(1 033 471)**	**(37 348)**
As at 31 December 2005				
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 as at 30 June 2005 (unaudited)				
Capital expenditure	(99 616)	(13 030)	-	(112 646)
Provisions	(253 171)	232	-	(252 939)
Depreciation and amortisation	(32 024)	(4 708)	-	(40 732)

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 (credit related commitments) 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 (credit related commitments) 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 as at 30 June 2006 is set out below:

In thousands of Russian Roubles	Russia	OECD*	Non OECD	Total
Assets				
Cash and cash equivalents	6 582 393	35 019	-	6 617 412
Mandatory cash balances with the Central Bank of the Russian Federation	960 210	-	-	960 210
Trading securities	9 371 710	-	-	9 371 710
Due from other banks	6 415 098	-	-	6 415 098
Loans and advances to customers	91 813 917	-	-	91 813 917
Deferred income tax asset	319 638	-	-	319 638
Intangible assets	86 424	-	-	86 424
Premises and equipment	1 519 863	-	-	1 519 863
Other assets	428 155	200 449	91	628 695
Total assets	**117 497 408**	**235 468**	**91**	**117 732 967**
Liabilities				
Due to other banks	3 264 275	16 246 629	6 462	19 517 366
Customer accounts	25 898 367	60 124	-	25 958 491
Debt securities in issue	27 687 616	-	-	27 687 616
Other borrowed funds	-	28 446 609	-	28 446 609
Other liabilities	132 538	776 291	-	908 829
Total liabilities	**56 982 796**	**45 529 653**	**6 462**	**102 518 911**
Net balance sheet position	**60 514 612**	**(45 294 185)**	**(6 371)**	**15 214 056**
Credit related commitments	**511 475**	**-**	**-**	**511 475**

*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 as 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**

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 as at 30 June 2006:

In thousands of Russian Roubles	RR	USD	Euro	Other	Total
Assets					
Cash and cash equivalents	5 163 165	1 409 393	31 822	13 032	6 617 412
Mandatory cash balances with the Central Bank of the Russian Federation	960 210	-	-	-	960 210
Trading securities	7 938 792	1 432 918	-	-	9 371 710
Due from other banks	4 399 950	1 762 842	252 306	-	6 415 098
Loans and advances to customers	89 878 054	891 316	1 044 547	-	91 813 917
Deferred income tax asset	319 638	-	-	-	319 638
Intangible assets	86 424	-	-	-	86 424
Premises and equipment	1 519 863	-	-	-	1 519 863
Other assets	422 096	204 414	2 112	73	628 695
Total assets	**110 688 192**	**5 700 883**	**1 330 787**	**13 105**	**117 732 967**
Liabilities					
Due to other banks	12 463 983	6 632 908	420 475	-	19 517 366
Customer accounts	25 081 023	248 266	629 202	-	25 958 491
Debt securities in issue	27 006 501	681 115	-	-	27 687 616
Other borrowed funds	-	28 446 609	-	-	28 446 609
Other liabilities	904 060	4 769	-	-	908 829
Total liabilities	**65 455 567**	**36 013 667**	**1 049 677**	**-**	**102 518 911**
Net balance sheet position	**45 232 625**	**(30 312 784)**	**281 110**	**13 105**	**15 214 056**
Off-balance sheet net notional position (Note 29)	**(29 707 802)**	**29 418 759**	**(288 795)**	**-**	**(577 838)**
Net currency position	**15 524 823**	**(894 025)**	**(7 685)**	**13 105**	**14 636 218**
Credit related commitments (Note 28)	**188 836**	**8 124**	**314 515**	**-**	**511 475**

27 Financial Risk Management (Continued)

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

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 net 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)

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 30 June 2006 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 as at 30 June 2006 is set out below.

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months/No stated matutity	Total
Assets					
Cash and cash equivalents	6 617 412	-	-	-	6 617 412
Mandatory cash balances with the Central Bank of the Russian Federation	257 498	244 332	98 137	360 243	960 210
Trading securities	9 371 710	-	-	-	9 371 710
Due from other banks	4 572 129	1 533 682	309 287	-	6 415 098
Loans and advances to customers	4 030 011	21 455 757	27 764 969	38 563 180	91 813 917
Deferred income tax asset	-	319 638	-	-	319 638
Intangible assets	-	-	-	86 424	86 424
Premises and equipment	-	-	-	1 519 863	1 519 863
Other assets	270 278	68 520	40 237	249 660	628 695
Total assets	**25 119 038**	**23 621 929**	**28 212 630**	**40 779 370**	**117 732 967**
Liabilities					
Due to other banks	3 131 872	361 749	152 106	15 871 639	19 517 366
Customer accounts	12 965 885	8 575 262	2 823 316	1 594 028	25 958 491
Debt securities in issue	3 907 939	9 441 344	4 344 806	9 993 527	27 687 616
Other borrowed funds	-	222 336	-	28 224 273	28 446 609
Other liabilities	44 152	525 959	1 646	337 072	908 829
Total liabilities	**20 049 848**	**19 126 650**	**7 321 874**	**56 020 539**	**102 518 911**
Net liquidity gap	**5 069 190**	**4 495 279**	**20 890 756**	**(15 241 169)**	**15 214 056**
Cumulative liquidity gap at 30 June 2006	**5 069 190**	**9 564 469**	**30 455 225**	**15 214 056**	-

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 as at 30 June 2006 is the following: Demand and less than 1 month – RR 817 374 thousand; From 1 to 6 months – RR 2 510 417 thousand; From 6 to 12 months – RR 694 428 thousand; Over 12 months – RR 5 349 491.

The allocation of the portfolio of trading securities according to the contractual maturities as at 31 December 2005 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 as 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 maturity**	**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)

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 the 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 as at 30 June 2006. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Non-interest bearing**	**Total**
Assets						
Cash and cash equivalents	6 617 412	-	-	-	-	6 617 412
Mandatory cash balances with the Central Bank of the Russian Federation	257 498	244 332	98 137	360 243	-	960 210
Trading securities	9 371 710	-	-	-	-	9 371 710
Due from other banks	4 572 129	1 533 682	309 287	-	-	6 415 098
Loans and advances to customers	4 030 011	21 455 757	27 764 969	38 563 180	-	91 813 917
Deferred income tax asset	-	-	-	-	319 638	319 638
Intangible assets	-	-	-	-	86 424	86 424
Premises and equipment	-	-	-	-	1 519 863	1 519 863
Other assets	4 190	-	-	198 284	426 221	628 695
Total assets	**24 852 950**	**23 233 771**	**28 172 393**	**39 121 707**	**2 352 146**	**117 732 967**
Liabilities						
Due to other banks	3 164 688	469 342	140 581	15 742 755	-	19 517 366
Customer accounts	13 025 708	8 575 262	2 808 360	1 549 161	-	25 958 491
Debt securities in issue	3 907 939	12 440 720	4 344 806	6 994 151	-	27 687 616
Other borrowed funds	-	222 336	-	28 224 273	-	28 446 609
Other liabilities	4 021	439 975	-	336 316	128 517	908 829
Total liabilities	**20 102 356**	**22 147 635**	**7 293 747**	**52 846 656**	**128 517**	**102 518 911**
Net sensitivity gap	**4 750 594**	**1 086 136**	**20 878 646**	**(13 724 949)**	**2 223 629**	**15 214 056**
Cumulative sensitivity gap at 30 June 2006	**4 750 594**	**5 836 730**	**26 715 376**	**12 990 427**	**15 214 056**	**-**

27 Financial Risk Management (Continued)

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

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Non-interest bearing**	**Total**
Assets						
Cash and cash equivalents	4 792 688	-	-	-	-	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 borrowings	-	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 as at 31 December 2005	**836 174**	**4 250 722**	**5 908 517**	**9 896 126**	**11 031 702**	**-**

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.

	30 June 2006				31 December 2005			
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	4	5	0	0	1	4	0	-
Mandatory cash balances with the Central Bank of the Russian Federation	0	-	-	-	0	-	-	-
Trading securities	8	8	-	-	9	7	-	-
Due from other banks	6	7	0	-	7	-	0	-
Loans and advances to customers	15	10	8	-	16	13	9	-
Liabilities								
Due to other banks	8	7	4	-	7	6	3	-
Customer deposits	8	6	6	-	8	7	4	-
Debt securities issued								
- promissory notes issued	8	8	-	-	8	8	-	-
- bonds issued	8	-	-	-	8	-	-	-
Other borrowed funds	-	7	-	-	-	7	-	-
Subordinated deposits	-	-	-	-	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 interim 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 30 June 2006 no provision for potential tax liabilities had been recorded (31 December 2005: no provision). The Group estimates that as at 30 June 2006 it has potential obligations from exposure to other than remote tax risks of approximately RR 26 275 thousand.

Capital expenditure commitments. As at 30 June 2006 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	**30 June 2006 (unaudited)**	**31 December 2005**
Not later than 1 year	269 721	171 827
Later than 1 year and not later than 5 years	308 232	213 431
Later than 5 years	173 117	108 483
Total operating lease commitments	**751 070**	**493 741**

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.

28 Contingencies and Commitments (Continued)

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**	**30 June 2006 (unaudited)**	**31 December 2005**
Import letters of credit	14	317 908	87 360
Guarantees issued		125 849	106 393
Undrawn credit lines		67 718	246 389
Less: Provision for losses on credit related commitments	18	-	(801)
Total credit related commitments		**511 475**	**439 341**

As at 30 June 2006 included in customer accounts are deposits of RR 252 306 thousand (31 December 2005: RR 27 557 thousand) 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	**Six months ended 30 June 2006 (unaudited)**	**Six months ended 30 June 2005 (unaudited)**
Provision for losses on credit related commitments as at 1 January	**801**	**13 942**
Use of provision for losses on credit related commitments during the period	(801)	(13 238)
Provision for losses on credit related commitments as at 30 June	**-**	**704**

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	30 June 2006 (unaudited) Nominal value	31 December 2005 Nominal value
Promissory notes and securities of Russian companies (on hand)	11 609 049	12 113 610
Promissory notes issued by the Bank	248 531	220 443
OVGVZ held in the Bank's depositary	43 226	-
Client OFZ securities held on an account with MICEX	-	849 087
Municipal bonds held on an account with National Depository Center	-	113 000
Bonds of companies held with National Depository Centre	-	86 943

Assets pledged and restricted. As at 30 June 2006 the Group had no assets pledged. However, mandatory cash balances with the CBRF in the amount of RR 960 210 thousand (31 December 2005: RR 484 714 thousand) represented mandatory reserve deposits, which were not available to finance the Group's day to day operations.

29 Derivative Financial Instruments

Foreign currency 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 are 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 SWAP contracts are valued by reference to the exchange rates as at 30 June or 31 December as compared to the balance sheet carrying value of the contract at 30 June or 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.

	Notes	30 June 2006 (unaudited)		31 December 2005	
In thousands of Russian Roubles		Principal or agreed amount at positive fair value	Principal or agreed amount at negative fair value	Principal or agreed amount at positive fair value	Principal or agreed amount at negative fair value
Foreign exchange spot: fair values, at the balance sheet date	3, 27				
- USD receivable on settlement (+)		598 768	-	287 825	-
- USD payable on settlement (-)		-	(309 804)	-	-
- RR receivable on settlement (+)		-	-	-	-
- RR payable on settlement (-)		-	-	(287 390)	-
- Euro receivable on settlement (+)		-	305 783	-	-
- Euro payable on settlement (-)		(594 578)	-	-	-
Foreign Currency SWAP deals:	3, 27				
- USD receivable on settlement (+)		14 964 635	14 165 160	5 211 521	1 445 172
- RR payable on settlement (-)		(14 766 351)	(14 941 451)	(5 209 283)	(1 452 572)
Total net fair value	**12, 18**	**202 474**	**(780 312)**	**2 673**	**(7 400)**

29 Derivative Financial Instruments (Continued)

Foreign Currency swap deals represent placements made by the Group in US dollars with four OECD banks with maturity from December 2006 to November 2011 in exchange for placements received from the same banks in Russian Roubles with the same maturities. These transactions were aimed at hedging the currency risks of the Group.

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 202 474 thousand (31 December 2005: RR 2 673 thousand) and a liability at net fair value of RR 780 312 thousand (31 December 2005: RR 7 400 thousand). Refer to Notes 12 and 18.

In respect of derivatives as at 30 June 2006 the Group has recorded losses, net of gains arising from derivatives transactions of RR 96 031 thousand within interim consolidated income statement for the period of six months ended 30 June 2006 (Six months ended 30 June 2005: nil).

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 period, 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**	**30 June 2006 (unaudited)**	**30 June 2005 (unaudited)**
Profit/(Loss) for the period attributable to ordinary shareholders		45 458	(37 385)
Profit/(Loss) for the period (all allocated to ordinary shareholders)		45 458	(37 385)
Weighted average number of ordinary shares in issue	20	11 819	4 649
Basic and diluted earnings/(losses) per ordinary share		**4**	**(8)**

32 Related Party Transactions

For the purposes of these interim 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 interim 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.

32 Related Party Transactions (Continued)

As at 30 June 2006, the outstanding balances with related parties were as follows:

	30 June 2006 (unaudited)	31 December 2005
Cash and cash equivalents		
Cash balances with the CBRF (other than mandatory reserve deposits)	2 437 731	2 689 306
Mandatory cash balances with the Central Bank of the Russian Federation	960 210	484 714
Nostro accounts with state-controlled banks	6 859	4 330
Provision for loan impairment at the period end		
State-owned companies	(123 859)	(63 044)
Loans and advances to customers		
Loans and advances at the period end		
State-owned companies	6 472 818	4 709 181
Key management of the Group and their family members	25 630	13 698
Trading securities		
Federal loan bonds (OFZ)	1 067 653	828 851
Municipal bonds	763 336	493 251
Corporate bonds	363 078	234 373
Corporate shares	-	9 715
Promissory notes of the banks under state control	343 928	2 196
Due from other banks		
Current term placements	903 072	-
Deferred tax assets		
Federal budget	319 638	107 078
Other assets		
Federal budget	24 652	77 340
Due to other banks		
Current term placements	509 220	935 475
Subordinated deposits		
Subordinated deposits	-	165 155
Customer accounts		
Term deposits and current/settlement accounts as at the period end		
State-owned companies	8 653 849	2 353 231
Key management of the Group and their family members	139 556	100 713
Other liabilities		
Contribution to share capital not yet registered	-	493 000
Dividends payable	56 111	-
Taxation payables	42 889	11 585

32 Related Party Transactions (Continued)

The income and expense items with related parties for the six months ended 30 June 2006 were as follows:

	Six months ended 30 June 2006 (unaudited)	Six months ended 30 June 2005 (unaudited)
Loans and advances to customers		
Interest income for the period		
State-owned companies	358 113	88 065
Key management of the Group and their family members	811	455
Interest income on trading securities		
Government securities	69 262	47 222
State owned companies	16 802	20 669
Results from operations with trading securities		
Government securities	(31 583)	(6 933)
State owned companies	(6 200)	7 754
Provision for loan impairment		
State-owned companies	(60 815)	4 724
Due from other banks		
Interest income		
The Central Bank of the Russian Federatoin	6 335	323
Transactions with state-owned banks	11 719	4 534
Due to other banks		
Interest expense		
Transactions with state-owned banks	(26 334)	(19 624)
The Central Bank of the Russian Federatoin	-	(43)
Subordinated deposits		
Interest expense	(1 757)	(2 659)
Customer accounts		
Interest expense for the period		
State-owned companies	(31 907)	(20 767)
Key management of the Group and their family members	(5 903)	(2 576)
Income tax (expense)/credit		
Federal budget	(25 123)	6 581

32 Related Party Transactions (Continued)

Aggregate amounts lent to and repaid by related parties during six months ended 30 June 2006 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)	445 757 076	446 008 651
Nostro accounts with state-controlled banks	2 598 422	2 595 893
Mandatory cash balances with the Central Bank of the Russian Federation	526 635	51 139
Loans and advances to customers		
State-owned companies	4 716 579	2 952 942
Managers and their family members	18 738	6 806
Trading securities		
Securities of the Russian Federation	5 161 390	4 652 503
Securities issued by state-owned entities	1 283 234	822 512
Due from other banks		
Current term placements with state-owned banks	60 134 475	59 231 403
Current term placements with CBRF	29 410 000	29 410 000
Due to other banks		
Current term placements from state-owned banks	21 309 583	21 735 838
Current term placements from CBRF		
Customer accounts		
Term deposits and current/settlement accounts for the period		
State-owned companies	29 523 184	23 222 566
Key management of the Group and their family members	202 983	164 140
Subordinated deposits		
Subordinated deposits	1 757	166 912

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
Trading securities		
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
Key management of the Group and their family members	252 559	210 739

For six months ended 30 June 2006 total remuneration of the directors and key management personnel of the Group, including pension contributions and discretionary compensation, amounted to RR 134 967 thousand (six months ended 30 June 2005: RR 91 143 thousand), including remuneration of the members of the Management Board in the total amount of RR 32 218 thousand (six months ended 30 June 2005: RR 21 134 thousand).

33 Principal Consolidated Subsidiary

As at 30 June 2006, 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 July 2006 the Bank's shareholder approved the increase of authorised share capital by 26 300 shares with a total nominal amount of RR 26 300 000 thousand.