Commercial Bank
“Agropromcredit”

Consolidated Financial Statements
for the year ended 31 December 2005

Contents

ZAO KPMG
11 Gogolevsky Boulevard
Moscow 119019
Russia

Telephone +7 (495) 937 4477
Fax + 7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Auditors' Report

To the Board of Directors of Commercial Bank "Agropromcredit"

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

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

We were unable to obtain sufficient appropriate audit evidence about the financial position of OJSC CB "KAMABANK", which was a subsidiary of the Bank and was included in the consolidated financial statements as at and for the year ended 31 December 2004. Accordingly, we were unable to determine whether any adjustments might be necessary to losses less gains arising from operations with available for sale securities, which includes losses from disposal of OJSC CB "KAMABANK" of RUR 13,466 thousand, and to net profit attributable to participants in the consolidated statement of income for 2005.

In our opinion, except for the effects of such adjustments, if any, that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in preceding paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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30 June 2006

(in thousands of Russian Roubles)

	Notes	2005	2004 (restated)
Assets			
Cash and cash equivalents	5	2,645,141	4,526,843
Mandatory cash balances with the Central Bank of the Russian Federation		169,278	272,639
Financial assets held for trading	6	3,121,803	143,725
Due from banks and other financial institutions	7	1,080,540	1,817,764
Loans and advances to customers	8	7,773,596	11,537,482
Investment securities available-for-sale		-	26
Other assets	10	121,134	79,304
Property and equipment	11	238,834	339,463
Goodwill	9	-	4,973
Deferred tax assets	22	57,247	205,783
Total Assets		**15,207,573**	**18,928,002**
Liabilities			
Financial liabilities held for trading	6	53,671	-
Due to banks and other financial institutions	12	300,468	1,761,136
Customer accounts	13	9,607,099	12,199,275
Debt securities issued	14	3,495,070	3,704,029
Other liabilities	15	134,024	206,194
Net assets attributable to participants	16	**1,617,241**	**1,044,762**
Minority interest		-	12,606
Total Liabilities		**15,207,573**	**18,928,002**
Commitments and Contingencies	24		

Approved for issue by the Management Board and signed on its behalf on 30 June 2006.

Ivanova Svetlana Stepanovna
First Deputy Chairman of the Board

Khmeleva Svetlana Aleksandrovna
Chief Accountant

(in thousands of Russian Roubles)

	Notes	2005	2004 (restated)
Interest income	18	1,630,305	1,662,582
Interest expense	18	(452,773)	(553,843)
Net interest income		**1,177,532**	**1,108,739**
Recovery of provision for loan impairment	8	269,190	107,135
Net interest income after recovery of provision for loan impairment		**1,446,722**	**1,215,874**
Gains less losses arising from trading in financial instruments held for trading		294,559	64,588
Losses less gains arising from operations with investment securities available-for-sale		(13,466)	(62)
Gains less losses arising from trading in foreign currencies		22,087	31,257
Foreign exchange translation gains less losses/(losses net of gains)		3,500	(8,883)
Fee and commission income	19	434,065	397,295
Fee and commission expense	19	(23,590)	(18,435)
Losses on origination of assets/liabilities at rates below/above market rates		(47,329)	(53,479)
Recovery of provision for impairment other than loan impairment	7,10	17,780	29,867
Gain arising from early retirement of debt		38,667	-
Other operating income	21	19,397	17,674
Net income		**2,192,392**	**1,675,696**
Operating expenses	20	(1,312,316)	(1,338,864)
Loss arising from loans sale		(81,253)	-
Profit before tax		**798,823**	**336,832**
Income tax expense	22	(226,344)	(10,568)
Net profit		**572,479**	**326,264**
Minority interest		**-**	**(6,716)**
Net profit attributable to participants		**572,479**	**319,548**

(in thousands of Russian Roubles)

	Notes	2005	2004 (restated)
Cash flows from operating activities			
Interest received		1,266,283	1,700,381
Interest paid		(373,245)	(580,036)
Income received from trading in financial instruments held for trading		357,470	66,262
Income received from early retirement of debt		38,667	-
Income received from trading in foreign currencies		22,103	31,258
Fees and commissions received		417,570	397,295
Fees and commissions paid		(21,387)	(18,435)
Other operating income received		19,397	16,394
Operating expenses paid		(1,275,671)	(1,289,031)
Loses arising from loans sale		(81,253)	-
Income tax paid		(100,947)	(153,995)
Cash flows from operating activities before changes in operating assets and liabilities		**268,987**	**170,093**
Changes in operating assets and liabilities			
Net decrease in mandatory cash balances with the Central Bank of the Russian Federation		78,580	571,809
Net increase in financial instruments held for trading		(3,072,707)	(138,598)
Net decrease/(increase) in due from banks and other financial institutions (excluding cash and cash equivalents)		647,384	(1,343,193)
Net decrease/(increase) in loans and advances to customers		3,728,284	(262,299)
Net decrease/(increase) in other assets		348	(2,773)
Net (decrease)/increase in due to banks and other financial institutions		(1,503,922)	797,793
Net (decrease)/increase in customer accounts		(1,558,671)	316,492
Net (decrease)/increase in debt securities issued		(187,580)	1,875,184
Net increase in other liabilities		68,820	264,373
Net cash (used in)/provided from operating activities		**(1,530,477)**	**2,248,881**
Cash flows from investing activities			
Proceeds from sale of investment securities available-for-sale		36,464	-
Proceeds from sale of property and equipment		-	142
Decrease of cash and cash equivalents due to decrease of shareholding in OJSC CB "KAMABANK"		(355,241)	-
Purchase of property and equipment		(34,860)	(164,889)
Net cash used in investing activities		**(353,637)**	**(164,747)**
Effect of exchange rate changes on cash and cash equivalents		**2,412**	**(8,884)**
Net (decrease)/increase in cash and cash equivalents		**(1,881,702)**	**2,075,250**
Cash and cash equivalents as at the beginning of the year		4,526,843	2,451,593
Cash and cash equivalents as at the end of the year	5	**2,645,141**	**4,526,843**

(in thousands of Russian Roubles)

1. Principal Activities of the Group

These consolidated financial statements include the financial statements of Commercial Bank "Agropromcredit" and its subsidiary (the "Bank" or the "Group").

The principal subsidiary of the Bank is as follow:

Name	Country of Incorporation	Business	Share of ownership	
			31 December 2004	31 December 2005
OJSC CB "KAMABANK"	Russian Federation	Banking	78.1%	0%

An additional issue of shares of OJSC CB "KAMABANK" was registered on 28 January 2005. As a result, the Bank's share reduced from 78.1% to 5.45%. On 23 June 2005 the Board of Directors of the Bank made a decision to sell the shares of OJSC CB "KAMABANK" and on 27 June 2005 the shares were sold to the third party.

Commercial Bank "Agropromcredit" was established by the decision of the participants on 7 July 1993 (Protocol No. 1 of 7 July 1993) as a limited liability partnership. In accordance with the decision of the general meeting of participants of the Bank dated 8 October 1998 (Protocol No. 23 of 8 October 1998) the name and the legal structure of the Bank was changed. The Bank conducts its business on the basis of general banking license No. 2880 issued by the Central Bank of the Russian Federation ("CBRF"). The Bank was accepted into the Russian Federation state deposit insurance scheme in September 2005.

The registered address of the Bank: 140061, Moscow region, Lytkarino, Housing complex 5, Block 2, Building 13.

The principal activities of the Bank are deposits taking and customer accounts maintenance, lending and issuing guarantees, cash and settlement operations and operations with securities and foreign exchange.

As at 31 December 2005 the Bank had 11 branches and 23 representative offices in the Russian Federation. The branch network of the Bank is located in the key regions of the Russian Federation, including the following cities: Tyumen, Surgut, Vladivostok, Orenburg, St. Petersburg, Barnaul and others.

The average number of the Bank's employees during the year was 327 in the head office, 1 046 - in total.

2. Operating Environment of the Group

Whilst there have been improvements in economic trends in the country, the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

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.

The banking sector in the Russian Federation is particularly sensitive to changes in economic conditions and depends on general level of confidence in the banking system. 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.

3. Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Group maintains its accounting records in accordance with Russian banking regulations. These consolidated financial statements have been prepared from those accounting records and adjusted as necessary in order to be in accordance with IFRS.

These consolidated financial statements have been measured and presented in the national currency of the Russian Federation, Russian Roubles ("RUR"). As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29 *"Financial Reporting In Hyperinflatory Economies"*. Refer to Note 4.

The preparation of these consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Information about significant areas of estimation uncertainty and critical judgments made by management in the application of accounting policies in respect of provision for loan impairment are described in Note 8 "Loans and advances to customers".

4. Significant Accounting Policies

Basis of consolidation

Subsidiaries

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

Transactions eliminated on consolidation

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

Minority interest

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

Minority interest is presented in the consolidated balance sheet, separately from the net assets attributable to participants of the Group. Minority interest in the consolidated profit or loss of the Group is disclosed separately in the consolidated statement of income.

Cash and cash equivalents

Cash and cash equivalents are assets which can be converted into cash within a day.

All short-term interbank placements, beyond overnight placements, are included in due from banks and other financial institutions.

Amounts which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Mandatory cash balances with the CBRF

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

Measurement terms

Depending on their classification financial instruments are carried at cost, fair value, or amortized cost, as described below.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. 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 Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The most 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.

Valuation techniques such as discounted cash flow models and consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in a significantly different profit, income, total assets or total liabilities.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition minus principal repayments, plus accrued interest, and minus 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 included in the carrying values of related balance sheet items.

Purchases and sales of financial instruments are recognised on trade date, which is the date on which the Group commits to purchase or sell the financial instrument. Loans originated by the Group are recognized when cash is advanced to the borrowers.

Financial instruments

Financial instruments are classified in the following categories: financial instruments at fair value through profit or loss, loans and advances to customers, held-to-maturity investments and available-for-sale assets. Management determines the appropriate classification of financial instruments at the time of the purchase or origination.

(i) Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss include financial instruments held for trading and other financial instruments designated at fair value through profit or loss at initial recognition. A financial instrument is classified as held for trading if it is acquired principally for the purpose of selling it in the near term or it is a part of a portfolio for which there is evidence of a recent actual pattern of short-term profit-taking, or it is a derivative.

Financial instruments at fair value through profit or loss are recognised initially, and are subsequently carried at, fair value. Gains and losses arising from changes in the fair value of financial instruments at fair value through profit or loss are included in the consolidated statement of income in the period in which they arise.

(ii) Loans and advances to customers

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, which are classified as held for trading, or those which the Group designates at initial recognition as at fair value through profit or loss or available-for-sale. Loans and advances to customers include amounts due from banks and other financial institutions and loans and advances to customers.

Loans and advances to customers are initially recorded at fair value, which is the fair value of the consideration given to originate or purchase those loans and advances plus any related transaction costs, and subsequently are carried at amortised cost using the effective interest method.

Loans originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar loans. The difference between the fair value and the nominal value at origination is credited or charged to the consolidated statement of income as gains on origination of assets at rates above market rates or losses on origination of assets at rates below market rates. Subsequently, the carrying amount of such loans is adjusted for amortization of the gains/losses on origination and the related income/expense is recorded in interest income within the consolidated statement of income using the effective interest method.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

Held-to-maturity investments are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of these investments and are subsequently carried at amortised cost using the effective interest method.

Interest earned whilst holding investment securities held-to-maturity is recorded in the consolidated statement of income as interest income on securities.

(iv) Available-for-sale assets

Available-for-sale assets are non-derivative financial assets that are not classified as loans and advances, held-to-maturity investments or financial instruments at fair value through profit or loss. Available-for-sale assets may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale assets are recognised initially, and are subsequently carried, at fair value. Gains and losses arising from changes in the fair value of available-for-sale assets are recognized directly in net assets attributable to participants, except for impairment and the effect of changes in foreign exchange rates. When the financial instrument is derecognised the cumulative gain or loss previously recognised in net assets attributable to participants is recognized in the consolidated statement of income.

Repurchase agreements and reverse repurchase agreements

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

Securities purchased under agreements to resell ("reverse repurchase agreements") are recorded as due from banks and other financial institutions or loans and advances to customers as appropriate. The differences between the sale and repurchase prices are treated as interest income and accrued over the life of the reverse repurchase agreement using the effective interest method.

Promissory notes purchased

Promissory notes purchased are included in financial instruments at fair value through profit or loss, loans and advances to customers or due from banks and other financial institutions, depending on their substance and are subsequently remeasured and accounted for in accordance with the accounting policies described above for these categories of assets.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Their fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets (unrealized gains) when fair value is positive and as liabilities (unrealized losses) when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of income as gains less losses arising from trading in foreign currencies.

Other credit related commitments

In the normal course of business, the Group enters into other credit related commitments including letters of credit and guarantees. Specific provisions are recorded against other credit related commitments when losses are considered probable.

Property and equipment

Property and equipment and intangible assets are stated at cost less accumulated depreciation and impairment losses, where required. Property and equipment and intangible assets acquired prior to 1 January 2003 were stated at cost adjusted for inflation less accumulated depreciation and impairment losses, where required. Depreciation of assets under construction is charged from the time these assets are completed and ready for use. Depreciation is applied on a straight line basis over the estimated useful lives of the assets using the following rates.

	Depreciation rate
Buildings	2%
Vehicles	25%
Computers	25%
Office equipment	10%
Other equipment	20%
Intangible assets	25%

Impairment

The carrying amounts of the Group's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amounts are estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the consolidated statement of income unless the asset is recorded at a revalued amount in which case it is treated as a revaluation decrease.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in net assets attributable to participants and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in net assets attributable to participants is recognised in the consolidated statement of income even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in the consolidated statement of income is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the consolidated statement of income.

(i) Recoverable amount

The recoverable amount of financial instruments at fair value through profit or loss and financial assets available-for-sale is their fair value. The recoverable amount of the Group's investments in held-to-maturity securities and loans and advances carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate that is the effective interest rate computed at initial recognition of these financial assets (refer to Note "Provision for loan impairment").

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a held-to-maturity security, or a loan or advance carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the consolidated statement of income. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in the consolidated statement of income, then the impairment loss is reversed, with the amount of the reversal recognised in the consolidated statement of income.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(iii) Provision for loan impairment

The Group reviews its loan portfolio to assess impairment on a regular basis. A loan (or a group of loans) is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan and that event (or events) has an impact on the estimated future cash flows of the loan (or the group of loans) that can be reliably estimated.

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

If there is objective evidence that an impairment loss on a loan has been incurred, the amount of the loss is measured as the difference between the loan carrying amount and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the original effective interest rate.

Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is limited available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgement to estimate the amount of any impairment loss. The assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the consolidated statement of income.

Operating leases

Where the Group is the lessee, the total lease payments are charged by the lessee to the consolidated statement of income on a straight-line basis over the period of the lease.

Where a lease is cancelled prior to its maturity, any payment due to lesser as a penalty is charged to the consolidated statement of income of the period in which the operating lease is cancelled.

Borrowings

Borrowings are recorded initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the consolidated statement of income over the period of the borrowings using the effective yield method.

Borrowings originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar borrowings. The difference between the fair value and the nominal value at origination is credited or charged to the consolidated statement of income as gains on origination of liabilities at rates below market rates or losses on origination of liabilities at rates above market rates. Subsequently, the carrying amount of such borrowings is adjusted for amortisation of the gains/losses on origination and the related expense is recorded as interest expense within the consolidated statement of income using the effective yield method.

Debt securities issued

Debt securities issued are promissory notes and certificates of deposit issued by the Group.

Debt securities issued are recorded initially at cost, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Subsequently, debt securities issued are stated at amortised cost and any difference between net proceeds and the redemption value is recorded in the consolidated statement of income over the period of the security issue, using the effective yield method.

If the Group purchases its own debt securities issued, 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 early retirement of debt.

Distributions to participants

Distributions to participants are recorded in net assets attributable to participants in the period in which they are declared. Distributions to participants declared after the balance sheet date are disclosed in the subsequent events note. The Bank distributes profits to participants on the basis of financial statements prepared in accordance with Russian Accounting Rules.

Income taxes

Taxation has been provided for in the consolidated financial statements in accordance with Russian legislation currently in force. The income tax charge in the consolidated statement of income for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the year, using the tax rates enacted at the balance sheet date. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recorded to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income and expense recognition

Interest income and interest expense are recorded in the consolidated statement of income for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment option) but does not consider future credit losses. The calculation includes all fees and points 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. When loans become doubtful for collection, they are written down to their recoverable amounts and interest income is thereafter recorded based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Loan commitment fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recorded as an adjustment to the effective interest on the loan.

Foreign currency transactions

Transactions in foreign currencies are recorded at the exchange rate ruling on the transaction date. Exchange differences resulting from the settlement of transactions denominated in foreign currency are included in the consolidated statement of income and calculated using the exchange rate ruling on that date.

Monetary assets and liabilities denominated in foreign currency are translated into functional currency at the official exchange rate of the CBRF at the balance sheet date. Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange translation gains and losses. Translation differences on non-monetary items such as equity securities held for trading or available-for-sale are recorded as part of the fair value gain or loss.

As at 31 December 2005 the official rate of exchange used for translating foreign currency balances was USD 1 = RUR 28.7825 and Euro 1 = RUR 34.185 (2004: USD 1 = RR 27.7487 and Euro 1 = RUR 37.8104). Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a freely convertible currency outside of the Russian Federation.

Fiduciary assets

Assets and liabilities held by the Group in its own name, but on the account of third parties, are not reported on the consolidated balance sheet. Commissions received from such business are shown in fee and commission income within the consolidated statement of income.

Offsetting

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

Accounting for the effects of hyperinflation

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation have been made for periods subsequent to this date. Starting from 1 January 2003 the carrying amounts of the Group's assets, liabilities and net assets attributable to participants became their carrying amounts for the purpose of subsequent accounting.

Provisions

Provisions are recorded when the Group has a present legal or constructive obligation as a result of past events and 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.

Restatement of comparative information

In the preparation of the consolidated financial statements for the year ended 31 December 2005, Management of the Group identified that errors had been made in the consolidated financial statements for the year ended 31 December 2004. Comparative financial information for the year ended 31 December 2004 has been restated to adjust for the effects of the identified errors (refer to Note 27).

Changes in accounting policies

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

(in thousands of Russian Roubles)

Application of IAS 1 *"Presentation of Financial Statements"* (revised 2003) has resulted in increased disclosures, including disclosure of critical accounting estimates and judgements in applying accounting policies.

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

Application of IAS 32 *"Financial Instruments: Disclosure and Presentation"* (revised 2004). The Standard requires, among other things, that financial instruments under which the issuer can be required to deliver cash or other financial assets to the holder do not meet the definition of equity and must therefore be classified as liabilities. As more fully discussed in Note 16, each participant in a Russian limited liability company has the unilateral right to withdraw his capital from the company and receive his share of the company's net assets within six months after the end of the year of the withdrawal. As a result, charter capital and retained earnings attributable to participants of the Bank are recorded as liabilities in order to comply with the revised Standard. As a result of this change, charter capital which was previously treated as non-monetary amounts and recorded at inflation adjusted values has been restated as monetary amount, with a corresponding adjustment to retained earnings.

The effect of this restatement is as follows:

	Charter capital	(Accumulated losses)/Retained earnings	Total
Balance at 31 December 2004 (as it should have been reported in consolidated financial statements after restatements presented in Note 27)	**1,362,035**	**(317,273)**	**1,044,762**
Restatement	(362,035)	362,035	-
Balance at 31 December 2004 (restated)	**1,000,000**	**44,762**	**1,044,762**

The restatement had no effect on the total net assets attributable to participants as at 31 December 2004.

New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2005, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of these new standards on its consolidated financial statements.

- IFRS 7 *"Financial Instruments: Disclosures"*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Group's financial instruments.
- Amendment to IAS 1 *"Presentation of Financial Statements – Capital Disclosures"*, which is effective for annual periods beginning on or after 1 January 2007. The Amendment will require increased disclosure in respect of the Group's capital.
- Amendment to IAS 39 *"Financial Instruments: Recognition and Measurement – The Fair Value Option"*, which is effective for annual periods beginning on or after 1 January 2006. The Amendment restricts the designation of financial instruments as at fair value through profit or loss.
- Amendment to IAS 39 *"Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions"*, which is effective for annual periods beginning on or after 1 January 2006. The Amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item if certain criteria are met.

(in thousands of Russian Roubles)

- Amendment to IAS 39 *"Financial Instruments: Recognition and Measurement"* and IFRS 4 *"Insurance Contracts – Financial Guarantee Contracts"*, which is effective for annual periods beginning on or after 1 January 2006. The Amendment requires guarantees that are not insurance contracts to be measured at fair value upon initial recognition.

5. Cash and Cash Equivalents

	2005	**2004**
Cash on hand	625,413	655,914
Cash balances with the CBRF (other than mandatory reserve deposits)	1,962,972	3,581,333
Correspondent accounts and overnight placements with banks and other financial institutions of:		
- the Russian Federation	50,608	118,134
- other countries	6,148	121,482
Settlement accounts with stock exchanges	-	63
Accumulation account for share issue	-	49,917
Total cash and cash equivalents	**2,645,141**	**4,526,843**

Geographical and currency analyses of cash and cash equivalents are disclosed in Note 23.

6. Financial Instruments Held for Trading

Assets	**2005**	**2004**
Promissory notes	1,522,735	-
Debt securities of foreign governments	1,294,080	-
Federal loan bonds of the Russian Federation	216,083	67,875
Corporate bonds	77,919	30,324
Municipal bonds	10,986	45,526
Total financial assets held for trading	**3,121,803**	**143,725**

Liabilities	**2005**	**2004**
Derivative financial instruments	53,671	-
Total financial liabilities held for trading	**53,671**	**-**

Promissory notes are Rouble denominated bills of exchange issued by large Russian banks and companies publicly traded or quoted on the over-the-counter market, with maturities between 2006 and 2007. The yield to maturity on these promissory notes varied from 6% to 18%.

Debt securities of foreign governments represent US Dollar denominated securities issued by the Treasury of the USA, traded at discount with maturities between 2007 and 2012. The yield to maturity on these notes was 4%.

Federal loan bonds of the Russian Federation are Rouble denominated government securities issued and guaranteed by the Ministry of Finance of the Russian Federation, with maturities between 2006 and 2008. The annual coupon rates on these bonds varied from 6% to 10%.

Corporate bonds represent corporate bonds of large Russian companies, with maturities in 2007. The annual coupon rates on these bonds varied from 8% to 10%.

Municipal bonds are securities issued by the region of Moscow, with maturities in 2007. The annual coupon rates on these bonds were 11%.

(in thousands of Russian Roubles)

Geographical, currency, maturity and interest rate analyses of financial instruments held for trading are disclosed in Note 23.

7. Due from Banks and Other Financial Institutions

	2005	2004
Term placements with banks and other financial institutions	1,080,000	1,817,711
Accrued interest income	540	3,038
Less: Provision for impairment of amounts due from banks and other financial institutions	-	(2,985)
Total due from banks and other financial institutions	**1,080,540**	**1,817,764**

Movements in the provision for impairment of amounts due from banks and other financial institutions for the year:

	2005	2004
Provision for impairment of amounts due from banks and other financial institutions at the beginning of the year	**(2,985)**	**(5,858)**
Recovery of provision for impairment of amounts due from banks and other financial institutions during the year	-	2,873
Recovery of provision for impairment of amounts due from banks and other financial institutions due to decrease of shareholding in OJSC CB "KAMABANK" during the year	2,985	
Provision for impairment of amounts due from banks and other financial institutions at the end of the year	**-**	**(2,985)**

As at 31 December 2005, the Group had four counterparties (31 December 2004: five counterparties), whose balances exceeded RUR 100,000 thousand. The gross value of these balances as of 31 December 2005 was RUR 720,175 thousand or 66.6% of total balances due from banks and other financial institutions (31 December 2004: RUR 1,500,000 thousand or 82.5% of total balances due from banks and other financial institutions).

As at 31 December 2005, the estimated fair value of balances due from banks and other financial institutions was RUR 1,080,540 thousand (31 December 2004: RUR 1,817,764 thousand). Refer to Note 25.

Geographical, currency, maturity and interest rate analyses of due from banks and other financial institutions are disclosed in Note 23.

8. Loans and Advances to Customers

	2005	2004
Current loans	7,412,541	11,671,458
Overdue loans	820,729	717,778
Accrued interest income	205,906	128,549
Less: Provision for loan impairment	(665,580)	(980,303)
Total loans and advances to customers	**7,773,596**	**11,537,482**

(in thousands of Russian Roubles)

Movements in the provision for loan impairment for the year:

	2005	2004
Provision for loan impairment at the beginning of the year	**(980,303)**	**(1,087,438)**
Recovery of provision for loan impairment during the year	269,190	107,135
Recovery of provision for loan impairment due to decrease of shareholding in OJSC CB "KAMABANK" during the year	45,533	-
Provision for loan impairment at the end of the year	**(665,580)**	**(980,303)**

The Group has reviewed its current commercial loan portfolio as at 31 December 2005 and has identified loans with gross amount of RUR 476,204 thousand which have indications of impairment, and has recognised loan impairment for these loans of RUR 219,377 thousand. In respect of the remaining commercial loans, impairment of RUR 228,216 thousand has been recognised.

The Group has reviewed its current retail loan portfolio as at 31 December 2005 and has identified loans with gross amount of RUR 344,525 thousand which have overdue payments. Of this amount overdue RUR 86,588 thousand are less than 30 days overdue. The Group estimates loan impairment on its retail loan portfolio based on its past historical loss experience for these types of loans, portfolio delinquency and collection rates. Based on these factors the Group has provided RUR 217,987 thousand for retail loans.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment as of 31 December 2005 would be RUR 77,736 thousand lower/higher.

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

	2005		2004	
	Amount	**%**	**Amount**	**%**
Individuals	2,540,024	33%	3,827,727	33%
Energy and mining	2,091,131	27%	1,438,825	12%
Trade	1,081,943	14%	466,616	4%
Investment and financial companies	788,545	10%	3,905,563	34%
Manufacturing	500,824	6%	-	-
Local government authorities	272,280	4%	196,004	2%
Construction	191,856	2%	404,653	4%
Food industry	18,434	0%	-	-
Transport	2,388	0%	231,400	2%
Leasing	-	-	65,222	0%
Other	286,171	4%	1,001,472	9%
Total loans and advances to customers	**7,773,596**	**100%**	**11,537,482**	**100%**

As at 31 December 2005, the Group had four borrowers (31 December 2004: six borrowers) whose loan balances exceeded RUR 300,000 thousand. The gross value of these balances as of 31 December 2005 was RUR 1,613,710 thousand or 21% of the gross loan portfolio (31 December 2004: RUR 2,498,658 thousand or 23% of the gross loan portfolio).

As at 31 December 2005, the estimated fair value of loans and advances to customers was RUR 7,773,596 thousand (31 December 2004: RUR 11,537,482 thousand). Refer to Note 25.

(in thousands of Russian Roubles)

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 23.

9. Goodwill

Movements in goodwill for the year:

	2005 год	2004 год
Balance at the beginning of the year	**4,973**	**6,631**
Amortisation during the year	-	(1,658)
Disposal due to decrease of shareholding in OJSC CB "KAMABANK" during the year	(4,973)	-
Balance at the end of the year	**-**	**4,973**

10. Other Assets

	2005	2004
Trade debtors and prepayments	95,140	77,934
Tax prepayments	25,994	21,929
Less: Provision for impairment of other assets	-	(20,559)
Total other assets	**121,134**	**79,304**

As at 31 December 2005, the other assets of the Group included receivables of RUR 37,626 thousand from LLC "Financial and construction corporation "Zapsibinterstroy" in respect of an assignment agreement in respect of premises located in Surgut.

Movements in the provision for impairment of other assets for the year:

	2005	2004
Provisions for impairment of other assets at the beginning of the year	**(20,559)**	**(47,553)**
Recovery of provisions for impairment of other assets during the year	17,780	26,994
Recovery of provision for impairment of other assets due to decrease of shareholding in OJSC CB "KAMABANK" during the year	2,779	-
Provisions for impairment of other assets at the end of the year	**-**	**(20,559)**

Geographical, currency and maturity analyses of other assets are disclosed in Note 23.

(in thousands of Russian Roubles)

11. Property and Equipment

	Buildings	Vehicles	Computers	Office equipment	Intangible assets	Other equipment	Assets under construc-tion	Total
Book value at cost								
At 1 January 2005	208,977	21,432	95,918	30,127	15	55,002	7,775	419,246
Additions	-	5,779	7,117	21,907	-	1,787	3,047	39,637
Disposals due to decrease of shareholding in OJSC CB "KAMABANK"	(85,158)	(2,857)	(22,171)	(1,689)	-	-	-	(111,875)
Disposals	(1,126)	(2,051)	(2,185)	(1,038)	-	(3,834)	-	(10,234)
At 31 December 2005	**122,693**	**22,303**	**78,679**	**49,307**	**15**	**52,955**	**10,822**	**336,774**
Accumulated depreciation								
At 1 January 2005	3,774	5,888	43,830	6,188	4	20,099	-	79,783
Depreciation charge	2,474	5,309	18,325	3,074	1	10,706	-	39,889
Disposals due to decrease of shareholding in OJSC CB "KAMABANK"	(91)	(923)	(14,292)	(969)	-	-	-	(16,275)
Disposals	(152)	(1,329)	(929)	(421)	-	(2 626)	-	(5,457)
At 31 December 2005	**6,005**	**8,945**	**46,934**	**7,872**	**5**	**28,179**	**-**	**97,940**
Net book value as at 31 December 2005	**116,688**	**13,358**	**31,745**	**41,435**	**10**	**24,776**	**10,822**	**238,834**
Net book value as at 31 December 2004	**205,203**	**15,544**	**52,088**	**23,939**	**11**	**34,903**	**7,775**	**339,463**

12. Due to Banks and Other Financial Institutions

	2005	2004
Term deposits of banks and other financial institutions	300,000	1,759,869
Correspondent accounts and overnight placements of banks and other financial institutions	49	-
Accrued interest expense	419	1,267
Total due to banks and other financial institutions	**300,468**	**1,761,136**

As at 31 December 2005, the Group had two counterparties (31 December 2004: two counterparties), whose balances exceeded RUR 100 000 thousand. The gross value of these balances was RUR 300,419 thousand or approximately 100% of total balances due to banks and other financial institutions (31 December 2004: RUR 1,550,000 thousand or 88% of total balances due to banks and other financial institutions).

As at 31 December 2005, the estimated fair value of due to banks and other financial institutions was RUR 300,468 thousand (31 December 2004: RUR 1,761,136 thousand). Refer to Note 25.

Geographical, currency, maturity and interest rate analyses of due to banks and other financial institutions are disclosed in Note 23.

(in thousands of Russian Roubles)

13. Customer Accounts

	2005	2004
State and public organizations		
- Current/settlement accounts	17,732	25,092
- Term deposits	8,250	500
Other legal entities		
- Current/settlement accounts	4,944,159	7,658,255
- Term deposits	2,521,071	1,523,550
Individuals		
- Current/demand accounts	762,325	1,221,117
- Term deposits	1,273,053	1,747,781
Accrued interest expense	80,509	22,980
Total customer accounts	**9,607,099**	**12,199,275**

As at 31 December 2005, the Group had six clients (31 December 2004: ten clients) whose balances exceeded RUR 100,000 thousand. The gross value of these balances was RUR 2,893,852 thousand or 30% of total customer accounts (31 December 2004: RUR 5,625,238 thousand or 46% of total customer accounts).

As at 31 December 2005, the estimated fair value of customer accounts was RUR 9,607,099 thousand (31 December 2004: RUR 12,199,275 thousand). Refer Note 25.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 23.

14. Debt Securities Issued

	2005	2004
Promissory notes	3,235,488	3,465,854
Certificates of deposit	155,931	204,700
Accrued interest expense	103,651	33,475
Total debt securities issued	**3,495,070**	**3,704,029**

As at 31 December 2005, the estimated fair value of debt securities issued was RUR 3,495,070 thousand (31 December 2004: RUR 3,704,029 thousand). Refer to Note 25.

Geographical, currency, maturity and interest rate analyses of debt securities issued are disclosed in Note 23.

15. Other liabilities

	2005	2004
Payables	124,921	130,468
Tax payables	1,828	64,172
Other	7,275	11,554
Total other liabilities	**134,024**	**206,194**

(in thousands of Russian Roubles)

As at 31 December 2005, other liabilities included payables to the Municipal body of the city of Astrakhan of RUR 120,000 thousand. In 2003 the Group extended a loan to the Municipal body of the city of Astrakhan of RUR 120,000 thousand maturing on 7 February 2004. This loan was not repaid within the stipulated terms, and the Group took legal action against the debtor and the guarantors under the loan agreement in order to recover the principal amount and accrued interest. As a result, a lawsuit was concluded on 12 July 2004, in accordance with which obligations under the loan agreement were to be terminated by transfer of property to the Group as compensation.

However, in 2005 the Municipal body of the city of Astrakhan remitted funds in the amount of RUR 120,000 thousand to repay the loan. As the terms of the lawsuit were still valid, the Group recorded the funds received as payables. In 2006 the agreement set up as a result of the lawsuit were terminated and the funds were used in order repay the loan.

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 23.

16. Net Assets Attributable to Participants

	Charter capital	Retained earnings	Total
Balance at 31 December 2004 (restated)	**1,000,000**	**44,762**	**1,044,762**
Net profit for the year	-	572,479	572,479
Balance at 31 December 2005	**1,000,000**	**617,241**	**1,617,241**

Charter capital represents contributions made by the participants of the Group. The participants of the Group are entitled to vote at annual and general meetings of the Bank's participants proportionately to their contributions.

The Group's charter capital consists of registered units with a total value of RUR 1,000,000 thousand.

The Group's charter capital consists of the following contributions:

	2005		2004	
Name	**Amount**	**%**	**Amount**	**%**
LLC "Blaucent"	200,000	20.0%	198,000	19.8%
LLC "Denciborg"	200,000	20.0%	198,000	19.8%
LLC "Kinlaut"	200,000	20.0%	198,000	19.8%
LLC "Roleten"	200,000	20.0%	198,000	19.8%
LLC "Avtotransbureau"	200,000	20.0%	-	-
LLC "Parrison"	-	-	198,000	19.8%
LLC "MestInvest"	-	-	10,000	1.0%
Charter capital	**1,000,000**	**100.0%**	**1,000,000**	**100.0%**

Under the Russian legislation, each participant in a Russian limited liability company has the unilateral right to withdraw from the company, in which case the company would be obliged to pay such withdrawing participant's share of the net assets for the year of withdrawal but no later than six months after the end of the year of withdrawal.

(in thousands of Russian Roubles)

17. Distribution to Participants

In accordance with the Russian legislation, the Bank distributes profits as payments to participants or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules as at 31 December 2005 were RUR 244,139 thousand (31 December 2004: RUR 42,435 thousand).

18. Interest Income and Interest Expense

	2005	2004
Interest income		
Loans and advances to customers	1,540,668	1,554,339
Securities	47,348	24,058
Due from banks and other financial institutions	42,289	84,185
Total interest income	**1,630,305**	**1,662,582**
Interest expense		
Customer accounts	(290,594)	(127,204)
Debt securities issued	(146,628)	(177,273)
Due to banks and other financial institutions	(15,551)	(249,366)
Total interest expense	**(452,773)**	**(553,843)**
Net interest income	**1,177,532**	**1,108,739**

19. Fee and Commission Income and Fee and Commission Expense

	2005	2004
Fee and commission income		
Commissions on settlement transactions	336,837	297,604
Commissions on cash transactions	58,496	41,779
Commissions on guarantees	13,938	7,462
Commissions on cash collection	1,488	1,679
Other	23,306	48,771
Total fee and commission income	**434,065**	**397,295**
Fee and commission expense		
Commissions on settlement transactions	(12,877)	(6,904)
Commissions on cash collection	(5,244)	(4,053)
Commissions on cash transactions	(4,284)	(5,003)
Other	(1,185)	(2,475)
Total fee and commission expense	**(23,590)**	**(18,435)**
Net fee and commission income	**410,475**	**378,860**

(in thousands of Russian Roubles)

20. Operating Expenses

	2005	2004 (restated)
Staff costs	861,903	823,453
Rent	113,585	128,382
Taxes other than on income	58,609	62,965
Other expenses related to property and equipment	79,600	62,081
Depreciation	39,889	37,724
Security	34,010	39,215
Property insurance	25,000	-
Postal and courier services	24,012	23,544
Advertising	15,352	31,452
Professional services	9,428	8,384
Travel expenses	7,692	8,166
Office supplies	3,251	3,047
Other expenses related to administrative personnel	2,366	4,562
Other expenses	37,619	105,889
Total operating expenses	**1,312,316**	**1,338,864**

21. Other Operating Income

	2005	2004 (restated)
Penalties and charges received	13,373	6,506
Income from rent	1,561	782
Other	4,463	10,386
Total other operating income	**19,397**	**17,674**

22. Income Tax Expense

Income tax expense comprises the following.

	2005	2004 (restated)
Current tax charge	77,808	224,127
Deferred taxation movement due to origination and reversal of temporary differences	148,536	(213,559)
Income tax expense for the year	**226,344**	**10,568**

The income tax rate applicable to the majority of the Group's income is 24% (2004: 24%).

(in thousands of Russian Roubles)

Reconciliation between the expected and the actual taxation charge is provided below.

	2005	2004 (restated)
IFRS profit before tax	**798,823**	**336,832**
Theoretical tax charge at the applicable statutory rate (2005: 24%; 2004: 24%)	**191,718**	**80,840**
Tax effect of items which are not deductible or assessable for taxation purposes, and other permanent differences	37,804	(69,187)
Income on government securities taxed at different rates	(3,178)	(1,085)
Income tax expense for the year	**226,344**	**10,568**

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

	2004 (restated)	Movement	2005
Tax effect of deductible temporary differences			
Provision for loan impairment	127,729	(107,738)	19,991
Property and equipment – depreciation	3,385	845	4,230
Accrued expenses	2,400	(183)	2,217
Fair valuation of financial instruments held for trading	240	15,978	16,218
Fair valuation of debt securities issued at origination	-	11,359	11,359
Fair valuation of loans and advances to customers at origination	72,039	(72,039)	-
Accrued income	14,977	(9,562)	5,415
Other	3,628	(1,611)	2,017
Gross deferred tax assets	**224,398**	**(162,951)**	**61,447**
Tax effect of taxable temporary differences			
Provision for impairment of other assets	(17,942)	17,942	-
Property and equipment - cost	(673)	(3,527)	(4,200)
Gross deferred tax liabilities	**(18,615)**	**14,415**	**(4,200)**
Total net deferred tax assets	**205,783**	**(148,536)**	**57,247**

23. Financial Risk Management

The risk management function within the Bank 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 Bank 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 Bank 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 Credit Committee of the Bank.

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

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

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

(in thousands of Russian Roubles)

Geographical risk

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

	Russia	Countries-members of OECD	Countries non-members OECD	Total
Assets				
Cash and cash equivalents	2,638,993	6,146	2	2,645,141
Mandatory cash balances with the CBRF	169,278	-	-	169,278
Financial assets held for trading	1,827,723	1,294,080	-	3,121,803
Due from banks and other financial institutions	1,080,540	-	-	1,080,540
Loans and advances to customers	7,773,596	-	-	7,773,596
Other assets	121,134	-	-	121,134
Property and equipment	238,834	-	-	238,834
Deferred tax assets	57,247	-	-	57,247
Total assets	**13,907,345**	**1,300,226**	**2**	**15,207,573**
Liabilities except for net assets attributable to participants				
Financial liabilities held for trading	53,671	-	-	53,671
Due to banks and other financial institutions	300,468	-	-	300,468
Customer accounts	9 087,989	489,464	29,646	9,607,099
Debt securities issued	3 495,070	-	-	3,495,070
Other liabilities	134,024	-	-	134,024
Total liabilities except for net assets attributable to participants	**13,071,222**	**489,464**	**29,646**	**13,590,332**
Net balance sheet position	**836,123**	**810,762**	**(29,644)**	**1,617,241**
Credit related commitments	**1,139,012**	**-**	**-**	**1,139,012**

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

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

	Russia	Countries-members of OECD	Countries non-members OECD	Total
Net balance sheet position (restated)	**1,348,175**	**122,274**	**(413,081)**	**1,057,368**
Credit related commitments	**1,711,020**	**-**	**-**	**1,711,020**

(in thousands of Russian Roubles)

Currency risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Finance committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2005. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet gap represents the difference between the notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the Bank's exposure to currency movements, and their fair values.

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

	RUR	USD	Euro	Other currencies	Total
Assets					
Cash and cash equivalents	2,629,495	8,658	6,986	2	**2,645,141**
Mandatory cash balances with the CBRF	169,278	-	-	-	**169,278**
Financial assets held for trading	1,827,723	1,294,080	-	-	**3,121,803**
Due from banks and other financial institutions	1,080,540	-	-	-	**1,080,540**
Loans and advances to customers	6,996,280	763,283	14,033	-	**7,773,596**
Other assets	116,139	3,587	1,408	-	**121,134**
Property and equipment	238,834	-	-	-	**238,834**
Deferred tax assets	57,247	-	-	-	**57,247**
Total assets	**13,115,536**	**2,069,608**	**22,427**	**2**	**15,207,573**
Liabilities except for net assets attributable to participants					
Financial liabilities held for trading	53,655	16	-	-	**53,671**
Due to banks and other financial institutions	300,451	2	15	-	**300,468**
Customer accounts	7,473,878	2,077,686	55,535	-	**9,607,099**
Debt securities issued	3,495,070	-	-	-	**3,495,070**
Other liabilities	129,693	4,329	2	-	**134,024**
Total liabilities except for net assets attributable to participants	**11,452,747**	**2,082,033**	**55,552**	**-**	**13,590,332**
Net balance sheet position	**1,662,789**	**(12,425)**	**(33,125)**	**2**	**1,617,241**
Credit related commitments	**1,133,256**	**5,756**	**-**	**-**	**1,139,012**
Off-balance sheet net notional position	**(14,391)**	**14,391**	**-**	**-**	**-**

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

	RUR	USD	Euro	Other currencies	Total
Net balance sheet position (restated)	**853,949**	**199,549**	**3,769**	**101**	**1,057,368**
Credit related commitments	**1,670,281**	**39,593**	**1,146**	**-**	**1,711,020**
Off-balance sheet net notional position	**151**	**(151)**	**-**	**-**	**-**

The off-balance sheet net notional position represents notional currency positions on derivative financial instruments entered into at 31 December 2005.

Liquidity risk

Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Bank 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. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset/Liability Committee of the Bank.

(in thousands of Russian Roubles)

The table below shows assets and liabilities of the Group as at 31 December 2005 by their remaining contractual maturity except for financial instruments held for trading. Some of the assets, 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.

	Demand and less than 1 month	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**No stated maturity**	**Total**
Assets						
Cash and cash equivalents	2,645,141	-	-	-	-	**2,645,141**
Mandatory cash balances with the CBRF	101,567	23,699	10,157	33,855	-	**169,278**
Financial assets held for trading	3,121,803	-	-	-	-	**3,121,803**
Due from banks and other financial institutions	1,080,540	-	-	-	-	**1,080,540**
Loans and advances to customers	907,031	1,464,618	1,753,698	3,648,249	-	**7,773,596**
Other assets	121,134	-	-	-	-	**121,134**
Property and equipment	-	-	-	-	238,834	**238,834**
Deferred tax assets	-	-	-	-	57,247	**57,247**
Total assets	**7,977,216**	**1,488,317**	**1,763,855**	**3,682,104**	**296,081**	**15,207,573**
Liabilities except for net assets attributable to participants						
Financial liabilities held for trading	52,751	920	-	-	-	**53,671**
Due to banks and other financial institutions	300,468	-	-	-	-	**300,468**
Customer accounts	5,743,018	1,334,617	597,670	1,931,794	-	**9,607,099**
Debt securities issued	630,709	918,659	1,444,313	501,389	-	**3,495,070**
Other liabilities	120,000	14,024	-	-	-	**134,024**
Total liabilities except for net assets attributable to participants	**6,846,946**	**2,268,220**	**2,041,983**	**2,433,183**	**-**	**13,590,332**
Net gap	**1,130,270**	**(779,903)**	**(278,128)**	**1,248,921**	**296,081**	**1,617,241**
Cumulative gap as at 31 December 2005	**1,130,270**	**350,367**	**72,239**	**1,321,160**	**1,617,241**	**-**
Cumulative gap as at 31 December 2004 (restated)	**(1,475,037)**	**(3,616,748)**	**(2,181,693)**	**(261,712)**	**1,057,368**	**-**

Management of the Bank believes that in spite of a substantial portion of current and settlement customer accounts, diversification of these accounts by number and type of customers, and the past experience of the Bank would indicate that in normal circumstances these customer accounts provide a long-term and stable source of funding for the Bank.

Financial instruments held for trading are classified within demand and less than one month as these financial instruments are of a trading nature and the management believes this is a fairer portrayal of the Bank's liquidity position. As at 31 December 2005, the contractual maturities of financial instruments held for trading were as follows: RUR 50,418 thousand in "Demand and less than 1 month", RUR 641,874 thousand in "From 1 to 6 months", RUR 823,540 thousand in "From 6 to 12 months", RUR 1,605,971 thousand in "More than 1 year".

Mandatory cash balances with the CBRF are classified in proportion to liabilities, to which these balances relate.

(in thousands of Russian Roubles)

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

Interest rate risk

The Bank 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 Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The table below summarises the effective interest rates by major currencies for major monetary financial instruments. The analysis has been prepared based on period-end effective rates used for amortisation of the respective assets/liabilities as adjusted for remeasurement of the effect of non market interest rates at origination.

	2005			**2004**		
	RUR	**USD**	**Other currencies**	**RUR**	**USD**	**Other currencies**
Assets						
Financial instruments held for trading	8.0%	4.4%	-	8-14%	-	-
Due from banks and other financial institutions	4.9%	-	-	4.0%	4.0%	-
Loans and advances to customers	14.5%	14.2%	14.1%	16.4%	16.0%	16.0%
Liabilities						
Due to banks and other financial institutions	6.3%	-	-	4.0%	2.0%	-
Customer accounts	2.7%	7.9%	4.8%	2-12.5%	3.0%	1.0%
Debt securities issued	9.1%	-	-	6.0%	-	-

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

24. Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings

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

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its property and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Tax contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

In 2005 tax inspections in respect of the income tax base for 2004 and unified social tax base for 2002-2004 were carried out in the Bank. As a result of these tax inspections it was asserted that income tax for 2004 was understated by RUR 2,607 thousand and unified social tax was understated by RUR 176 thousand. The Bank is currently in the process of litigating the results of tax inspections in a court case. On the basis of its own estimates, the management of the Bank is of the opinion that proceedings under these claims will have a positive outcome and accordingly no provision has been made in these consolidated financial statements.

Credit related commitments

The primary purpose of credit related commitments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

(in thousands of Russian Roubles)

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	2005	**2004**
Unused limits of credit lines	600,110	1,043,421
Guarantees issued	537,942	680,705
Letters of credit	960	1,987
Less provision for credit related commitments	-	(15,093)
Total credit related commitments	**1,139,012**	**1,711,020**

The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

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

Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under non cancellable operating leases are as follows.

	2005	**2004**
Not later than 1 year	113,822	126,425
Later than 1 year and not later than 5 years	202,948	64,472
Total operating lease commitments	**316 770**	**190,897**

During the current year RUR 113,585 thousand was recognised as an expense in the consolidated statement of income in respect of operating leases (2004: RUR 128,382 thousand).

Fiduciary assets

The Group provides custody services to its customers, whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognized in the consolidated balance sheet.

(in thousands of Russian Roubles)

Derivative financial instruments

Foreign exchange and other derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions.

The principal amounts of certain types of financial instruments provide a basis for comparison with instruments recorded on the consolidated balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or principal amount of derivative financial instruments on hand, the extent to which instruments have favourable or unfavourable conditions and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The principal or agreed amounts and fair values of derivative instruments held are set out in the following table. This table reflects the gross position before the netting of any counterparty position by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2005. These contracts were entered into in December 2005 with domestic counterparties and are short term in nature.

	Principal or agreed amount	Negative fair value	Positive fair value
Deliverable forwards			
Foreign currency			
- purchase of foreign currency	14,391	16	-
Securities			
- sale of securities	454,480	53,655	-
Total	**468,871**	**53,671**	**-**

25. Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair value 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 market. Market quotations may not be reflective of the values for financial instruments, which would be determined in an efficient, active market involving willing buyers and willing sellers. While management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Cash and cash equivalents, financial instruments held for trading. Cash and cash equivalents, as well as financial instruments held for trading are carried on the consolidated balance sheet at their fair value.

(in thousands of Russian Roubles)

Due from banks and other financial institutions, loans and advances to customers. 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 7 and 8 for the estimated fair values of due from banks and other financial institutions and loans and advances to customers, respectively.

Due to banks and other financial institutions, customer accounts and debt securities issued. The estimated fair value of instruments with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest rate instruments without a quoted market price is based on expected cash flows discounted at current interest rates for new instruments with similar remaining maturity. Refer to Notes 12, 13, and 14 for the estimated fair values of due to banks and other financial institutions, customer accounts and debt securities issued, 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. The fair value of derivative financial instruments is disclosed in Note 24.

The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for a similar instruments at the balance sheet date.

26. Related Party Transactions

The Bank has no ultimate controlling participant, as none of the ultimate participants owns more than 50% of charter capital.

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 *"Related Party Disclosures"*. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Banking transactions are entered into in the normal course of business with the participants of the Bank, members of the Board of Directors and the Management Board, entities, which are under common control with the Bank, and other entities, which are significantly influenced by the Bank's participants, members of the Board of Directors and the Management Board of the Bank. These transactions include settlements, loans and deposits taking. The outstanding balances as at the year end and income and expense items as well as other transactions for the year with related parties are as follows.

	2005	**2004**
	Members of the Board of Directors and the Management Board	**Members of the Board of Directors and the Management Board**
Loans and advances to customers		
Loans and advances (contractual interest rate: 2004: 13-19%)	-	28,504
Provision for loan impairment	-	(860)
Interest income for the year	5	3,742
Customer accounts		
Term deposits (contractual interest rate: 2005: 6.2%)	96,787	-
Current accounts		237
Interest expense for the year	4,055	-
Debt securities issued		
Promissory notes (contractual interest rate: 2005: 5.5%)	1,110	-
Interest expense for the year	18	-

(in thousands of Russian Roubles)

In 2005 the total remuneration of members of the Board of Directors and the Management Board of the Group amounted to RUR 485,251 thousand (2004: RUR 462,200 thousand).

27. Restatement of Comparative Information

In the preparation of the consolidated financial statements for the year ended 31 December 2005, management of the Group identified that errors had been made in the consolidated financial statements for the year ended 31 December 2004 as follows:

- A deferred tax asset of RUR 205,783 thousand was not recorded in the consolidated financial statements for the year ended 31 December 2004. As a result, income tax expense for 2004 was overstated by RUR 205,783 thousand. Net profit for 2004 and net assets attributable to participants as at 31 December 2004 were understated by RUR 205,783 thousand.
- In Note 8 of the 2004 consolidated financial statements, it was stated that there was a recovery of provision for loan impairment for 2004 of RUR 107,135 thousand. However, in the consolidated statement of income a provision for loan impairment was recorded of RUR 7,557 thousand. The balancing amount was recorded in the consolidated statement of income as impairment losses other than loan impairment. As a result, recovery of provision for loan impairment for 2004 was understated by RUR 114,692 thousand and impairment losses other than loan impairment for 2004 were understated by the same amount. This error had no effect on profit before tax, net profit for 2004, and net assets attributable to participants as at 31 December 2004.
- Other operating income and operating expenses for 2004 mistakenly included income and expenses in respect of inter branch transactions of RUR 550,013 thousand. As a result, other operating income and operating expenses for 2004 were both overstated by RUR 550,013 thousand. This error had no effect on profit before tax, net profit for 2004, and net assets attributable to participants as at 31 December 2004.

In preparing the consolidated financial statements for the year ended 31 December 2005, management of the Group have restated the comparative financial information for the year ended 31 December 2004.

In respect of the error in deferred tax, the impact of the adjustments made is outlined below:

	2004
Consolidated balance sheet	
Deferred tax asset as previously reported	-
Restatement required	205,783
Restated deferred tax asset	**205,783**
Total assets as previously reported	18,722,219
Restatement required	205,783
Restated total assets	**18,928,002**
Net assets attributable to participants as previously reported	838,979
Restatement required	205,783
Restated net assets attributable to participants	**1,044,762**
Total liabilities as previously reported	18,722,219
Restatement required	205,783
Restated total liabilities	**18,928,002**

(in thousands of Russian Roubles)

Consolidated statement of income

Recovery of/(charge for) provision for loan impairment as previously reported	(7,557)
Restatement required	114,692
Restated recovery of/(charge for) provision for loan impairment	**107,135**
Recovery of provision for impairment other than loan impairment as previously reported	144,559
Restatement required	(114,692)
Restated recovery of provision for impairment other than loan impairment	**29,867**
Other operating income as previously reported	567,687
Restatement required	(550,013)
Restated other operating income	**17,674**
Operating expenses as previously reported	1,888,877
Restatement required	(550,013)
Restated operating expenses	**1,338,864**
Income tax expense as previously reported	216,351
Restatement required	(205,783)
Restated income tax expense	**10,568**
Net profit as previously reported	120,481
Restatement required	205,783
Restated net profit	**326,264**
Net profit attributable to participants as previously reported	113,765
Restatement required	205,783
Restated net profit attributable to participants	**319,548**