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AUDITORS' REPORT

To the Managing Board of ZAO Raiffeisenbank Austria:

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

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

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

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
17 April 2006

ZAO Raiffeisenbank Austria
Consolidated Balance Sheet

In thousands of Russian Roubles	Note	31 December 2005	31 December 2004
ASSETS			
Cash and cash equivalents	7	12 229 981	9 766 127
Mandatory cash balances with the Central Bank of the Russian Federation		3 149 331	2 352 563
Trading securities	8	7 241 692	4 014 904
Due from other banks	9	12 763 109	4 445 564
Loans and advances to customers	10	94 952 627	58 838 427
Premises and equipment	11	2 190 705	1 166 704
Other assets	12	2 594 964	1 233 510
TOTAL ASSETS		**135 122 409**	**81 817 799**
LIABILITIES			
Due to other banks	13	42 633 635	17 384 394
Customer accounts	14	69 898 354	46 995 171
Other borrowed funds	15	6 757 007	9 862 693
Other liabilities	16	1 152 339	423 765
TOTAL LIABILITIES		**120 441 335**	**74 666 023**
EQUITY			
Share capital	17	13 439 307	8 039 795
Share premium	17	155 566	10 758
Additional paid-in capital	17	1 212 488	1 212 488
Accumulated deficit		(126 287)	(2 111 265)
TOTAL EQUITY		**14 681 074**	**7 151 776**
TOTAL LIABILITIES AND EQUITY		**135 122 409**	**81 817 799**

Approved for issue and signed on behalf of the Managing Board on 17 April 2006.

Johann Jonach
President

Elena Soukhoveeva
Finance Director

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Consolidated Income Statement

In thousands of Russian Roubles	Note	2005	2004
Interest income	18	7 584 191	3 745 709
Interest expense	18	(2 690 578)	(1 255 113)
Net interest income		**4 893 613**	**2 490 596**
Provision for loan impairment	10	(1 491 923)	(160 579)
Net interest income after provision for loan impairment		**3 401 690**	**2 330 017**
Fee and commission income	19	1 481 761	1 051 928
Fee and commission expense	19	(325 447)	(539 699)
Gains less losses from trading securities		118 421	85 992
Gains less losses from trading in foreign currencies		518 539	1 154 392
Gains less losses from interest rate derivatives		39 079	6 237
Foreign exchange translation gains less losses		1 053 365	(472 220)
Other provisions	24	(113 369)	(95 012)
Other operating income		36 324	15 285
Operating income		**6 210 363**	**3 536 920**
Administrative and other operating expenses	20	(3 153 549)	(1 589 041)
Operating profit		**3 056 814**	**1 947 879**
Share of profit of associate after tax	12	24 428	60 859
Profit before tax		**3 081 242**	**2 008 738**
Income tax expense	21	(790 352)	(453 415)
Profit		**2 290 890**	**1 555 323**

Consolidated Statement of Cash Flows

In thousands of Russian Roubles	Note	2005	2004
Cash flows from operating activities			
Interest received		7 457 433	3 984 259
Interest paid		(2 471 290)	(1 233 655)
Fees and commissions received		1 481 761	1 050 191
Fees and commissions paid		(325 447)	(539 301)
Gains arising from trading securities		132 476	7 290
Income received from trading in foreign currencies		526 484	1 181 702
Net interest (paid)/received on interest rate derivatives		(40 998)	18 890
Other operating income received		30 310	15 099
Operating expenses paid		(2 800 167)	(1 401 964)
Income tax paid		(824 101)	(559 443)
Cash flows from operating activities before changes in operating assets and liabilities		**3 166 461**	**2 523 068**
Changes in operating assets and liabilities			
Net (increase)/decrease in mandatory cash balances with the CBRF		(796 768)	690 436
Net increase in trading securities		(3 226 756)	(1 784 223)
Net (increase)/decrease in due from other banks		(8 191 088)	132 693
Net increase in loans and advances to customers		(35 291 127)	(28 611 170)
Net increase in other assets		(1 044 782)	(794 919)
Net increase/(decrease) in due to other banks		24 281 875	(5 916 781)
Net increase in customer accounts		22 703 872	20 147 317
Net increase in other liabilities		202 027	82 958
Net cash from/(used in) operating activities		**1 803 714**	**(13 530 621)**
Cash flows from investing activities			
Acquisition of premises and equipment		(1 202 552)	(521 638)
Net cash used in investing activities		**(1 202 552)**	**(521 638)**
Cash flows from financing activities			
Receipt of other borrowed funds		1 696 044	8 013 733
Repayment of other borrowed funds		(5 160 978)	(128 054)
Share issue	17	5 544 320	941 466
Dividends paid	22	(305 912)	–
Net cash from financing activities		**1 773 474**	**8 827 145**
Effect of exchange rate changes on cash and cash equivalents		**89 218**	**(398 883)**
Net increase/(decrease) in cash and cash equivalents		**2 463 854**	**(5 623 997)**
Cash and cash equivalents as at the beginning of the year		9 766 127	15 390 124
Cash and cash equivalents as at the end of the year	7	**12 229 981**	**9 766 127**

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Consolidated Statement of Changes in Equity

In thousands of Russian Roubles	Note	Share capital	Share premium	Additional paid-in capital	Accumulated deficit	Total equity
Previously reported balance as at 31 December 2003		**4 859 993**	**–**	**883 635**	**(1 117 121)**	**4 626 507**
Effect of change of functional currency (Note 5)		2 249 094	–	328 853	(2 549 467)	28 480
Adjusted balance as at 31 December 2003		**7 109 087**	**–**	**1 212 488**	**(3 666 588)**	**4 654 987**
Profit for the year		–	–	–	1 555 323	1 555 323
Share issue	17	930 708	10 758	–	–	941 466
Balance as at 31 December 2004		**8 039 795**	**10 758**	**1 212 488**	**(2 111 265)**	**7 151 776**
Profit for the year		–	–	–	2 290 890	2 290 890
Share issue	17	5 399 512	144 808	–	–	5 544 320
Dividends	22	–	–	–	(305 912)	(305 912)
Balance as at 31 December 2005		**13 439 307**	**155 566**	**1 212 488**	**(126 287)**	**14 681 074**

Notes to the Consolidated Financial Statements — 31 December 2005

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005 for ZAO Raiffeisenbank Austria (the «Bank») and its wholly owned subsidiaries, Non state Pension Fund Raiffeisen and OOO UK Raiffeisen Capital (together the «Group»).

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

The Bank is owned by Raiffeisen International Bank-Holding AG and Reiffeisen-Invest-Gesellschaft m.b.H., subsidiaries of Reiffeisen Zentralbank Österreich AG (the «Parent Bank»), which is the ultimate controlling party of the Group.

Principal activity. The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation («CBRF») since 1996. The Bank operates in all banking sectors of the Russian financial markets, including interbank, investments, corporate and retail banking, and provides a complete range of banking services to its clients. In addition, the Group, through operations of its investees, is also involved in asset management, pension and leasing business. On 2 February 2005 the Bank was accepted to the state deposit insurance scheme, introduced by the Federal law #177-FZ «Deposits of individuals insurance in Russian Federation» dated 23 December 2003. The state deposit insurance scheme implies that the State Deposit Insurance Agency will guarantee repayment of individual deposits up to RR 100 thousand (approximately US Dollars 3 thousand) per individual in case of the withdrawal of a license of a bank or a CBRF imposed moratorium on payments.

As at 31 December 2005 the Bank had 4 (2004: 1) branches within the Russian Federation and 22 (2004: 16) outlets and offices in Moscow and Saint Petersburg.

Registered address and place of business. The Bank's registered address is: 17/1 Troitskaya Str., 129090 Moscow, Russian Federation.

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

2 *Operating Environment of the Group*

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

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Basis of Preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards («IFRS») under the historical cost convention, as modified by the revaluation of financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5 for the details of adoption of new or revised standards and interpretations.

3 *Basis of Preparation and Significant Accounting Policies*

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

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

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

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

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

Associates. Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recorded at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated income statement, and its share of post-acquisition movements in reserves is recorded in reserves. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not record further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

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

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

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

Valuation techniques such as discounted cash flows 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 significantly different profit, income, total assets or total liabilities.

Amortised cost is the amount at which the financial instrument was recorded at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount, are not presented separately and are included in the carrying values of related consolidated balance sheet items.

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The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

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

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention («regular way» purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial instrument. All other purchases and sales are recorded on the settlement date with the change in value between the commitment date and settlement date not recorded for assets carried at cost or amortised cost; recorded in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss; and recorded in equity for assets classified as available for sale.

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

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

Trading securities. Trading securities are securities, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within six months.

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

Investment securities at fair value through profit or loss. Investment securities at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

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

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

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

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

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

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

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

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

Credit related commitments. In the normal course of business, the Group enters into credit related commitments, including letters of credit and guarantees. Commitments to provide loans at a below-market interest rate are initially recognised at fair value, and subsequently measured at the higher of (i) the unamortized balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Specific provisions are recorded against other credit related commitments when losses are considered more likely than not.

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

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

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Securities lent to counterparties are retained in the consolidated financial statements in their original consolidated balance sheet category unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value in other borrowed funds.

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. Investment securities held to maturity are carried at amortised cost.

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

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

Construction in progress is carried at cost, restated to the equivalent purchasing power of the Russian Rouble as at 31 December 2002 for assets acquired prior to 1 January 2003, less provision for impairment where required. Upon completion, assets are transferred to premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

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

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

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

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

Premises 2.5% per annum; and
Equipment 15-20% per annum.
Leasehold improvements — over the term of the underlying lease.

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

Computer software. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, eg its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives (usually four years).

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

Due to other banks and other borrowed funds. Amounts due to other banks and other borrowed funds are recorded when money or other assets are advanced to the Group by counterparties. The non-derivative liability is carried at amortised cost. If the Group purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

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

Promissory notes issued. Promissory notes issued by the Group, included in other liabilities, are stated at amortised cost. If the Group purchases its own promissory note, 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.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps are carried at their fair value.

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

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

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

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

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

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

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

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

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

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

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

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recorded as income when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate as the other participants.

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

Foreign currency translation. Functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Bank's and its subsidiaries' functional and presentational currency is the national currency of the Russian Federation, Russian Roubles («RR»). Refer to Note 5 for the information on change of the functional currency of the Bank.

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

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

Fiduciary assets. Assets and liabilities held by the Group in its own name, but on the account of third parties, are not reported on the consolidated balance sheet. The extent of such balances and transactions is indicated in Note 24. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

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

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

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

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

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current year.

The Group has not reclassified any financial asset to a category measured at amortised cost rather than fair value during 2005 (2004: nil).

These consolidated financial statements were approved for issue on 17 April 2006 and further changes require approval of the body that gave that authorisation.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

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

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values. Changing the assumptions not supported by observable market data to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 24.

Related party transactions. In the normal course of business the Group enters into transactions with its related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

Going concern. Management prepared these consolidated financial statements on a going concern basis. In making this judgement management considered current intentions, profitability of operations and access to financial resources.

5 Adoption of New or Revised Standards and Interpretations

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

IAS 1 (revised 2003) «Presentation of Consolidated Financial Statements». Certain new disclosures and changes in presentation required by the revised standard were made in these consolidated financial statements.

IAS 16 (revised 2003) «Property, Plant and Equipment». The residual value is now defined as the amount that the Group estimates it would receive currently for the asset if the asset were already of the age and in the condition expected at the end of its useful life. The Group's policy is now not to cease depreciating assets during temporary periods when the assets are idle. The Group now derecognises the carrying amount of a component of premises and equipment which has been replaced and capitalises the cost of the replacement. The previous version of IAS 16 did not extend its derecognition principle to components; rather, its recognition principle for subsequent expenditures effectively precluded the cost of a replacement from being capitalised. All changes to accounting policies as a result of the revised IAS 16 were accounted for retrospectively and did not result in a significant effect on the carrying amount of the Group's assets.

IAS 17 (revised 2003) «Leases». Initial direct costs incurred in negotiating a finance lease are now deferred as part of the net investment in the lease. Finance leases are now recognised at commencement based on values measured at inception. Commencement is when the lessee can start using the leased asset. Inception is the earlier of the date of the lease agreement and the date of commitment to the principal provisions of the lease. The revised IAS 17 is applied retrospectively to all leases in accordance with the transitional provisions of the standard.

IAS 21 (revised 2003) «The Effects of Changes in Foreign Exchange Rates». The notion of 'reporting currency' has been replaced with two notions: functional currency and presentation currency. Functional currency is the currency of the primary economic environment in which the entity operates. Presentation currency is the currency in which financial statements are presented. In determination of the functional currency the revised IAS 21 gives greater emphasis on the currency of the economy that determines the pricing of transactions, as opposed to the currency in which transactions are denominated.

Previously the Group used US Dollar as the measurement currency of the Group's entities. Under the revised IAS 21 the Group has determined that the functional currency of the Group's entities should be Russian Rouble since it is (i) the currency that mainly influences sales prices for services provided by the Group, (ii) the currency of the Russian Federation, the country whose competitive forces and regulations mainly determine the sales prices of services provided by the Group, and (iii) the currency that mainly influences labour and other costs of services provided by the Group. In accordance with requirements of the revised IAS 21 the Group has applied change from US Dollar measurement currency to Russian Rouble functional currency retrospectively with the adjustments made to the equity as at 1 January 2004. The effect of application of the revised IAS 21 is detailed below.

In thousands of Russian Roubles	*Adjustment as at 31 December 2004*	*2003*
Equity as previously reported	***7 079 998***	***4 626 507***
Adjustment to premises and equipment	*90 749*	*39 190*
Adjustment to net deferred tax asset	*(21 780)*	*(9 406)*
Adjustment to other assets	*2 809*	*(1 304)*
Adjusted equity	***7 151 776***	***4 654 987***

In thousands of Russian Roubles	*Adjustment for the year ended 31 December 2004*
Profit as previously reported	***1 906 437***
Foreign exchange translation gains less losses	*(333 534)*
Administrative and other operating expenses	*(32 187)*
Other	*(4 712)*
Income tax expense	*19 319*
Adjusted profit	***1 555 323***

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

IAS 32 (revised 2003) «Financial Instruments: Disclosure and Presentation». The Group amended its policies to classify as liabilities puttable shares and similar instruments previously classified as equity or compound instruments. Additional disclosures required by the revised Standard were made in these consolidated financial statements.

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

The Group amended its policies for derecognition of financial assets. Under the original IAS 39, several concepts governed derecognition. The revised IAS 39 retains the two main concepts of risks and rewards and control, but clarifies that the evaluation of the transfer of risks and rewards precedes the evaluation of the transfer of control. The Group now applies the guidance added to IAS 39 on how to determine fair values using valuation techniques and how to evaluate impairment in a group of loans, receivables or held-to-maturity investments which cannot yet be identified with any individual asset in the group. In accordance with the standard's transitional provisions the revised accounting policies are applied retrospectively except for the clarified derecognition rules which are applied prospectively from 1 January 2004. Although allowed by the standard, the Group has not redesignated any financial instrument into 'at fair value through profit or loss' or 'available for sale' categories at the date of initial application of the revised IAS 39.

Effect of Adoption of New or Revised Standards. The effect of adoption of the above new or revised standards and interpretations on the Group's financial position as at 31 December 2005 and 31 December 2004 and on the results of its operations for the years then ended was not significant except for effect of applying the revised IAS 21.

6 New Accounting Pronouncements

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

IFRIC 4 Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

IAS 39 (Amendment) — The Fair Value Option (effective from 1 January 2006). IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recorded in profit or loss ('fair value through profit or loss'). The amendment changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category. The Group's policy is not to voluntarily designate assets and liabilities as at fair value through profit or loss, except for that from time to time it may designate to this category certain securities. The Group believes that these instruments meet the definition of 'at fair value through profit or loss' category as restricted by the amendment to IAS 39.

IAS 39 (Amendment) — Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss.

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

IFRS 7 «Financial Instruments: Disclosures» and a complementary Amendment to IAS 1 «Presentation of Financial Statements» — Capital Disclosures (effective from 1 January 2007). The IFRS introduces new disclosures to improve the information about financial instruments. It replaces IAS 30 «Disclosures in the Financial Statements of Banks and Similar Financial Institutions» and some of the requirements in IAS 32 «Financial Instruments: Disclosure and Presentation». The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Group is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its consolidated financial statements.

Other new standards or interpretations. The Group has not early adopted the following other new standards or interpretations: IAS 19 «Employee Benefits» (Amendment) — Actuarial Gains and Losses, Group Plans and Disclosures, IAS 21 (Amendment) — Net Investment in a Foreign Operation, the new IFRIC interpretations 5 to 9 and the new standard IFRS 6 «Exploration for and Evaluation of Mineral Resources» including related subsequent corrections to it and to IFRS 1.

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

Financial Statements

7 Cash and Cash Equivalents

In thousands of Russian Roubles	2005	2004
Cash on hand	3 767 314	2 953 572
Cash balances with the CBRF (other than mandatory cash balances)	5 792 811	4 417 121
Correspondent accounts and overnight placements with other banks		
– Russian Federation	844 222	1 327 276
– Other countries	1 825 634	1 068 158
Total cash and cash equivalents	**12 229 981**	**9 766 127**

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 23. The information on related party balances is disclosed in Note 27.

8 Trading Securities

In thousands of Russian Roubles	2005	2004
Corporate bonds	6 701 563	1 681 987
Municipal bonds	205 709	737 755
Russian Federation Eurobonds	275 987	783 596
CBRF bonds	–	488 155
Other	58 433	323 411
Total trading securities	**7 241 692**	**4 014 904**

Corporate bonds are interest bearing securities denominated in Russian Roubles, issued by large Russian companies, and are freely tradable in the Russian Federation. These bonds have maturity dates ranging from 2006 to 2014 (2004: from 2005 to 2010), coupon rates of approximately 6%-15% (2004: 5%-15%) in 2005 and a yield to maturity from 7% to 16% (2004: from 7% to 16%) as at 31 December 2005, depending on the type of bond issue.

Geographical, currency and interest rate analyses of trading securities are disclosed in Note 23.

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

9 Due from Other Banks

In thousands of Russian Roubles	2005	2004
Term placements with other banks	12 077 645	3 660 470
Reverse sale and repurchase agreements with other banks	685 464	785 094
Total due from other banks	**12 763 109**	**4 445 564**

As at 31 December 2005 the Group held legal title for securities with a total fair value of RR 806 450 thousand (2004: RR 785 114 thousand) pledged to the Group in relation to reverse sale and repurchase agreements with other banks. The Group had the right to sell or repledge these securities.

At 31 December 2005 the estimated fair value of due from other banks was RR 12 763 109 thousand (2004: RR 4 445 564 thousand). Refer to Note 26.

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 23. The information on related party balances is disclosed in Note 27.

10 Loans and Advances to Customers

In thousands of Russian Roubles	2005	2004
Current loans	96 316 836	59 548 433
Overdue loans	859 439	23 781
Less: Provision for loan impairment	(2 223 648)	(733 787)
Total loans and advances to customers	**94 952 627**	**58 838 427**

Overdue loans are represented by loans not serviced according to the original contractual terms for at least 30 days.

Movements in the provision for loan impairment were as follows:

In thousands of Russian Roubles	2005	2004
Provision for loan impairment as at 1 January	**733 787**	**605 605**
Charge to provision for loan impairment during the year	1 491 923	160 579
Loans and advances written off during the year	(2 062)	(32 397)
Provision for loan impairment as at 31 December	**2 223 648**	**733 787**

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

In thousands of Russian Roubles	2005		2004	
	Amount	%	Amount	%
Individuals	19 778 413	20	10 384 812	17
Heavy industries	16 690 193	17	8 433 496	14
Trade	10 698 484	11	5 977 014	10
Mining	9 923 033	10	4 976 979	8
Chemical industry	9 909 264	10	6 126 830	10
Transport, storage and communications	7 560 596	8	6 312 496	11
Light industries	7 500 726	8	5 617 225	10
Real estate	7 300 602	8	4 610 557	8
Financial Services	2 499 134	3	2 172 002	4
Other	5 315 830	5	4 960 803	8
Total loans and advances to customers	**97 176 275**	**100**	**59 572 214**	**100**

As at 31 December 2005 the Group had 21 borrowers (2004: 10 borrowers) with aggregate loan amounts above RR 1 000 000 thousand (2004: RR 1 000 000 thousand). The total aggregate amount of these loans was RR 35 882 053 thousand (2004: RR 13 267 243 thousand) or 37% of the gross loan portfolio (2004: 22% of the gross loan portfolio).

As at 31 December 2005 the estimated fair value of loans and advances to customers was RR 94 952 627 thousand (2004: RR 58 838 427 thousand). Refer to Note 26.

As at 31 December 2005 loans and advances to customers in the amount of RR 4 275 706 thousand (2004: RR 6 016 473 thousand) were guaranteed by the Parent Bank.

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 23. The information on related party balances is disclosed in Note 27.

11 Premises and Equipment

In thousands of Russian Roubles	Note	Premises	Leasehold improve-ments	Office, computer equipment and computer software	Constru-ction in progress	Total
Cost as at 1 January 2004		384 826	169 349	338 605	41 935	934 715
Accumulated depreciation		(29 449)	(33 969)	(138 660)	—	(202 078)
Carrying amount as at 1 January 2004		**355 377**	**135 380**	**199 945**	**41 935**	**732 637**
Additions		84 736	92 367	254 307	118 221	549 631
Depreciation charge	20	(10 631)	(25 767)	(77 998)	—	(114 396)
Disposals (at cost)		—	—	(4 691)	—	(4 691)
Disposals (accumulated depreciation)		—	—	3 523	—	3 523
Carrying amount as at 31 December 2004		**429 482**	**201 980**	**375 086**	**160 156**	**1 166 704**
Cost at 31 December 2004		469 562	261 716	588 221	160 156	1 479 655
Accumulated depreciation		(40 080)	(59 736)	(213 135)	—	(312 951)
Carrying amount as at 31 December 2004		**429 482**	**201 980**	**375 086**	**160 156**	**1 166 704**
Additions		5 226	274 340	491 853	443 171	1 214 590
Depreciation charge	20	(9 850)	(51 339)	(123 381)	—	(184 570)
Disposals (at cost)		—	—	(9 715)	—	(9 715)
Disposals (accumulated depreciation)		—	—	3 696	—	3 696
Carrying amount as at 31 December 2005		**424 858**	**424 981**	**737 539**	**603 327**	**2 190 705**
Cost at 31 December 2005		474 788	536 056	1 070 359	603 327	2 684 530
Accumulated depreciation		(49 930)	(111 075)	(332 820)	—	(493 825)
Carrying amount as at 31 December 2005		**424 858**	**424 981**	**737 539**	**603 327**	**2 190 705**

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

12 Other Assets

In thousands of Russian Roubles	Note	2005	2004
Investment securities at fair value through profit or loss		753 746	709 146
Operating prepayments		637 268	106 527
Investment securities held to maturity		391 409	—
Deferred tax asset	21	248 374	40 918
Investment in associate		207 209	182 781
Fair value of derivative financial instruments	25	126 342	60 842
Current tax asset		31 576	32 134
Other		199 040	101 162
Total other assets		**2 594 964**	**1 233 510**

Investment in associate represents 50% interest of the Bank in OOO Raiffeisen-Leasing, a leasing company operating in the Russian Federation. The other 50% interest in OOO Raiffeisen-Leasing is owned by the Parent Bank.

Geographical, currency and maturity analyses of other assets are disclosed in Note 23. The information on related party balances is disclosed in Note 27.

13 Due to Other Banks

In thousands of Russian Roubles	2005	2004
Current term placements of other banks	42 228 752	17 169 869
Correspondent accounts and overnight placements of other banks	404 883	214 525
Total due to other banks	**42 633 635**	**17 384 394**

At 31 December 2005 the estimated fair value of due to other banks was RR 42 633 635 thousand (2004: RR 17 384 394 thousand). Refer to Note 26.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 23. The information on related party balances is disclosed in Note 27.

14 Customer Accounts

In thousands of Russian Roubles	2005	2004
Legal entities		
– Current/settlement accounts	25 135 413	15 857 855
– Term deposits	9 568 860	9 833 002
Individuals		
– Current/demand accounts	23 294 805	12 822 702
– Term deposits	11 899 276	8 481 612
Total customer accounts	**69 898 354**	**46 995 171**

Economic sector concentrations within customer accounts are as follows:

In thousands of Russian Roubles	2005		2004	
	Amount	%	Amount	%
Individuals	35 194 081	50	21 304 314	45
Manufacturing	17 624 943	25	14 384 565	31
Financial services	4 906 016	7	4 347 195	9
Real estate and renting	3 577 329	5	1 736 375	4
Transport and communications	3 368 559	5	1 545 603	3
Trade	2 304 839	3	1 523 431	3
Mining	766 836	1	291 223	1
Other	2 155 751	4	1 862 465	4
Total customer accounts	**69 898 354**	**100**	**46 995 171**	**100**

As at 31 December 2005 the estimated fair value of customer accounts was RR 69 898 354 thousand (2004: RR 46 995 171 thousand). Refer to Note 26.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 23. The information on related party balances is disclosed in Note 27.

15 Other Borrowed Funds

In thousands of Russian Roubles	2005	2004
Loans from the International Finance Corporation	4 150 717	2 354 949
Subordinated loans from the Parent Bank	2 021 355	1 946 044
Subordinated loan from European Bank for Reconstruction and Development	584 935	561 162
Syndicated loan	–	5 000 538
Total other borrowed funds	**6 757 007**	**9 862 693**

As at 31 December 2005 loans from the International Finance Corporation consisted of four tranches. The first loan with outstanding principal amount of USD 31 111 111 had a maturity date of 15 December 2012 and interest payable semi-annually at a rate of LIBOR plus 2.5% per annum. The second loan with outstanding principal amount of USD 33 333 333 had a maturity date of 15 December 2013 and interest payable semi-annually at a rate of LIBOR plus 2.5% per annum. The third loan with an outstanding principal amount of USD 10 000 thousand had a maturity date of 15 July 2014 and interest payable semi-annually at a rate of LIBOR plus 2.5% per annum. The fourth loan with an outstanding principal amount of USD 70 000 thousand had a maturity date of 15 July 2015 and interest payable semi-annually at a rate of LIBOR plus 2.25% per annum.

As at 31 December 2005 subordinated loans from the Parent Bank consisted of two tranches. One loan with an outstanding principal amount of USD 50 000 thousand had a maturity date of 15 December 2011 and interest payable semi-annually at a rate of LIBOR plus 2.75% per annum. Another loan with an outstanding principal amount of USD 20 000 thousand had a maturity date of 15 June 2010 and interest payable semi-annually at a rate of LIBOR plus 2.5% per annum.

As at 31 December 2005 the subordinated loan from European Bank for Reconstruction and Development had an outstanding principal amount of USD 20 000 thousand, a maturity date of 18 December 2007 and interest payable semi-annually at a rate of LIBOR plus 2.5% per annum.

As at December 2004 a significant loan from a consortium of large international banks had an outstanding principal amount of USD 180 000 thousand and interest payable semi-annually at a rate of LIBOR plus 1.3% per annum. The loan was repaid in full in July 2005.

At 31 December 2005 the estimated fair value of other borrowed funds was RR 6 757 007 thousand (2004: RR 9 862 693 thousand). Refer to Note 26.

Geographical, currency, maturity and interest rate analyses of other borrowed funds are disclosed in Note 23. The information on related party balances is disclosed in Note 27.

16 Other Liabilities

In thousands of Russian Roubles	Note	2005	2004
Accrued staff bonuses		224 892	56 100
Current tax liability		173 149	–
Issued promissory notes		145 123	–
Deferred commission income		125 704	54 146
Provision for litigation	24	120 231	–
Provision for losses on credit related commitments	24	88 150	95 012
Fair value of derivative financial instruments	25	45 797	52 429
Other		229 293	166 078
Total other liabilities		**1 152 339**	**423 765**

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 23. The information on related party balances is disclosed in Note 27.

Financial Statements

17 Share Capital

In thousands of Russian Roubles	Number of outstanding shares	Nominal amount of share capital	Inflation adjusted amount of share capital	Share premium	Additional paid-in capital	Total
As at 1 January 2004	**1 000**	**1 004 000**	**7 109 087**	**–**	**1 212 488**	**8 321 575**
New shares issued	927	930 708	930 708	10 758	–	941 466
As at 31 December 2004	**1 927**	**1 934 708**	**8 039 795**	**10 758**	**1 212 488**	**9 263 041**
New shares issued	5 378	5 399 512	5 399 512	144 808	–	5 544 320
As at 31 December 2005	**7 305**	**7 334 220**	**13 439 307**	**155 566**	**1 212 488**	**14 807 361**

As at 31 December 2005 all of the Bank's outstanding shares were ordinary shares and were authorised, issued and fully paid up. All shares have a nominal value of RR 1 004 thousand per share and rank equally. Each share carries one vote.

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

Additional paid-in capital represents amounts contributed by shareholders in addition to payments for shares.

18 Interest Income and Expense

In thousands of Russian Roubles	2005	2004
Interest income		
Loans and advances to customers	6 692 284	3 169 672
Due from other banks	651 963	330 614
Securities	239 944	245 423
Total interest income	**7 584 191**	**3 745 709**
Interest expense		
Term placements of other banks	1 141 547	559 692
Term deposits of individuals	533 933	180 471
Term deposits of legal entities	354 412	169 146
Current/settlement accounts	344 638	154 923
Other borrowed funds	316 048	190 881
Total interest expense	**2 690 578**	**1 255 113**
Net interest income	**4 893 613**	**2 490 596**

19 Fee and Commission Income and Expense

In thousands of Russian Roubles	2005	2004
Fee and commission income		
Commissions on operations with plastic cards	331 669	233 095
Commissions on export operations	230 530	140 821
Commission on settlement transactions	224 444	154 011
Commissions on documentary business and guarantees	184 884	136 578
Commission income on foreign exchange operations	175 474	153 001
Commissions on transactions with securities	139 086	80 267
Commissions on cash operations	108 822	81 133
Other	86 852	73 022
Total fee and commission income	**1 481 761**	**1 051 928**
Fee and commission expense		
Commissions on settlement transactions	76 720	131 410
Commissions on documentary business	62 046	126 119
Credit facility fee	55 179	220 665
Commissions on transactions with securities	44 362	34 089
Other	87 140	27 416
Total fee and commission expense	**325 447**	**539 699**
Net fee and commission income	**1 156 314**	**512 229**

20 Administrative and Other Operating Expenses

In thousands of Russian Roubles	Note	2005	2004
Staff costs		1 522 858	846 999
Rent expenses		345 660	163 035
Depreciation of premises and equipment	11	184 570	114 396
Advertising and marketing		182 292	82 224
Premises and equipment maintenance expenses		166 156	68 329
Deposit insurance fee		141 847	–
Communication expenses		97 483	57 906
Professional services		85 453	28 936
Taxes other than on income		36 844	24 688
Other		390 386	202 528
Total operating expenses		**3 153 549**	**1 589 041**

Included in staff costs are statutory social security and pension contributions of RR 155 750 thousand (2004: RR 84 661 thousand).

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21 Income Taxes

Income tax expense comprised the following:

In thousands of Russian Roubles	2005	2004
Current tax	997 808	549 732
Deferred tax	(207 456)	(96 317)
Income tax expense for the year	**790 352**	**453 415**

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

In thousands of Russian Roubles	2005	2004
IFRS profit before tax	**3 081 242**	**2 008 738**
Theoretical tax charge at statutory rate (2005: 24%; 2004: 24%)	739 498	482 097
Tax effect of items which are not deductible or assessable for taxation purposes:		
— Non deductible expenses	82 430	36 302
— Income which is exempt from taxation	—	(25 556)
— Other	(31 576)	(39 428)
Income tax expense for the year	**790 352**	**453 415**

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

In thousands of Russian Roubles	1 January 2004	(Charged)/ credited to profit or loss	31 December 2004	(Charged)/ credited to profit or loss	31 December 2005
Tax effect of deductible temporary differences					
Provisions	(6 833)	29 615	22 782	37 899	60 681
Accruals	32 960	46 096	79 056	182 905	261 961
Gross deferred tax asset	**26 127**	**75 711**	**101 838**	**220 804**	**322 642**
Tax effect of taxable temporary differences					
Premises and equipment	(73 190)	21 330	(51 860)	(24 573)	(76 433)
Valuation of trading securities	(8 336)	(724)	(9 060)	11 225	2 165
Gross deferred tax liability	**(81 526)**	**20 606**	**(60 920)**	**(13 348)**	**(74 268)**
Total net deferred tax (liability)/asset	**(55 399)**	**96 317**	**40 918**	**207 456**	**248 374**

The Group has not recorded a deferred tax liability of RR 7 822 thousand (2004: RR 25 724 thousand) in respect of temporary differences associated with investments in subsidiaries and an associate as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

22 Dividends

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's unaudited reserves under Russian Accounting Rules as at 31 December 2005 were RR 4 419 875 thousand (2004: RR 2 492 708 thousand).

During 2005 dividends in the amount of RR 305 912 thousand (RR 42 thousand per share) were declared and paid. No dividends were declared during 2004.

23 Financial Risk Management

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

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

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

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

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

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

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank's Asset and Liability Committee and the Supervisory Board set value-at-risk position and stop loss limits for each trading product, which are monitored on a daily basis. Possible losses outside of these limits in the events of extraordinary market movements are mitigated by annual stress testing procedures implemented by the Bank's Risk Management and approved by the Asset and Liability Committee.

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

In thousands of Russian Roubles	Note	Russia	OECD	Non OECD	Total
Assets					
Cash and cash equivalents		10 404 348	1 810 567	15 066	12 229 981
Mandatory cash balances with the CBRF		3 149 331	–	–	3 149 331
Trading securities		6 428 691	813 001	–	7 241 692
Due from other banks		6 459 673	6 282 244	21 192	12 763 109
Loans and advances to customers		90 653 788	3 549 894	748 945	94 952 627
Premises and equipment		2 190 705	–	–	2 190 705
Other assets		2 498 507	96 434	23	2 594 964
Total assets		**121 785 043**	**12 552 140**	**785 226**	**135 122 409**
Liabilities					
Due to other banks		5 768 435	36 813 487	51 713	42 633 635
Customer accounts		69 031 629	660 399	206 326	69 898 354
Other borrowed funds		–	6 757 007	–	6 757 007
Other liabilities		1 108 280	44 013	46	1 152 339
Total liabilities		**75 908 344**	**44 274 906**	**258 085**	**120 441 335**
Net balance sheet position		**45 876 699**	**(31 722 766)**	**527 141**	**14 681 074**
Credit related commitments	**24**	**(11 842 266)**	**(140 128)**	**(50 253)**	**(12 032 647)**

Assets, liabilities and credit related commitments have been based on the country in which the counterparty is located. Balances with Russian counterparties actually outstanding to/from off-shore companies of these Russian counterparties are allocated to the caption «Russia». Cash on hand and premises and equipment have been allocated based on the 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:

In thousands of Russian Roubles	Note	Russia	OECD	Non OECD	Total
Assets					
Cash and cash equivalents		8 697 969	1 058 863	9 295	9 766 127
Mandatory cash balances with the CBRF		2 352 563	–	–	2 352 563
Trading securities		4 014 904	–	–	4 014 904
Due from other banks		3 666 491	779 073	–	4 445 564
Loans and advances to customers		56 774 645	73 340	1 990 442	58 838 427
Premises and equipment		1 166 704	–	–	1 166 704
Other assets		1 233 510	–	–	1 233 510
Total assets		**77 906 786**	**1 911 276**	**1 999 737**	**81 817 799**
Liabilities					
Due to other banks		3 898 748	13 461 921	23 725	17 384 394
Customer accounts		44 114 384	381 323	2 499 464	46 995 171
Other borrowed funds		–	9 862 693	–	9 862 693
Other liabilities		423 765	–	–	423 765
Total liabilities		**48 436 897**	**23 705 937**	**2 523 189**	**74 666 023**
Net balance sheet position		29 469 889	(21 794 661)	(523 452)	7 151 776
Credit related commitments	**24**	**(7 790 957)**	**(7 110)**	**(70 703)**	**(7 868 770)**

Currency risk. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Managing Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk as at 31 December 2005:

In thousands of Russian Roubles	Note	RR	USD	Euro	Other	Total
Assets						
Cash and cash equivalents		8 123 716	3 340 357	696 385	69 523	12 229 981
Mandatory cash balances with the CBRF		3 149 331	–	–	–	3 149 331
Trading securities		6 674 964	566 728	–	–	7 241 692
Due from other banks		5 394 382	7 305 043	63 684	–	12 763 109
Loans and advances to customers		20 735 488	69 902 140	4 233 082	81 917	94 952 627
Premises and equipment		2 190 705	–	–	–	2 190 705
Other assets		2 464 587	119 558	10 818	1	2 594 964
Total assets		**48 733 173**	**81 233 826**	**5 003 969**	**151 441**	**135 122 409**
Liabilities						
Due to other banks		5 055 772	37 074 697	503 041	125	42 633 635
Customer accounts		29 913 474	31 808 193	8 108 743	67 944	69 898 354
Other borrowed funds		–	6 757 007	–	–	6 757 007
Other liabilities		732 396	404 427	15 455	61	1 152 339
Total liabilities		**35 701 642**	**76 044 324**	**8 627 239**	**68 130**	**120 441 335**
Less: Fair value of foreign currency derivative instruments	25	8 874	44 053	196	(1 472)	51 651
Net balance sheet position, excluding foreign currency derivative instruments		**13 022 657**	**5 145 449**	**(3 623 466)**	**84 783**	**14 629 423**
Foreign currency derivative instruments	**25**	**3 423 625**	**(6 800 353)**	**3 519 136**	**(90 757)**	**51 651**

As at 31 December 2004 the Group had the following positions in currencies:

In thousands of Russian Roubles	Note	RR	USD	Euro	Other	Total
Assets						
Cash and cash equivalents		6 797 460	1 992 939	762 174	213 554	9 766 127
Mandatory cash balances with the CBRF		2 352 563	–	–	–	2 352 563
Trading securities		2 936 423	909 131	169 350	–	4 014 904
Due from other banks		3 299 015	1 146 549	–	–	4 445 564
Loans and advances to customers		5 644 752	51 475 947	1 700 191	17 537	58 838 427
Premises and equipment		1 166 704	–	–	–	1 166 704
Other assets		1 179 372	48 949	5 189	–	1 233 510
Total assets		**23 376 289**	**55 573 515**	**2 636 904**	**231 091**	**81 817 799**
Liabilities						
Due to other banks		1 041 520	15 895 038	405 076	42 760	17 384 394
Customer accounts		16 008 586	24 472 855	6 363 526	150 204	46 995 171
Other borrowed funds		–	9 862 693	–	–	9 862 693
Other liabilities		339 520	75 948	8 297	–	423 765
Total liabilities		**17 389 626**	**50 306 534**	**6 776 899**	**192 964**	**74 666 023**
Less: Fair value of foreign currency derivative instruments	25	(18 744)	(113)	12 961	–	(5 896)
Net balance sheet position, excluding foreign currency derivative instruments		**6 005 407**	**5 267 094**	**(4 152 956)**	**38 127**	**7 157 672**
Foreign currency derivative instruments	**25**	**1 834 245**	**(6 023 435)**	**4 238 595**	**(55 301)**	**(5 896)**

The currency derivatives position in each column represents the fair value, as at the balance sheet date, of the respective currency that the Group agreed to buy (positive amount) or sell (negative amount). The amounts by currency are presented gross as stated in Note 25. The net total represents fair value of the derivatives.

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

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by Treasury and Risk Management of the Group.

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

Overdue liabilities, such as term deposits not withdrawn by the Group's customers, are classified within the «demand and less than 1 month» column. Overdue assets are allocated based on their expected maturity. The entire portfolio of trading securities is classified within demand and less than one month based on management's assessment of portfolio's realisability and their view that it is a fairer portrayal of the Bank's liquidity position. Mandatory cash balances with the CBRF are included within demand and less than one month as the requirement is to maintain as a reserve a specified percentage of certain liabilities which are also included within this category.

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

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
Assets					
Cash and cash equivalents	12 229 981	–	–	–	12 229 981
Mandatory cash balances with the CBRF	3 149 331	–	–	–	3 149 331
Trading securities	7 241 692	–	–	–	7 241 692
Due from other banks	10 368 045	1 340 163	1 054 901	–	12 763 109
Loans and advances to customers	6 908 919	27 892 884	15 933 284	44 217 540	94 952 627
Premises and equipment	–	–	–	2 190 705	2 190 705
Other assets	962 986	522 692	554 043	555 243	2 594 964
Total assets	**40 860 954**	**29 755 739**	**17 542 228**	**46 963 488**	**135 122 409**
Liabilities					
Due to other banks	5 794 442	7 207 881	681 231	28 950 081	42 633 635
Customer accounts	58 551 646	6 657 161	3 450 844	1 238 703	69 898 354
Other borrowed funds	32 403	21 776	–	6 702 828	6 757 007
Other liabilities	906 681	123 749	23 905	98 004	1 152 339
Total liabilities	**65 285 172**	**14 010 567**	**4 155 980**	**36 989 616**	**120 441 335**
Net liquidity gap	**(24 424 218)**	**15 745 172**	**13 386 248**	**9 973 872**	**14 681 074**
Cumulative liquidity gap	**(24 424 218)**	**(8 679 046)**	**4 707 202**	**14 681 074**	

The liquidity position of the Group as at 31 December 2004 is set out below.

In thousands of Russian Roubles	*Demand and less than 1 month*	*From 1 to 6 months*	*From 6 to 12 months*	*Over 12 months*	*Total*
Assets					
Cash and cash equivalents	*9 766 127*	*–*	*–*	*–*	*9 766 127*
Mandatory cash balances with the CBRF	*2 352 563*	*–*	*–*	*–*	*2 352 563*
Trading securities	*4 014 904*	*–*	*–*	*–*	*4 014 904*
Due from other banks	*3 118 566*	*605 893*	*721 105*	*–*	*4 445 564*
Loans and advances to customers	*3 190 296*	*16 957 675*	*11 074 589*	*27 615 867*	*58 838 427*
Premises and equipment	*–*	*–*	*–*	*1 166 704*	*1 166 704*
Other assets	*213 193*	*13 292*	*–*	*1 007 025*	*1 233 510*
Total assets	***22 655 649***	***17 576 860***	***11 795 694***	***29 789 596***	***81 817 799***
Liabilities					
Due to other banks	*5 140 225*	*1 888 743*	*799 385*	*9 556 041*	*17 384 394*
Customer accounts	*34 922 183*	*9 085 618*	*2 232 910*	*754 460*	*46 995 171*
Other borrowed funds	*–*	*–*	*–*	*9 862 693*	*9 862 693*
Other liabilities	*370 459*	*1 776*	*21 006*	*30 524*	*423 765*
Total liabilities	***40 432 867***	***10 976 137***	***3 053 301***	***20 203 718***	***74 666 023***
Net liquidity gap	***(17 777 218)***	***6 600 723***	***8 742 393***	***9 585 878***	***7 151 776***
Cumulative liquidity gap	***(17 777 218)***	***(11 176 495)***	***(2 434 102)***	***7 151 776***	

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management believes that inspite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

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

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

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The table below summarises the Group's exposure to interest rate risks as at 31 December 2005. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

In thousands of Russian Roubles	*Demand and less than 1 month*	*From 1 to 6 months*	*From 6 to 12 months*	*More than 1 year*	*Non-monetary*	*Total*
Assets						
Cash and cash equivalents	*12 229 981*	*–*	*–*	*–*	*–*	*12 229 981*
Mandatory cash balances with the CBRF	*3 149 331*	*–*	*–*	*–*	*–*	*3 149 331*
Trading securities	*7 241 692*	*–*	*–*	*–*	*–*	*7 241 692*
Due from other banks	*10 468 045*	*1 745 953*	*549 111*	*–*	*–*	*12 763 109*
Loans and advances to customers	*61 415 240*	*15 479 977*	*4 941 623*	*13 115 787*	*–*	*94 952 627*
Premises and equipment	*–*	*–*	*–*	*–*	*2 190 705*	*2 190 705*
Other assets	*962 994*	*522 692*	*554 043*	*68 076*	*487 159*	*2 594 964*
Total assets	***95 467 283***	***17 748 622***	***6 044 777***	***13 183 863***	***2 677 864***	***135 122 409***
Liabilities						
Due to other banks	*14 522 779*	*27 056 983*	*698 380*	*355 493*	*–*	*42 633 635*
Customer accounts	*58 884 332*	*6 657 161*	*3 118 158*	*1 238 703*	*–*	*69 898 354*
Other borrowed funds	*2 335 003*	*4 422 004*	*–*	*–*	*–*	*6 757 007*
Other liabilities	*906 681*	*123 749*	*23 905*	*98 004*	*–*	*1 152 339*
Total liabilities	***76 648 795***	***38 259 897***	***3 840 443***	***1 692 200***	***–***	***120 441 335***
Net sensitivity gap	***18 818 488***	***(20 511 275)***	***2 204 334***	***11 491 663***	***2 677 864***	***14 681 074***
Cumulative sensitivity gap	***18 818 488***	***(1 692 787)***	***511 547***	***12 003 210***	***14 681 074***	

The following table summarises the Group's exposure to interest rate risks as at 31 December 2004 by showing assets and liabilities in categories based on the earlier of contractual repricing or maturity dates.

In thousands of Russian Roubles	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non-monetary	Total
Assets						
Cash and cash equivalents	9 766 127	–	–	–	–	9 766 127
Mandatory cash balances with the CBRF	2 352 563	–	–	–	–	2 352 563
Trading securities	4 014 904	–	–	–	–	4 014 904
Due from other banks	3 451 550	425 526	568 488	–	–	4 445 564
Loans and advances to customers	39 730 201	9 032 951	2 643 757	7 431 518	–	58 838 427
Premises and equipment	–	–	–	–	1 166 704	1 166 704
Other assets	216 007	13 292	–	695 826	308 385	1 233 510
Total assets	**59 531 352**	**9 471 769**	**3 212 245**	**8 127 344**	**1 475 089**	**81 817 799**
Liabilities						
Due to other banks	5 140 225	1 888 743	799 385	9 556 041	–	17 384 394
Customer accounts	34 922 184	9 085 618	2 232 910	754 459	–	46 995 171
Other borrowed funds	–	9 862 693	–	–	–	9 862 693
Other liabilities	370 459	1 776	21 006	30 524	–	423 765
Total liabilities	**40 432 868**	**20 838 830**	**3 053 301**	**10 341 024**	**–**	**74 666 023**
Net sensitivity gap	**19 098 484**	**(11 367 061)**	**158 944**	**(2 213 680)**	**1 475 089**	**7 151 776**
Cumulative sensitivity gap	**19 098 484**	**7 731 423**	**7 890 367**	**5 676 687**	**7 151 776**	

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

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

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

In % p.a.	2005				2004			
	RR	USD	Euro	Other	RR	USD	Euro	Other
Assets								
Cash and cash equivalents	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%
Mandatory cash balances with the CBRF	0.0%	–	–	–	0.0%	–	–	–
Debt trading securities	7.9%	6.2%	–	–	7.4%	6.2%	8.8%	–
Due from other banks	7.5%	5.1%	9.2%	–	6.7%	3.0%	–	–
Loans and advances to customers	9.1%	10.0%	6.9%	6.7%	9.0%	7.3%	7.1%	4.7%
Liabilities								
Due to other banks	5.0%	5.2%	5.2%	0.0%	2.6%	4.5%	2.4%	4.8%
Customer accounts								
– current and settlement accounts	0.6%	1.2%	0.5%	0.8%	0.1%	0.0%	0.0%	0.0%
– term deposits	4.9%	4.4%	2.2%	–	2.9%	2.6%	2.2%	4.0%
Other borrowed funds	–	4.2%	–	–	–	4.2%	–	–

The sign «—» in the table above means that the Group does not have the respective assets or liabilities in corresponding currency.

24 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. As at 31 December 2005 the Group recorded a provision (Note 16) in the amount of RR 120 231 thousand (2004: nil) in relation to a dispute with creditors of one of the Group's customers which is under external administration. The provision was established after taking appropriate internal and external legal advice.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

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

Capital expenditure commitments. As at 31 December 2005 the Group had contractual capital expenditure commitments in respect of premises and equipment totalling RR 307 045 thousand (2004: nil).

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

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

In thousands of Russian Roubles	2005	2004
Not later than 1 year	321 702	17 509
Later than 1 year and not later than 5 years	957 748	48 754
Later than 5 years	242 469	9 435
Total operating lease commitments	**1 521 919**	**75 698**

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments were as follows:

In thousands of Russian Roubles	Note	2005	2004
Overdraft facilities for clients		3 044 955	2 148 903
Guarantees issued		5 114 969	3 935 348
Export letters of credit		3 940 011	1 764 651
Import letters of credit		20 862	114 880
Less: Provision for losses on credit related commitments	16	(88 150)	(95 012)
Total credit related commitments		**12 032 647**	**7 868 770**

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

Guarantee in relation to the pension accounts. As at 31 December 2005 the Group guaranteed to the customers of Non-state Pension Fund Raiffeisen that balances on their pension accounts will not decrease below that initially invested or the balance on the account as at the previous calendar year end. As at 31 December 2005 the pension accounts amounted to RR 87 948 thousand.

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

In thousands of Russian Roubles	2005 Nominal value	2004 Nominal value
Shares in companies held in custody of National Depositary Centre	379 732	1 065 606
Shares in companies held in custody of Depository Clearing Centre	206 705	257 119
Shares in companies held in custody of DAROSS	80 744	805 573
Shares in companies held in other custodies	475 401	303 488
Corporate bonds held on an account with National Depository Centre	1 080	694 578
Russian Federation Eurobonds held on an account with National Depositary Centre	1	2 301 366
Other	6 564	152 368

Assets pledged and restricted. The Group had no assets pledged as collateral as at 31 December 2005 (2004: nil).

Mandatory cash balances with the CBRF in the amount of RR 3 149 331 thousand (2004: RR 2 352 563 thousand) represent a mandatory reserve deposit which is not available to finance the Group's day to day operations.

25 Derivative Financial Instruments

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

As at 31 December 2005 fair value of outstanding foreign currency derivative instruments amounted to RR 51 651 thousand (positive) (2004: RR 5 896 thousand (negative)). Refer to Note 23 for the analysis of the Group's foreign currency derivative instruments position by currency.

As at 31 December 2005 the Group had outstanding obligations to deliver at the future date shares with fair value of RR 290 939 thousand (2004: RR 1 331 752 thousand). The fair value of these forwards as at 31 December 2005 was RR 513 thousand (negative) (2004: RR 5 993 thousand (negative)).

As at 31 December 2005 the Group entered into single currency interest rate swap agreements swapping its fixed interest inflows for the floating LIBOR based interest inflows. The notional amount of such interest rate swaps as at 31 December 2005 amounted to RR 8 849 335 thousand (2004: RR 6 357 117 thousand). The net fair value of such interest rate swaps as at 31 December 2005 amounted to RR 29 407 thousand (positive) (2004: RR 20 302 thousand (positive)).

Total of positive fair values of the derivative financial instruments in the amount of RR 126 342 thousand (2004: RR 60 842 thousand) was recorded within other assets (Note 12). Total of negative fair values of the derivative financial instruments in the amount of RR 45 797 thousand (2004: RR 52 429 thousand) was recorded within other liabilities (Note 16).

26 Fair Value of Financial Instruments

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

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

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

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty and average rate ranged from 5.1 % to 10.0 % per annum (2004: 3.0 % to 9.0 % per annum). Refer to Notes 9 and 10 for the estimated fair values of due from other banks and loans and advances to customers, respectively.

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period («demandable liabilities») is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Refer to Notes 13, 14 and 15 for the estimated fair values of due to other banks, customer accounts and other borrowed funds, respectively.

Derivative financial instruments. All derivative financial instruments are carried at fair value as assets when the fair value is positive and as liabilities when the fair value is negative. Refer to Note 25.

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27 Related Party Transactions

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

As at 31 December 2005 the outstanding balances with related parties were as follows:

In thousands of Russian Roubles	*Parent Bank*	*Subsidiaries of the Parent Bank*	*Members of the Managing Board*
Correspondent accounts and overnight placements with other banks as at the year end	*1 142 939*	*15 066*	*–*
Due from other banks (contractual interest rate: 4.22%)	*1 480 158*	*–*	*–*
Gross amount of loans and advances to customers (contractual interest rate: 3.98–9.34%)	*–*	*1 158 468*	*–*
Other assets	*119 004*	*1 012*	*–*
Due to other banks (contractual interest rate: 2.94–10.29%)	*35 798 236*	*53 259*	*–*
Customer accounts (contractual interest rate: 0.0–5.3%)	*634*	*413 001*	*39*
Other borrowed funds (contractual interest rate: 7.35%)	*2 021 355*	*–*	*–*
Other liabilities	*39 705*	*3 567*	*–*

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

In thousands of Russian Roubles	*Parent Bank*	*Subsidiaries of the Parent Bank*	*Members of the Managing Board*
			–
Interest income	*72 264*	*44 442*	*–*
Interest expense	*(808 195)*	*(6 208)*	*–*
Fee and commission income	*11 877*	*2 728*	*–*
Fee and commission expense	*114 689*	*641*	*–*
Gains less losses from trading in foreign currencies	*105 537*	*(1 129)*	*–*
Gains less losses from interest rate derivatives	*23 702*	*–*	*–*
Administrative and other operating expenses	*25 015*	*–*	*–*

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As at 31 December 2005 other rights and obligations with related parties were as follows:

In thousands of Russian Roubles	Parent Bank	Subsidiaries of the Parent Bank	Members of the Managing Board
Guarantees issued by the Group as at the year end	–	200 675	–
Guarantees received by the Group as at the year end	6 973 465	–	–
Interest rate swap agreements — notional amount as at the year end	8 849 335	–	–
Interest rate swap agreements — fair value as at the year end	29 407	–	–
Foreign currency derivative financial instruments — principal amount as at the year end	18 991 930	–	–
Foreign currency derivative financial instruments — fair value as at the year end	50 981	–	–

As at 31 December 2004 the outstanding balances with related parties were as follows:

In thousands of Russian Roubles	Parent Bank	Subsidiaries of the Parent Bank	Members of the Managing Board
Correspondent accounts and overnight placements with other banks as at the year end	310 412	9 281	–
Due from other banks	109 247	–	–
Gross amount of loans and advances to customers (contractual interest rate: 5.0%–8.0%)	–	780 932	–
Due to other banks (contractual interest rate: 2.0%-8.0%)	10 742 715	–	–
Customer accounts	–	32 039	–
Other borrowed funds (contractual interest rate: 5.9% 6.2%)	1 946 044	–	–

The income and expense items with related parties for the year 2004 were as follows:

In thousands of Russian Roubles	Parent Bank	Subsidiaries of the Parent Bank	Members of the Managing Board
Interest income	25 809	20 295	–
Interest expense	(583 129)	–	–
Fee and commission expense	(344 138)	(28)	–
Gains less losses from trading in foreign currencies	218 533	–	–
Gains less losses from interest rate derivatives	(29 600)	–	–

As at 31 December 2004 other rights and obligations with related parties were as follows:

In thousands of Russian Roubles	Parent Bank	Subsidiaries of the Parent Bank	Members of the Managing Board
Guarantees received by the Group at the year end	11 232 230	–	–
Interest rate swap agreements — notional amount as at the year end	6 357 116	–	–
Interest rate swap agreements — fair value as at the year end	20 302	–	–
Foreign currency derivative financial instruments — principal amount as at the year end	14 348 155	–	–
Foreign currency derivative financial instruments — fair value as at the year end	(14 559)	–	–

Related party transactions with OOO Raiffeisen-Leasing, a company 50%/50% owned by the Bank and the Parent Bank, were included in caption «Subsidiaries of the Parent Bank».

In 2005 the remuneration of members of the Managing Board comprised salaries, discretionary bonuses and other short-term benefits for the total amount of RR 76 224 thousand (2004: RR 65 035 thousand).