

**Joint Stock Bank
“Moscow Bank for
Reconstruction and
Development”
(Open Joint Stock Company)**

Independent Auditors' Report

Consolidated Financial Statements
For the Year Ended 31 December 2006

JOINT STOCK BANK “MOSCOW BANK FOR RECONSTRUCTION AND DEVELOPMENT” (OPEN JOINT STOCK COMPANY)

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JOINT STOCK BANK “MOSCOW BANK FOR RECONSTRUCTION AND DEVELOPMENT” (OPEN JOINT STOCK COMPANY)

STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

The following statement, which should be read in conjunction with the independent auditors’ responsibilities stated in the independent auditor’s audit report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Joint Stock Bank “Moscow Bank for Reconstruction and Development” and its subsidiaries (the “Group”).

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group at 31 December 2006, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards (“IFRS”).

In preparing the consolidated financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2006 were authorised for issue on 28 April 2007 by the Management Board of Joint Stock Bank “Moscow Bank for Reconstruction and Development”.

On behalf of the Management Board:



S.Y. Zaitsev
Chairman of the Board

28 April 2007
Moscow



S.A. Zavialov
Deputy Chairman of the Board

28 April 2007
Moscow

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Joint Stock Bank "Moscow Bank for Reconstruction and Development":

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Joint Stock Bank "Moscow Bank for Reconstruction and Development", which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statements of changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the financial position of Joint Stock Bank "Moscow Bank for Reconstruction and Development" as of 31 December 2006, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in blue ink, appearing to read "Deloitte J. Perche".

28 April 2007


Moscow

**JOINT STOCK BANK "MOSCOW BANK FOR RECONSTRUCTION AND DEVELOPMENT"
(OPEN JOINT STOCK COMPANY)**

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006**

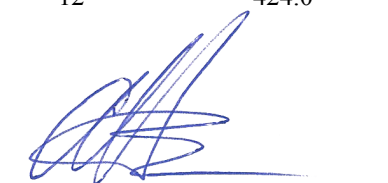
	Notes	Year ended 31 December 2006 RUR'000	Year ended 31 December 2005 RUR'000
Interest income	5,29	4,742,141	2,649,302
Interest expense	5,29	<u>(2,685,321)</u>	<u>(1,495,835)</u>
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		2,056,820	1,153,467
Provision for impairment losses on interest bearing assets	6,29	<u>(669,411)</u>	<u>(356,485)</u>
NET INTEREST INCOME		<u>1,387,409</u>	<u>796,982</u>
Net gain on financial assets at fair value through profit or loss	7	29,046	34,454
Net gain on foreign exchange operations	29	378,491	122,179
Fee and commission income	8,29	412,725	202,176
Fee and commission expense	8	(58,890)	(20,117)
Other income	9,29	<u>25,544</u>	<u>12,468</u>
NET NON-INTEREST INCOME		<u>786,916</u>	<u>351,160</u>
OPERATING INCOME		2,174,325	1,148,142
OPERATING EXPENSES	10,29	<u>(1,589,131)</u>	<u>(869,374)</u>
OPERATING PROFIT		585,194	278,768
(Provision)/recovery of provision for impairment losses on other transactions	6	<u>(10,157)</u>	<u>20,558</u>
PROFIT BEFORE INCOME TAX		575,037	299,326
Income tax expense	11	<u>(179,437)</u>	<u>(112,221)</u>
NET PROFIT		<u><u>395,600</u></u>	<u><u>187,105</u></u>
EARNINGS PER SHARE			
Basic and diluted (RUR)	12	424.0	211.9

On behalf of the Management Board:



S.Y. Zaitsev
Chairman of the Board

28 April 2007
Moscow



S.A. Zavialov
Deputy Chairman of the Board

28 April 2007
Moscow


The notes on pages 9-55 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on pages 2-3.

**JOINT STOCK BANK "MOSCOW BANK FOR RECONSTRUCTION AND DEVELOPMENT"
(OPEN JOINT STOCK COMPANY)**

**CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2006**

	Notes	31 December 2006 RUR'000	31 December 2005 RUR'000
ASSETS:			
Cash and balances with the Central Bank of the Russian Federation	13	6,102,927	2,741,832
Financial assets at fair value through profit or loss	14,29	2,660,211	3,612,060
Due from banks	15,29	13,064,676	2,343,582
Loans to customers and other receivables	16,29	34,593,625	22,624,199
Investments available-for-sale	17,29	187,887	90
Property, equipment and intangible assets	18	809,466	452,419
Other assets	19,29	686,417	230,968
TOTAL ASSETS		58,105,209	32,005,150
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks	20,29	5,436,559	3,460,477
Customer accounts	21,29	36,762,141	16,641,957
Debt securities issued	22	9,621,470	8,010,143
Liabilities on finance lease transactions	23	481,335	-
Provisions	27,29	13,018	2,861
Other liabilities	24	177,272	40,528
		52,491,795	28,155,966
Subordinated debt	25	1,587,141	-
Total liabilities		54,078,936	28,155,966
EQUITY:			
Share capital	26	943,408	943,408
Share premium	26	3,575,304	3,575,304
Revaluation reserve		75,137	-
Accumulated deficit		(567,576)	(669,528)
Total equity		4,026,273	3,849,184
TOTAL LIABILITIES AND EQUITY		58,105,209	32,005,150

On behalf of the Management Board:



S.Y. Zaitsev
Chairman of the Board

28 April 2007
Moscow



S.A. Zavialov
Deputy Chairman of the Board

28 April 2007
Moscow

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**JOINT STOCK BANK "MOSCOW BANK FOR RECONSTRUCTION AND DEVELOPMENT"
(OPEN JOINT STOCK COMPANY)**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Notes	Share capital RUR'000	Share premium RUR'000	Revaluation reserve RUR'000	Accumulated deficit RUR'000	Total equity RUR'000
31 December 2004		878,408	3,042,304	-	(814,462)	3,106,250
Share capital and share premium increase	26	65,000	533,000	-	-	598,000
Dividends declared on:						
- ordinary shares	26	-	-	-	(40,920)	(40,920)
- preferred shares	26	-	-	-	(1,251)	(1,251)
Net profit		-	-	-	187,105	187,105
31 December 2005		943,408	3,575,304	-	(669,528)	3,849,184
Dividends declared on:						
- ordinary shares	26	-	-	-	(83,784)	(83,784)
- preferred shares	26	-	-	-	(1,236)	(1,236)
Gains on revaluation of buildings, net of deferred tax of RUR 23,728 thousand	18	-	-	75,137	-	75,137
Group reorganization	4	-	-	-	(208,628)	(208,628)
Net profit		-	-	-	395,600	395,600
31 December 2006		<u>943,408</u>	<u>3,575,304</u>	<u>75,137</u>	<u>(567,576)</u>	<u>4,026,273</u>

On behalf of the Management Board:



S.Y. Zaitsev
Chairman of the Board

28 April 2007
Moscow



S.A. Zavialov
Deputy Chairman of the Board

28 April 2007
Moscow

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**JOINT STOCK BANK “MOSCOW BANK FOR RECONSTRUCTION AND DEVELOPMENT”
(OPEN JOINT STOCK COMPANY)**

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Notes	Year ended 31 December 2006 RUR'000	Year ended 31 December 2005 RUR'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		575,037	299,326
Adjustments for:			
Provision for impairment losses on interest bearing assets		669,411	356,485
Provision/ (recovery of provision) for impairment losses on other transactions		10,157	(20,558)
Depreciation and amortization		92,138	68,159
Foreign exchange translation differences		(85,948)	-
Change in accruals, net		155,846	121,501
Cash flows from operating activities before changes in operating assets and liabilities		1,416,641	824,913
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Obligatory reserves with the Central Bank of the Russian Federation		(854,850)	(316,508)
Due from banks		(3,717,389)	2,064,657
Financial assets at fair value through profit or loss		891,671	(2,408,422)
Loans to customers and other receivables		(13,414,252)	(11,128,706)
Other assets		(470,345)	(7,747)
Increase in operating liabilities:			
Due to banks		2,327,962	2,189,005
Customer accounts		21,146,940	3,833,521
Other liabilities		104,764	9,748
Cash inflow/(outflows) from operating activities before income tax		7,431,142	(4,939,539)
Income tax paid		(193,734)	(132,064)
Net cash inflows/(outflows) from operating activities		7,237,408	(5,071,603)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets		(354,683)	(272,005)
Proceeds on sale of property, equipment and intangible assets		4,363	1,477
Net proceeds on sale/(net purchase) of investments available-for-sale		87,424	(173,499)
Net cash outflows from investing activities		(262,896)	(444,027)

**JOINT STOCK BANK "MOSCOW BANK FOR RECONSTRUCTION AND DEVELOPMENT"
(OPEN JOINT STOCK COMPANY)**

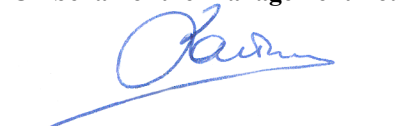
**CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Notes	Year ended 31 December 2006 RUR'000	Year ended 31 December 2005 RUR'000
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of ordinary share capital		-	65,000
Subordinated debt		1,541,594	-
Proceeds from debt securities issued, net		1,664,037	4,920,120
Share premium		-	533,000
Dividends paid		(85,020)	(42,171)
Net cash inflow from financing activities		<u>3,120,611</u>	<u>5,475,949</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		10,095,123	(39,681)
Effect of foreign exchange rate changes on cash and cash equivalents		<u>(9,404)</u>	<u>(18,293)</u>
CASH AND CASH EQUIVALENTS, beginning of period	13	<u>3,619,687</u>	<u>3,677,661</u>
CASH AND CASH EQUIVALENTS, end of period	13	<u><u>13,705,406</u></u>	<u><u>3,619,687</u></u>

Interest paid and received by the Group during the year ended 31 December 2006 amounted to RUR 2,447,995 thousand and RUR 4,627,463 thousand, respectively.

Interest paid and received by the Group during the year ended 31 December 2005 amounted to RUR 1,485,569 thousand and RUR 2,584,975 thousand, respectively.

On behalf of the Management Board:



S.Y. Zaitsev
Chairman of the Board

28 April 2007
Moscow



S.A. Zavialov
Deputy Chairman of the Board

28 April 2007
Moscow

The notes on pages 9-55 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on pages 2-3.

JOINT STOCK BANK “MOSCOW BANK FOR RECONSTRUCTION AND DEVELOPMENT” (OPEN JOINT STOCK COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

1. ORGANISATION

Joint Stock Bank “Moscow Bank for Reconstruction and Development” (open joint stock company) (“MBRD”) is a joint stock bank, which was incorporated in the Russian Federation (the “RF”) in 1993. MBRD is regulated by the Central Bank of the Russian Federation (the “CBR”) and conducts its business under license number 2268. MBRD’s primary business consists of commercial banking activities, securities dealings and foreign currency transactions.

MBRD’s principal business activities are within the Russian Federation. Registered headquarters of MBRD is located at: 5 bldg. 1, Yeropkinsky per., Moscow, 119034, Russian Federation.

MBRD has 13 branches in the territory of the RF.

Joint Stock Bank “Moscow Bank for Reconstruction and Development” is the Group’s parent company (the “Group”). The following companies and MBRD are included in the consolidated financial statements for the year ended 31 December 2006:

Name	Country of operation	Proportion of ownership interest and voting power of JSB MBRD		Type of activity
		31 December 2006	31 December 2005	
CJSC “Sistema K-Invest”	Russian Federation	100%	100%	Property lease out
LLC “MBRR-Capital”	Russian Federation	100%	100%	Financial services
LLC “MBRR-Finance”	Russian Federation	100%	100%	Financial services
LLC “Leasing-Maximum”	Russian Federation	100%	-	Finance lease
JSC “Invest-Sviaz-Holding”	Russian Federation	100%	-	Finance lease
CJSC “Leasing Company “Sistema-Finleasing”	Russian Federation	100%	-	Finance lease

LLC “MBRR-Finance” financial statements were consolidated in the Group’s financial statement as of 31 December 2006 and for the year then ended. LLC “Leasing-Maximum” was founded by LLC “MBRR-Finance” in September 2006. JSC “Invest-Sviaz-Holding” and CJSC “Leasing Company “Sistema-Finleasing” were acquired by the Group in 2006 (see Note 4).

The Group renders services to a group of entities related to the Group by means of direct or indirect ownership by one parent company which is also an ultimate parent of the Group. At the close of business on 31 December 2006 and 2005 loans issued to such companies and banks were 16.2% and 44.7% of the total loans to customers and other receivables and due from banks (see Note 29). Customer accounts of such companies were 71.2% and 56.7% of the total amount of due to banks and customer accounts (see Note 29).

**JOINT STOCK BANK “MOSCOW BANK FOR RECONSTRUCTION AND DEVELOPMENT”
(OPEN JOINT STOCK COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

As of 31 December 2006 and 2005, shareholders owned outstanding shares are as follows:

Shareholder	%
JSFC “Sistema”	60.66
JSC “Promtorgcenter”, controlled by Sistema	16.10
JSC “Moscow City Telephone Network”, controlled by Sistema	5.35
LLC “Notris”, controlled by Sistema	4.97
Other	12.92
Total	100.00

As of 31 December 2006 and 2005 Sistema directly or indirectly owed 99.2% of the share capital of MBRD. Mr. Evtushenkov owns a controlling stake in JSFC “Sistema”.

The consolidated financial statements for the six months ended 31 December 2006 were authorized for issue on 28 April 2007 by the Management Board of the Group.

2. BASIS OF PRESENTATION

Accounting basis

These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

These financial statements are presented in thousands of Russian Roubles (“RUR”), unless otherwise indicated. These financial statements have been prepared under the historical cost conversion, except for measurement at fair value of certain financial instruments, measurement of buildings at revalued amounts according to International Accounting Standard (“IAS”) No. 16 “Property, Plant and Equipment” and IAS 29 “Financial Reporting in Hyperinflationary Economies” (“IAS 29”).

In accordance with IAS 29 the economy of Russian Federation was considered to be hyperinflationary during 2002 and prior years. Starting 1 January 2003, the Russian economy is no longer considered to be hyperinflationary and the values of the Bank’s non-monetary assets, liabilities and shareholders’ equity as stated in measuring units as of 31 December 2002 have formed the basis for the amounts carried forward to 1 January 2003.

The Group maintains its accounting records in accordance with Russian law. These financial statements have been prepared from the Russian statutory accounting records and have been adjusted to conform with IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions.

**JOINT STOCK BANK “MOSCOW BANK FOR RECONSTRUCTION AND DEVELOPMENT”
(OPEN JOINT STOCK COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

Equity as at 31 December 2006 and 2005 and net profit for the years then ended are reconciled between Russian Accounting Standards and IFRS as follows:

	31 December 2006	Year ended 31 December 2006	31 December 2005	Year ended 31 December 2005
	Equity RUR'000	Net profit RUR'000	Equity RUR'000	Net profit RUR'000
Russian Accounting Standards	3,753,560	567,908	3,943,289	274,627
Accrued interest, net	175,299	(108,977)	(257,351)	(152,342)
Provision for impairment	30,238	(62,522)	92,760	(31,083)
Current income tax	7,686	5,000	-	-
Deferred income tax	-	20,936	(20,936)	4,194
Property, equipment and intangible assets	28,548	31,102	11,088	9,911
Finance lease	(58,916)	(10,990)	-	-
Revaluation of buildings	75,137	-	-	-
Group reorganisation	(164,831)	29,186	-	-
Financial assets at fair value through profit or loss	35,091	(25,674)	48,006	44,017
Commission income and expense	7,497	(50,871)	69,199	68,598
Operating expenses	134,394	(14,208)	(23,890)	(20,845)
Other	2,570	14,710	(12,981)	(9,972)
International Financial Reporting Standards	4,026,273	395,600	3,849,184	187,105

Key assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for impairment losses and the fair value of financial instruments. Discussion of taxation is presented in Note 27.

Key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period include:

	31 December 2006	31 December 2005
Loans to customers and other receivables	34,593,625	22,624,199
Investments available-for-sale	187,887	90
Property, equipment and intangible assets	809,466	452,419

Loans to customers and other receivables, investments available-for-sale and property, equipment and intangible assets are measured at amortized cost/costless allowance for impairment losses (if any). The estimation of allowance for impairment losses involves an exercise of judgment. It is impracticable to assess the extent of the possible effects of key assumptions or other sources of uncertainty on these balances at the balance sheet date.

**JOINT STOCK BANK “MOSCOW BANK FOR RECONSTRUCTION AND DEVELOPMENT”
(OPEN JOINT STOCK COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

Functional currency

The functional currency of these financial statements is the Russian Rouble.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of MBRD and entities controlled by MBRD (its subsidiaries). Control is achieved where MBRD has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition (unless from parent or entities under common control), assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the consolidated income statement in the period of acquisition. Any difference between the nominal amount of consideration paid by the Group and carrying value of Group's share in carrying value of assets, liabilities and contingent liabilities of a subsidiary purchased from a parent or entities under common control is accounted as an adjustment of the Group's equity.

Results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by Group.

All balances related to transactions between MBRD and consolidated entities and any income and expenses resulting from such transactions are eliminated on consolidation.

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

**JOINT STOCK BANK “MOSCOW BANK FOR RECONSTRUCTION AND DEVELOPMENT”
(OPEN JOINT STOCK COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the Central Bank of the Russian Federation with original maturity within 90 days, advances to banks in countries included in the Organization for Economic Co-operation and Development (“OECD”), except for margin deposits for operations with plastic cards and government securities denominated, carried at fair value through profit or loss, which may be converted to cash within a short period of time. For purposes of determining cash flows, the minimum reserve deposit required by the Central Bank of the Russian Federation is not included as a cash equivalent due to restrictions on its availability.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss represent derivative instruments or securities acquired principally for the purpose of selling them in the near future, or are a part of portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit taking securities that upon initial recognition are designated by the Group at fair value through profit or loss or is a derivative. Financial assets at fair value through profit or loss are initially recorded and subsequently measured at fair value. Fair values of derivative financial instruments are determined with the use of interest rate model. The Bank uses quoted market prices to determine fair value for financial assets at fair value through profit or loss. Fair value adjustment on financial assets at fair value through profit or loss is recognized in the consolidated income statement for the period. The Group does not reclassify financial instruments in or out of this category while they are held.

The Group enters into derivative financial instruments to manage currency and liquidity risks. Derivative financial instruments include forwards on foreign currency and securities. No derivatives are used by the Group for hedging purposes.

Repurchase and reverse repurchase agreements

The Group enters into sale and purchase back agreements (“repos”) and purchase and sale back agreements (“reverse repos”) in the normal course of its business. Repos and reverse repos are utilized by the Group as an element of its treasury management and trading business.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the consolidated financial statements and consideration received under these agreements is recorded as collateralized deposit received.

Assets purchased under reverse repos are recorded in the consolidated financial statements as cash placed on deposit which is collateralized by securities and other assets.

In the event that assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gains/(losses) on respective assets. Any related income or expense arising from the pricing difference between purchase and sale of the underlying assets is recognized as interest income or expense.

**JOINT STOCK BANK “MOSCOW BANK FOR RECONSTRUCTION AND DEVELOPMENT”
(OPEN JOINT STOCK COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

Due from banks

In the normal course of business, the Group maintains advances and deposits for various periods of time with other banks. Due from banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at amortized cost based on expected maturities. Amounts due from credit institutions are carried net of any allowance for impairment losses, if any.

Loans to customers

Loans to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active market other than those classified in other categories of financial assets.

Loans granted by the Group are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the income statement according to nature of these losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Write off of loans and advances

Loans and advances are written off against allowance for impairment losses in case of uncollectibility of loans and advances, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. The decision on writing off bad debt against allowance for impairment losses for all major, preferential, unsecured and insider loans should necessarily be confirmed with a procedural document of judicial or notary bodies certifying that at the time of the decision the debt could not be repaid (partially repaid) with the debtor's funds.

Allowance for impairment losses

The Group establishes an allowance for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The allowance for impairment losses is measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate, for financial assets which are carried at amortised cost. 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, the previously recognised impairment loss is reversed by adjusted an allowance account. For financial assets carried at cost the allowance for impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The determination of the allowance for impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of risk for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

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The change in the allowance for impairment losses is charged to profit and loss and the total of the allowance for impairment losses is deducted in arriving at assets as shown in balance sheet. Factors that the Group considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Group may sustain losses, which are substantial relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb losses incurred on the risk assets.

Investments in finance lease

Lease is classified as finance lease if the contract transfers substantially all the risks and rewards of ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract.

The lease is classified as finance lease if:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of such a specialized nature that only the lessee can use them without major modifications.

The Group recognized assets held under finance lease in their balance sheet at the commencement date and presents them as net investments in lease in the amount equal to the gross investments in the lease (the minimum lease payments receivable by the Group as a lessor under a finance lease) discounted at the interest rate implicit in the lease.

Finance income is allocated over the lease term on a systematic and rational basis. This income allocation is based on a pattern reflecting a constant periodic return on the Group's net investment in the finance lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income. Finance income from leases is recorded as interest income in the income statement.

Before commencement date equipment purchased for future transfer to financial lease is recognized in the consolidated financial statements as fixed assets purchased to transfer to finance lease at cost.

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Property, equipment and intangible assets

Property except for buildings, equipment and intangible assets, acquired after 1 January 2003 are carried at historical cost less accumulated depreciation and any recognized impairment loss, if any. Property except for buildings, equipment and intangible assets, acquired before 1 January 2003 are carried at historical cost restated for inflation less accumulated depreciation and any recognized impairment loss, if any.

Depreciation of property, equipment and intangible assets is charged on the carrying value of property and equipment and is designed to write off assets over their useful economic lives. It is calculated on a straight line basis at the following annual prescribed rates:

Buildings and other real estate	2%
Furniture and computer equipment	25%
Intangible assets	15% - 33.3%

Depreciation of assets under construction commences when the assets are put in use.

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

The carrying amounts of property, equipment and intangible assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount.

An impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

In 2006 the Group revised its accounting policy in respect of buildings and decided to record them at the revaluated amount less accumulated depreciation charging revaluation to equity. As at 31 December 2005 buildings were carried at cost restated for inflation less accumulated depreciation. The effect of changes in the accounting policy is presented on the statement of changes in equity.

Buildings held for use in supply of services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional valuers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to consolidated income statement. On a subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

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Operating leases

Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments effected by the Group under operating lease are recognized as expense on a straight-line basis over the lease term and included into operating expense.

Taxation

Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

The Group's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Russian Federation where the Group operates also has various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated income statement.

Deposits from banks and customers

Customer and bank deposits are initially recognized at fair value. Subsequently amounts due are stated at amortized cost and any difference between carrying and redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

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Debt securities issued

Debt securities issued represent promissory notes, certificates of deposit and eurobonds issued by the Group. They are accounted for according to the same principles used for customer and bank deposits.

Subordinated debt

Subordinated debt is initially recognized at fair value. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Group are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Share capital and share premium

Contributions to share capital, made before 1 January 2003 are recognized at their cost restated for inflation. Contributions to share capital, made after 1 January 2003 are recognized at cost. Share premium represents the excess of contributions over the nominal value of the shares issued.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under International Accounting Standard 10 “Events after the Balance Sheet Date” (“IAS 10”) and disclosed accordingly.

Retirement and other benefit obligations

In accordance with the requirements of the Russian legislation such pension system provides for calculation of current payments by the employer as a percentage of current total disbursements to staff. Such expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by pension funds selected by employees.

Recognition of income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income also includes income earned on investments in securities. Other income is credited to consolidated income statement when the related transactions are completed.

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in the consolidated profit and loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in the consolidated profit and loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in the consolidated profit and loss when the syndication has been completed. All other commissions are recognized when services are provided.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into RUR at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

Rates of exchange

The exchange rates at year-end used by the Group in the preparation of the consolidated financial statements are as follows:

	31 December 2006	31 December 2005
RUR/USD	26.3311	28.7825
RUR/EUR	34.6965	34.1850

Fiduciary activities

The Group provides trustee services to its customers. Also the Group provides depositary services to its customers that include transactions with securities on their depo accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten per cent or more of all the segments are reported separately. Geographical segments of the Group have been reported

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separately within these consolidated financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

Adoption of new standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2006. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Group's accounting policies that have affected the amounts reported for the current or prior years.

At the date of issue of these financial statements the following Standards and Interpretations applicable to the Group were issued but not yet effective for these financial statements: International Financial Reporting Standard 7 “Financial Instruments: Disclosure” effective from 1 January 2007 requires disclosure of additional information on financial instruments; Amendments to International Accounting Standard 1 “Presentation of Financial Statements” effective 1 January 2007 requires disclosure of the objectives, policies and practices for managing capital. Currently the Group estimates the effect of these new and amended Standards on its financial statements and develops an action plan to modify its accounting and reporting systems to provide reliable disclosure of the required information.

Reclassifications

Certain reclassifications have been made to the consolidated financial statements as of 31 December 2005 and for the year then ended to conform to the presentation as of 31 December 2006 and for the year then ended as current period presentation provides better view of the consolidated financial statements.

Nature of reclassification	Amount RUR'000	Income statement/balance sheet line as per previous report	Income statement/balance sheet line as per current report
Penalties on lending operations	6,533	Other income	Interest income on loans to customers
Net loss on forward operations	4,455	Net gain on foreign exchange operations	Net gain on financial assets at fair value
Construction in progress	127,913	Buildings (Property, equipment and intangible assets)	through profit or loss Construction in progress (Property, equipment and intangible assets)

4. GROUP REORGANIZATION

In 2006 the Group's parent company transferred a control over JSC “Invest-Sviaz-Holding” and CJSC “Leasing Company “Sistema-Finleasing” to MBRD for cash consideration of RUR 336,812 thousand paid by the Group. The companies are engaged in financial lease. The ownership interest and proportion of voting power of MBRD in JSC “Invest-Sviaz-Holding” and CJSC “Leasing Company “Sistema-Finleasing” as at 31 December 2006 are presented in Note 1.

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The carrying values of companies’ net assets as of the date of acquisition are presented below:

	CJSC “Leasing Company “Sistema- Finleasing” RUR’000	JSC “Invest- Sviaz-Holding” RUR’000
Loans and advances to banks	1,943	175,733
Net investments in lease	121,615	1,529,322
Originated loans	7,584	333
Receivables on finance lease	3,174	427,077
Fixed and intangible assets, less accumulated depreciation	1,026	20,443
Other assets	18,362	9,145
Loans and advances from banks	(120,807)	(1,031,999)
Liabilities on finance lease transactions	(32,278)	(979,923)
Other liabilities	(1,676)	(20,890)
Net assets	(1,057)	129,241
Consideration paid in cash	82,080	254,732
Net accumulated deficit acquired by the Group	(83,137)	(125,491)

The difference between the nominal amount of consideration paid by the Group and the cost of Group’s share of net assets purchased of RUR 208,628 thousand was charged to the Group’s equity.

5. NET INTEREST INCOME

	Year ended 31 December 2006 RUR’000	Year ended 31 December 2005 RUR’000
Interest income		
Interest on loans to customers	3,771,639	2,071,590
Interest on due from banks	628,043	301,748
Interest on debt securities	289,505	141,943
Interest on promissory notes	52,954	134,021
Total interest income	4,742,141	2,649,302
Interest expense		
Interest on customer accounts	(1,557,686)	(832,766)
Interest on due to banks	(232,018)	(88,776)
Interest on debt securities issued	(886,674)	(574,293)
Other interest expense	(8,943)	-
Total interest expense	(2,685,321)	(1,495,835)
Net interest income before provision for impairment losses on interest bearing assets	2,056,820	1,153,467

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6. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

The movements in allowance for impairment losses on interest earning assets were as follows:

	Loans to customers RUR'000
31 December 2004	850,385
Provision	<u>356,485</u>
31 December 2005	1,206,870
Provision	<u>669,411</u>
31 December 2006	<u><u>1,876,281</u></u>

The movements in allowances for impairment losses on other transactions were as follows:

	Guarantees and other commitments RUR'000
31 December 2004	23,419
Recovery of provision	<u>(20,558)</u>
31 December 2005	2,861
Provision	<u>10,157</u>
31 December 2006	<u><u>13,018</u></u>

7. NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain on financial assets at fair value through profit or loss comprises:

	Year ended 31 December 2006 RUR'000	Year ended 31 December 2005 RUR'000
Net gain on operations with debt securities	67,623	24,290
Net loss on forward operations	(37,296)	(4,455)
Net gain on operations with equity securities	53	15,159
Net loss on other operations	<u>(1,334)</u>	<u>(540)</u>
Total net gain on financial assets at fair value through profit or loss	<u><u>29,046</u></u>	<u><u>34,454</u></u>

The Group enters into derivative financial instruments to manage currency and liquidity risks. Net loss on forward operations arising primarily from long forward position in US Dollars, held for the purpose of matching short balance sheet position in US Dollars. The Group's foreign currency exchange position as of 31 December 2006 and 2005 is disclosed in Note 33.

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8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2006 RUR'000	Year ended 31 December 2005 RUR'000
Fee and commission income from:		
Settlement operations	236,401	111,749
Cash operations	102,240	57,938
Documentary operations	34,449	21,159
Currency control operations	12,455	5,516
Trust operations	8,485	-
Other	18,695	5,814
Total fee and commission income	412,725	202,176
Fee and commission expense on:		
Settlement operations	36,366	6,233
Documentary operations	14,534	11,420
Cash operations	3,438	2,077
Other	4,552	387
Total fee and commission expense	58,890	20,117

9. OTHER INCOME

Other income for the year ended 31 December 2006 and 2005 includes property rental income amounting to RUR 14,508 thousand and RUR 3,458 thousand, respectively.

10. OPERATING EXPENSES

	Year ended 31 December 2006 RUR'000	Year ended 31 December 2005 RUR'000
Staff cost	732,803	372,569
Operating lease	217,904	89,665
Employer social security contributions	116,462	64,115
Depreciation and amortization	92,138	68,159
Taxes other than income tax	72,276	44,747
Maintenance of property and equipment	60,415	17,134
Deposit insurance system contributions	50,943	17,402
Security	45,758	27,769
Professional services	43,932	45,725
Advertising expenses	12,228	28,044
Telecommunication	26,020	16,450
Insurance expenses	24,714	17,220
Financing of social needs	20,674	11,949
Stationery and other office expenses	13,786	11,238
Business trip expenses	13,785	5,488
Hospitality expenses	2,192	1,613
Other expenses	43,101	30,087
Total operating expenses	1,589,131	869,374

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11. INCOME TAXES

The Group provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of countries where the Group and its subsidiaries operate and which may differ from International Financial Reporting Standards.

The Group is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2006 and 2005 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as at 31 December 2006 and 2005 comprise:

	31 December 2006 RUR'000	31 December 2005 RUR'000
Deferred assets:		
Loans to customers and other receivables	100,587	-
Other liabilities	33,067	-
Other assets	22,884	9,111
Financial assets at fair value through profit or loss	21,141	-
Provisions	10,374	-
Due to banks	-	71,032
Total deferred assets	188,053	80,143
Deferred liabilities:		
Property, equipment and intangible assets	169,857	117,476
Debt securities issued	25,223	5,089
Financial assets at fair value through profit or loss	-	13,023
Due to banks	1,395	31,790
Total deferred liabilities	196,475	167,378
Net deferred tax assets/(liabilities)	45,133	(87,235)
Deferred tax liabilities at the statutory rate (24%) recognised in equity	(23,728)	-
Deferred tax liability at the statutory rate (24%) recognised in income statement	(23,426)	(20,936)
Less unrecognized deferred tax asset	(21,707)	-
Net deferred tax liability	(23,728)	(20,936)

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Relationships between income tax expense and net profit for the years ended 31 December 2006 and 2005 are explained as follows:

	Year ended 31 December 2006 RUR'000	Year ended 31 December 2005 RUR'000
Profit before income tax	<u>575,037</u>	<u>299,326</u>
Tax at the statutory tax rate	138,009	71,838
Tax effect on income taxed at different rates	2,327	-
Change in unrecognised deferred tax assets	21,707	797
Tax effect of permanent differences	<u>17,394</u>	<u>39,586</u>
Income tax expense	<u>179,437</u>	<u>112,221</u>
Current income tax expense	200,373	116,415
Recovery for deferred tax liabilities	<u>(20,936)</u>	<u>(4,194)</u>
Income tax expense	<u>179,437</u>	<u>112,221</u>
	2006 RUR'000	2005 RUR'000
Deferred income tax liabilities		
1 January	20,936	25,130
Decrease in income tax liability recognised in consolidated income statement for the period	(20,936)	(4,194)
Accrued deferred tax on items recorded in equity	<u>23,728</u>	<u>-</u>
31 December	<u>23,728</u>	<u>20,936</u>

12. EARNINGS PER SHARE

	Year ended 31 December 2006 RUR'000	Year ended 31 December 2005 RUR'000
Profit:		
Net profit for the year	395,600	187,105
Less:		
Dividends on preferred shares	<u>(1,236)</u>	<u>(1,251)</u>
Net profit attributable to ordinary shareholders of the parent company	<u>394,364</u>	<u>185,854</u>
Weighted average number of ordinary shares outstanding during the period for basic and diluted earnings per share	<u>930,000</u>	<u>877,143</u>
Earnings per share – basic and diluted (RUR)	<u>424.0</u>	<u>211.9</u>

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13. CASH AND BALANCES WITH THE CENTRAL BANK OF THE RUSSIAN FEDERATION

	31 December 2006 RUR'000	31 December 2005 RUR'000
Cash	1,326,708	688,741
Balances with the Central Bank of the Russian Federation	<u>4,776,219</u>	<u>2,053,091</u>
Total cash and balances with the Central Bank of the Russian Federation	<u>6,102,927</u>	<u>2,741,832</u>

The balances with the CBR as of 31 December 2006 and 2005 include RUR 1,474,274 thousand and RUR 563,512 thousand, respectively, that represent the minimum reserve deposit required by the CBR. The Group is required to maintain the reserve deposit with the CBR at all times.

The balances with the CBR as of 31 December 2005 include RUR 55,912 thousand that represent reserve deposit on customers operations with foreign currencies required by the CBR.

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	31 December 2006 RUR'000	31 December 2005 RUR'000
Cash	1,326,708	688,741
Balances with the Central Bank of the Russian Federation	4,776,219	2,053,091
Loans and advances to banks in OECD countries	8,537,019	1,020,992
Financial assets at fair value through profit or loss	<u>539,734</u>	<u>476,287</u>
	15,179,680	4,239,111
Less reserve deposits with the CBR	<u>(1,474,274)</u>	<u>(619,424)</u>
Total cash and cash equivalents	<u>13,705,406</u>	<u>3,619,687</u>

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Interest to nominal %	31 December 2006 RUR'000	Interest to nominal %	31 December 2005 RUR'000
Corporate and bank bonds				
Bank Souyz bonds	8%	203,982		-
Russian Copper company bonds	9%	132,023	9%	144,282
Magnezit bonds	10%	115,362	10%	100,243
Avtovaz eurobonds	9%	107,090		-
Salut Energy bonds	10%	103,247	10%	91,000
Sugar Company bonds	13%	101,142		-
TOAP Finance bonds	12%	100,559		-
Salavatnefteorgsyntez eurobonds	8-9%	66,918		-
Irkut eurobonds	8%	65,819		-
Russian Standard Bank bonds	8%	58,876	8%	60,289
Impex Bank eurobonds	9%	53,320		-
Wild Orchid bonds	11%	46,460		-
Marta Finance bonds	15%	38,640	15%	87,097
Sevkabelfinance bonds	13%	22,384	12%	100,536

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	Interest to nominal %	31 December 2006 RUR'000	Interest to nominal %	31 December 2005 RUR'000
Russian Railways bonds	8%	12,247		-
Irkut bonds	9%	5,516	9%	30,718
Avtovaz bonds		-	9-10%	201,078
Stroytransgaz bonds		-	10%	187,821
KhKF Bank bonds		-	8-9%	109,844
Uralvagon bonds		-	9%	102,229
Salavatsteklo bonds		-	9%	101,500
ACBK-Invest bonds		-	12%	72,283
Efko bonds		-	8%	68,008
NSMMZ bonds		-	12%	62,800
OMK bonds		-	9%	61,848
Spurt bank bonds		-	9%	60,012
Yakovlevsky bonds		-	12%	51,052
RAF bonds		-	7%	40,477
Tatenergo bonds		-	10%	31,899
TchTPZ bonds		-	10%	26,068
OMZ bonds		-	14%	18,092
		<u>1,233,585</u>		<u>1,809,176</u>
Central Bank of the Russian Federation bonds				
CB RF bonds		-	9%	99,120
		<u>-</u>		<u>99,120</u>
Corporate and bank promissory notes				
Promissory notes of Stroytransgaz	10%	409,718	10%	106,534
Promissory notes of Promsvyazbank	8%	163,640	8%	46,898
Promissory notes of Absolut bank	9%	74,848		-
Promissory notes of NOMOS bank	7%	58,799	8%	202,151
Promissory notes of Souyz bank	10%	54,764	9%	67,715
Promissory notes of Center Telekom	10%	29,854	8%	26,479
Kamaz-Finance promissory notes	10%	29,645	9%	39,343
Promissory notes of RTK-Leasing	10%	23,063		-
Promissory notes of Transcredit bank		-	8%	271,203
Promissory notes of Salavatnefteogrsyntez		-	8%	236,907
Promissory notes of Impexbank		-	8%	80,495
Promissory notes of Rosselkhozbank		-	7%	58,439
Promissory notes of Stroycredit bank		-	7%	56,565
Promissory notes of UTK		-	9%	54,143
Promissory notes of Mezhprombank		-	11%	48,332
Promissory notes of VBRR		-	9%	28,489
Promissory notes of Sberbank RF		-	3%	656
		<u>844,331</u>		<u>1,324,349</u>

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	Interest to nominal %	31 December 2006 RUR'000	Interest to nominal %	31 December 2005 RUR'000
Russian government debt securities				
Russian State Bonds (OFZ bonds)	7-9%	345,097	6-8%	169,050
Russian State US Dollar denominated Bonds (OVGVZ bonds)	3%	<u>194,637</u>	3%	<u>208,117</u>
		<u>539,734</u>		<u>377,167</u>
Shares				
Preferred shares of Surgutneftegaz		14,127		-
Ordinary shares of Lukoil		11,435		-
Ordinary and preferred shares of MGTS		<u>2,867</u>		<u>2,248</u>
		<u>28,429</u>		<u>2,248</u>
Derivative financial instruments – foreign currencies exchange contracts		<u>14,132</u>		<u>-</u>
Total financial assets at fair value through profit or loss		<u>2,660,211</u>		<u>3,612,060</u>

Russian State Bonds (OFZ) are Russian Rouble denominated government securities with medium to long-term maturities issued at discount to face value or with an interest payable four times a year at the annual rates of 6-10% of the par value and guaranteed by the Ministry of Finance of the RF.

OVGVZ Bonds are US Dollar denominated government securities issued at discount to face value with maturity in 2011. Interest on these bonds is payable once a year at the annual rates of 3% of the par value.

Corporate promissory notes represent debt instruments issued by companies and commercial banks in the Russian Federation with a discount from the par value. Corporate promissory notes mature within one year.

Corporate bonds are bonds issued by Russian enterprises. A coupon of 8%-15% and 7%-15% to the nominal value is payable under the bonds outstanding as of 31 December 2006 and 2005. Corporate bonds have maturities between 1 and 5 years.

As of 31 December 2006 and 2005 included in trading securities is accrued interest income on debt securities amounting to RUR 29,318 thousand and RUR 48,541 thousand, respectively.

As 31 December 2006 included in the trading portfolio were OFZ bonds of RUR 248,001 and corporate and bank bonds of RUR 69,346 thousand which were provided as collateral for CBR loan facilities. As of 31 December 2006, none of them were pledged and no funds were received by the Group on such facilities.

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As 31 December 2005 included in the trading portfolio were OFZ bonds of RUR 60,917 thousand which were provided as collateral for CBR loan facilities. As of 31 December 2005, none of them were pledged and no funds were received by the Group on such facilities.

	Nominal Amount RUR'000	31 December 2006 Net fair value	
		Asset RUR'000	Liability RUR'000
Foreign currency contracts			
Forwards	3,095,778	14,132	36,935
		<u>14,132</u>	<u>36,935</u>

15. DUE FROM BANKS

	31 December 2006 RUR'000	31 December 2005 RUR'000
Loans and advances to banks	12,722,073	2,192,065
Correspondent accounts with other banks	342,603	151,517
Total due from banks	<u>13,064,676</u>	<u>2,343,582</u>

As of 31 December 2006 and 2005 due from banks included RUR 25,204 thousand and RUR 30,991 thousand, respectively, placed as a guarantee deposits on operations with plastic cards.

Included in due from banks are accrued interest in the amount of RUR 22,002 thousand and RUR 3,546 thousand as at 31 December 2006 and 2005, respectively.

As of 31 December 2006 and 2005 the Group had due from 7 and 2 banks totaling RUR 11,069,564 thousand and RUR 1,172,853 thousand, respectively, that individually exceeded 10% of the Group's equity.

As at 31 December 2006 and 2005 the maximum credit risk exposure on due from banks amounted to RUR 13,064,676 thousand and RUR 2,343,582 thousand, respectively.

16. LOANS TO CUSTOMERS AND OTHER RECEIVABLES

	31 December 2006 RUR'000	31 December 2005 RUR'000
Loans to customers	33,387,047	23,831,069
Net investments in finance lease	2,510,455	-
Receivables on finance lease	572,404	-
	<u>36,469,906</u>	<u>23,831,069</u>
Less allowance for impairment losses	(1,876,281)	(1,206,870)
Total loans to customers and other receivables	<u>34,593,625</u>	<u>22,624,199</u>

As of 31 December 2006 and 2005 accrued interest income included in loans to customers amounted to RUR 172,146 thousand and RUR 56,701 thousand, respectively.

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As of 31 December 2006 included in loans to customers are receivables on finance lease of RUR 572,404 thousand which represent advances paid to suppliers for equipment delivery to be further transferred into finance lease.

Movements in allowances for impairment losses for the years ended 31 December 2006 and 2005 are disclosed in Note 6.

	31 December 2006 RUR'000	31 December 2005 RUR'000
Loans collateralized by pledge of equipment and transport	17,665,315	5,011,008
Loans collateralized by pledge of real estate	4,165,785	2,457,472
Loans secured by corporate guarantees	3,782,005	11,245,857
Loans collateralized by pledge of shares of other companies	3,149,870	2,507,819
Loans collateralized by pledge of inventory	182,104	508,289
Loans collateralized by the MBRD's promissory notes	-	135,510
Other	1,390,589	150,585
Unsecured loans and receivables on finance lease	6,134,238	1,814,529
	<u>36,469,906</u>	<u>23,831,069</u>
Less allowance for impairment losses	(1,876,281)	(1,206,870)
Total loans to customers and other receivables, net	<u><u>34,593,625</u></u>	<u><u>22,624,199</u></u>

	31 December 2006 RUR'000	31 December 2005 RUR'000
Analysis by sector/type of borrower:		
Individuals	9,741,303	1,673,856
Real estate management and development	6,291,015	10,132,269
Finance lease	5,676,217	1,919,150
Trading	4,968,387	2,886,981
Telecommunications	3,682,768	974,838
Manufacturing	2,070,017	2,854,644
Finance	1,811,973	1,197,432
Transport	1,523,451	935,227
Tourist and hotel business	19,194	585,365
Other	685,580	671,307
	<u>36,469,906</u>	<u>23,831,069</u>
Less allowance for impairment losses	(1,876,281)	(1,206,870)
Total loans to customers and other receivables	<u><u>34,593,625</u></u>	<u><u>22,624,199</u></u>

As of 31 December 2006 and 2005 the Group had loans to 13 and 18 borrowers totaling RUR 7,916,332 thousand and RUR 10,218,293 thousand, respectively, with individual exposure exceeding 10% of the Group's equity.

The Group's loans to customers in Moscow and the Moscow region represent 54% and 77% of the total loan portfolio as of 31 December 2006 and 2005, respectively. Thus, there is a significant geographical concentration of the loan portfolio.

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As at 31 December 2006 and 2005 a maximum credit risk exposure of loans to customers and other receivables amounted to RUR 34,593,625 thousand and RUR 22,624,199 thousand, respectively.

The components of net investment in finance lease as of 31 December 2006 are as follows:

	31 December 2006 RUR'000
Not later than one year	1,372,682
From one year to five years	1,984,856
More than 5 years	<u>16,542</u>
Minimum lease payments	3,374,080
Less: unearned finance income	<u>(863,625)</u>
Net investment in finance lease	<u>2,510,455</u>
Current portion	903,428
Long-term portion	<u>1,607,027</u>
Net investment in finance lease	<u>2,510,455</u>

17. INVESTMENTS AVAILABLE-FOR-SALE

	Ownership share %	31 December 2006 RUR'000	Ownership share %	31 December 2005 RUR'000
Equity securities				
East West United Bank ordinary shares	17%	187,498		-
Other		<u>389</u>		<u>90</u>
Total investments available-for-sale		<u>187,887</u>		<u>90</u>

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18. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings	Leasehold improve- ments	Furniture and equipment	Intangible assets	Construc- tion in progress	Total
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
Cost/indexed/revalued amount						
31 December 2004	34,169	43,557	239,956	50,579	-	368,261
Additions	-	24,849	106,449	12,794	127,913	272,005
Disposals	-	(536)	(15,378)	(1,103)	-	(17,017)
31 December 2005	34,169	67,870	331,027	62,270	127,913	623,249
Group reorganisation	-	-	25,125	-	-	25,125
Additions	-	78,738	175,563	34,624	40,633	329,558
Disposals	-	(315)	(7,218)	(3,199)	-	(10,732)
Write-off of accumulated depreciation on revaluation	(2,777)	-	-	-	-	(2,777)
Revaluation	98,865	-	-	-	-	98,865
31 December 2006	130,257	146,293	524,497	93,695	168,546	1,063,288
Accumulated depreciation						
31 December 2004	1,381	19,803	77,413	19,614	-	118,211
Charge for the period	698	11,712	46,940	8,809	-	68,159
Disposal	-	(508)	(14,096)	(936)	-	(15,540)
31 December 2005	2,079	31,007	110,257	27,487	-	170,830
Group reorganisation	-	-	2,173	-	-	2,173
Charge for the period	698	18,023	63,004	10,413	-	92,138
Disposal	-	(315)	(5,851)	(2,376)	-	(8,542)
Write-off of accumulated depreciation on revaluation	(2,777)	-	-	-	-	(2,777)
31 December 2006	-	48,715	169,583	35,524	-	253,822
Net book value at 31 December 2006	130,257	97,578	354,914	58,171	168,546	809,466
31 December 2005	32,090	36,863	220,770	34,783	127,913	452,419

As at 31 December 2006, the Group performed a revaluation of buildings carried on its balance sheet at that date based on the report issued by an independent appraiser. As a result, the carrying amount of buildings became RUR 130,257 thousand. The carrying amount of buildings which would have been reported had the buildings been carried at initial indexed cost less accumulated depreciation and impairment losses, amounts to RUR 31,392 thousand as at 31 December 2006.

The following methods were used to derive the fair value of the buildings:

- discounted cash flow method (income approach);
- comprehensive cost method (cost approach);
- sales comparison method (market approach).

To obtain the final value the estimations derived using various approaches were assigned weights based on the extent to which the estimates achieved the following: completeness and reliability of information, reflection of the individual nature of the subject property, and other.

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19. OTHER ASSETS

	31 December 2006 RUR'000	31 December 2005 RUR'000
Value added tax recoverable	351,758	-
Property and equipment purchased for transfer into lease	193,005	-
Prepaid expenses and receivables on other transactions	134,755	31,853
Taxes recoverable other than income tax	6,899	22,779
Advances on subsidiaries purchase	-	173,499
Current income tax asset	-	2,760
Other	-	77
Total other assets	686,417	230,968

As of 31 December 2006 included in other assets is value added tax recoverable on finance lease transactions of RUR 328,972 thousand, which represents value added tax paid on purchase of equipment already transferred or ready to transfer to lessee under finance lease agreements and is expected to be gradually recovered during the life of related finance lease agreement.

As of 31 December 2006 included in other assets are property and equipment of RUR 193,005 thousand, purchased for further transfer under finance lease agreements.

20. DUE TO BANKS

	31 December 2006 RUR'000	31 December 2005 RUR'000
Loans from banks and other financial institutions	5,427,121	3,402,037
Correspondent accounts of banks	9,438	58,440
Total due to banks	5,436,559	3,460,477

As of 31 December 2006 and 2005 accrued interest expenses included in due to banks amounted to RUR 10,719 thousand and RUR 949 thousand, respectively.

21. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2006 RUR'000	31 December 2005 RUR'000
Time deposits	26,662,343	11,522,003
Repayable on demand	10,099,798	5,119,954
Total customer accounts	36,762,141	16,641,957

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As of 31 December 2006 and 2005 accrued interest expenses included in customers accounts amounted to RUR 206,044 thousand and RUR 70,930 thousand, respectively.

As of 31 December 2006 included in customer accounts were RUR 3,649,783 thousand, RUR 2,750,201 thousand and RUR 669,800 thousand payable to three Russian companies.

As of 31 December 2005 included in customer accounts were RUR 2,160,971 thousand, RUR 1,771,947 thousand and RUR 479,047 thousand payable to three Russian companies.

	31 December 2006 RUR'000	31 December 2005 RUR'000
Analysis by sector:		
Individuals	10,876,839	5,255,503
Telecommunications	8,686,699	3,812,183
Real estate management and construction	7,840,509	494,469
Finance	5,904,531	4,122,539
Production	1,439,053	829,420
Trading	898,798	1,084,503
Culture and sports	645,729	297,184
Aircraft manufacturing	54,533	51,186
Food industry	16,349	39,727
Other	399,101	655,243
Total customer accounts	36,762,141	16,641,957

22. DEBT SECURITIES ISSUED

	Redemption date (month, year)	Interest to nominal %	31 December 2006 RUR'000	Redemption date (month, year)	Interest to nominal %	31 December 2005 RUR'000
Eurobonds	Mar'08, June'09	8.6%, 8.8%	6,653,143	Mar' 08	8.6%	4,396,802
Discount-bearing promissory notes	Jan'07- Feb'10	1-10.4%	2,748,429	Jan' 06-May' 07	7.0%-11.5%	2,960,253
Interest-bearing promissory notes	Jan'07- Dec'10	1-8.3%	214,651	Jan' 06-Feb' 10	0.1%-7.4%	461,563
Certificates of deposit	Mar'07	6.0%	5,025	Sep' 06	9.0%	41,115
No interest/discount settlement promissory notes	Jan'07- Mar'2007	-	222	Jan' 06	-	150,410
Total debt securities issued			9,621,470			8,010,143

As at 31 December 2006 and 2005 accrued interest expense is included in debt securities issued amounting to RUR 302,089 thousand and RUR 255,194 thousand, respectively.

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23. LIABILITIES ON FINANCE LEASE TRANSACTIONS

	31 December 2006 RUR'000
Payables to suppliers of equipment for further transfer to finance lease	305,622
Advances received from customers	175,713
	<hr/>
Total liabilities on leasing transactions	481,335

24. OTHER LIABILITIES

	31 December 2006 RUR'000	31 December 2005 RUR'000
Forward operations with foreign currencies	36,935	-
Salaries and other compensations payable to employees	33,198	-
Taxes payable, other than income tax	28,121	1,630
Settlements on securities purchase	24,817	-
Deferred income tax liability	23,728	20,936
Accrued expenses	5,080	12,923
Current income tax liability	3,879	-
Other payables	21,514	5,039
	<hr/>	<hr/>
Total other liabilities	177,272	40,528

25. SUBORDINATED DEBT

As of 31 December 2006 subordinated debt of RUR 1,587,141 thousand are represented by 8.875% p.a. loan participation notes due 2016. As at 31 December 2006 accrued interest expense included in subordinated debt amounted to RUR 45,547 thousand.

As at 31 December 2006 the Group included in the computation of Total capital for Capital adequacy purposes the subordinated debt received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

26. SHARE CAPITAL AND SHARE PREMIUM

As of 31 December 2006 and 2005 authorized share capital comprised 1,165,000 ordinary shares with par value of RUR 500 each and 1,000 preferred shares with par value of RUR 500 each.

As of 31 December 2006 and 2005 share capital issued and fully paid comprised of 930,000 ordinary shares with par value of RUR 500 each and 1,000 preferred shares with par value of RUR 500 each.

During 2005 the Group issued additional 130,000 ordinary shares with par value of RUR 500 each at RUR 598 thousand each.

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Changes in the amount of the Group’s ordinary and preferred shares for the years ended 31 December 2006 and 2005 are presented below.

	Ordinary shares	Preferred shares
31 December 2004	800,000	1,000
Ordinary shares issue	130,000	-
31 December 2005	930,000	1,000
Shares issue	-	-
31 December 2006	<u>930,000</u>	<u>1,000</u>

All ordinary shares are of the same type and bear one vote. Preferred shares are not cumulative.

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

On 31 May 2006 annual shareholders’ meeting approved payment of dividends on preferred and ordinary shares for 2005 of RUR 1,236 thousand and RUR 83,784 thousand, respectively.

On 31 May 2005 annual shareholders’ meeting approved payment of dividends on preferred and ordinary shares for 2004 of RUR 1,251 thousand and RUR 40,920 thousand, respectively.

The Group’s reserves distributable to shareholders are limited to the amount of its reserves as disclosed in its statutory accounts less non-distributable reserve that is represented by a general reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies.

27. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

Provision for losses on letters of credit, guarantees and unused overdraft limits amounted to RUR 13,018 thousand and RUR 2,861 thousand as at 31 December 2006 and 2005, respectively.

The risk-weighted amount is obtained by applying credit conversion factor and counterparty risk weightings according to the principles employed by the Basle Committee on Banking Supervision.

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As of 31 December 2006 and 2005, the nominal or contract amounts and risk-weighted amounts were:

	31 December 2006		31 December 2005	
	Nominal Amount RUR'000	Risk weighted amount RUR'000	Nominal Amount RUR'000	Risk weighted amount RUR'000
Contingent liabilities and credit commitments				
Guarantees issued and similar commitments	1,293,781	906,351	1,202,946	788,569
Letters of credit and other transaction related contingent obligations	300,513	150,257	28,554	14,277
Commitments on loans and unused credit lines	4,767,752	984,279	3,509,948	701,806
Total contingent liabilities and credit commitments	6,362,046	2,040,887	4,741,448	1,504,652

As of 31 December 2006 and 2005 RUR 384,786 thousand and RUR 414,377 thousand, respectively, of guarantees issued were covered by customers' funds.

Operating lease commitments – Where the Group is the lessee, the future minimum lease payments under non cancellable operating leases of buildings, equipment and cars are as follows:

	31 December 2006 RUR'000	31 December 2005 RUR'000
Not later than 1 year	208,681	95,767
Later than 1 year and not later than 5 years	286,503	107,255
Later than 5 years	164,593	137,061
Total operating lease commitments	659,777	340,083

Fiduciary activities – In the normal course of its business the Group enters into agreements with limited right on decision making with clients for their assets management in accordance with specific criteria established by clients. The Group may be liable for losses or actions aimed at appropriation of the clients' funds until such funds or securities are not returned to the client due to gross negligence or willful misconduct by the Group only. The maximum potential financial risk of the Group at any given moment is equal to the volume of the clients' funds plus/minus any unrealized income/loss on the client's position. In the judgment of management, as at 31 December 2006 and 2005 the maximum potential financial risk on securities accepted by the Group on behalf of its clients does not exceed RUR 1,558,379 thousand and RUR 715,350 thousand, respectively.

The Group also provides depositary services to its customers. As at 31 December 2006 and 2005, the Group had customer securities totaling 12,821,649 items and 18,984,563 items, respectively, in its nominal holder accounts.

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Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

The Group is receiving claims from individual customers with respect to certain commissions withheld by the Group for loan agreements service. The CBR issued an instruction requiring banks to disclose effective interest rates on loans granted to individuals. Management is of the opinion that such claims would not have adverse consequences for the Group, and is in the process of establishing procedures on disclosing additional information in loan agreements in compliance with the CBR instruction.

Taxation – Provisions of the Russian tax legislation are sometimes inconsistent and may have more than one interpretation, which allows the Russian tax authorities to take decisions based on their own arbitrary interpretation of these provisions. In practice, the Russian tax authorities often interpret the tax legislation not in favor of the taxpayers, who have to resort to court proceeding to defend their position against the tax authorities. It should be noted that the Russian tax authorities can use the clarifications issued by the judicial bodies that have introduced the concept of “unjustified tax benefit”, “primary commercial goal of transaction” and the criteria of “commercial purpose (substance) of transaction”.

Such uncertainty could, in particular, be attributed to tax treatment of financial instruments/derivatives and determination of market price of transactions for transfer pricing purposes. It could also lead to temporary taxable differences occurred due to loan impairment provisions and income tax liabilities being treated by the tax authorities as understatement of the tax base. The management of the Bank is confident that applicable taxes have all been accrued and, consequently, creation of respective provisions is not required.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Also according to the clarification of the Russian Constitutional Court the statute of limitation for tax liabilities may be extended beyond the three year term set forth in the tax legislation, if a court determines that the taxpayers has obstructed or hindered a tax inspection.

Pensions and retirement plans – Employees receive pension benefits in accordance with the laws and regulations of the respective countries. As at 31 December 2006 and 2005, the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Operating environment – The Group’s principal business activities are within the Russian Federation. Laws and regulations affecting the business environment in the Russian Federation are subject to rapid changes and the Group’s assets and operations could be at risk due to negative changes in the political and business environment.

28. SUBSEQUENT EVENTS

On 30 March 2007 the Board of Directors of MBRD approved additional issue of 160,000 ordinary shares with nominal value of RUR 500 per share and price of RUR 10,000 per share.

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29. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 “Related party disclosures”, represent:

- (a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Group (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Group that gives them significant influence over the Group; and that have joint control over the Group;
- (b) Associates – enterprises on which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) Joint ventures in which the Group is a venturer;
- (d) Members of key management personnel of the Group or its parent;
- (e) Close members of the family of any individuals referred to in (a) or (d);
- (f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) Post-employment benefit plans for the benefit of employees of the Group, or of any entity that is a related party of the Group.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding with related parties:

	31 December 2006 RUR'000		31 December 2005 RUR'000	
	Related party transactions	Total category as per financial statements	Related party transactions	Total category as per financial statements
Financial assets and fair value through profit or loss	32,721	2,660,211	2,248	3,612,060
- shareholders	2,867		-	
- entities with joint control or significant influence over the Group	29,854		2,248	
Due from banks	1,203,327	13,064,676	512,812	2,343,582
- entities with joint control or significant influence over the Group	1,203,327		512,812	
Loans to customers and other receivables gross of allowance for impairment losses	6,844,039	36,469,906	11,196,493	23,831,069
- shareholders	691,194		-	
- key management personnel of the Group or its parent company	24,823		7,092	
- entities with joint control or significant influence over the Group	6,128,022		11,189,401	

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	31 December 2006 RUR'000		31 December 2005 RUR'000	
	Related party transactions	Total category as per financial statements	Related party transactions	Total category as per financial statements
Allowance for impairment losses on loans to customers and other receivables	(315,064)	(1,876,281)	(567,021)	(1,206,870)
- shareholders	-		-	
- key management personnel of the Group or its parent company	(923)		(359)	
- entities with joint control or significant influence over the Group	(314,141)		(566,662)	
Investments available-for-sale	187,498	187,887	-	90
- entities with joint control or significant influence over the Group	187,498		-	
Other assets	716	686,417	173,499	228,208
- entities with joint control or significant influence over the Group	716		173,499	
Due to banks	20,858	5,436,559	431,787	3,460,477
- entities with joint control or significant influence over the Group	20,858		431,787	
Customer accounts	30,006,497	36,762,141	10,966,514	16,641,957
- shareholders	1,153,856		720,824	
- key management personnel of the Group or its parent company	5,432,638		2,049,617	
- entities with joint control or significant influence over the Group	23,420,003		8,196,073	
Commitments on loans and unused credit lines	150,310	4,767,752	677,382	3,509,948
- shareholders	127		-	
- entities with joint control or significant influence over the Group	150,183		677,382	
Guarantees issued and similar commitments	696,385	1,293,781	500,001	1,202,946
- shareholders	503,799		-	
- entities with joint control or significant influence over the Group	192,586		500,001	

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	31 December 2006 RUR'000		31 December 2005 RUR'000	
	Related party transactions	Total category as per financial statements	Related party transactions	Total category as per financial statements
Provision on guarantees issued and unused overdraft limits	(4,481)	(13,018)	(1,161)	(2,861)
- shareholders	(3,242)		(1,161)	
- entities with joint control or significant influence over the Group	(1,239)		-	
Fiduciary activities – trust operations	1,558,379	1,558,379	715,350	715,350
- shareholders	-		715,350	
- entities with joint control or significant influence over the Group	1,558,379		-	

Included in the income statement for the year ended 31 December 2006 and 2005 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2006		Year ended 31 December 2005	
	Related party transactions RUR'000	Total category as per financial statements RUR'000	Related party transactions RUR'000	Total category as per financial statements RUR'000
Interest income	1,275,711	4,742,141	840,014	2,649,302
- shareholders	118,798		-	
- key management personnel of the Group or its parent company	1,229		734	
- entities with joint control or significant influence over the Group	1,155,684		839,280	
Interest expense	(1,566,410)	(2,685,321)	(511,385)	(1,495,835)
- shareholders	(305,662)		-	
- key management personnel of the Group or its parent company	(267,298)		(50,999)	
- entities with joint control or significant influence over the Group	(993,450)		(460,386)	
Recovery of provision/(provision) for impairment losses	251,957	(669,411)	(309,546)	(356,485)
- key management personnel of the Group or its parent company	(564)		(147,258)	
- entities with joint control or significant influence over the Group	252,521		(162,288)	

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	Year ended 31 December 2006		Year ended 31 December 2005	
	Related party transactions	Total category as per financial statements	Related party transactions	Total category as per financial statements
	RUR'000	RUR'000	RUR'000	RUR'000
Net gain on foreign exchange operations	100,526	378,491	58,025	122,179
- shareholders	(14,943)		20,184	
- entities with joint control or significant influence over the Group	115,469		37,841	
Fees and commissions income	177,400	412,725	53,266	202,176
- shareholders	40,678		-	
- entities with joint control or significant influence over the Group	136,722		53,266	
Other income	15,674	25,544	3,401	12,468
- shareholders	3,113		-	
- entities with joint control or significant influence over the Group	12,561		3,401	
Operating expense (net of staff cost)	85,062	739,866	58,747	432,690
- shareholders	10,450		-	
- entities with joint control or significant influence over the Group	74,612		58,747	
	Year ended 31 December 2006		Year ended 31 December 2005	
	Related party transactions	Total category as per financial statements	Related party transactions	Total category as per financial statements
	RUR'000	RUR'000	RUR'000	RUR'000
Key management personnel compensation - short-term employee benefits	63,097	849,265	52,709	436,684

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30. SEGMENT REPORTING

The Group’s primary format for reporting segment information is business segments and the secondary format is geographical segments.

Business segments

The Group is organised on the basis of three main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities and corporate leasing.
- Investment banking – representing financial instruments trading, structured financing, and debt securities issue.

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Group’s cost of capital. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding items such as taxation. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

Segment information about these businesses is presented below.

	Retail banking	Corporate banking	Investment banking	Unallocated	Year ended 31 December 2006 RUR’000
	RUR’000	RUR’000	RUR’000	RUR’000	RUR’000
Interest income	688,705	3,082,934	970,502	-	4,742,141
Interest expense	(547,044)	(1,010,642)	(1,127,635)	-	(2,685,321)
Provision for impairment losses on interest bearing assets	(265,292)	(404,119)	-	-	(669,411)
Net gain on financial assets at fair value through profit or loss	-	-	29,046	-	29,046
Net gain on foreign exchange operations	-	241,708	136,783	-	378,491
Fee and commission income	142,197	199,137	71,391	-	412,725
Fee and commission expense	-	(58,890)	-	-	(58,890)
Other income	6,072	19,472	-	-	25,544
External operating income	24,638	2,069,600	80,087	-	2,174,325
Income/(expense) from other segments	181,305	(556,547)	375,242	-	-
Operating income	205,943	1,513,053	455,329	-	2,174,325
Operating expenses	(682,536)	(250,051)	(39,830)	(616,714)	(1,589,131)

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	Retail banking	Corporate banking	Investment banking	Unallocated	Year ended 31 December 2006 RUR'000
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
Operating (loss)/profit	(476,593)	1,263,002	415,499	(616,714)	585,194
Provision for impairment losses on other transactions	-	(10,157)	-	-	(10,157)
(Loss)/profit before income tax	(476,593)	1,252,845	415,499	(616,714)	575,037
Income tax expense	-	-	-	(179,437)	(179,437)
Net (loss)/profit	(476,593)	1,252,845	415,499	(796,151)	395,600
Segment assets	<u>10,634,578</u>	<u>26,845,325</u>	<u>15,751,053</u>	<u>4,874,253</u>	<u>58,105,209</u>
Segment liabilities	<u>10,879,483</u>	<u>26,377,011</u>	<u>16,682,105</u>	<u>140,337</u>	<u>54,078,936</u>
Other segment items					
Property, equipment and intangible assets	330,415	82,662	26,166	370,223	809,466
Depreciation and amortization	(47,500)	(11,883)	(3,762)	(28,993)	(92,138)
Capital expenditure	148,950	37,264	11,796	131,548	329,558
	Retail banking	Corporate banking	Investment banking	Unallo-cated	Year ended 31 December 2005 RUR'000
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
Interest income	152,387	1,919,203	577,712	-	2,649,302
Interest expense	(329,270)	(503,496)	(663,069)	-	(1,495,835)
Provision for impairment losses on interest bearing assets	(71,303)	(285,182)	-	-	(356,485)
Net gain on financial assets at fair value through profit or loss	-	-	34,454	-	34,454
Net gain on foreign exchange operations	-	68,607	53,572	-	122,179
Fee and commission income	37,952	129,935	34,289	-	202,176
Fee and commission expense	-	(20,117)	-	-	(20,117)
Other income	<u>1,190</u>	<u>11,278</u>	<u>-</u>	<u>-</u>	<u>12,468</u>
External operating (expense)/income	(209,044)	1,320,228	36,958	-	1,148,142
Income/(expense) from other segments	<u>335,229</u>	<u>(480,718)</u>	<u>145,489</u>	<u>-</u>	<u>-</u>
Operating income	126,185	839,510	182,447	-	1,148,142
Operating expenses	<u>(269,314)</u>	<u>(144,697)</u>	<u>(44,966)</u>	<u>(410,397)</u>	<u>(869,374)</u>
Operating (loss)/profit	(143,129)	694,813	137,481	(410,397)	278,768
Provision for impairment losses on other transactions	-	20,558	-	-	20,558

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	Retail banking	Corporate banking	Investment banking	Unallo-cated	Year ended 31 December 2005 RUR'000
	RUR'000	RUR'000	RUR'000	RUR'000	RUR'000
(Loss)/profit before income tax	(143,129)	715,371	137,481	(410,397)	299,326
Income tax expense	-	-	-	(112,221)	(112,221)
Net (loss)/profit	<u>(143,129)</u>	<u>715,371</u>	<u>137,481</u>	<u>(522,618)</u>	<u>187,105</u>
Segment assets	<u>2,174,415</u>	<u>21,529,931</u>	<u>5,981,405</u>	<u>2,319,399</u>	<u>32,005,150</u>
Segment liabilities	<u>5,255,503</u>	<u>11,389,315</u>	<u>11,470,620</u>	<u>40,528</u>	<u>28,155,966</u>
Other segment items					
Property, equipment and intangible assets	107,388	70,181	25,763	249,087	452,419
Depreciation and amortization	(22,556)	(14,741)	(5,411)	(25,451)	(68,159)
Capital expenditure	47,684	31,163	11,440	181,718	272,005

Geographical segments

Segment information for the main geographical segments of the Group is set out below as at 31 December 2006 and 2005 and for the years then ended.

	Russia	Other non-OECD countries	OECD countries	31 December 2006 Total RUR'000
	RUR'000	RUR'000	RUR'000	RUR'000
Operating income gross of interest expense	4,473,208	67,036	319,402	4,859,646
Interest expense	(1,928,407)	(97,137)	(659,777)	(2,685,321)
Assets	46,854,581	2,651,018	8,599,610	58,105,209
Capital expenditure	329,558	-	-	329,558

	Russia	Other non-OECD countries	OECD countries	31 December 2005 Total RUR'000
	RUR'000	RUR'000	RUR'000	RUR'000
Operating income gross of interest expense	2,489,044	28,111	126,822	2,643,977
Interest expense	(1,094,692)	(67,309)	(333,834)	(1,495,835)
Assets	30,446,527	1,040,811	515,052	32,002,390
Capital expenditure	272,005	-	-	272,005

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External operating income, assets, capital expenditure have generally been allocated based on domicile of the counterparty. Tangible assets (cash, property equipment and intangible assets) have been allocated based on the country in which they are physically held.

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the balance sheet of the Group is presented below:

	31 December 2006		31 December 2005	
	Current value	Fair value	Current value	Fair value
Cash and balances with the Central Bank of the Russian Federation	6,102,927	6,102,927	2,741,832	2,741,832
Financial assets at fair value through profit or loss	2,660,211	2,660,211	3,612,060	3,612,060
Due from banks	13,064,676	13,064,676	2,343,582	2,343,582
Investments available-for-sale	187,887	187,887	90	90
Due to banks	5,436,559	5,436,559	3,460,477	3,460,477
Customer accounts	36,762,141	36,762,141	16,641,957	16,641,957
Debt securities issued	9,621,470	9,600,473	8,010,143	8,079,107
Liabilities on finance lease transactions	481,335	481,335	-	-
Subordinated debt	1,587,141	1,545,109	-	-

As of 31 December 2006 and 2005 loans and advances to customers and other receivables, less allowance for impairment losses of RUR 34,593,625 thousand and RUR 22,624,199 thousand were accounted at amortised cost. It is not practicable within constraints of timeliness and cost to determine the fair value of loans with sufficient reliability.

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32. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios (as set forth in the table below) of total (8%) and tier 1 capital (4%) to risk weighted assets.

The ratio was calculated according to the principles employed by the Basle Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for impairment losses:

Estimate	Description of position
0%	Cash and balances with the Central Bank of the Russian Federation
0%	State debt securities
20%	Due from banks for up to 1 year
50%	Loans fully secured by residential property
100%	Loans to customers and other receivables
100%	Other assets
	Obligations and commitments on unused loans with the initial maturity
50%	of over 1 year
100%	Guarantees

As at 31 December 2006 the Group's total capital amount for Capital Adequacy purposes was RUR 5,613,414 thousand and tier 1 capital amount was RUR 3,951,136 thousand with ratios of 13.67% and 9.62%, respectively.

As at 31 December 2005 the Group's total capital amount and tier 1 capital for Capital Adequacy purposes was RUR 3,849,184 thousand with ratio of 13.90%.

As at 31 December 2006 the Group included in the computation of Total capital for Capital adequacy purposes the subordinated debt received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

33. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Group's risk management policies in relation to those risks is as follows.

The Group manages the following main types of risks:

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

Cash flow forecasts are the primary tool that the Group uses to monitor liquidity. Cash flow forecasts contain a detailed breakdown by maturity and value of all assets and liabilities based on agreements and commitments entered into by the Group. In order to manage liquidity, Group regularly requests from its major corporate customers a schedule of upcoming changes in their deposit and loan

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balances. On the retail banking side, the Group carries out a scenario analysis and stress testing to forecast how likely customers request to withdraw funds.

The Group aims to match the terms of loans and deposits whenever possible. Gap analysis is used to monitor liquidity positions on a weekly basis. A maximum gap is set and monitored for a liquidity deficit. Stress testing is also carried out on a monthly basis using statistical analysis on the stability of deposits. For liquidity management purposes, the Group calculates expected liquidity surpluses/shortfalls over various time periods on the basis of cash flow forecasts under an “average expected scenario” assuming there are no significant losses or withdrawals of client deposits over the relevant period and under a “worst-case scenario” assuming losses are incurred as a result of market or credit risk or significant withdrawals of deposits. The “worst-case scenario” is essentially a stress-testing technique which is based on an analysis of the impact of a combination of negative factors.

An analysis of the liquidity and balance sheet interest rate risks as of 31 December 2006 based on contractual maturity is presented below.

	On demand and up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total RUR'000
ASSETS							
Interest-bearing assets:							
Financial assets at fair value							
through profit or loss	2,631,782	-	-	-	-	-	2,631,782
Due from banks	11,520,806	1,347,675	-	-	-	-	12,868,481
Loans to customers and other receivables	2,310,506	4,987,180	15,299,681	10,278,816	1,717,443	-	34,593,626
Total interest-bearing assets	16,463,094	6,334,855	15,299,681	10,278,816	1,717,443	-	50,093,889
Cash and balances with the Central Bank of the Russian Federation	4,628,653	-	-	-	-	1,474,274	6,102,927
Financial assets at fair value through profit or loss	28,429	-	-	-	-	-	28,429
Due from banks	196,194	-	-	-	-	-	196,194
Investments available-for-sale	-	-	-	187,887	-	-	187,887
Property, equipment and intangible assets	-	-	-	-	-	809,466	809,466
Other assets	29,685	327,760	-	328,972	-	-	686,417
TOTAL ASSETS	21,346,055	6,662,615	15,299,681	10,795,675	1,717,443	2,283,740	58,105,209
LIABILITIES							
Interest-bearing liabilities:							
Due to banks	2,037,534	1,108,135	737,972	1,549,345	-	-	5,432,986
Customer accounts	14,931,554	2,684,896	7,640,323	6,073,414	-	-	31,330,187
Subordinated debt	-	-	-	-	1,587,141	-	1,587,141
Debt securities issued	123,451	373,678	2,136,597	6,987,522	-	-	9,621,248
Total interest-bearing liabilities	17,092,539	4,166,709	10,514,892	14,610,281	1,587,141	-	47,971,562
Due to banks	3,573	-	-	-	-	-	3,573
Customer accounts	5,431,954	-	-	-	-	-	5,431,954
Debt securities issued	222	-	-	-	-	-	222
Provisions	-	13,018	-	-	-	-	13,018
Liabilities on finance lease transactions	-	481,335	-	-	-	-	481,335
Other liabilities	87,913	61,752	3,879	-	-	23,728	177,272
TOTAL LIABILITIES	22,616,201	4,722,814	10,518,771	14,610,281	1,587,141	23,728	54,078,936
Liquidity gap	(1,270,146)	1,939,801	4,780,910	(3,814,606)	130,302		
Interest sensitivity gap	(629,445)	2,168,146	4,784,789	(4,331,465)	130,302		
Cumulative interest sensitivity gap	(629,445)	1,538,701	6,323,490	1,992,025	2,122,327		
Cumulative interest sensitivity gap as a percentage of total assets	(1.1%)	2.6%	10.9%	3.4%	3.7%		

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An analysis of the liquidity and balance sheet interest rate risks as of 31 December 2005 based on contractual maturity is presented below.

	On demand and up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total RUR'000
ASSETS							
Interest-bearing assets:							
Financial assets at fair value							
through profit or loss	3,609,812	-	-	-	-	-	3,609,812
Due from banks	1,629,375	272,734	289,956	-	-	-	2,192,065
Loans to customers and other receivables	5,646,562	3,040,662	6,465,811	7,451,165	19,999	-	22,624,199
Total interest-bearing assets	10,885,749	3,313,396	6,755,767	7,451,165	19,999	-	28,426,076
Cash and balances with the Central Bank of the Russian Federation	2,122,408	-	-	-	-	619,424	2,741,832
Financial assets at fair value							
through profit or loss	2,248	-	-	-	-	-	2,248
Loans and advances to banks	151,517	-	-	-	-	-	151,517
Investments available-for-sale	-	-	-	-	-	90	90
Property, equipment and intangible assets	-	-	-	-	-	452,419	452,419
Other assets	230,968	-	-	-	-	-	230,968
TOTAL ASSETS	13,392,890	3,313,396	6,755,767	7,451,165	19,999	1,071,933	32,005,150
LIABILITIES							
Interest-bearing liabilities:							
Due to banks	286,145	-	421,780	584,900	-	-	1,292,825
Customer accounts	2,997,191	4,318,634	3,825,899	380,279	-	-	11,522,003
Debt securities issued	551,033	817,066	1,645,603	4,846,031	-	-	7,859,733
Total interest-bearing liabilities	3,834,369	5,135,700	5,893,282	5,811,210	-	-	20,674,561
Due to banks	58,440	2,109,212	-	-	-	-	2,167,652
Customer accounts	5,119,954	-	-	-	-	-	5,119,954
Debt securities issued	150,410	-	-	-	-	-	150,410
Provisions	-	-	-	-	-	2,861	2,861
Other liabilities	17,962	22,566	-	-	-	-	40,528
TOTAL LIABILITIES	9,181,135	7,267,478	5,893,282	5,811,210	-	2,861	28,155,966
Liquidity gap	4,211,755	(3,954,082)	862,485	1,639,955	19,999		
Interest sensitivity gap	7,051,380	(1,822,304)	862,485	1,639,955	19,999		
Cumulative interest sensitivity gap	7,051,380	5,229,076	6,091,561	7,731,516	7,751,515		
Cumulative interest sensitivity gap as a percentage of total assets	22.0%	16.3%	19.0%	24.2%	24.2%		

Asset and liability maturity periods and the ability to replace interest liabilities at an acceptable cost when they mature are crucial in determining the Group's liquidity and its susceptibility to fluctuation of interest rates and exchange rates.

The maturity of time deposits of individuals is based on contractual terms. However, time deposits can be withdrawn by individuals on demand.

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Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments and cash flow.

The Group has exposure to interest rate risk both through its bonds portfolio and interest-bearing assets and liabilities. The interest rate gaps are divided by maturity, and are monitored by Group's financial committee on a weekly basis. The Group also carries out a scenario analysis.

The following table presents an analysis of interest rate risk and thus the potential of the Group for gain or loss. Effective average interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Group.

	31 December 2006			31 December 2005		
	RUR	USD	Other currency	RUR	USD	Other currency
ASSETS						
Loans and advances to banks	5.76%	5.78%	3.45%	7.73%	3.24%	2.28%
Correspondent accounts with other banks	2.80%	3.72%	2.69%	2.83%	1.04%	1.97%
Financial assets at fair value through profit or loss	8.70%	7.41%	-	8.44%	7.21%	-
Loans to customers and other receivables						
- corporate customers	13.66%	13.17%	13.12%	11.74%	11.43%	9.87%
- individuals	18.02%	12.33%	19.26%	23.03%	11.33%	9.00%
LIABILITIES						
Due to banks	7.83%	8.19%	5.15%	6.55%	7.96%	5.63%
Customer accounts – demand deposits:						
- corporate customers	2.43%	4.88%	-	1.58%	1.81%	0.22%
- individuals	2.00%	0.50%	0.50%	1.00%	0.35%	0.49%
Customer accounts – time deposits:						
- corporate customers	5.90%	6.58%	5.88%	6.95%	6.62%	-
- individuals	10.26%	8.82%	7.04%	9.56%	8.37%	5.87%
Debt securities issued	8.32%	9.34%	6.00%	8.24%	4.73%	6.75%
Subordinated debt	-	9.45%	-	-	-	-

The majority of the Group's loan contracts and other financial assets and liabilities that bear interest contain clauses enabling the interest rate to be changed at the option of the lender. The Group management monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows.

Foreign exchange risk is managed via derivative instruments (foreign currency forward contracts) with domestic and foreign banks.

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The Group’s exposure to foreign currency exchange rate risk as of 31 December 2006 is presented below:

	RUR	USD USD 1 = RUR 26.3311	Other currency	Total RUR ‘000
ASSETS				
Cash and balances with the Central Bank of the Russian Federation	5,762,660	281,183	59,084	6,102,927
Financial assets at fair value through profit or loss	2,158,295	501,916	-	2,660,211
Due from banks	1,483,320	10,986,986	594,370	13,064,676
Loans to customers and other receivables	20,161,512	11,014,899	3,417,214	34,593,625
Investments available-for-sale	337	-	187,550	187,887
Property, equipment and intangible assets	809,466	-	-	809,466
Other assets	683,476	2,510	431	686,417
TOTAL ASSETS	31,059,066	22,787,494	4,258,649	58,105,209
LIABILITIES				
Due to banks	2,722,471	1,256,861	1,457,227	5,436,559
Customer accounts	19,393,608	16,550,059	818,474	36,762,141
Debt securities issued	2,898,772	6,683,616	39,082	9,621,470
Liabilities on finance lease transactions	374,980	21,990	84,365	481,335
Provisions	13,018	-	-	13,018
Other liabilities	175,980	1,218	74	177,272
Subordinated bonds issued	-	1,587,141	-	1,587,141
TOTAL LIABILITIES	25,578,829	26,100,885	2,399,222	54,078,936
OPEN BALANCE SHEET POSITION	5,480,237	(3,313,391)	1,859,427	

Derivative financial instruments

Fair values of derivative financial instruments are included in the currency analysis presented above. The following table presents further analysis of currency risk by types of derivative contracts as of 31 December 2006:

Derivative financial instruments	RUR	USD USD 1=RUR 26.3311	Other currency	Total RUR ‘000
Payables under foreign exchange forward contracts	(1,881,400)	-	(1,168,709)	(3,050,109)
Receivables on foreign exchange forward contracts	-	3,050,109	-	3,050,109
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	(1,881,400)	3,050,109	(1,168,709)	
TOTAL OPEN POSITION	3,598,837	(263,282)	690,718	

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The Group’s exposure to foreign currency exchange rate risk as of 31 December 2005 is presented below:

	RUR	USD USD 1 = RUR 28.7825	Other currency	Total RUR‘000
ASSETS				
Cash and balances with the Central Bank of the Russian Federation	2,613,533	81,571	46,728	2,741,832
Financial assets at fair value through profit or loss	3,259,661	352,399	-	3,612,060
Due from banks	254,692	1,244,657	844,233	2,343,582
Loans to customers and other receivables	12,542,008	9,846,186	236,005	22,624,199
Investments available-for-sale	90	-	-	90
Property, equipment and intangible assets	452,419	-	-	452,419
Other assets	230,176	563	229	230,968
TOTAL ASSETS	19,352,579	11,525,376	1,127,195	32,005,150
LIABILITIES				
Due to banks	1,797,070	818,267	845,140	3,460,477
Customer accounts	9,820,668	6,570,624	250,665	16,641,957
Debt securities issued	3,094,928	4,878,933	36,282	8,010,143
Provisions	2,861	-	-	2,861
Other liabilities	38,460	1,934	134	40,528
TOTAL LIABILITIES	14,753,987	12,269,758	1,132,221	28,155,966
OPEN POSITION	4,598,592	(744,382)	(5,026)	

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group lends to corporate and retail customers. Rouble denominated loans to Russian customers represent a significant portion of Group’s loan portfolio. Loans advanced are typically short-term and secured by collateral. The Group has established procedures for approving and monitoring loan quality and for extensions and refinancing of existing loans. These procedures are set out in the credit policy approved by the Group’s Management Board and apply to all loans, including those to related parties.

Credit Committee performs primary Group’s lending and approval process, makes all decisions with respect to any loan made by the Group’s headquarters and branches to corporate clients and individuals. The final decisions with respect to transactions exceeding 25% of the Group’s total assets and transactions with related parties are made by the Group’s Board of Directors. Some transactions between the Group and related parties require the approval of directors or shareholders with no interest in the transaction.

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The Group evaluates borrowers on the basis of their credit history, quality of the collateral offered and financial condition. In addition, it may take into account certain business relationships when determining the interest rate of loans to certain related parties.

The Group carries out regular monitoring of its loan portfolio. As well as ensuring that the borrower fulfils its obligations under each loan, the Group regularly reviews all of the available information on the borrower's activities. In particular, the Group obtains and analyses financial reports on a quarterly basis, regularly monitors the value of the underlying collateral for each loan. In relation to its loan portfolio, the Group also monitors the level of non-performing loans and the concentration of loan portfolio per borrower, group of borrowers or industry.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group's uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

In 2004, the Group established a department that performs valuation and monitoring of collateral. When evaluating collateral, the Group discounts the market value of the assets to reflect the costs of sale.

Market risk

The Group's Financial Committee approves stop-loss limits, both on securities and foreign currency trading portfolios, securities position limits, foreign currency position limits. The largest limit, set for the RUR/USD exposure is in line with the CBR requirements on foreign currency exposure. Stop-loss limits are reviewed on a monthly basis, and positions are monitored and revalued daily. They are monitored in terms of mark-to-market exposure and for compliance with limits. A Value-at-Risk calculation is also used. In addition, the Group carries out stress testing procedures.

Geographical concentration

Country risk (risk of global changes in the bank services market and markets of the Group's principal debtors, changes in investment attractiveness of securities) are managed through on-going monitoring.

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Geographical concentration analysis of assets and liabilities as of 31 December 2006 is presented below:

	The Russian Federation	OECD countries	Other non-OECD countries	Total RUR‘000
ASSETS				
Cash and balances with the Central Bank of the Russian Federation	6,102,927	-	-	6,102,927
Financial assets at fair value through profit or loss	2,660,211	-	-	2,660,211
Due from banks	2,270,181	8,556,956	2,237,539	13,064,676
Loans to customers and other receivables	34,325,349	42,295	225,981	34,593,625
Investments available-for-sale	337	52	187,498	187,887
Property, equipment and intangible assets	809,466	-	-	809,466
Other assets	686,110	307	-	686,417
TOTAL ASSETS	46,854,581	8,599,610	2,651,018	58,105,209
LIABILITIES				
Due to banks	2,714,953	2,700,832	20,774	5,436,559
Customer accounts	33,489,738	128,973	3,143,430	36,762,141
Debt securities issued	2,968,327	6,653,143	-	9,621,470
Liabilities on finance lease transactions	481,335	-	-	481,335
Provisions	13,018	-	-	13,018
Other liabilities	177,103	169	-	177,272
Subordinated bonds issued	-	1,587,141	-	1,587,141
TOTAL LIABILITIES	39,844,474	11,070,258	3,164,204	54,078,936
NET POSITION	7,010,107	(2,470,648)	(513,186)	

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Geographical concentration analysis of the assets and liabilities as of 31 December 2005 is presented below:

	The Russian Federation	OECD countries	Other non-OECD countries	Total RUR‘000
ASSETS				
Cash and balances with the Central Bank of the Russian Federation	2,741,832	-	-	2,741,832
Financial assets at fair value through profit or loss	3,612,060	-	-	3,612,060
Due from banks	807,538	1,020,992	515,052	2,343,582
Loans to customers and other receivables	22,604,646	19,553	-	22,624,199
Investments available-for-sale	90	-	-	90
Property, equipment and intangible assets	452,419	-	-	452,419
Other assets	230,702	266	-	230,968
TOTAL ASSETS	30,449,287	1,040,811	515,052	32,005,150
LIABILITIES				
Due to banks	2,292,873	735,817	431,787	3,460,477
Customer accounts	16,198,944	-	443,013	16,641,957
Debt securities issued	3,613,341	4,396,802	-	8,010,143
Provisions	2,861	-	-	2,861
Other liabilities	40,288	240	-	40,528
TOTAL LIABILITIES	22,148,307	5,132,859	874,800	28,155,966
NET POSITION	8,300,980	(4,092,048)	(359,748)	