Joint-Stock Commercial Bank

"ZARECHYE"

Open Joint-Stock Company

Financial Statements

Independent Auditors' Report

For the Year Ended 31 December 2006

CONTENTS

Independent Auditors' Report

To the Board of Directors and Shareholders of the Joint-Stock Commercial Bank "ZARECHYE" (Open Joint-Stock Company)

1. Information on the auditing organization

Name: "PRESTO AUDIT" Limited Liability Company
Location: 119002 Russian Federation, Moscow, per. Sivtsev Vrazhek, 15/25, office 148.
Certificate of state registration: № 324.308 dated 15.06.1993 issued by the Moscow Registration Chamber.
State registration number: 1027739112081 dated 26.08.2002 issued by Moscow Inter-district Inspection № 39 of Ministry for Taxes and Dues of the Russian Federation.
License for auditing activities: № E 000073 of 10.04.2002 issued by the Ministry of Finance of the Russian Federation for five years. Prolonged by the order № 417 of the Ministry of Finance of the Russian Federation for five years dated 14.06.2007.
"PRESTO AUDIT" Ltd. is a member of the following accredited professional auditors' associations: Audit Chamber of Russia, Moscow Audit Chamber, Institute of Professional Accountants of Russia, Institute of Professional Accountants of the Moscow region.
The professional responsibility of "PRESTO AUDIT" Ltd. is insured by the insurance company "Soglasie", the insurance policy № 02150-10549/07 ПОА dated 22.05.2007.

2. Information on the audited party

Name: Joint-Stock Commercial Bank "ZARECHYE " (Open Joint-Stock Company)
Abbreviated name: JSCB " ZARECHYE " (OJSC)
Location: 420032 Russian Federation, Republic of Tatarstan, Kazan, ul. Luknitskogo, 2
Registration number: 817
State registration number: 1021600000586 dated 26.08.2002

3. Introduction

We have audited the accompanying balance sheet of the Joint-Stock Commercial Bank "ZARECHYE" (Open Joint-Stock Company) (hereinafter – "the Bank") as of 31 December 2006, and the related income statement, cash flow statement and statement of changes in shareholders' equity.
These financial statements are the responsibility of the Bank's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2006 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

26 June 2007

V.E. Morozov
Director of “PRESTO AUDIT” Ltd.

A.A. Dityatev
Supervisor of audit

Balance Sheet as of 31 December 2006

In thousands of Russian Roubles	**Notes**	**31 December 2006**	**31 December 2005**
ASSETS			
Cash and cash equivalents	7	1 554 788	363 136
Mandatory cash balances with the Central Bank of the Russian Federation	8	19 723	20 395
Financial assets at fair value through profit or loss	9	53 249	48 601
Due from other banks, net	10	1 167 332	782 299
Loans and receivables, net	11	969 840	1 008 263
Financial assets available-for-sale	12	105 861	43 750
Investments in subsidiaries	13	90 538	88 017
Fixed assets	14	233 880	240 003
Other assets		521	539
TOTAL ASSETS		**4195 732**	**2 595 003**
LIABILITIES			
Customer accounts	15	3 339 396	1 790 571
Financial liabilities at fair value through profit or loss	16	-	8 841
Debt securities issued	17	11	11
Other liabilities	18	6 245	2 676
Current income tax liability		13 548	11 384
Deferred income tax liability	26	16 730	25 524
TOTAL LIABILITIES		**3 375 930**	**1 839 007**
SHAREHOLDERS' EQUITY			
Share capital	19	571 698	571 698
Fair value reserve for financial assets available-for-sale	12	8 020	-
Retained earnings	20	240 084	184 298
TOTAL SHAREHOLDERS' EQUITY		**819 802**	**755 996**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**4 195 732**	**2 595 003**

Approved for issue and signed on behalf of the Management Board:

E. I. Odintsova
Vice-president

O. I. Tychkina
Chief Accountant

22 June 2007

The notes on pages 9-36 form an integral part of these financial statements

Income Statement for the year ended 31 December 2006

In thousands of Russian Roubles	**Notes**	**31 December 2006**	**31 December 2005**
Interest income	22	134 781	102 207
Interest expense	22	(32 239)	(26 038)
Net interest income		102 542	76 169
(Provision)/recovery of provision for loan impairment	21	**94 027**	**(143 032)**
Net interest income/(expense) after provision for loan impairment		**196 569**	**(66 863)**
Gains less losses arising from financial assets at fair value through profit or loss		6 758	183 512
Gains less losses from trading in foreign currencies		10 771	4 736
Foreign exchange translation gains less losses		(11 879)	(2 011)
Fee and commission income	23	18 070	16 727
Fee and commission expense	23	(1 739)	(565)
Losses on origination of assets at rates below market		(2 422)	(13 627)
Losses on origination of liabilities at rates above market		(3 004)	(2 616)
(Other provisions)/recovery of other provisions	21	460	(824)
Other operating income	24	6 645	10 271
Net income		**220 229**	**128 740**
Operating expenses	25	(152 877)	(115 679)
Operating income		**67 352**	**13 061**
Profit before tax		**67 352**	**13 061**
Income tax benefit/(expense)	26	(11 551)	3 772
Net profit		**55 801**	**16 833**

Approved for issue and signed on behalf of the Management Board:

E. I. Odintsova
Vice-president

O. I. Tychkina
Chief Accountant

22 June 2007

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Cash flow Statement for the year ended 31 December 2006

In thousands of Russian Roubles	Notes	31 December 2006	31 December 2005
Cash flows from operating activities			
Interest received		126 782	97 559
Interest paid		(35 663)	(25 892)
Income received/(Expenses paid) from financial assets at fair value through profit or loss		(50)	370 477
Income received from trading in foreign currencies		8 723	4 318
Fees and commissions received		18 070	16 727
Fees and commissions paid		(1 739)	(565)
Other operating income received		6 410	10 827
Operating expenses paid		(124 293)	(110 945)
Income tax paid		(20 715)	(28 948)
Cash flows from operating activities before changes in operating assets and liabilities		**(22 475)**	**333 558**
Changes in operating assets and liabilities			
Net decrease in mandatory cash balances with the Central Bank of the Russian Federation		672	1 012
Net decrease in financial assets at fair value through profit or loss		(3 649)	279 306
Net increase in due from other banks		(393 930)	(483 495)
Net (increase)/decrease in loans and receivables		145 974	(655 258)
Net (increase)/decrease in other assets		(7 405)	2 009
Net increase in customer accounts		1 549 241	621 801
Net increase/(decrease) in other liabilities		4 038	(948)
Net cash from operating activities		**1 272 466**	**97 985**
Cash flows from investing activities			
Purchase of financial assets available-for-sale		(51 581)	(43 750)
Acquisition of subsidiaries		-	(176 000)
Sale of subsidiaries		-	88 010
Purchase of fixed assets		(17 634)	(19 497)
Proceeds on sale of fixed assets		293	2 999
Dividends received		8	19
Net cash used in investing activities		**(68 914)**	**(148 219)**
Cash flows from financing activities			
Issue of share capital		-	150 000
Dividends paid	27	(15)	(15)
Net cash from/(used in) financing activities		**(15)**	**149 985**

Cash flow Statement for the year ended 31 December 2006 (continued)

Effect of exchange rate changes on cash and cash equivalents		**(11 885)**	**3 289**
Net increase in cash and cash equivalents		**1 191 652**	**103 040**
Cash and cash equivalents at beginning of the year	7	363 136	260 096
Cash and cash equivalents at the end of the year	**7**	**1 554 788**	**363 136**

Approved for issue and signed on behalf of the Management Board:

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E. I. Odintsova O. I. Tychkina

Vice-president Chief Accountant

22 June 2007

The notes on pages 9-36 form an integral part of these financial statements

Statement of Changes in Shareholders' Equity for the year ended 31 December 2006

In thousands of Russian Roubles	Notes	Share capital	Fair value revaluation reserve	Retained earnings	Total shareholders' equity
Balance as of 31 December 2004		**421 698**	**-**	**167 480**	**589 178**
Net profit for the year		-	-	16 833	16 833
Issue of share capital		150 000	-	-	150 000
Dividends declared	27	-	-	(15)	(15)
Balance as of 31 December 2005		**571 698**	**-**	**184 298**	**755 996**
Net profit for the year		-	-	55 801	55 801
Changes in fair value of available-for-sale financial assets	12	-	10 553	-	10 553
Deferred income tax charged directly to equity	26	-	(2 533)	-	(2 533)
Dividends declared	27	-	-	(15)	(15)
Balance as of 31 December 2006		**571 698**	**8 020**	**240 084**	**819 802**

Approved for issue and signed on behalf of the Management Board:

E. I. Odintsova
Vice-president

O. I. Tychkina
Chief Accountant

22 June 2007

The notes on pages 9-36 form an integral part of these financial statements

(In thousands of Russian Roubles)

1. Information on the Bank

Bank "ZARECHYE" (Open Joint-Stock Company) (hereinafter "the Bank") was established by decision of meeting of stockholders dated April 17, 1992. The Bank is regulated by the Central Bank of the Russian Federation (the “CBRF”) and conducts its business under license number 817.

The legal address of the Bank is as follows: 420032 Russian Federation, Republic of Tatarstan, Kazan, ul. Luknitskogo, 2.
URL: http://www.zarech.ru

The Bank’s primary business consists of commercial banking activities, originating loans, taking deposits, foreign currencies, trading with securities.

The Bank has one operational cash department and one additional office in Kazan, one representative office in Moscow and one representative office in Yalta (Ukraine).

As of 31 December 2006 and 2005 the following shareholders owned shares of the Bank:

Shareholders	31 December 2006	31 December 2005
LLC “TFK”	30%	30%
OJSC “Kazan helicopter plant”	25.39%	25.39%
PPF “Kazan helicopter plant”	23.6%	23.6%
OJSC “Bank of Moscow”	12.77%	12.77%
Other	8.24%	8.24%
Total	**100%**	**100%**

OJSC “Kazan helicopter plant” essentially influences the Bank’s activities.

2. Operating environment of the Bank

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

(In thousands of Russian Roubles)

3. Basis of Presentation

Accounting basis

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the inflationary adjustments and revaluation of available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts.
The Bank maintains its accounting records in accordance with Russian banking regulations. These financial statements have been prepared from these accounting records and adjusted as necessary in order to be in accordance with IFRS.

Presentation and functional currency

The national currency of the Russian Federation is the Russian Rouble ("RUR"). Management has determined the Bank's functional currency to be the RUR as it reflects the economic substance of the underlying events and circumstances of the Bank. The RUR is also the Bank's presentation currency for the purposes of these financial statements. Financial information presented in RUR has been rounded to the nearest thousand.

Accounting for the effects of hyperinflation

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

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

(In thousands of Russian Roubles)

4. Significant accounting policies

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

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

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss represent securities or derivative financial instruments acquired principally for the purpose of selling/redemption in the near term, or are a part of portfolio of identified financial instruments that are managed together and for which there is evidence of an intention of short-term profit-taking, or financial assets which are initially recognized by the Bank as assets at fair value through profit or loss, or derivative financial instruments.
Financial assets at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Bank uses quoted market prices to determine fair value for the Bank’s financial assets at fair value through profit or loss. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management’s best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.
Fair value adjustment on financial assets at fair value through profit or loss is recognized in the income statement for the period.
The Bank does not reclassify financial instruments in or out of this category while they are held.

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

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank intends to sell immediately or in the near term, those that the Bank upon initial recognition designates as at fair value through profit or loss, or those where its initial investment may not be substantially recovered, other than because of credit deterioration.

(In thousands of Russian Roubles)

4. Significant accounting policies (continued)

Promissory notes
In the normal course of business the Bank acquires promissory notes of third parties. These notes generally have short-term to medium-term maturity. Promissory notes are categorized as either securities at fair value through profit or loss or amounts due from credit institutions or loans to customers depending on their economic substance. Promissory notes are measured by the Bank according to the appropriate accounting policies for the respective financial instrument category.

Financial assets available-for-sale
This classification includes assets which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Bank classifies financial assets as available-for-sale at the time of purchase and reassesses that classification at each subsequent balance sheet date.
Financial assets available-for-sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Bank's right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired, at which time the cumulative gain or loss is removed from equity to profit or loss.

Fixed assets
Fixed assets, acquired after 1 January 2003, are carried at historical cost less accumulated depreciation and any recognised impairment loss. Fixed assets, acquired before 1 January 2003 are carried at historical cost restated for inflation less accumulated depreciation and any recognised impairment loss. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.
Depreciation on fixed assets 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:

Premises	7-50 years
Equipment	1-10 years
Vehicles	3-10 years
Other	2-25 years

The carrying amounts of fixed assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed this estimated recoverable amount, fixed assets are written down to their recoverable amount. Impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for fixed assets is adjusted in future periods to allocate the assets' revised carrying value, less their residual value (if any), on a systematic basis over its remaining useful life.

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

(In thousands of Russian Roubles)

4. Significant accounting policies (continued)

Borrowings

Borrowings are recognised initially at cost, being their issue proceeds (the fair value of consideration received) net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between the net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings, which interest rates differ from market rates, are measured at their fair value at the date of origination. The fair value represents future interest payments and principal amount, discounted at market rates for similar loans. The difference between the fair value and the nominal value at origination is credited or charged to income statement as gains on origination of assets at rates above market or losses on origination of assets at rates below market. Subsequently, the carrying amount of such borrowings is adjusted for amortisation of the gains/losses on origination and the related income is recorded as interest income within the income statement using the effective interest method.

Debt securities in issue

Debt securities in issue include promissory notes, certificates of deposit and savings certificates issued by the Bank. Debt securities are stated at amortised cost.

If the Bank purchases its own debt securities issued, they are removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised as gains arising from early retirement of debt.

Preference shares

Preference shares are not redeemable. Dividend payments are at the discretion of the Bank. Preference shares are classified as a part of equity.

Dividends

Dividends are recognised in equity in the period in which they are declared.

Dividends, declared after the balance sheet date, are disclosed in the notes to the financial statements within subsequent events. Net profit of the reporting year reflected in the statutory financial statements is the basis for payment of dividends and other appropriations.

Russian legislation identifies the basis of distribution as the current year net profit.

Income tax

Income tax expense is recorded in the financial statements in accordance with the applicable legislation of the Russian Federation. The income tax charge/recovery in the income statement comprises current tax and changes in deferred tax.

Current tax is calculated on the basis of the estimated taxable profit for the year, using the tax rates enacted at the balance sheet date. Taxes, other than income tax, are recorded within general and administrative expenses.

Deferred income tax is calculated, using the balance sheet asset and liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted in this period or are substantively enacted at the balance sheet date.

(In thousands of Russian Roubles)

4. Significant accounting policies (continued)

Income and expense recognition

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective interest method based on the actual purchase price.

Interest income includes coupons earned on fixed-income securities and accrued discount and premium on promissory notes and other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Commissions and other income are credited to income when the related transactions are completed. Commissions and fees arising from negotiating a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recorded on completion of the transaction in the income statement.

Non-interest expenses are recognised at the time the products are received or the service is provided.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Foreign currency translation

Foreign currency transactions are accounted for at the exchange rate in effect at the transaction date. Exchange difference arising from foreign currency transactions is reported in the income statement at the exchange rate current at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated into the Russian Rouble at the CBRF official exchange rate ruling at the balance sheet date. Foreign exchange gains and losses resulting from debt securities and other monetary financial assets carried at fair value are included within foreign exchange translation gains less losses.

Translation differences on non-monetary items, such as equities classified as financial assets at fair value through profit or loss or financial assets available for sale, are reported as part of the fair value gain or loss. Therefore, translation difference on equity assets available for sale is included in the fair value reserve for financial assets available for sale within shareholders' equity.

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

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

Offsetting

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

(In thousands of Russian Roubles)

4. Significant accounting policies (continued)

Provisions

Provisions are recorded when the Bank has an obligation (legal or arising from the existing business practice) incurred prior to the reporting date, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Retirement and other benefit obligations

The Bank make contributions to the Russian Federation state pension, social insurance, obligatory medical insurance and employment funds in respect of employees of the Bank.

The pension system in the Russian Federation 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 and included in staff costs. Upon retirement all retirement benefit payments are made by pension funds selected by employees.

The Bank does not have pension arrangements separate from the state pension system of the Russian Federation or alternative pension plans for its employees.

5. Significant accounting estimates and judgements

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

Allowances for impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

(In thousands of Russian Roubles)

5. Significant accounting estimates and judgements (continued)

Impairment of financial assets available-for-sale

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Deferred tax asset

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax related to fair value re-measurement of securities available-for-sale, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss, when the respective securities are sold.

6. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2006, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Bank’s operations. The Bank plans to adopt these pronouncements when they become effective.

IFRS 7 “Financial Instruments: Disclosures”, which is effective for annual periods beginning on or after 1 January 2007, provides disclosure requirements regarding the significance of financial instruments to the Bank’s financial position and performance, and qualitative and quantitative information about the nature and extent of risks arising from financial instruments. The standard supersedes IAS 30 “Disclosures in the Financial Statements of Banks and Similar Financial Institutions” and the disclosure requirements in IAS 32 “Financial Instruments: Presentation and Disclosure”. A large portion of existing disclosure requirements in IAS 32 “Financial Instruments: Presentation and Disclosure” is transferred to the new standard. The title of IAS 32 is amended to IAS 32 “Financial Instruments: Presentation”.

IFRS 8 “Operating Segments”, which is effective for annual periods beginning on or after 1 January 2009, specifies how the Bank should report information about its operating segments and sets out requirements for related disclosures about products and services, geographical areas and major customers. Operating segments are components of the Bank about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

Financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. IFRS 8 “Operating Segments” will replace IAS 14 “Segment Reporting”.

(In thousands of Russian Roubles)

6. New standards and interpretations not yet adopted (continued)

IFRIC 9 “Reassessment of embedded derivatives”, which is effective for annual periods beginning on or after 1 November 2006, clarifies that an embedded derivative shall be assessed for separation from the host contract and accounted for as a derivative when the Bank first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a significant change in the terms of the contract, i.e. in the terms of either the host contract or the embedded derivative or both.

IFRIC 10 “Interim Financial Reporting and Impairment”, which is effective for annual periods beginning on or after 1 November 2006, clarifies that impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost should not be reversed.

Amendment to IAS 1 “Presentation of Financial Statements – Capital Disclosures”, which is effective for annual periods beginning on or after 1 January 2007. The standard will require increased disclosure in respect of the Bank’s capital.

The Management is currently assessing the impact of these new and revised standards in future periods.

7. Cash and cash equivalents

	31 December 2006	31 December 2005
Cash on hand	11 903	14 765
Cash balances with the CBRF (other than mandatory reserve deposits)	786 543	181 704
Correspondent accounts and overnight placements with other banks		
- Russian Federation	9 248	5 299
- Other countries	745 520	159 085
Precious metals	1 574	2 283
Total cash and cash equivalents	**1 554 788**	**363 136**

8. Mandatory cash balances with the CBRF

The Central Bank of the Russian Federation requires credit institutions to maintain a non-interest earning cash deposit (obligatory reserve) with the Central Bank of the Russian Federation, the amount of which depends on the level of funds attracted by a credit institution. The Bank’s ability to withdraw such deposit is significantly restricted by the statutory legislation.

(In thousands of Russian Roubles)

9. Financial assets at fair value through profit or loss

	31 December 2006	31 December 2005
Russian Federal loan bonds (OFZ)	48 036	48 601
Corporate shares	5 213	-
Total financial assets at fair value through profit or loss	**53 249**	**48 601**

As of 31 December 2006 corporate shares include shares of OJSC “Kazan helicopter plant”.

Federal loan bonds (OFZ) are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. These OFZ bonds was bought with a premium to their nominal value, have maturity date in June 2007, coupon rates ranging from 6% to 8% (31 December 2005: from 6% to 8%).

10. Due from other banks

	31 December 2006	31 December 2005
Current loans and deposits with Russian banks	500 145	801 299
Current loans and deposits with other banks	694 066	-
	1 194 211	**801 299**
Less: Provision for loan impairment (Note 21)	(26 879)	19 000
Total due from other banks, net	**1 167 332**	**782 299**

11. Loans and receivables

	31 December 2006	31 December 2005
Current loans	1 079 447	1 230 396
Reverse sale and repurchase agreements	-	1 000
Overdue loans	6 659	9 333
Receivables	16 989	2 696
	1 103 095	**1 243 425**
Less: Provision for loan impairment (Note 21)	(133 255)	(235 162)
Total loans and receivables, net	**969 840**	**1 008 263**

As of 31 December 2006 loans and receivables include promissory notes of Russian enterprises in the gross amount of RUR 103 219 thousand (31 December 2005: RUR 97 918 thousand).

(In thousands of Russian Roubles)

11. Loans and receivables (continued)

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

	31 December 2006		31 December 2005	
	Amount	**%**	**Amount**	**%**
Finance	505 511	45,8	565 767	45,5
Aviation industry	329 880	29,9	324 880	26,1
Leasing	179 188	16,3	211 379	17
Construction	39 043	3,5	42 772	3,4
Individuals	15 797	1,4	18 951	1,5
Trade and commerce	11 157	1,1	67 978	5,5
Other	22 519	2	11 698	1
Total loans and receivables, gross	**1 103 095**	**100**	**1 243 425**	**100**

Geographical, currency, maturity and interest rate analyses of loans and receivables are presented in Note 28. The information on related party balances is disclosed in Note 31.

12. Financial assets available-for-sale

	31 December 2006	31 December 2005
Shares of "AG Capital INTERRA" Closed-end Real Estate Investment Fund	62 111	-
Equity investments in LLC “TFK” with share smaller than 20%	43 750	43 750
Total financial assets available-for-sale	**105 861**	**43 750**

In the third quarter of 2006 the Bank has bought shares of "AG Capital INTERRA" Closed-end Real Estate Investment Fund with the carrying amount of RUR 51 558 thousand. Fair value was estimated using quoted market prices in an active market. Fair value revaluation reserve is recorded in equity.

13. Investments in subsidiaries

	Country of registration	Industry	31 December 2006		31 December 2005	
			Amount	**Equity controlled**	**Amount**	**Equity controlled**
PPF “Kazan helicopter plant”	Russia	Finance	88 000	73,4%	88 000	73,4%
LLC “Ice Building”	Russia	Real estate management	2 521	80,4%	-	-
LLC “Lorien Image”	Russia	Advertising	17	51%	17	51%
Total investments in subsidiaries	**-**	**-**	**90 538**	**-**	**88 017**	**-**

In autumn 2006 the Bank acquired an 80.4% controlling interest in LLC “Ice Building”.

(In thousands of Russian Roubles)

14. Fixed assets

	Buildings	Land	Machinery and equipment	Vehicles	Construction in progress	Other	Total
Net book amount at 31 December 2004	**214 599**	**2 877**	**2 358**	**5 098**	**566**	**5 430**	**230 928**
Cost amount							
Opening balance at 1 January 2005	**264 487**	**2 877**	**13 401**	**8 465**	**566**	**23 601**	**313 397**
Additions	1 353	951	2 638	4 005	9 200	2 554	20 701
Improvements	-	-	152	-	-	-	152
Disposals	(1 547)	-	(201)	(954)	(566)	(2 439)	(5 707)
Closing balance at 31 December 2005	**264 293**	**3 828**	**15 990**	**11 516**	**9 200**	**23 716**	**328 543**
Accumulated depreciation							
Opening balance at 1 January 2005	**49 888**	**-**	**11 043**	**3 367**	**-**	**18 171**	**82 469**
Charge for the period	5 924	-	769	1 336	-	1 250	9 279
Disposals	(289)	-	(198)	(384)	-	(2 337)	(3 208)
Closing balance at 31 December 2005	**55 523**	**-**	**11 614**	**4 319**	**-**	**17 084**	**88 540**
Net book amount at 31 December 2005	**208 770**	**3 828**	**4 376**	**7 197**	**9 200**	**6 632**	**240 003**
Cost amount							
Opening balance at 1 January 2006	**264 293**	**3 828**	**15 990**	**11 516**	**9 200**	**23 716**	**328 543**
Additions	42	29	3 418	1 280	2 290	1 463	8 522
Transfer	-	(2 521)	-	-	-	-	(2 521)
Improvements	231	-	12	-	-	-	243
Disposals	(66)	-	(4 547)	(254)	-	(2 585)	(7 452)
Closing balance at 31 December 2006	**264 500**	**1 336**	**14 873**	**12 542**	**11 490**	**22 594**	**327 335**
Accumulated depreciation and impairment							
Opening balance at 1 January 2006	**55 523**	**-**	**11 614**	**4 319**	**-**	**17 084**	**88 540**
Charge for the period	5 948	-	1 545	1 854	-	1 253	10 600
Impairment (Note 25)	1 591	-	-	-	-	-	1 591
Disposals	(54)	-	(4 547)	(134)	-	(2 541)	(7 276)
Closing balance at 31 December 2006	**63 008**	**-**	**8 612**	**6 039**	**-**	**15 796**	**93 455**
Net book amount at 31 December 2006	**201 492**	**1 336**	**6 261**	**6 503**	**11 490**	**6 798**	**233 880**

Construction in progress consists of construction premises. Upon completion, assets are transferred to buildings.

A certain part of fixed assets (the building) of the Bank are leased under operating leases for a term less than one year, the relevant information is as follows:

	31 December 2006	31 December 2005
Cost amount	32 342	25 384
Accumulated depreciation	(7 958)	(2 973)
Net amount	24 384	22 411
Future minimum lease payments	3 684	3 854

(In thousands of Russian Roubles)

15. Customer accounts

	31 December 2006	31 December 2005
State and public organisations		
- Current/settlement accounts	20 873	13 659
- Term deposits	6 580	3 646
Other legal entities		
- Current/settlement accounts	2 333 068	723 627
- Term deposits	726 781	840 305
Individuals		
- Current/demand accounts	28 124	9 608
- Term deposits	223 970	199 726
Total customer accounts	**3 339 396**	**1 790 571**

Economic sector concentrations within customer accounts are as follows:

	31 December 2006		31 December 2005	
	Amount	**%**	**Amount**	**%**
Aviation industry	2 234 650	66,9	1 490 849	83,3
Trade and commerce	645 940	19,3	48 890	2,7
Individuals	252 095	7,6	209 334	11,6
Finance	155 698	4,7	-	-
Other	51 013	1,5	41 498	2,4
Total customer accounts	**3 339 396**	**100**	**1 790 571**	**100**

Geographical, currency, maturity and interest rate analyses of customer accounts are presented in Note 28. The information on related party balances are disclosed in Note 31.

16. Financial liabilities at fair value through profit or loss

	31 December 2006	31 December 2005
Obligation to delivery securities	-	6 793
Negative fair value of derivative instruments	-	2 048
Total financial liabilities at fair value through profit or loss	**-**	**8 841**

17. Debt securities issued

As of 31 December 2006 and 2005 debt securities issued include promissory note to bearer. This promissory note is noninterest-bearing security.

(In thousands of Russian Roubles)

18. Other liabilities

	31 December 2006	31 December 2005
Settlements on conversion operations	3 901	-
Taxes payable, other than income tax	1 316	1 335
Provisions for credit related commitments	800	1 260
Advances received and income of future periods	84	28
Other	144	53
Total other liabilities	**6 245**	**2 676**

19. Share capital

The authorized share capital comprises 3 437 500 ordinary shares and 50 000 preference shares at 31 December 2006 and 2005. As of 31 December 2006 and 2005 the issued capital includes 3 106 250 ordinary shares and 18 750 preference shares.
All ordinary shares have a nominal value of RUR 160 per share and rank equally. Each share carries one vote. All preference shares have a nominal value of RUR 160 per share and carry no voting rights but rank ahead of the ordinary shares in the event of the Bank's liquidation. Preference shares are not redeemable. Dividend payments are at the discretion of the Bank. When a dividend is paid, the preference shares attract a minimum payment of annual dividends of 0.5% of their nominal value, subject to confirmation of the shareholders meeting.
Information about dividend payments of the Bank is presented in Note 27.

20. Retained earnings

In accordance with Russian legislation, the Bank distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Bank's reserves under Russian Accounting Rules at 31 December 2006 are RUR 150 445 thousand (2005: RUR 119 109 thousand).

21. Allowances for impairment losses and provisions

The movement in the allowances for impairment losses and provisions during 2006 and 2005 was:

	Due from other banks	Loans and receivables	Provisions	Total
31 December 2004	**15 825**	**95 330**	**436**	**111 591**
Provisions	3 175	139 857	824	143 856
Amounts written off	-	(25)	-	(25)
31 December 2005	**19 000**	**235 162**	**1 260**	**255 422**
Provisions/ (Recovery of provisions)	7 879	(101 907)	(460)	(94 488)
31 December 2006	**26 879**	**133 255**	**800**	**160 934**

Allowances for losses on assets are deducted from the related asset. Provisions for other risks are recorded in liabilities (see Note 18).

(In thousands of Russian Roubles)

22. Interest income and expense

	2006	2005
Interest income		
Loans and receivables	105 602	90 390
Due from other banks	21 159	8 414
Securities	8 020	3 403
Total interest income	**134 781**	**102 207**
Interest expense		
Customer accounts	(26 930)	(21 805)
Due to other banks	(5 309)	(4 233)
Total interest expense	**(32 239)**	**(26 038)**
Net interest income	**102 542**	**76 189**

23. Fee and Commission income and expense

	2006	2005
Fee and commission income		
Cash transactions	15 079	12 680
Settlement transactions	1 984	2 190
Guarantees issued	877	928
Other	130	929
Total fee and commission income	**18 070**	**16 727**
Fee and commission expense		
Settlement transactions	(283)	(276)
Cash collection	(240)	(240)
Cash transactions	(12)	(42)
Other	(1 204)	(7)
Total fee and commission expense	**(1 739)**	**(565)**
Net fee and commission income	**16 331**	**16 162**

24. Other operating income

	2006	2005
Income arising from operating leasing	3 827	4 971
Gains from operations with precious metals	1 929	911
Income arising from disposal of property	212	1 361
Fines and penalties received	29	610
Other	648	2 418
Total other operating income	**6 645**	**10 271**

(In thousands of Russian Roubles)

25. Operating expenses

	2006	2005
Staff costs	60 222	50 100
Charity	31 198	30 737
Administrative expenses	26 373	13 574
Write-off of other assets	9 103	-
Loss on disposal of fixed assets	6 421	-
Taxes other than income tax	5 646	5 766
Depreciation of fixed assets	3 910	9 197
Operating lease expense	3 641	3 314
Loss from operations with precious metals	1 599	686
Impairment of fixed assets	1 591	-
Other	3 173	2 305
Total operating expenses	**152 877**	**115 679**

26. Income tax

Income tax expense comprises the following:

	2006	2005
Current tax charge	22 878	40 332
Deferred tax movement	(8 794)	(44 104)
Less: Deferred tax recorded directly in equity	(2 533)	-
Total income tax (benefit) / expense	**11 551**	**(3 772)**

Russian legal entities must individually report taxable income and remit income taxes thereon to the appropriate authorities.

The current tax rate for profits applicable to the major portion of the profits earned by Bank is 24% (2005: 24%). The tax rate for received coupon income on state securities was 15% on coupon income of OFZ (2005: 15%).

The effective income tax rate differs from the statutory income tax rate.

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

	2006	2005
IFRS profit before tax	**67 352**	**13 061**
Statutory tax rate	24%	24%
Theoretical income tax charge at statutory rate	**16 164**	**3 135**
Income on government securities taxed at different rates	(299)	(322)
Income on dividends taxed at different rates	(2)	(4)
Tax effect of non-temporary differences	(4 312)	(6 581)
Income tax (benefit) / expense	**11 551**	**(3 772)**

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

(In thousands of Russian Roubles)

26. Income tax (continued)

The tax effect of the movements in these temporary differences is detailed below:

	2006	2005
Tax effect of deductible temporary differences		
Provision for impairment of due from other banks	6 211	4 320
Loans and receivables	1 966	2 553
Fixed assets	1 778	-
Customer accounts	287	296
Financial liabilities at fair value through profit or loss	-	2 122
Financial assets at fair value through profit or loss	-	334
Other	3 667	582
Gross deferred tax asset	**13 909**	**10 207**
Tax effect of taxable temporary differences		
Provision for impairment of loans and receivables	(26 473)	(21 283)
Financial assets available-for-sale	(2 533)	-
Financial assets at fair value through profit or loss	(787)	-
Fixed assets	-	(13 870)
Other	(846)	(578)
Tax effect of taxable temporary differences	**(30 639)**	**(35 731)**
Total net deferred tax asset / (liability)	**(16 730)**	**(25 524)**

A deferred tax liability of RUR 2 533 thousand has been recorded directly in equity in respect of the revaluation of financial assets available-for-sale. Refer to Note 12.

27. Dividends

	2006	2005
Dividends payable at 1 January	-	-
Dividends declared during the year	15	15
Dividends paid during the year	(15)	(15)
Dividends payable at 31 December	**-**	**-**

All dividends are declared and paid in Russian Roubles.

28. Financial risk management

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

Credit risk

The Bank is exposed to credit risk, which is a risk of a counterparty being unable to meet its credit obligations in whole or in part when due.
The Bank's lending policies focus on the improvement of the credit quality and income level of its loan portfolio and minimization and diversification of credit risks.

(In thousands of Russian Roubles)

28. Financial risk management (continued)

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

The Bank usually requires collateral and/or guarantees for loans. Acceptable collateral includes real property, securities, transportation and production equipment, inventory and certain personal property. In order to reduce credit risk, several types of collateral may be used simultaneously.

With respect to undrawn loan commitments the Bank is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements. The Bank's credit policy is approved and periodically reviewed by the Management Board.

Market risk

The Bank takes on exposure to market risks. Market risk management includes management of interest rate risk, currency risk and equity risk.

The Bank manages market risks by increasing or decreasing its position within the limits set by the Bank management. These limits mitigate possible effect of changes in the market financial indicators on the Bank's income and value of sensitive assets and liabilities.

Geographical concentration

Geographical concentration information is based on geographical location of the Bank's counterparts. As of 31 December 2006 the geographical concentration of the Bank's assets and liabilities is set out below:

	Russia	OECD	Other countries	Total
Assets				
Cash and cash equivalents	809 268	743 862	1 658	1 554 788
Mandatory cash balances with the Central Bank of the Russian Federation	19 723	-	-	19 723
Financial assets at fair value through profit or loss	53 249	-	-	53 249
Due from other banks, net	487 145	680 187	-	1 167 332
Loans and receivables, net	594 675	-	375 165	969 840
Financial assets available-for-sale	105 861	-	-	105 861
Investments in subsidiaries	90 538	-	-	90 538
Fixed assets	233 880	-	-	233 880
Other assets	521	-	-	521
Total assets	**2 394 860**	**1 424 049**	**376 823**	**4 195 732**
Liabilities				
Customer accounts	3 184 933	-	154 463	3 339 396
Debt securities issued	11	-	-	11
Other liabilities	6 245	-	-	6 245
Current income tax liability	13 548	-	-	13 548
Deferred income tax liability	16 730	-	-	16 730
Total liabilities	**3 221 467**	**-**	**154 463**	**3 375 930**
Net balance sheet position	**(826 607)**	**1 424 049**	**222 360**	**819 802**
Credit related commitments (Note 29)	**12 364**	**-**	**2 660**	**15 024**

(In thousands of Russian Roubles)

28. Financial risk management (continued)

As of 31 December 2005 the geographical concentration of the Bank's assets and liabilities is set out below:

	Russia	OECD	Other countries	Total
Assets				
Cash and cash equivalents	204 050	158 366	720	363 136
Mandatory cash balances with the Central Bank of the Russian Federation	20 395	-	-	20 395
Financial assets at fair value through profit or loss	48 601	-	-	48 601
Due from other banks, net	782 299	-	-	782 299
Loans and receivables, net	488 550	-	519 713	1 008 263
Financial assets available-for-sale	43 750	-	-	43 750
Investments in subsidiaries	88 017	-	-	88 017
Fixed assets	240 003	-	-	240 003
Other assets	539	-	-	539
Total assets	**1 916 204**	**158 366**	**520 433**	**2 595 003**
Liabilities				
Customer accounts	1 775 841	-	14 730	1 790 571
Financial liabilities at fair value through profit or loss	6 793	-	2 048	8 841
Debt securities issued	11	-	-	11
Other liabilities	2 676	-	-	2 676
Current income tax liability	11 384	-	-	11 384
Deferred income tax liability	25 524	-	-	25 524
Total liabilities	**1 822 229**	**-**	**16 778**	**1 839 007**
Net balance sheet position	**93 975**	**158 366**	**503 655**	**755 996**
Credit related commitments (Note 29)	**16 319**	**-**	**8 364**	**24 683**

Currency risk

The Bank has assets and liabilities denominated in several foreign currencies. The Bank's financial position and cash flows are exposed to the effects of fluctuations in the prevailing foreign currency exchange rates.

For banks conducting their activities on the territory of the Russian Federation, the amount of open currency position is subject to regulations of the CBRF and should not be more than 20% of the Bank's equity for all foreign currencies and 10% for any of the foreign currencies.

The Bank controls currency risk by management of the open currency position on the estimated basis of RUR devaluation and other macroeconomic indicators, which gives the Bank an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Bank performs daily monitoring of the open currency position with the aim to match the statutory requirements of the CBRF.

(In thousands of Russian Roubles)

28. Financial risk management (continued)

As of 31 December 2006 the Bank's exposure to currency risk is as follows:

	RUR	USD	Other currencies	Total
Assets				
Cash and cash equivalents	798 033	81 735	675 020	1 554 788
Mandatory cash balances with the Central Bank of the Russian Federation	19 723	-	-	19 723
Financial assets at fair value through profit or loss	53 249	-	-	53 249
Due from other banks, net	487 145	-	680 187	1 167 332
Loans and receivables, net	967 666	2 174	-	969 840
Financial assets available-for-sale	105 861	-	-	105 861
Investments in subsidiaries	90 538	-	-	90 538
Fixed assets	233 880	-	-	233 880
Other assets	521	-	-	521
Total assets	**2 756 616**	**83 909**	**1 355 207**	**4 195 732**
Liabilities				
Customer accounts	1 856 714	112 439	1 370 243	3 339 396
Debt securities issued	11	-	-	11
Other liabilities	6 245	-	-	6 245
Current income tax liability	13 548	-	-	13 548
Deferred income tax liability	16 730	-	-	16 730
Total liabilities	**1 893 248**	**112 439**	**1 370 243**	**3 375 930**
Net balance sheet position	**863 368**	**(28 530)**	**(15 036)**	**819 802**
Credit related commitments (Note 29)	**13 285**	**750**	**989**	**15 024**

(In thousands of Russian Roubles)

28. Financial risk management (continued)

As of 31 December 2005 the Bank's exposure to currency risk is as follows:

	RUR	USD	Other currencies	Total
Assets				
Cash and cash equivalents	193 437	166 923	2 776	363 136
Mandatory cash balances with the Central Bank of the Russian Federation	20 395	-	-	20 395
Financial assets at fair value through profit or loss	48 601	-	-	48 601
Due from other banks, net	782 299	-	-	782 299
Loans and receivables, net	814 329	193 934	-	1 008 263
Financial assets available-for-sale	43 750	-	-	43 750
Investments in subsidiaries	88 017	-	-	88 017
Fixed assets	240 003	-	-	240 003
Other assets	539	-	-	539
Total assets	**2 231 370**	**360 857**	**2 776**	**2 595 003**
Liabilities				
Customer accounts	1 524 636	263 918	2 017	1 790 571
Financial liabilities at fair value through profit or loss	6 793	2 048	-	8 841
Debt securities issued	11	-	-	11
Other liabilities	2 676	-	-	2 676
Current income tax liability	11 384	-	-	11 384
Deferred income tax liability	25 524	-	-	25 524
Total liabilities	**1 571 024**	**265 966**	**2 017**	**1 839 007**
Net balance sheet position	**660 346**	**94 891**	**759**	**755 996**
Credit related commitments (Note 29)	**3 675**	**20 358**	**650**	**24 683**
Net derivative position (Note 29)	**-**	**(2 048)**	**-**	**(2 048)**

Liquidity risk

Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Bank is exposed to risk via daily calls on its available cash resources from customer accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. The Bank does not accumulate cash resources to meet calls that may arise due to the high concentration of liabilities, as based on the existing practice, it is possible to forecast with a sufficient degree of certainty the required level of cash funds necessary to meet the above obligations.

(In thousands of Russian Roubles)

28. Financial risk management (continued)

The table below shows assets and liabilities at 31 December 2006 by their remaining contractual maturity.

	On demand and up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 3 years	More than 3 years	No stated maturity	Total
Assets							
Cash and cash equivalents	1 554 788	-	-	-	-	-	1 554 788
Mandatory cash balances with the Central Bank of the Russian Federation	19 723	-	-	-	-	-	19 723
Financial assets at fair value through profit or loss	5 213	-	48 036	-	-	-	53 249
Due from other banks, net	1 072 332	95 000	-	-	-	-	1 167 332
Loans and receivables, net	1 048	82 198	17 112	840 936	28 546	-	969 840
Financial assets available-for-sale	-	-	-	-	-	105 861	105 861
Investments in subsidiaries	-	-	-	-	-	90 538	90 538
Fixed assets	-	-	-	-	-	233 880	233 880
Other assets	-	-	521	-	-	-	521
Total assets	**2 653 104**	**177 198**	**65 669**	**840 936**	**28 546**	**430 279**	**4 195 732**
Liabilities							
Customer accounts	2 514 390	53 185	771 378	-	-	443	3 339 396
Debt securities issued	-	-	-	-	-	11	11
Other liabilities	4 056	-	1 389	-	-	800	6 245
Current income tax liability	-	-	13 548	-	-	-	13 548
Deferred income tax liability	-	-	-	-	-	16 730	16 730
Total liabilities	**2 518 446**	**53 185**	**786 315**	**-**	**-**	**17 984**	**3 375 930**
Net liquidity gap	**134 658**	**124 013**	**(720 646)**	**840 936**	**28 546**	**412 295**	**819 802**
Cumulative liquidity gap	**134 658**	**258 671**	**(461 975)**	**378 961**	**407 507**	**819 802**	**-**

(In thousands of Russian Roubles)

28. Financial risk management (continued)

The table below shows assets and liabilities at 31 December 2005 by their remaining contractual maturity.

	On demand and up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 3 years	More than 3 years	No stated maturity	Total
Assets							
Cash and cash equivalents	363 136	-	-	-	-	-	363 136
Mandatory cash balances with the Central Bank of the Russian Federation	20 395	-	-	-	-	-	20 395
Financial assets at fair value through profit or loss	-	-	-	48 601	-	-	48 601
Due from other banks, net	734 799	47 500	-	-	-	-	782 299
Loans and receivables, net	91 371	87 021	638 669	35 208	155 994	-	1 008 263
Financial assets available-for-sale	-	-	-	-	-	43 750	43 750
Investments in subsidiaries	-	-	-	-	-	88 017	88 017
Fixed assets	-	-	-	-	-	240 003	240 003
Other assets	-	-	539	-	-	-	539
Total assets	**1 209 701**	**134 521**	**639 208**	**83 809**	**155 994**	**371 770**	**2 595 003**
Liabilities							
Customer accounts	774 072	45 828	970 639	-	-	32	1 790 571
Financial liabilities at fair value through profit or loss	-	2 048	6 793	-	-	-	8 841
Debt securities issued	-	-	-	-	-	11	11
Other liabilities	157	-	1 259	-	-	1 260	2 676
Current income tax liability	-	-	11 384	-	-	-	11 384
Deferred income tax liability	-	-	-	-	-	25 524	25 524
Total liabilities	**774 229**	**47 876**	**990 075**	**-**	**-**	**26 827**	**1 839 007**
Net liquidity gap	**435 472**	**86 645**	**(350 867)**	**83 809**	**155 994**	**344 943**	**755 996**
Cumulative liquidity gap	**435 472**	**522 117**	**171 250**	**255 059**	**411 053**	**755 996**	**-**

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

(In thousands of Russian Roubles)

28. Financial risk management (continued)

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates in its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings. In practice, interest rates are often fixed on a short-term or floating basis. Also, interest rates that are contractually fixed on both assets and liabilities may be renegotiated to reflect current market conditions. Therefore, the majority of the Bank’s balances carry interest at rates approximating market interest rates. The Bank normally seeks to establish its interest rate positions at optimal profitability/risk level taken decisions if necessary in respect of the operations changing the asset/liabilities maturity structure.

The Bank’s assets and liabilities at carrying amounts as of 31 December 2006 and 2005, categorized by the earlier of contractual repricing or maturity dates, are presented above in the table on liquidity risk position.

The table below shows analysis of average interest rates by currency for main monetary financial instruments. The analysis was prepared on the basis of weighted average interest rates current at the end of the year.

	31 December 2006			31 December 2005		
	RUR	**USD**	**Euro**	**RUR**	**USD**	**Euro**
Assets						
Due from other banks	6,25%	-	3,53%	5,56%	-	-
Loans and receivables	13,15%	10%	-	14%	6%	-
Liabilities						
Customer accounts	5,56%	6,73%	1,57%	5,17%	2,11%	8%

29. Contingent liabilities and derivative financial instruments

Legal proceedings

From time to time and in the normal course of business, claims against the Bank are received. Management is of the opinion that there would be no material outflow of resources and accordingly no provision has been made in these financial statements.

(In thousands of Russian Roubles)

29. Contingent liabilities and derivative financial instruments (continued)

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. The relevant regional and federal authorities as applied to the transactions and activity of the Bank may challenge management's interpretation of such legislation. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

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

Outstanding credit related commitments are as follows:

	31 December 2006	31 December 2005
Undrawn credit lines	15 824	14 767
Guarantees issued (Note 31)	-	11 176
Less: Provisions (Note 21)	(800)	(1 260)
Total credit related commitments	**15 024**	**24 683**

Operating lease commitments

The Bank leases a number of premises and office equipment under operating lease.
Future minimum payments under non-cancelable operating leases are as follows:

	31 December 2006	31 December 2005
Not later than 1 year	3 057	2 315
Later than 1 year and not later than 5 years	12	-
Total operating lease commitments	**3 069**	**2 315**

(In thousands of Russian Roubles)

29. Contingent liabilities and derivative financial instruments (continued)

Derivative financial instruments

Foreign exchange and other derivative financial instruments entered into by the Bank are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions. The principal amounts of certain types of financial instruments provide a basis for comparison with instruments recognized in the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank’s exposure to credit or price risks.

The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or principal amount of derivative financial instruments on hand, the extent to which instruments is favorable or unfavorable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below includes contracts outstanding at 31 December 2005:

	Foreign counterparties	
	Principal or agreed amount	**Negative fair value**
Forward contracts		
- Sale of foreign currency	84 300	2 048
Total	**84 300**	**2 048**

30. Fair value of financial instruments

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS 32 “Financial instruments: Presentation”. 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 estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Cash and cash equivalents, financial assets at fair value through profit or loss and financial assets available-for-sale are carried in the balance sheet at their fair value (Notes 7, 9, 12). Some financial assets available-for-sale have no independent market quotations.

The estimated fair value of loans and receivables and customer accounts represent the discounted amount of estimated future cash flows, which expected to be received. To determine fair value, expected cash flows are discounted at current market rates.

The fair value of due from other banks and debt securities issued was not materially different from their respective carrying value.

(In thousands of Russian Roubles)

31. Related party transactions

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

In the normal course of business the Bank enters into banking transactions with its major shareholders, directors, subsidiaries, companies in which the Bank shareholders have significant interests and other related parties. These transactions include settlements, origination of loans, deposit taking, issuing guarantees, trade finance and foreign currency transactions. These transactions were priced predominantly at market rates.

The Bank had the following transactions outstanding with related parties as of 31 December 2006 and 2005:

	31 December 2006		31 December 2005	
	Amount	**%**	**Amount**	**%**
Cash and cash equivalents	8 767	0.6	4 327	1
Financial assets at fair value through profit or loss	5 213	10	-	-
Due from other banks	-	-	300 066	37
Provisions for losses on due from other banks	-	-	6 000	31
Loans and receivables	162 500	15	153 014	12
Provisions for losses on loans and receivables	8 125	6	8 083	3
Customer accounts	2 850 384	85	768 221	43
Guarantees issued	-	-	11 176	100
Interest income	26 023	19	17 678	17
Interest expense	2 688	8	1 598	6
Fee and commission income	10 485	58	10 140	61
Fee and commission expense	-	-	-	-
Gains less losses from trading in foreign currencies	-	-	1 484	31

For the period ended 31 December 2006, the total remuneration of the directors and key management personnel amounted to RUR 1 800 thousand (31 December 2005: RUR 2 750 thousand).

32. Capital adequacy

The CBRF requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on Russian accounting legislation. As of 31 December 2006 and 2005 the Bank’s capital adequacy ratio on this basis exceeded the statutory minimum.

The Bank’s international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines issued in 1988, with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2006 and 2005 was 39.54% and 41.69%, respectively. These ratios exceeded the minimum ratio of 8% recommended by the Basle Accord.

(In thousands of Russian Roubles)

33. Subsequent events

In March 2007 the Bank sold 51% in the share capital of LLC “Lorien Image”.

In May 2007 the general meeting of shareholders of the Bank has approved a Rouble-denominated dividend payout for 2006 of RUR 1 024 thousand (dividend payout for 2005 – RUR 15 thousand).