Hlynov Bank
Non-Consolidated Financial Statements
and Independent Auditors’ Report

31 December 2006

Contents

STATEMENT OF MANAGEMENT RESPONSIBILITIES

Management has prepared and is responsible for the financial statements and related notes of Hlynov Bank ("the Bank"). They have been prepared in accordance with International Financial Reporting Standards ("IFRS") and necessarily include amounts based on judgements and estimates by management.

The Bank maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorisation and properly recorded, and that accounting records may be relied upon for the preparation of financial statements and other financial information. The system contains self-monitoring mechanisms that allow management to be reasonably confident that controls, as well as the Bank's administrative procedures and internal reporting requirements operate effectively. There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error or the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation.

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Popov N.V.
Chairman of the Board

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Anisimova G.N.
Chief Accountant

28 April 2007

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Hlynov Bank ('the Bank')

Report on the financial statements

We have audited the accompanying financial statements of the Bank which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement 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 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.

Auditors' responsibility

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 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 auditors' 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 financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

OOO Moore Stephens
38 Stremyanny Pereulok
Moscow
113093

28 April 2007

Hlynov Bank
Non-Consolidated Balance Sheet as at 31 December 2006
(in thousands of Russian Roubles)

	Notes	2006	2005
Assets			
Cash and Cash Equivalents	4	606,693	273,177
Mandatory balances with the CBRF	5	36,394	25,709
Due from Banks	6	30,000	173,486
Securities – at fair value through profit or loss	7	112,276	168,707
Loans and advances to customers	8	1,842,797	1,019,969
Investment in subsidiary	9	(253)	(6,419)
Accrued interest income and other assets	10	12,671	2,600
Property, plant and equipment	11	141,364	89,747
Total assets		**2,781,942**	**1,746,976**
Liabilities			
Due to Banks	12	48,353	40,000
Customer accounts	13	2,243,203	1,431,967
Debt securities issued	14	54,144	42,708
Deferred tax liability	15	18,542	6,280
Other liabilities	16	12,251	1,606
Total liabilities		**2,376,493**	**1,522,561**
Equity			
Share capital	17	247,198	172,198
Retained earnings		120,965	41,867
Revaluation reserve		37,286	10,350
		405,449	**224,415**
Total liabilities and equity		**2,781,942**	**1,746,976**
Credit related commitments	18	**125,307**	**54,183**

Signed and authorized for release on behalf of the Board of the Bank on 28 April 2007

Popov N.V.
Chairman of the Board

Anisimova G.N.
Chief Accountant

Hlynov Bank
Non-Consolidated Statement of Income for the year ended 31 December 2006
(in thousands of Russian Roubles)

	Notes	2006	2005
Interest income			
Loans and advances to legal entities		192,915	131,071
Loans and advances to individuals		37,054	5,293
Securities		11,537	9,466
Due from banks		4,419	4,564
		245,925	**150,394**
Interest expense			
Term deposits of individuals		(83,370)	(57,396)
Term deposits of legal entities		(1,153)	(937)
Bills of exchange		(8,131)	(1,540)
Current or settlement accounts		(12,125)	(7,262)
Term deposits of banks		(4,653)	(1,631)
		(109,432)	**(68,766)**
Net interest income		**136,493**	**81,628**
Allowance for impairment on loans and advances	19	(32,785)	(5,019)
Net interest income after allowance for losses		**103,708**	**76,609**
Gains less losses from securities	20	17,380	7,827
Gains less losses from foreign currencies		3,986	3,107
Foreign exchange translation (losses) / gains		(1,101)	495
Net (loss)/ gain from disposal of property plant and equipment		(7)	-
Net fee and commission income	21	129,413	82,368
Income / (expense) from revaluation of investment in subsidiary		6,156	(6,509)
Other operating income		2,622	2,478
Operating income		**262,157**	**166,375**
Salaries	22	(65,066)	(48,598)
Administration and other operating costs	22	(35,547)	(27,137)
Depreciation and amortisation		(9,549)	(5,877)
Administrative expenses		**(110,162)**	**(81,612)**
Value transfer on loans issued at less than commercial rates		(741)	-
Profit before tax		**151,254**	**84,763**
Profit tax expense		(34,656)	(22,081)
Profit for the period		**116,598**	**62,682**

Hlynov Bank
Non-Consolidated Statement of Cash Flows for the Year Ended 31 December 2006
(in thousands of Russian Roubles)

	Notes	2006	2005
Cash flows from operating activities			
Interest received		231,895	147,205
Interest paid		(107,756)	(68,035)
Income from securities		11,723	5,615
Income from trading in foreign currencies		3,986	3,107
Fees and commissions received		136,115	86,327
Fees and commissions paid		(6,702)	(3,932)
Other operating income received		2,522	2,478
Other operating expenses paid		(99,899)	(76,759)
Income tax paid		(22,394)	(16,451)
Cash flows from operating activities before changes in operating assets and liabilities		**149,490**	**79,555**
Net (increase)/decrease in operating assets			
Mandatory balance with CBRF		(10,685)	(5,568)
Securities		56,910	(62,754)
Due from banks		143,486	(115,385)
Loans and advances to customers		(853,888)	(437,650)
Other assets		(2,022)	3,823
Net increase /(decrease) in operating liabilities			
Amounts due to credit institutions		8,353	40,000
Amounts due to customers		811,236	561,894
Bills of exchange		11,436	26,029
Other liabilities		12,321	(1,147)
Net cash from operating activities		**326,637**	**88,797**
Cash flows from investing activities			
Purchases of property, plant and equipment		(29,540)	(29,436)
Income from disposals of property, plant and equipment		20	7,806
Net cash used in investing activities		**(29,520)**	**(21,630)**
Cash flows from financing activities			
Proceeds from share issue		45,000	13,500
Dividends paid		(7,500)	(10,500)
Net cash used in financing activities		**37,500**	**3,000**
Effect of exchange rate changes		**(1,101)**	**495**
Net increase in cash and cash equivalents		**333,516**	**70,662**
Cash and cash equivalents at the beginning of the year	**4**	**273,177**	**202,515**
Cash and cash equivalents at the end of the year	**4**	**606,693**	**273,177**

(in thousands of Russian Roubles)

	Share capital	Revaluation reserve	Retained earnings	Total equity
31 December 2004	**127,198**	**10,603**	**21,185**	**158,986**
Net profit for the period	-	-	62,682	**62,682**
Dividends declared in the reporting period	-	-	(10,500)	**(10,500)**
Shares issued at par value	13,500	-	-	**13,500**
Capitalisation of share issue	31,500	-	(31,500)	**-**
Deferred tax	-	79	-	**79**
Depreciation of revalued assets	-	(332)	-	**(332)**
31 December 2005	**172,198**	**10,350**	**41,867**	**224,415**
Net profit for the period	-	-	116,598	**116,598**
Dividends declared in the reporting period	-	-	(7,500)	**(7,500)**
Proceeds from shares issued at par value	45,000	-	-	**45,000**
Capitalisation of share issue	30,000	-	(30,000)	**-**
Revaluation of fixed assets	**-**	26,936	**-**	**26,936**
31 December 2006	**247,198**	**37,286**	**120,965**	**405,449**

In accordance with Russian law on banking activity, the Bank must use financial statements prepared under Russian accounting standards as the basis for calculating distributable profit for an accounting period. This may be used to pay dividends or transferred to reserves.

Under Russian accounting standards as at 31 December 2006 the Bank had RUR 59,030 (2005: RUR 43,394) in respect of distributable reserves.

1. Principal Activities

The Bank was registered with the Central Bank of the Russian Federation ("CBRF") under the name "Kirovcoopbank" on 06 March 1990. In 1991 the Bank was renamed Hlynov Bank.

The Bank has CBRF license number 254, which was issued on 24 February 2000, to conduct banking operations in Russian Roubles ("RUR") and in hard currency, and a licence to conduct banking operations with individuals in RUR and hard currency. Since 21 September 2004 the Bank has been a member of the State Deposit Insurance system. The Bank also has licenses from the Federal Commission for the Securities Market allowing it to carry out depository functions, act as broker and dealer and provide services in managing securities.

The principal activity of the Bank is to provide banking services to the public and legal entities in the Kirov district.

The structure of the Bank comprises a central office, which is also the registered office, at 40 Yritskogo street, Kirov, Russian Federation, plus 9 supplementary offices and 5 cash exchange offices.

The Bank had an average of 241employees during 2006 (2005:148).

In the opinion of the directors, due to the structure and nature of shareholdings, which are detailed in note 17, there is no ultimate controlling party.

2. Basis of Presentation

a) General

The accompanying financial statements have been prepared in order to present the financial position and the results of operations of the Bank in accordance with International Financial Reporting Standards ("IFRS") which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect. These financial statements have been drawn up for the Bank as a single entity in order to satisfy CBRF reporting requirements. Separate consolidated financial statements have also been prepared in order to show the financial position and performance of the Bank and its one subsidiary.

These financial statements are presented and rounded to thousands of RUR unless otherwise indicated. The Rouble is utilised as the majority of the Bank's transactions are denominated, measured, or funded in RUR, hence it is both the functional and reporting currency. Transactions in other currencies are treated as transactions in foreign currencies.

b) Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Although these are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates. The most significant estimates and assumptions relate to management's estimate of the allowance for loan impairment.

Basis of Presentation (continued)

Impairment losses on loans to customers
The Bank reviews loans to customers on a quarterly basis for evidence of impairment. Such evidence would include late payments of capital or interest or negative financial information about the borrower. Material loans are reviewed individually and others are reviewed on a portfolio basis by counterparty industry type and geographical location. When an impairment is required to be recognised it is based for individually material loans on managements estimate of the future cashflows arising from the loan. This is based on their knowledge and experience of the counterparty, its industry and location. For portfolio based impairment the estimate is based wherever possible on observable data such as CBRF statistics including industry arrears statistics by industry and region.

The amount of impairment loss is calculated as the difference between the loan's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. The aggregate of the allowances made during the year is charged against profit for the year.

Impairment losses on receivable other than loans
The Bank reviews all its receivables to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from an asset. Management uses estimates based on their knowledge and experience to determine both the amount and timing of future cash flows

Fair values
For assets and liabilities carried at fair value the Bank applies market bid prices where these are available. Where they are not available it uses valuation techniques or as a last resort estimates.

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

Depreciation
The Bank charges depreciation based on the estimated useful life of its fixed assets. These estimates are based on Managements knowledge of assets and the use to which they are put. Estimates of useful lives are reviewed on an annual basis.

The allowances for impairment of financial assets and provisions in the accompanying financial statements have been determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in the Russian Federation and what effect such changes might have on the adequacy of the allowances for impairment of financial assets and provisions in future periods.

c) Adoption of new and revised International Financial Reporting Standards

During 2006 the Bank changed its accounting policies as a result of new or revised Standards that are relevant to its operations and effective for periods beginning on or after 1 January 2006. The following changes had in impact on the Bank's financial position or results of operations, or resulted in changes in classification or increased disclosures:

Application of IAS 39 "Financial Instruments: Recognition and Measurement" (revised 2005) has resulted in accounting for guarantees previously shown off-balance sheet.

There has been no change in Standards in 2006 which is considered to have an impact on the financial statements of the bank. There was no impact on opening retained earnings as at 1 January 2005 from the adoption of the above standard.

Basis of Presentation (continued)

d) Standards, interpretations and amendments that are not yet effective

Following the issue of IFRS 7, the IASB has announced that no new standards will come into force until 2009. This statement does not apply to IFRICs and minor amendments to standards. At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

IFRS 7 "Financial Instruments: Disclosures"
IFRIC 9 "Reassessment of Embedded Derivatives"
IFRIC 10 "Interim Financial Reporting and Impairment"
IFRIC 11 "IFRS 2—Group and Treasury Share Transactions"
IFRIC 12 "Service Concession Arrangements"
IFRIC D13 "Service Concession Arrangements – the Financial Asset model"
IFRIC D14 "Service Concession Arrangements – the Intangible Asset model"

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specific minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces *IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions"*, and disclosure requirements in *IAS 32 "Financial Instruments: Disclosure and Presentation"*. It is applicable to all entities that report under IFRS.

In August 2005 amendments have been also introduced to IAS 1 requiring disclosures about entity's objectives, policies and processes for managing capital, as quantitative data about what the entity regards as capital and compliance with capital requirements. The Bank has assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1.
The Bank will apply IFRS 7 and the amendment to IAS 1 from the annual period beginning 1 January 2007. IFRIC 9 provides guidance on whether embedded derivatives should be re-assessed and when evaluation should take place on initial application of IAS 39. The Bank believes that this IFRIC 9 should not have a significant impact on the financial statements of the Bank as it does not generally deal with embedded derivatives.

The Bank will apply this amendment from the annual period beginning 1 January 2007. The Bank believes that IFRICs 10 to D14 will not have a significant impact on the financial statements of the Bank.

e) Inflation accounting

In the opinion of management, effective from 1 January 2003, the Russian Federation no longer meets the criteria of IAS 29 "Financial Reporting in Hyperinflationary Economies", and therefore, the Bank ceased applying IAS 29 to current periods and only recognised the cumulative impact of inflation indexing on non-monetary elements of the financial statements through 31 December 2001. Consequently, monetary items and results of operations as of and for the years ended 31 December 2002 and all subsequent years are reported at actual, nominal amounts.

Non-monetary assets and liabilities acquired prior to 31 December 2002, and share capital transactions occurring before 31 December 2002 were restated by applying the relevant inflation factors to the historical cost ("restated cost") through 31 December 2002. Gains or losses on subsequent disposals are recognised based on the restated cost of the non-monetary assets and liabilities.

(in thousands of Russian Roubles)

Basis of Presentation (continued)

f) Reconciliation of Russian Accounting Standards ("RAS") and IFRS equity and net income

	31 December 2006		31 December 2005	
	Equity	**Net profit**	**Equity**	**Net profit**
RAS	**328,790**	**81,469**	**228,926**	**60,510**
Transfer value of loans	(954)	(528)	-	-
Additional impairment of loans	78,138	60,542	14,117	29,198
Accrual of interest/ discount on PN purchased	1,873	(260)	1,100	1,100
Accrual of interest/ discount on PN issued	1,184	2,802	(887)	(731)
Interest expense/ income	13,830	(150)	11,398	2,156
Provision on other assets	8,785	8,885	3,201	3,201
Write off LVA	(399)	105	(2,749)	2,245
Expenses from PN purchased	(2,933)	(2,933)	-	-
Recover expenses from reserve payments	(2,530)	(2,530)	(4,324)	(4,324)
Additional depreciation	(4,693)	(3,003)	(513)	(513)
Revaluation of investments	(3,433)	3,279	(3,827)	(2,887)
Revaluation of investment in subsidiary	(353)	6,156	(6,509)	(6,509)
Fixed assets	2,366	(216)	1,291	1,291
Income tax adjustment	(37,668)	(34,656)	(17,095)	(22,081)
Other	23,446	(2,364)	286	26
IFRS	**405,449**	**116,598**	**224,415**	**62,682**

Unless otherwise stated, the financial instruments of the Bank have been stated in these financial statements at their estimated fair values in accordance with IAS 39 "Financial Instruments: Recognition and Measurement". The estimated fair values are intended to approximate the amounts at which these instruments could be exchanged in an arms length transaction between willing parties at the year end. Certain financial instruments lack an active trading market and therefore fair values are based on valuation techniques, which involve assumptions and judgement.

The specific valuation methodologies applied to these instruments are outlined in note 3. In light of the foregoing, the fair values should not necessarily be interpreted as being realisable in an immediate settlement of the instruments.

3. Significant Accounting Policies

a) Recognition of Financial Instruments

The Bank recognises financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognised using trade date accounting.

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

Significant Accounting Policies (continued)

Financial assets and liabilities are initially recognised at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. Any gain or loss at initial recognition is recognised in the current period's income statement. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBRF, excluding mandatory reserves, and due from credit institutions that mature within one day of the date of origination and are free from contractual encumbrances.

c) Mandatory Balances with the Central Bank of the Russian Federation ("CBRF")

Mandatory balances represent mandatory reserve assets 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 cash flow statement.

d) Amounts Due from Credit Institutions

In the normal course of business, the Bank maintains current accounts or deposits for various periods of time with other banks. Amounts due from credit institutions 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 cost. Amounts due from credit institutions are carried net of any allowance for impairment.

e) Securities Measured at Fair Value Through Profit and Loss ("FVPL")

FVPL securities are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term holding exists. FVPL securities are initially recognised at fair value and subsequently re-measured at fair value. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same and discounted cash flow analysis.

All related realised and unrealised gains or losses are recorded within net gains or losses from trading activities in the income statement for the period in which the change occurs. Interest earned on trading securities is reflected in the income statement as interest income on securities. All purchases and sales of FVPL securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised at trade date, which is the date when the property is effectively transferred.

f) Investments in subsidiaries

Investments in subsidiaries are valued at fair value through profit or loss using the same basis as outlined in note 3e above.

Significant Accounting Policies (continued)

g) Securities Available for Sale ("AFS")

Securities "AFS" are securities that management intends to hold for an indefinite period of time, which may be sold in response to liquidity policy or changes in financial market conditions. Management initially determines the classification of its securities at the time they are purchased and this assessment is regularly reviewed. Investment securities available for sale are initially recognised at cost (which includes transaction costs). Securities AFS are subsequently valued at market value with gains and losses taken through the statement of changes in shareholders equity except for losses arising from impairment. When a decline in fair value of AFS securities has been recognised in equity and there is evidence of impairment the cumulative loss that has been recognised in equity is removed from equity and recognised in the profit or loss. Impairment losses recognised in this way for equity instruments are not reversed through profit or loss.

In exceptional cases when market value is not available they are carried at fair value as assessed by management. All regular way purchases and sales of investment securities available for sale are recognised at trade date, which is the date when property is effectively transferred. All other purchases and sales are recognised as derivative forward transactions until settlement.

h) Sale and Repurchase Agreements

Sale and repurchase ("repo") agreements are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included in securities. The corresponding liability is presented under due to banks, amounts due to customers or other liabilities as appropriate. Securities purchased under agreements to resell ("reverse repo") are recorded as due from banks, loans to customers or other assets as appropriate. The differences between the sale and repurchase prices are treated as interest and accrued over the life of the repo agreement using the effective yield method.

i) Promissory Notes Purchased

Promissory notes purchased are included in securities, due from credit institutions or in loans and advances to customers, depending on their substance and are recorded and subsequently remeasured and accounted in accordance with the accounting policies for these categories of assets.

j) Loans and Advances to Customers

Loans are stated at underlying amortised cost, net of allowances for impairment. Amortised cost is calculated as the amount outstanding after amortisation of the premium or discount over fair value arising at initial recognition using the effective interest method.

A loan or portfolio of loans is considered impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or loans (a 'loss event'), that loss event (or events) has an impact on the estimated future cash flows that will be generated by the loan or portfolio of loans and that loss can be reliably estimated. Whether objective evidence of impairment exists is considered individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. Should no objective evidence of impairment exist for an individually assessed loan, whether significant or not, the loan is included in a portfolio of loans with similar credit risk characteristics and is collectively assessed for impairment.

Significant Accounting Policies (continued)

The amount of impairment loss is calculated as the difference between the loan's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan's original effective interest rate. The aggregate of the allowances made during the year is charged against profit for the year.

Loans and advances which cannot be recovered are written off and charged against the allowance for impairment loss. Such loans are written off after all necessary legal procedures have been completed and the amount of the loss is finally determined.

Where loans are made at rates of interest below the normal commercial rate, loans are discounted to fair value based on market rates of interest. The financial impact of this write down is shown as a separate item on the face of the statement of income. Any subsequent upward revaluation passes through the statement of income as interest. Such transactions are largely entered into with related parties. They may also be undertaken for marketing or other purposes.

k) Allowances for Impairment of Financial Assets

The Bank establishes allowances for impairment of other financial assets on the same basis as that used for loans to customers as described in note 3j.

l) Financial Guarantee Contracts

As a result of the amendment to IAS 39 issued in 2005, potential liabilities arising under such contracts are now recognised on the balance Sheet. They are initially recognised at fair value which is measured by reference to consideration received in respect of the contract unless it has been issued at non market rates.

The potential liability is then amortised on a straight line basis by reference to time to maturity as this represents the reduction in potential liability remaining.

Assessments of counterparties are conducted on a regular basis on a similar basis to that used to assess whether loans are impaired as described in note 3j. When impairment equivalent events are noted the fair value of the guarantee contract is re-assessed by reference to the provisions of IAS 37.

m) Property, Plant and Equipment

Premises are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, as assessed by management based on appraisals of market value 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 premises is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the 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. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to accumulated profits.

Significant Accounting Policies (continued)

Fixtures and equipment are carried at restated cost less accumulated depreciation and any accumulated impairment for diminution in value. Depreciation on other assets is calculated on a straight-line basis over the following estimated useful lives:

	Years
Premises	50 - 80
Computer Equipment	3 - 4
Office Equipment	3 - 10
Furniture	3 - 5
Motor Vehicle	3 - 7

The carrying amounts of property and equipment 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. Impairment is recognised in the respective period and is included in other operating expenses.

n) 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 under operating lease are recognised as expenses on a straight-line basis over the lease term and included into operating expenses.

o) Amounts Due to Credit Institutions and to Customers

Amounts due to credit institutions and to customers are initially recognised in accordance with the recognition of financial instruments provisions of IAS 39 (revised). Subsequently, amounts due are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the statement of income over the period of the borrowings using the effective interest method.

p) Debt Securities Issued

Debt securities issued represent promissory notes issued by the Bank. They are accounted for according to the same principles used for amounts due to credit institutions and to customers.

q) Provisions

Provisions are recognised when the Bank 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.

r) Retirement and Other Benefit Obligations

The Bank does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

Significant Accounting Policies (continued)

s) Share Capital

Share capital, additional paid-in capital and treasury stock are recognised at restated cost. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution.

t) Dividends

Dividends are recognised as a reduction in shareholders' equity in the period in which they are declared. Dividends declared after the balance sheet dates are disclosed in the subsequent events note. The RAS financial statements of the Bank are the basis for profit distribution and other appropriations.

u) Taxation

The income tax charge in the statement of income for the year comprises current tax and changes in deferred tax. The current income tax expense is calculated in accordance with the regulations of the Russian Federation. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes.

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

v) Income and Expense Recognition

Interest income and expense are recognised on an accrual basis calculated using the effective interest method. Interest continues to be accrued on potential bad debts, including those showing objective and actual impairment. Objective evidence includes objective factors such as the loan being overdue in terms of capital and/ or interest. Actual impairment considers the overall cash recovery position of the loan including charging of late payment fees and penalty interest. Any such impairment is then recognised in full through the allowance for impairment on the relevant asset and included in the sums in disclosure note 19. Commissions and other income are recognised when the related transactions are completed. Non-interest expenses are recognised at the time the transaction occurs.

w) Foreign Currency Translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Russian Roubles at the official CBRF exchange rates ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of income as gains less losses from foreign currencies (translation differences). Differences between the contractual exchange rate of a certain transaction and the Central Bank exchange rate on the date of the transaction are included in gains less losses from foreign currencies.

The Bank used official CBRF exchange rates at 30 December 2006 (26.3311 RUR to one USD and 34.6965 RUR to one EUR) to translate balances denominated in foreign currencies at the year end. Although different rates were set by CBRF for 31 December 2006 the application of these rates would have no material impact on the financial statements. Rates at 31 December 2005 were 28.7825 RUR to one USD and 34.1850 RUR to one EUR.

(in thousands of Russian Roubles)

4. Cash and Cash Equivalents

	2006	2005
Cash on hand	196,230	173,404
Other market placements	7,562	8,680
Cash balances with the CBRF (other than mandatory reserve deposits)	249,333	65,387
Correspondent accounts and overnight deposits with other banks		
Russian Federation	150,799	25,476
Other countries	2,769	230
	606,693	**273,177**

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

5. Mandatory balances with the Central Bank of the Russian Federation (“CBRF”)

The mandatory balance with the CBRF represents amounts deposited and not available for use in the Bank's day to day operations. Credit institutions are required to maintain a non-interest earning cash deposit (mandatory reserve) with the CBRF, the amount of which depends on the level of funds attracted by the credit institution. The Bank’s ability to withdraw such deposit is significantly restricted by legislation, and therefore such amounts are excluded from cash and cash equivalents.

6. Due from Banks

	2006	2005
Promissory Notes	-	72,697
Interbank loans	30,000	100,789
	30,000	**173,486**

Geographical and currency and maturity structure of the balances due from banks are detailed in Note 23.

7. Securities – at fair value through profit or loss

	2006	2005
Corporate equity securities	3,868	7,194
Government and municipal bonds	-	31,240
Corporate Bonds	20,422	74,905
Bank bonds	10,000	-
Promissory notes	77,986	55,368
	112,276	**168,707**

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

(in thousands of Russian Roubles)

8. Loans and Advances to Customers

	2006	2005
Loans and advances to customers - originated	1,812,475	1,067,112
Loans and advances to customers - for resale	124,598	14,348
	1,937,073	**1,081,460**
Less: Allowance for impairment	(94,276)	(61,491)
	1,842,797	**1,019,969**

The amount of collateral received by the Bank in respect of its lending operations was RUR 2,359,616 (2005: RUR 1,418,796).

In the course of business the Bank sells certain mortgage loans to a Kirov regional real estate company which is providing the program “Dostypnoe Gilie”. These loans are therefore held on the balance sheet for a relatively short period of time and have been described as loans and advances to customers for resale in these notes

In the statement of income for the year ended 31 December 2006 the Bank reflected the value transfer on loans granted at less than commercial rates in the amount of RUR 741 (2005: nil).

Movements in the allowance for impairment on loans to customer are disclosed in note 19.

Loans are made principally in the Kirov region in the following industry sectors:

	2006		**2005**	
	Amount	**Impairment**	**Amount**	**Impairment**
Trade	1,253,230	73,628	768,808	46,256
Individuals	247,072	7,999	45,761	917
Construction	104,692	6,134	80,528	6,813
Agriculture	57,576	3,049	57,155	3,322
Finance	49,000	1,140	63,498	632
Other	45,050	261	6,795	575
Transport	20,171	363	15,361	547
Manufacturing	19,548	511	25,500	2,138
Timber Industry	4,890	434	954	58
Engineering	3,800	76	-	-
Sport	3,000	600	-	-
Energy	1,650	16	1,657	140
Light Industry	1,199	24	1,095	93
Chemical	1,100	30	-	-
Medicine	472	10	-	-
Hotels	25	1	-	-
	1,812,475	**94,276**	**1,067,112**	**61,491**
Loans for resale	(124,598)	-	(14,348)	-
	1,937,073	**94,276**	**1,081,460**	**61,491**

Currency, maturity, interest rate analyses of loans customer advances are disclosed in Note 23.

The Bank granted loans to the related parties, information is disclosed in Note 24.

(in thousands of Russian Roubles)

9. Investment in subsidiary

	2006	2005
Investment cost	100	90
Adjustment to reflect fair value	(353)	(6,509)
	(253)	**(6,419)**

In 2004 the Bank acquired OOO “Leasing-Hlynov” a company specialising in the provision of leasing services. As at 31 December 2006 Bank shareholding was 100%, having acquired the remaining 10% held by a third party shareholder in August 2006. The investment is valued on the basis of fair value through profit or loss.

The Bank has produced separate consolidated financial statements that consolidate the financial statements of OOO “Leasing-Hlynov”.

10. Accrued Interest and Other Assets

	2006	2005
Accrued interest income	7,949	-
Debtors and prepayments	3,101	2,592
Other	1,621	108
	12,671	**2,700**
Less: Allowance for impairment	-	(100)
	12,671	**2,600**

Debtors and prepayments include accounts receivable on transactions of credit cards.

Movements in the allowance for impairment of other assets are disclosed in Note 19.

(in thousands of Russian Roubles)

11. Property, Plant and Equipment

	Land	Buildings	Motor Vehicles	Computers and other	Office Equipment and Furniture	Construction in progress	Total
Cost or Valuation							
31 December 2004	**169**	**67,209**	**427**	**5,452**	**5,895**	**1,825**	**80,977**
Additions	3,373	3,620	-	3,972	9,631	11,315	**31,911**
Disposals	-	(7,939)	-	-	-	(1,543)	**(9,482)**
31 December 2005	**3,542**	**62,890**	**427**	**9,424**	**15,526**	**11,597**	**103,406**
Additions	-	19,548	1,522	3,515	5,002	25,193	**54,780**
Disposals	-	-	-	(64)	(43)	(20,536)	**(20,643)**
Revaluation	-	26,936	-	-	-	-	**26,936**
31 December 2006	**3,542**	**109,374**	**1,949**	**12,875**	**20,485**	**16,254**	**164,479**
Depreciation							
31 December 2004	**-**	**(3,885)**	**(273)**	**(1,861)**	**(1,921)**	**-**	**(7,940)**
Charge for the year	-	(817)	(85)	(2,060)	(2,915)	-	**(5,877)**
Disposals	-	158	-	-	-	-	**158**
31 December 2005	**-**	**(4,544)**	**(358)**	**(3,921)**	**(4,836)**	**-**	**(13,659)**
Charge for the year	-	(832)	(1,046)	(2,632)	(5,039)	-	**(9,549)**
Disposals	-	-	-	50	43	-	**93**
31 December 2006	**-**	**(5,376)**	**(1,404)**	**(6,503)**	**(9,832)**	**-**	**(23,115)**
Net Book Values							
31 December 2006	**3,542**	**103,998**	**545**	**6,372**	**10,653**	**16,254**	**141,364**
31 December 2005	**3,542**	**58,346**	**69**	**5,503**	**10,690**	**11,597**	**89,747**
31 December 2004	**169**	**63,324**	**154**	**3,591**	**3,974**	**1,825**	**73,037**

Premises were revalued at 31 December 2006, by independent appraisers to market value by the Kirov branch of “Rostechinventarizacia” on the basis of act of revaluation number ЦБ-0002725 at 27 December 2006.

Fixed assets are insured to the value of RUR 2,100 (2005: RUR 1,210).

(in thousands of Russian Roubles)

12. Due to Banks

	2006	2005
Short-term loans from other banks	47,500	40,000
Vostro accounts with other banks	853	-
	48,353	**40,000**

57.9% of interbank loans are represented by loans received from OAO “Rossisski Bank Razvitia” with interest rate 10.95%.

Maturity structure and interest rate analysis of amounts due to banks are detailed in note 23.

13. Customer accounts

	2006	2005
Individuals		
Current accounts	362,650	33,338
Term deposits	1,026,949	727,533
	1,389,599	**760,871**
Private enterprises		
Current accounts	751,477	620,944
Term deposits	49,805	11,939
	801,282	**632,883**
State and budgetary organisations		
Current accounts	52,322	37,913
Term deposits	-	300
	2,243,203	**1,431,967**

Maturity structure and interest rate analysis of amounts due to customers are detailed in note 23.

Activity types of the Bank’s Clients with accounts at 31 December 2006 were:

	2006		2005	
	Amount	**%**	**Amount**	**%**
Individuals	1,386,586	61.8%	903,277	63.1%
Trade	614,878	27.4%	343,131	24.0%
Building Industry	103,799	4.6%	67,781	4.7%
Industry	35,994	1.6%	16,116	1.1%
Other	32,319	1.4%	28,102	2.0%
Transport & Telecommunication	24,053	1.1%	15,862	1.1%
Insurance	16,016	0.7%	32,995	2.3%
Services	10,219	0.5%	2,369	0.2%
Education	8,633	0.4%	7,298	0.5%
Fuel and Energy	4,627	0.2%	8,200	0.6%
Agriculture	3,135	0.2%	5,832	0.3%
Health Facilities	2,944	0.1%	1,004	0.1%
	2,243,203	**100.0%**	**1,431,967**	**100.0%**

(in thousands of Russian Roubles)

14. Debt Securities Issued

	2006	2005
Promissory notes	54,144	42,708
	54,144	**42,708**

Debt securities issued are represented entirely by promissory notes denominated in RUR. At 31 December 2006 52% of Promissory Notes were held by two investors.

Maturity structure and interest rate analysis of amounts debt securities issued are detailed in Note 23.

15. Taxation

The corporate income tax expense comprises:

	2006	2005
Current tax charge	22,394	16,576
Deferred tax charge relating to the origination and reversal of temporary differences	12,262	5,505
Profit tax charge for the year	**34,656**	**22,081**

The income tax rate applicable to the majority of the Bank's income was 24% for 2006 and 2005.

The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax expense based on statutory rate with actual is as follows:

	2006	2005
Profit before tax	**151,254**	**84,763**
Statutory tax rate	24%	24%
Theoretical income tax expense at the statutory rate	36,301	20,343
State securities income at different rates	(250)	(120)
Dividends paid	(168)	-
Non taxable items	(1,227)	1,858
Current tax charge	**34,656**	**22,081**

Differences between IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial purposes and for income tax purposes. Deferred income tax is calculated on all temporary differences under the balance sheet liability method using a statutory tax rate of 24%.

(in thousands of Russian Roubles)

Taxation (continued)

Deferred tax assets and (liabilities) comprise:

	2006	2005
Tax effect of deductible temporary differences		
Accrued discount on securities	(1,646)	339
Provisions for losses on loans and Promissory Notes	(12,206)	(2,728)
Debtors and prepayments	3,066	-
Accrued interest income	(769)	38
Premises and equipment	(3,798)	(4,023)
Debt securities issued	364	10
Other	(3,553)	84
Net deferred tax liability	**(18,542)**	**(6,280)**

16. Accrued Interest and Other Liabilities

	2006	2005
Accounts payable	5,558	269
Operating taxes payable	4,513	1,137
Accrued interest	1,859	-
Dividends payable	221	114
Other	100	86
	12,251	**1,606**

“Other” includes liabilities arising as a result of guarantees issued.

17. Share Capital

Statutory capital authorized, issued and fully paid comprises:

	2006			2005		
	Number of shares	Par value	Value	Number of shares	Par value	Value
Common shares	4,500,000	0.05	225,000	3,000,000	0.05	150,000
IAS 29 adjustments			22,198			22,198
			247,198			**172,198**

All ordinary shares have a nominal value of RUR 50 (not thousands) per share, rank equally and carry one vote. Dividends were declared in 2006 at 2.5 RUR (not thousands) per share and in 2005 at 5 RUR (not thousands) per share.

In 2006 the Bank increased share capital by issuing 900,000 ordinary shares of nominal value RUR 50 (not thousands) for cash consideration and capitalized 600,000 shares of nominal value RUR 50 (not thousands) by utilising retained earnings. All shares were allocated to investors in their existing proportions.

Reconciliation of dividends declared and paid is presented below.

	2006	2005
Dividends payable at start of year	114	225
Dividends declared during the year	7,500	10,500
Dividends paid during the year	(7,393)	(10,611)
Dividends payable at end of year	221	114

(in thousands of Russian Roubles)

Share Capital (continued)

At 31 December 2006 shareholders of the Bank were as follows:

Shareholder	%
OOO"Flagman"	13.4
OOO"Vjatka-Nefteproduct"	7.7
OOO"Class"	6.7
OOO"Strike"	5.8
Individuals with less than 5% each (183)	56.4
Legal entities with less than 5% each (24)	10.0
	100.0

18. Commitments and Contingencies

Operating Environment

The Russian economy, while deemed to be of market status beginning in 2002, continues to display certain characteristics consistent with that of a market in transition. These attributes have in the past included higher than normal historic inflation and lack of liquidity in capital markets. The continued success and stability of the Russian economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

Legal

From time to time and in the normal course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Operating lease commitments

The following are the amounts payable under non cancellable operating leases over the relevant time periods:

	2006	2005
Not later than 1 year	3,800	2,454
Later than 1 year and not later than 5 years	7,614	7,276
Later than 5 years	1,894	1,819
	13,308	**11,549**

Capital commitments

As of the end of 2006 the Bank had not entered into any capital commitments which would require disclosure or recognition in the financial statements. (2005: nil)

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

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 funding of most commitments are contingent upon certain conditions set out in the loan agreements. Guarantees, which were previously disclosed as credit related commitments are now described in Note 3l.

(in thousands of Russian Roubles)

Commitments and Contingencies (continued)

Credit related commitments comprise:

	2006	2005
Unused limits of overdrafts	81,048	33,950
Undrawn loan commitments	44,259	20,233
	125,307	**54,183**

Derivatives

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

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on 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 favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus, the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly over time.

As of the end of 2006 the Bank had no derivative financial instruments (2005: nil).

19. Allowance for Losses and Impairment

The movements in allowances for impairment of assets were as follows:

	Due from credit institutions	Loans and advances to customers	Other assets (non interest bearing)	Total
31 December 2004	**582**	**56,472**	**2,895**	**59,949**
Charge/ (reversal)	(582)	5,019	(2,795)	1,642
31 December 2005	**-**	**61,491**	**100**	**61,591**
Charge / (reversal)	-	32,785	(100)	32,685
31 December 2006	**-**	**94,276**	**-**	**94,276**

The net allowance for impairment was RUR 32,785 in interest bearing assets and reversal of RUR 100 on non interest bearing assets. (2005: RUR 4,437 and reversal of RUR 2,795 respectively).

Allowances for losses and provisions of assets are deducted from the related assets. In accordance with the Russian legislation, loans may only be written off with the approval of the Shareholders' Council and, in certain cases, with the respective Court decision.

(in thousands of Russian Roubles)

20. Gains and Losses from Securities

	2006	**2005**
Realised on sales and redemptions	15,908	9,791
Fair value adjustments	2,252	(2,365)
Other transactions with securities	(780)	401
	17,380	**7,827**

21. Net Fee and Commission Income

	2006	**2005**
Income		
Cash operations	78,639	49,777
Settlements and foreign currency exchange transactions	21,549	12,002
Commission from loans to customers	30,872	20,963
Commission from transaction with plastic cards	2,540	1,784
Commission on other operations	2,515	1,801
	136,115	86,327
Expense		
Cash operations	(7)	(14)
Commission on banking service	(1,762)	(1,433)
Settlements and foreign currency exchange transactions	(433)	(311)
Other commissions	(4,500)	(2,201)
	(6,702)	(3,959)
	129,413	**82,368**

22. Salaries, Administration and Other Operating Costs

	2006	**2005**
Salaries	54,760	41,111
Social security costs	10,306	7,487
Salaries	**65,066**	**48,598**
Deposit Insurance system payment	5,958	3,499
Taxes other than profit tax	4,500	3,990
Rent	2,871	3,552
Security	2,662	2,059
Stationery	2,375	1,362
Document processing	2,375	1,512
Printing	2,105	1,580
Postage	1,997	1,445
Related to computers, vehicles and information service	1,717	1,275
Advertising and marketing	1,381	1,244
Maintenance of buildings	1,248	891
Repair of fixed assets	1,030	2,400
Audit fees	581	352
Travel and entertainment expenses	678	302
Software expenses	123	184
Other	3,946	1,490
	35,547	**27,137**

23. Financial Risk Management

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

Credit risk

The Bank is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a continuous basis and subject to quarterly or more frequent reviews.

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 by obtaining collateral and corporate and personal guarantees.

The maximum credit risk exposure, ignoring the fair value of any collateral, in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of financial assets as presented in the accompanying financial statements and the disclosed financial commitments.

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

(in thousands of Russian Roubles)

Financial Risk Management (continued)

Geographical risk

The geographical concentration of the Bank's assets and liabilities as of 31 December 2006 is set out below:

	Russia	OECD	Total
Assets			
Cash and cash equivalents	603,924	2,769	606,693
Mandatory balances with the CBRF	36,394	-	36,394
Due from Banks	30,000	-	30,000
Securities – at fair value through profit or loss	112,276	-	112,276
Loans and advances to customers	1,842,797	-	1,842,797
Accrued interest income and other assets	12,671	-	12,671
Investments in subsidiary company	(253)	-	(253)
Property, plant and equipment	141,364	-	141,364
Total assets	**2,779,173**	**2,769**	**2,781,942**
Liabilities			
Amounts due to credit institutions	48,353	-	48,353
Amounts due to customers	2,243,203	-	2,243,203
Debt securities issued	54,144	-	54,144
Accrued interest expense and other liabilities	12,251	-	12,251
Deferred tax	18,542	-	18,542
Total liabilities	**2,376,493**	**-**	**2,376,493**
Net balance sheet position	**402,680**	**2,769**	**405,449**
Credit related commitments	**125,307**	**-**	**125,307**

Market Risk

The Bank takes on exposure to market risk. Market risk arises from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

(in thousands of Russian Roubles)

Financial Risk Management (continued)

Currency risk

The Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's Assets and Liabilities Management Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. These limits also comply with the requirements of the Central Bank of Russia. As of 31 December 2006, the Bank has the following positions in currencies:

	RUR	USD	EUR	Total
Assets				
Cash and cash equivalents	581,697	15,800	9,196	606,693
Mandatory balances with the CBRF	36,394	-	-	36,394
Due to Banks	30,000	-	-	30,000
Securities – at fair value through profit or loss	112,276	-	-	112,276
Loans and advances to customers	1,826,817	14,171	1,809	1,842,797
Accrued interest income and other assets	12,272	392	7	12,671
Investment in subsidiary company	(253)	-	-	(253)
Property, plant and equipment	141,364	-	-	141,364
Total assets	**2,740,567**	**30,363**	**11,012**	**2,781,942**
Liabilities				
Amounts due to credit institutions	48,353	-	-	48,353
Amounts due to customers	2,217,095	11,113	14,995	2,243,203
Debt securities issued	54,144	-	-	54,144
Accrued interest expense and other liabilities	10,557	1,694	-	12,251
Deferred tax	18,542	-	-	18,542
Total liabilities	**2,348,691**	**12,807**	**14,995**	**2,376,493**
Net on-balance sheet position	**391,876**	**17,556**	**(3,983)**	**405,449**
Credit related commitments	**125,307**	**-**	**-**	**125,307**

Liquidity Risk

Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Bank is exposed to daily calls on its available cash resources from current accounts, maturing deposits and loan draw downs. The Bank does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank has internal rules to manage cash resources with different maturity and deal with high liquidity financial instruments with appropriate maturity. Monitoring of liquidity risk is conducted by risk-manage, Liquidity Committee and Credit Committee on permanent basis.

(in thousands of Russian Roubles)

Financial Risk Management (continued)

The tables below provide an analysis of the Bank's assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue/ no stated maturity	Total
Assets						
Cash and cash equivalents	606,693	-	-	-	-	606,693
Mandatory balances with CBRF	-	-	-	-	36,394	36,394
Due from Banks	30,000	-	-	-	-	30,000
Securities – at fair value through profit or loss	112,276	-	-	-	-	112,276
Loans and advances to customers	91,154	632,317	429,825	689,501	-	1,842,797
Accrued interest income and other assets	10,907	1,502	161	-	101	12,671
Investments in subsidiary company	-	-	-	-	(253)	(253)
Property, plant and equipment	-	-	-	-	141,364	141,364
Total assets	**851,030**	**633,819**	**429,986**	**689,501**	**177,606**	**2,781,942**
Liabilities						
Amounts due to credit institutions	21,053	13,300	14,000	-	-	48,353
Amounts due to customers	1,286,380	454,270	372,774	129,779	-	2,243,203
Debt securities issued	23,430	10,794	19,920	-	-	54,144
Accrued interest expense and other liabilities	5,808	4,945	1,498	-	-	12,251
Deferred tax liability	-	-	-	-	18,542	18,542
Total liabilities	**1,336,671**	**483,309**	**408,192**	**129,779**	**18,542**	**2,376,493**
Net liquidity gap	**(485,641)**	**150,510**	**21,794**	**559,722**	**159,064**	**405,449**
Accumulated gap as at 31 December 2006	**(485,641)**	**(335,131)**	**(313,337)**	**246,385**	**405,449**	
Accumulated gap as at 31 December 2005	**(139,562)**	**(71,332)**	**12,007**	**147,952**	**224,415**	

The maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the table above. These balances are included in amounts due less than 1 month in the table above.

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

(in thousands of Russian Roubles)

Financial Risk Management (continued)

Interest Rate Risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. 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's Assets and Liabilities Management Committee sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly. The majority of the Bank's assets and liabilities are priced on a fixed rate basis. An analysis of the Banks interest bearing assets and liabilities by reference to the next interest rate re-fixing date is presented below.

	On demand or less than 1 month	1 to 6 months	6 months to 1 year	Over 1 year	Overdue/ no stated maturity	Total
Assets						
Due from Banks	30,000	-	-	-	-	30,000
Securities	108,408	-	-	-	-	108,408
Loans and advances to customers	91,154	632,317	429,825	689,501	-	1,842,797
Total assets	**229,562**	**632,317**	**429,825**	**689,501**	**-**	**1,981,205**
Liabilities						
Amounts due to credit institutions	20,200	13,300	14,000	-	-	47,500
Amounts due to customers	791,143	454,270	372,774	129,779	-	1,747,966
Debt securities issued	2,054	10,794	19,920	-	-	32,768
Total liabilities	**813,397**	**478,364**	**406,694**	**129,779**	**-**	**1,828,234**
Net liquidity gap	**(583,835)**	**153,953**	**23,131**	**559,722**	**-**	**152,971**
Accumulated gap as at 31 December 2006	**(583,835)**	**(429,882)**	**(406,751)**	**152,971**	**152,971**	
Accumulated gap as at 31 December 2005	**(209,878)**	**(140,266)**	**(57,206)**	**78,739**	**78,739**	

The table below summarises the effective interest rate by major currencies for major interest earning/ bearing monetary financial instruments as of 31 December 2006 and 2005:

	2006			**2005**		
	RUR	**USD**	**EURO**	**RUR**	**USD**	**EURO**
Interest earning assets						
Securities	12.53	-	-	11.06	-	-
Term deposits with other banks	7.94	-	-	10.77	7.00	-
Loans and advances to customers	14.58	10.60	11.25	16.56	11.00	9.41
Interest bearing liabilities						
Term placements of other banks	10.23	-	-	11.30	-	-
Term deposits of customers	6.28	5.82	6.69	6.59	5.08	5.98
Debt securities issued	10.96	-	-	8.63	-	-

24. Related Party Transactions

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

During the reporting period the Bank entered into a number of banking transactions in the normal course of business with various related parties.

At 31 December 2006 entities considered related parties of the Bank included the following:

Related parties per category	Activity
Shareholders	
OOO"Flagman"	Trade and intermediary
OOO"Vjatka-Nefteproduct"	Trade and intermediary
OOO"Class"	Trade and intermediary
OOO"Strike"	Trade and intermediary
Under common control by virtue of having the same shareholders	
OOO "Leasing-Hlynov"	Trade and intermediary
OOO Firma "Globus"	Trade and intermediary
OAO "Kchys+K"	Building Industry
OOO "NTI"	Trade and intermediary
OOO "Diros"	Trade and intermediary
OOO "Dimet+ M"	Trade and intermediary
OOO "Leasing "Hlynov"	Trade and intermediary
Other including Management	
Berezin Oleg Uyrievich	
Popov Nicolai Vasilievich	
Juravlev Mikhail Vladimirovich	
Philipchenko Aleksey Viktorovich	
Repnjakov Vladimir Anatolyevich	
Vturin Alexander Uyrevich	
Scobeleva Irina Anatolyevna	
Anisimova Galina Nikolaevna	
Prosvirina Lubov Nikolaevna	
Pestov Oleg Vladimirovich	

Entities in the category "under common control by virtue of having the same shareholders" are under the control of the shareholders, members of the Board of Directors and Management Board, a total of 7 entities (2005: 9).

The category "other including Management includes members of the Board of Directors, the Advisory Board and the Executive Board, a total of 10 people (2005: 11).

(in thousands of Russian Roubles)

Related Party Transactions (continued)

The total outstanding balances and the related income and expense transactions for the period with the major related parties are as follows:

	2006				
	Share-holders	**Under common control by virtue of having the same shareholders**	**Other including Management**	**Total Related Party balance / result**	**Total per category in the financial statements**
Balance Sheet					
Loans and advances to customers	52,626	153,712	834	**207,171**	**1,937,073**
Provision for losses on loans	(1,060)	(13,322)	(7)	**(14,388)**	**(94,276)**
Net	51,566	140,390	827	**192,783**	**1,842,797**
Customer accounts					
Deposits	-	-	4,646	**4,646**	**1,076,754**
Current accounts	2,280	23,176	-	**25,456**	**1,166,449**
Debt securities issued	24,574	1,500	-	**26,074**	**54,144**
Income / Expense					
Interest income	4,768	20,474	57	**25,299**	**229,969**
Commission income (loans and guarantees issued)	243	798	-	**1,041**	**31,066**
Interest expense					
Deposits	-	-	262	**262**	**84,523**
Current accounts	1	65	-	**66**	**12,125**
Dividends paid	1,909	93	229	**2,231**	**7,393**
Other					
Guarantees received	2,540	6,000	7,916	**16,456**	**2,032,521**

Salaries paid to the members of the Management of the Bank amounted to RUR 5,388 (2005: RUR 4,277), and salaries paid to the members of the Executive Board amounted to RUR 8,507 (2005: RUR 6,810).

(in thousands of Russian Roubles)

Related Party Transactions (continued)

	2005				
	Share-holders	**Under common control by virtue of having the same shareholders**	**Other including Management**	**Total Related Party balances / results**	**Total per category in the financial statements**
Balance Sheet					
Loans and advances to customers	-	55,793	-	**55,793**	**1,081,460**
Provision for losses on loans	-	(11,485)	-	**(11,485)**	**(61,491)**
Net	-	44,308	-	**44,308**	**1,019,969**
Customer accounts					
Deposits	13,511	-	2,173	**15,684**	**739,772**
Current accounts	-	3	16,204	**16,207**	**692,195**
Debt securities issued	-	1,150	-	**1,150**	**42,708**
Income / Expense					
Interest income	114	17,986	75	**18,175**	**136,364**
Commission income (loans and guarantees issued)	-	1	1,411	**1,412**	**21,312**
Interest expense					
Deposits	254	19	1,332	**1,605**	**58,333**
Current accounts	-	46	-	**46**	**7,262**
Dividends paid	3,363	302	2,396	**6,061**	**10,611**
Other					
Guarantees received	-	7,300	5,400	**12,700**	**943,569**