

**PROMSVYAZBANK**

Consolidated Financial Statements  
For the year ended 31 December 2005

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**Promsvyazbank  
Shareholders, Management and Auditors**

| <b>Nominal Shareholders</b> | <b>% Ownership/<br/>% Votes</b> |
|-----------------------------|---------------------------------|
| OOO "XXII vek"*             | 20,00%                          |
| OOO "Zvezdochka"*           | 20,00%                          |
| OOO "Transsvyazservice"*    | 20,00%                          |
| OOO "Tehnosvyazinform"*     | 19,72%                          |
| OOO "TFK Kontrast"*         | 16,35%                          |
| Nova Ljubljanska Banka d.d. | 3,65%                           |
| OAO "Rostelecom"            | 0,28%                           |
|                             | 100,00%                         |

\* - These companies are ultimately owned by Promsvyaz Capital B. V. (Netherlands), which in turn is owned by Peters International N. V. (Netherlands). Mr D. N. Ananyev and Mr A. N. Ananyev each beneficially own 50% of Peters International N. V.

**Council as of 31 December 2005**

|                        |   |
|------------------------|---|
| <i>Ananyev D.N.</i>    | <i>Chairman of the Council, OOO "Technoserv A/C",<br/>Deputy of Councillor of the Chairman of the Board</i> |
| <i>Ananyev A.N.</i>    | <i>OOO "Technoserv A/C", Councillor of the Chairman of the Board</i>  |
| <i>Levkovskiy A.A.</i> | <i>President, Chairman of the Promsvyazbank Board</i>   |
| <i>Ustukov S.V.</i>    | <i>OOO "SK "ORANTA", General Director</i>   |
| <i>Zyatkov N.I.</i>    | <i>ZAO "Argumenty i facty", President</i>   |

**Board of Management as of 31 December 2005**

|                         |   |
|-------------------------|---|
| <i>Levkovskiy A.A.</i>  | <i>President, Chairman of the Promsvyazbank Board</i>                                 |
| <i>Sennikov D.S.</i>    | <i>First Vice-President</i>   |
| <i>Aristarkhov G.V.</i> | <i>Senior Vice-President, Head of Treasury Department</i>                             |
| <i>Konstandian A.G.</i> | <i>Senior Vice-President, Head of International Business Department</i>               |
| <i>Krasnov A.A.</i>     | <i>Senior Vice-President, Head of Branch Network Development<br/>Department</i>       |
| <i>Morozova I.V.</i>    | <i>Chief Accountant, Head of Accounting, Reporting and Settlements<br/>Department</i> |

**Auditors**

ZAO KPMG, Moscow



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## **Independent Auditors' Report**

To the Council of Promsvyazbank

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

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

*ZAO KPMG*

ZAO KPMG  
17 May 2006

**Promsvyazbank**  
Consolidated Income Statement for the year ended 31 December 2005

|  | Notes | <b>2005</b><br><b>RUR'000</b> | <b>2004</b><br><b>RUR'000</b> |
|--|-------|-------------------------------|-------------------------------|
| Interest income  |       | 7 115 870                     | 4 650 573                     |
| Interest expense   |       | (3 487 286)                   | (1 796 339)                   |
| <b>Net interest income</b>   | 4     | <b>3 628 584</b>              | <b>2 854 234</b>              |
| Fee and commission income  | 5     | 955 122                       | 612 107                       |
| Fee and commission expense   | 6     | (254 720)                     | (168 001)                     |
| <b>Net fee and commission income</b>                                   |       | <b>700 402</b>                | <b>444 106</b>                |
| Net gain on financial instruments at fair value through profit or loss | 7     | 1 316 627                     | 249 381                       |
| Net foreign exchange trading gain                                      |       | 177 409                       | 291 793                       |
| Net foreign exchange translation (loss)/gain                           |       | (295 810)                     | 231 374                       |
| Other income   |       | 281 647                       | 154 330                       |
| <b>Operating income</b>  |       | <b>5 808 859</b>              | <b>4 225 218</b>              |
| Impairment losses  | 8     | (471 908)                     | (825 653)                     |
| General administrative expenses  | 9     | (3 074 727)                   | (1 644 682)                   |
| <b>Operating expenses</b>  |       | <b>(3 546 635)</b>            | <b>(2 470 335)</b>            |
| <b>Income before taxes</b>   |       | <b>2 262 224</b>              | <b>1 754 883</b>              |
| Income tax expense   | 10    | (552 289)                     | (486 909)                     |
| <b>Net income</b>  |       | <b>1 709 935</b>              | <b>1 267 974</b>              |
| <b>Attributable to:</b>  |       |                               |                               |
| Shareholders of the parent   |       | 1 644 675                     | 1 216 650                     |
| Minority interest related to limited liability subsidiaries            |       | 30 579                        | 49 199                        |
| Minority interest related to other subsidiaries                        |       | 34 681                        | 2 125                         |

The consolidated financial statements as set out on pages 5 to 61 were approved by the Board of Management of the Group on 17 May 2006.

Levkovskiy A.A.  
President



Morozova I.V.  
Chief Accountant

|   | Notes | <b>2005</b><br><b>RUR'000</b> | <b>2004</b><br><b>RUR'000</b> |
|---|-------|-------------------------------|-------------------------------|
| <b>ASSETS</b>   |       |                               |                               |
| Cash and bullion  |       | 2 925 514                     | 1 189 001                     |
| Due from the Central Bank of the Russian Federation               | 11    | 6 733 684                     | 5 717 973                     |
| Placements with banks and other financial institutions            | 12    | 12 807 539                    | 4 101 650                     |
| Financial instruments at fair value through profit or loss        | 13    | 18 444 300                    | 10 202 251                    |
| Amounts receivable under reverse repurchase agreements            | 14    | 2 426 721                     | 403 474                       |
| Loans to customers  | 15    | 64 428 745                    | 34 368 473                    |
| Investments   | 16    | 72 600                        | 80 471                        |
| Investment property   | 17    | -                             | 395 381                       |
| Current income tax prepayments                                    |       | 76 206                        | 71 571                        |
| Other assets  | 18    | 534 678                       | 706 031                       |
| Property and equipment  | 19    | 2 487 984                     | 933 633                       |
| <b>Total Assets</b>   |       | <b>110 937 971</b>            | <b>58 169 909</b>             |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                       |       |                               |                               |
| Financial instruments at fair value through profit or loss        | 13    | 18 272                        | 40 566                        |
| Deposits and balances from banks and other financial institutions | 20    | 20 493 357                    | 11 201 534                    |
| Current accounts and deposits from customers                      | 21    | 53 245 141                    | 24 454 755                    |
| Own securities issued   | 22    | 17 106 533                    | 11 444 395                    |
| Other borrowed funds  | 23    | 6 940 159                     | 2 429 241                     |
| Other liabilities   | 24    | 283 866                       | 284 633                       |
| Liability to purchase leasing equipment                           |       | -                             | 143 397                       |
| Deferred tax liability  | 25    | 992 124                       | 506 046                       |
| Minority interest attributable to limited liability subsidiaries  |       | 72 606                        | 125 560                       |
| <b>Total Liabilities</b>  |       | <b>99 152 058</b>             | <b>50 630 127</b>             |
| <b>Shareholders' Equity</b>                                       |       |                               |                               |
| Share capital   | 26    | 4 872 794                     | 2 872 794                     |
| Share premium   |       | 1 902 245                     | 1 902 245                     |
| Additional paid-in-capital  |       | -                             | 182 759                       |
| Revaluation reserve for property and equipment                    |       | 830 002                       | -                             |
| Retained earnings   |       | 4 085 686                     | 2 521 479                     |
| <b>Total equity attributable to shareholders of the parent</b>    |       | <b>11 690 727</b>             | <b>7 479 277</b>              |
| <b>Minority interest</b>  |       | <b>95 186</b>                 | <b>60 505</b>                 |
| <b>Total Liabilities and Shareholders' Equity</b>                 |       | <b>110 937 971</b>            | <b>58 169 909</b>             |
| Commitments and Contingencies                                     | 29-31 |                               |                               |

The consolidated balance sheet is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

**Promsvyazbank**  
Consolidated Statement of Cash Flows for the year ended 31 December 2005

|  | Notes | <b>2005</b><br><b>RUR'000</b> | <b>2004</b><br><b>RUR'000</b> |
|--|-------|-------------------------------|-------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                  |       |                               |                               |
| Interest and fee and commission receipts                                     |       | 8 153 745                     | 5 063 526                     |
| Interest and fee and commission payments                                     |       | (3 303 057)                   | (1 794 029)                   |
| Net receipts from financial instruments at fair value through profit or loss |       | 1 856 972                     | 134 767                       |
| Net receipts from foreign exchange   |       | 165 556                       | 390 833                       |
| Other income   |       | 245 955                       | 154 330                       |
| General and administrative expenses  |       | (2 934 265)                   | (1 673 987)                   |
|  |       | <b>4 184 906</b>              | <b>2 275 440</b>              |
| <b>(Increase)/decrease in operating assets</b>                               |       |                               |                               |
| Minimum reserve deposit with the Central Bank of the Russian Federation      |       | (1 139 532)                   | 733 619                       |
| Placements with banks and other financial institutions                       |       | (1 843 405)                   | 1 092 972                     |
| Financial instruments at fair value through profit and loss and investments  |       | (8 639 613)                   | (4 082 818)                   |
| Amounts receivable under reverse repurchase agreements                       |       | (2 014 358)                   | 367 510                       |
| Loans to customers   |       | (30 974 744)                  | (10 308 546)                  |
| Other assets   |       | (326 461)                     | (436 081)                     |
| <b>Increase/(decrease) in operating liabilities</b>                          |       |                               |                               |
| Deposits and balances from banks and other financial institutions            |       | 10 429 811                    | 2 454 498                     |
| Amounts payable under repurchase agreements                                  |       | -                             | (469 438)                     |
| Current accounts and deposits from customers                                 |       | 27 611 362                    | 7 321 887                     |
| Own securities issued  |       | 5 633 423                     | 2 770 166                     |
| Other borrowed funds   |       | 4 469 223                     | 2 441 886                     |
| Liability to purchase leasing equipment                                      |       | (50 228)                      | (111 276)                     |
| Other liabilities  |       | (148 547)                     | 249 822                       |
|  |       | <b>7 191 837</b>              | <b>4 299 641</b>              |
| <b>Net cash provided from operating activities before taxes paid</b>         |       | <b>7 191 837</b>              | <b>4 299 641</b>              |
| Taxes paid   |       | (382 889)                     | (270 633)                     |
|  |       | <b>6 808 948</b>              | <b>4 029 008</b>              |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                  |       |                               |                               |
| Net sales of subsidiaries, net of cash disposed                              | 39    | (18 782)                      | -                             |
| Net sale of investment property  | 17    | 431 073                       | 1 836 645                     |
| Net purchases of property and equipment                                      |       | (684 869)                     | (479 767)                     |
|  |       | <b>(272 578)</b>              | <b>1 356 878</b>              |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                  |       |                               |                               |
| Proceeds from issuance of share capital                                      |       | 2 000 000                     | 600 000                       |
|  |       | <b>2 000 000</b>              | <b>600 000</b>                |
| <b>Cash flows from financing activities</b>                                  |       | <b>2 000 000</b>              | <b>600 000</b>                |
| <b>Net increase in cash and cash equivalents</b>                             |       | <b>8 536 370</b>              | <b>5 985 886</b>              |
| Effect of changes in exchange rates on cash and cash equivalents             |       | (71 352)                      | 1 679                         |
| Cash and cash equivalents at the beginning of the year                       |       | 9 836 283                     | 3 848 718                     |
|  |       | <b>18 301 301</b>             | <b>9 836 283</b>              |
| <b>Cash and cash equivalents at the end of the year</b>                      | 33    | <b>18 301 301</b>             | <b>9 836 283</b>              |

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

**Promsvyazbank**  
*Consolidated Statement of Changes in Shareholders' Equity*  
*for the year ended 31 December 2005*

|   | <b>Attributable to equity holders of the parent</b> |                                    |   |   |  |                         |  | Total equity<br><b>RUR'000</b> |
|---|---|------------------------------------|---|---|--|-------------------------|--|--------------------------------|
|   | Share<br>capital<br><b>RUR'000</b>                  | Share<br>premium<br><b>RUR'000</b> | Additional<br>paid-in-<br>capital<br><b>RUR'000</b> | Revaluation<br>reserve for<br>property and<br>equipment<br><b>RUR'000</b> | Retained<br>earnings<br><b>RUR'000</b> | Total<br><b>RUR'000</b> | Minority<br>interest<br><b>RUR'000</b> |                                |
|   | <b>Balance at 1 January 2004</b>                    | <b>2 272 794</b>                   | <b>1 902 245</b>                                    | <b>182 759</b>  | -                                      | <b>1 304 829</b>        | <b>5 662 627</b>                       |                                |
| Shares issued   | 600 000   | -                                  | -   | -   | -                                      | 600 000                 | -                                      | 600 000                        |
| Net income for the year   | -   | -                                  | -   | -   | 1 216 650                              | 1 216 650               | 2 125                                  | 1 218 775                      |
| <b>Balance at 31 December 2004</b>                                      | <b>2 872 794</b>                                    | <b>1 902 245</b>                   | <b>182 759</b>                                      | -   | <b>2 521 479</b>                       | <b>7 479 277</b>        | <b>60 505</b>                          | <b>7 539 782</b>               |
| Shares issued (Note 26)   | 2 000 000   | -                                  | -   | -   | -                                      | 2 000 000               | -                                      | 2 000 000                      |
| Revaluation of property and equipment (Note 19)                         | -   | -                                  | -   | 1 092 108   | -                                      | 1 092 108               | -                                      | 1 092 108                      |
| Deferred tax related to revaluation of property and equipment (Note 19) | -   | -                                  | -   | (262 106)   | -                                      | (262 106)               | -                                      | (262 106)                      |
| Net income for the year   | -   | -                                  | -   | -   | 1 644 675                              | 1 644 675               | 34 681                                 | 1 679 356                      |
| Disposal of subsidiary (Note 39)  | -   | -                                  | (182 759)   | -   | (80 468)                               | (263 227)               | -                                      | (263 227)                      |
| <b>Balance at 31 December 2005</b>                                      | <b>4 872 794</b>                                    | <b>1 902 245</b>                   | -   | <b>830 002</b>  | <b>4 085 686</b>                       | <b>11 690 727</b>       | <b>95 186</b>                          | <b>11 785 913</b>              |

# **1 Background**

## **Principal activities**

Promsvyazbank Group (the “Group”) consists of various legal entities formed under the laws of the Russian Federation and other countries. The Bank, which is the parent company of the Group, was initially established in the Russian Federation as a partnership converting subsequently to a closed joint-stock company in July 2001. The Bank was granted a banking license for operations in roubles on 12 May 1995. The Bank’s operations were expanded to include operations with all types of foreign currencies and operations with individuals in foreign currencies on 30 December 1996 and 30 June 1997, respectively.

The activities of the Bank are regulated by the Central Bank of the Russian Federation (the “CBR”). The Bank holds a full (general) banking license from the CBR and is also authorised by the CBR to trade in precious metals. In October 2004, the CBR accepted the Bank into the state deposit insurance scheme. In addition, Group holds licenses from the Federal Commission for the Securities Market of the Russian Federation (the “FCSM”, later renamed the Federal Service for Financial Markets (the “FSFM”) to act as a broker, dealer, custodian and a securities manager in the Russian securities market. The Group also holds a license from the Ministry of Antimonopoly Policy and Business Support of the Russian Federation as a commodities exchange broker to trade futures and options.

The Group’s principal activities are currently in commercial banking. These activities consist of corporate and retail banking operations which include deposit taking and commercial lending, factoring, settlements and cash operations. Commercial banking services also include trade finance.

The Group also offers investment banking services, including corporate finance, operations on foreign exchange, debt and equity capital markets, brokerage, securities and precious metals trading.

The Bank’s head office is located in Moscow and as of 31 December 2005 it operated thirty one branches, which are located in Abakan, Barnaul, Belgorod, Bryansk, Chita, Irkutsk, Ivanovo, Izhevsk, Kaliningrad, Kemerovo, Krasnoyarsk, Nizhny Novgorod, Novosibirsk, Omsk, Orenburg, Pskov, Rostov, Ryazan, Voronezh, Veliky Novgorod, Smolensk, St.Petersburg, Tula, Tomsk, Vladimir, Vladivostok, Volgograd, Vologda, Ulan-Ude, Yaroslavl, and an International Banking Unit (“IBU”) in Limassol, Cyprus.

The average number of persons employed by the Bank during the reporting period was 2 858 (2004: 1 834).

## **Russian business environment**

The Russian Federation has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks, which do not typically exist in other markets. The accompanying consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

## **2 Basis of preparation**

### **Statement of compliance**

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

### **Basis of measurement**

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and buildings are stated at fair value.

### **Functional and Presentation Currency**

The national currency of the Russian Federation is the Russian Rouble ("RUR"). Management have determined the Group's functional currency to be the RUR as it reflects the economic substance of the underlying events and circumstances of the Group. The RUR is also the Group's presentation currency for the purposes of these consolidated financial statements.

Financial information presented in RUR has been rounded to the nearest thousand.

### **Use of estimates and judgements**

The preparation of consolidated financial statements in conformity with IFRSs 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 estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Information about significant areas of estimation uncertainty and critical judgments made by Management in the application of IFRSs that have significant effect on these consolidated financial statements are described in the following notes:

- Note 15 “Loans to customers” in respect of loan impairment allowance.
- Note 19 “Property and equipment” in respect of the valuation of buildings.

### **3 Significant accounting policies**

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. The accounting policies have been consistently applied except for the changes in accounting policies described at the end of Note 3.

#### **Basis of consolidation**

##### ***Subsidiaries***

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

Subsidiaries include a number of companies where the Group does not have any direct or indirect shareholdings. However, these companies are established under terms that impose strict limits on the decision-making powers of the companies’ management over the operations of the companies. In addition, the benefits related to their operations and net assets are presently attributable to the Group via a number of agreements.

The consolidated financial statements include the following principal subsidiaries of the Bank:

| <b>Name</b>                                   | <b>Country of Incorporation</b> | <b>Main Activity</b> | <b>% Consolidated as at 31.12.2005</b> | <b>% Consolidated as at 31.12.2004</b> |
|---|---------------------------------|----------------------|--|--|
| ОАО “Promsvyazinvest”                         | Russian Federation              | Financial Activity   | 70%                                    | 70%                                    |
| ООО “Promsvyazleasing”                        | Russian Federation              | Leasing              | -                                      | 61%                                    |
| ООО “PSLeasing”                               | Russian Federation              | Leasing              | -                                      | 66%                                    |
| ООО “Regionleasing”                           | Russian Federation              | Leasing              | -                                      | 68%                                    |
| Promsvyaz Finance S.A.                        | Luxembourg                      | Financial Activity   | 100%                                   | 100%                                   |
| Promsvyaz Finance PLC                         | Ireland                         | Financial Activity   | 100%                                   | -                                      |
| ООО “UK Promsvyaz”                            | Russian Federation              | Financial Activity   | 47%                                    | 47%                                    |
| “Atna Capital Management Investments Limited” | Cyprus                          | Financial Activity   | 70%                                    | 70%                                    |

***Promsvyazinvest***

As from 31 December 2002 the Bank controls 70% of the voting power of OAO "Promsvyazinvest" through options to purchase 70% of the shares of OAO "Promsvyazinvest" from related parties at a nominal amount. These options are renewed annually and expire in December 2006. As the Group exercises control over OAO "Promsvyazinvest" under this agreement, it consolidates its financial statements.

***Promsvyazleasing Group (OOO "Promsvyazleasing", OOO "PSLeasing", OOO "Regionleasing")***

On 29 December 2003, the shareholders of the Bank contributed a controlling stake in Promsvyazleasing Group to OAO "Promsvyazinvest". This was done through the sale to OAO "Promsvyazinvest" of call options, allowing it to purchase a controlling stake in Promsvyaleasing group for a nominal amount. This transaction was treated as a shareholders' contribution and accounted for accordingly. On 3 October 2005 the Group disposed of its investment in the Promsvyazleasing Group. This was executed through the cancellation of the call options.

*Promsvyaz Finance S.A.* and *Promsvyaz Finance PLC* are special purpose entities established to facilitate the Group's issues of debt securities (refer to Note 22). The entities are not owned by the Group and the control arises through the predetermination of the entities' activities.

***Associates***

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the Group's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

***Transactions eliminated on consolidation***

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

***Minority interest***

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

Minority interest is presented in the consolidated balance sheet within equity, separately from the equity attributable to equity holders of the parent. Minority interest in the profit or loss of the Group is separately disclosed in the consolidated statement of income.

Minority interest in subsidiaries established in the form of limited liability companies is presented in the consolidated balance sheet within liabilities. Each participant in a Russian limited liability company has the unilateral right to withdraw their capital from the company and receive their share of the company's net assets within six months after the end of the year of the withdrawal. The minority interest related to Russian limited liability subsidiaries of the Group is recorded as a liability for this reason.

### **Foreign currency transactions**

Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised in the income statement.

### **Inflation accounting**

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation have been made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of the Group's assets, liabilities and equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

### **Cash and cash equivalents**

The Group considers cash and nostro accounts with the CBR, as well as placements with banks and other financial institutions with a remaining maturity less than one month to be cash and cash equivalents. The minimum reserve deposit with the CBR is not considered to be a cash equivalent due to restrictions on its withdrawability.

### **Financial instruments**

#### ***Classification***

*Financial instruments at fair value through profit or loss* are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- a derivative (except for a derivative that is a designated and effective hedging instrument); or,
- upon initial recognition, designated by the entity as at fair value through profit or loss.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

*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 Group intends to sell immediately or in the near term, those that the Group upon initial recognition designates as at fair value through profit or loss, or those which the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

*Held-to-maturity investments* are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss;
- those that the Group designates as available-for-sale; or
- those that meet the definition of loans and receivables.

*Available-for-sale assets* are those financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial instruments at fair value through profit or loss.

### ***Recognition***

Financial assets and liabilities are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

### ***Measurement***

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortized cost using the effective interest method;
- held to maturity investments which are measured at amortized cost using the effective interest method; and
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

***Fair value measurement principles***

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. 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.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

***Gains and losses on subsequent measurement***

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in the consolidated income statement; and
- a gain or loss on an available-for-sale financial asset is recognised directly in equity through the consolidated statement of changes in shareholders' equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in the consolidated income statement. Interest in relation to an available-for-sale financial asset is recognised as earned in the consolidated income statement calculated using the effective interest method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the consolidated income statement when the financial asset or liability is derecognised or impaired, and through the amortization process.

### ***Derecognition***

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Group transfers substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognised separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

### **Repurchase and reverse repurchase agreements**

Securities sold under sale and repurchase (“repo”) agreements are accounted for as secured financing transactions, with the securities retained in the balance sheet and the counterparty liability included in amounts due to other banks or to customers, as appropriate. The difference between the sale and repurchase price represents interest expense and is recognised in the consolidated income statement over the term of the repo agreement using the effective interest rate method.

Securities purchased under agreements to resell (“reverse repo”) are recorded as due from banks or customers as appropriate. The differences between the resale and purchase prices are treated as interest and accrued over the term of the reverse repo agreement using the effective interest method.

### **Offsetting**

Financial assets and liabilities are offset and the net amount 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.

### **Property and equipment**

#### ***Owned assets***

Items of property and equipment are stated at cost or revalued amounts, as described below, less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

#### ***Leased assets***

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

**Revaluation**

As at 31 December 2005, the Group measured buildings at fair value (31 December 2004: at cost). As part of the revaluation process the Group used the services of an independent firm of appraisers. Going forward, buildings will be revalued on a regular basis. The frequency of revaluation will depend upon the movements in the fair values of the buildings being revalued. A revaluation increase on an item of premises is recognised directly in equity except to the extent that it reverses a previous revaluation decrease recognised in the consolidated statement of income, in which case it is recognised in the consolidated statement of income. A revaluation decrease on an item of premises is recognised in the consolidated statement of income except to the extent that it reverses a previous revaluation increase recognised directly in equity, in which case it is recognised directly in equity.

**Depreciation**

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

|                        |              |
|------------------------|--------------|
| Buildings              | 50 years     |
| Computers              | 4 years      |
| Office equipment       | 6 years      |
| Vehicles               | 5 years      |
| Fixtures and fittings  | 6 to 7 years |
| Leasehold improvements | 5 years      |
| Other                  | 5 years      |

**Intangible assets****Intangible assets**

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses.

**Amortisation**

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

|                   |         |
|-------------------|---------|
| Computer software | 4 years |
|-------------------|---------|

**Impairment****Financial assets carried at amortized cost**

Financial assets carried at amortized cost consist principally of loans and other receivables (“loans and receivables”). The Group reviews its loans and receivables, to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

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

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgement to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in the income statement and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

### ***Financial Assets Carried at Cost***

Financial assets carried at cost include unquoted equity instruments included in available-for-sale assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses respect of these investments are recognised in the income statement and can not be reversed.

### ***Non financial assets***

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in the income statement and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## **Provisions**

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

## **Share capital**

### ***Repurchase of share capital***

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

### ***Dividends***

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

## **Taxation**

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### **Interest income and expenses and fee and commission income**

With the exception of financial instruments at fair value through profit or loss, interest income and expense are recognised in the consolidated statement of income using the effective interest method. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis. Interest income on financial assets at fair value through profit or loss comprises coupon interest only. Accrued discount and premium on financial assets at fair value through profit or loss is recognised in net gain on financial assets at fair value through profit or loss.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortized to the interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fee and commission income is recognised when the corresponding service is provided.

### **Dividend income**

Dividend income from investments in companies where the Group does not have control or significant influence is recognised in the consolidated income statement on the date that the dividend is declared.

### **Comparative information**

Comparative information has been reclassified to conform to changes in presentation in the current year. Notably, the presentation of certain income and expense relating to trade finance operations and certain income relating to securities trading operations was changed in 2005 to better present the substance of the underlying transactions. For consistency of presentation, prior year figures have been reclassified. The effect of this change in presentation is as follows:

|  | <b>2005</b>     | <b>2004</b>     |
|--|-----------------|-----------------|
|  | <b>RUR '000</b> | <b>RUR '000</b> |
| <b>Reclassification to interest income from commission received of amounts earned in respect of documentary credit transactions, factoring and lending operations</b>                      |                 |                 |
| Interest income  | 656 647         | 304 035         |
| Fee and commission income  | (656 647)       | (304 035)       |
| <b>Reclassification of interest expense from commission paid in respect of documentary credit transactions and lending operations</b>  |                 |                 |
| Interest expense   | 358 138         | 202 004         |
| Fee and commission expense   | (358 138)       | (202 004)       |
| <b>Reclassification of interest income, other than coupon income, on trading securities from interest income to net gain on financial instruments at fair value through profit or loss</b> |                 |                 |
| Interest income  | (169 427)       | (147 782)       |
| Net gain on financial instruments at fair value through profit or loss   | 169 427         | 147 782         |

There was no effect on shareholders' equity as a result of these reclassifications.

## **Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

## **Changes in accounting policies**

### ***Revaluation of buildings***

As at 31 December 2005, the Group measured buildings at fair value (31 December 2004: at cost). As part of the revaluation process the Group used the services of an independent firm of appraisers. The revaluation surplus, net of deferred tax, is recognised in equity.

### ***Revised IFRS***

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

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

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

Application of IAS 32 “Financial Instruments: Disclosure and Presentation” (revised 2004) has resulted in increased disclosures in respect of financial instruments.

Upon application of IAS 39 “Financial Instruments: Recognition and Measurement” (revised 2004), the Group has designated financial assets, which were previously recognised as available-for-sale assets, as financial assets at fair value through profit or loss. As at 31 December 2004, such assets had a carrying amount of RUR 465 301 thousand. Comparative information in the consolidated balance sheet has been restated. In previous periods, gains and losses arising from a change in the fair value of available-for-sale instruments were recognised in the consolidated statement of income. As a result, the designation of those assets as financial instruments at fair value through profit or loss does not require restatement of financial results in the comparative information.

There was no impact on opening retained earnings as at 31 December 2004 from the adoption of any of the above-mentioned standards.

### **New Standards and Interpretations not yet adopted**

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

- IFRS 7 Financial Instruments: Disclosures, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Group’s financial instruments.
- Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Group’s capital.
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – The Fair Value Option*, which is effective for annual periods beginning on or after 1 January 2006. The amendment restricts the designation of financial instruments as “at fair value through profit or loss”.
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 4 *Insurance Contracts – Financial Guarantee Contracts*, which is effective for annual periods beginning on or after 1 January 2006. The amendment requires guarantees that are not insurance contracts to be measured at fair value upon initial recognition.

## 4 Net interest income

|   | <b>2005</b>      | <b>2004</b>      |
|---|------------------|------------------|
|   | <b>RUR '000</b>  | <b>RUR '000</b>  |
| <b>Interest income</b>  |                  |                  |
| Loans to customers  | 5 911 298        | 4 204 967        |
| Financial instruments at fair value through profit or loss        | 802 871          | 284 052          |
| Placements with banks and other financial institutions            | 283 541          | 120 898          |
| Reverse repurchase agreements                                     | 118 160          | 40 656           |
|   | <b>7 115 870</b> | <b>4 650 573</b> |
| <b>Interest expense</b>   |                  |                  |
| Current accounts and deposits from customers                      | 1 380 273        | 763 730          |
| Own securities issued   | 1 071 239        | 486 191          |
| Deposits and balances from banks and other financial institutions | 755 512          | 515 371          |
| Other borrowed funds  | 277 686          | 5 647            |
| Repurchase agreements   | 2 576            | 25 400           |
|   | <b>3 487 286</b> | <b>1 796 339</b> |
| <b>Net interest income</b>  | <b>3 628 584</b> | <b>2 854 234</b> |

## 5 Fee and commission income

|   | <b>2005</b>     | <b>2004</b>     |
|---|-----------------|-----------------|
|   | <b>RUR '000</b> | <b>RUR '000</b> |
| Commission on documentary operations      | 315 802         | 267 285         |
| Commission for operations with cash       | 164 189         | 92 582          |
| Commission for servicing plastic cards    | 128 042         | 62 792          |
| Money transfer fees                       | 117 566         | 53 923          |
| Commission on foreign currency operations | 79 562          | 40 346          |
| Investment banking fees                   | 62 494          | 51 815          |
| Cash collection fees                      | 32 626          | 27 800          |
| Securities trading fees                   | 20 920          | 8 441           |
| Other                                     | 33 921          | 7 123           |
|   | <b>955 122</b>  | <b>612 107</b>  |

**6 Fee and commission expense**

|   | <b>2005</b>     | <b>2004</b>     |
|---|-----------------|-----------------|
|   | <b>RUR '000</b> | <b>RUR '000</b> |
| Commission for documentary operations     | 128 630         | 91 535          |
| Commission for servicing plastic cards    | 47 641          | 24 146          |
| Cash collection fees                      | 25 388          | 11 184          |
| Money transfer fees                       | 23 210          | 19 806          |
| Commission on foreign currency operations | 13 531          | 12 366          |
| Securities trading fees                   | 11 151          | 3 074           |
| Commission for operations with cash       | 328             | 1 640           |
| Other                                     | 4 841           | 4 250           |
|   | <b>254 720</b>  | <b>168 001</b>  |

**7 Net gain on financial instruments at fair value through profit or loss**

|                    | <b>2005</b>      | <b>2004</b>     |
|--------------------|------------------|-----------------|
|                    | <b>RUR '000</b>  | <b>RUR '000</b> |
| Debt instruments   | 1 090 325        | 237 736         |
| Equity instruments | 226 302          | 11 645          |
|                    | <b>1 316 627</b> | <b>249 381</b>  |

**8 Impairment losses**

|  | <b>2005</b>     | <b>2004</b>     |
|--|-----------------|-----------------|
|  | <b>RUR '000</b> | <b>RUR '000</b> |
| <b>Impairment losses</b>                                   |                 |                 |
| Loans to customers   | 450 770         | 793 705         |
| Off-balance sheet commitments                              | 20 965          | 37 999          |
| Investments  | 5 210           | 10              |
| Placements with banks and other financial institutions     | -               | 842             |
|  | <b>476 945</b>  | <b>832 556</b>  |
| <b>Reversals of impairment losses</b>                      |                 |                 |
| Placements with banks and other financial institutions     | (2 016)         | -               |
| Financial instruments at fair value through profit or loss | (3 021)         | (6 903)         |
|  | <b>(5 037)</b>  | <b>(6 903)</b>  |
| <b>Total impairment losses</b>                             | <b>471 908</b>  | <b>825 653</b>  |

## 9 General administrative expenses

|   | <b>2005</b>      | <b>2004</b>      |
|---|------------------|------------------|
|   | <b>RUR '000</b>  | <b>RUR '000</b>  |
| Employee compensation                   | 1 534 396        | 671 646          |
| Taxes other than income tax             | 249 455          | 159 130          |
| Depreciation                            | 196 973          | 102 899          |
| Insurance                               | 179 503          | 108 926          |
| Business development costs              | 177 456          | 129 536          |
| Occupancy                               | 176 872          | 124 048          |
| Communications and information services | 136 035          | 80 152           |
| Security                                | 74 937           | 38 098           |
| Advertising and marketing               | 68 098           | 60 477           |
| Repairs and maintenance                 | 61 569           | 27 940           |
| Professional services                   | 59 936           | 24 364           |
| Transportation costs                    | 33 001           | 24 443           |
| Charity and sponsorship                 | 28 733           | 33 959           |
| Investment property maintenance         | 4 339            | 14 733           |
| Other                                   | 93 424           | 44 331           |
|   | <b>3 074 727</b> | <b>1 644 682</b> |

## 10 Income tax expense

|  | <b>2005</b>     | <b>2004</b>     |
|--|-----------------|-----------------|
|  | <b>RUR '000</b> | <b>RUR '000</b> |
| <b>Current tax expense</b>   |                 |                 |
| Current year   | 318 932         | 269 953         |
| <b>Deferred tax expense</b>  |                 |                 |
| Origination and reversal of temporary differences and movement<br>in valuation allowance | 495 463         | 216 956         |
| Deferred tax charge recorded directly in equity  | (262 106)       | -               |
| Total income tax expense in the income statement   | <b>552 289</b>  | <b>486 909</b>  |

The Group's applicable tax rate for current and deferred tax is 24% (2004: 24%).

**Reconciliation of effective tax rate:**

|   | <b>2005</b>     |          | <b>2004</b>     |          |
|---|-----------------|----------|-----------------|----------|
|   | <b>RUR '000</b> | <b>%</b> | <b>RUR '000</b> | <b>%</b> |
| Income before tax                                   | 2 262 224       | 24%      | 1 754 883       | 24%      |
| Theoretical income tax charge at the statutory rate | 542 934         |          | 421 172         |          |
| Non-deductible costs/(non-taxable income)           | 45 436          |          | 72 061          |          |
| Effect of income taxed at lower tax rates           | (36 081)        |          | (6 324)         |          |
| <b>Income tax expense</b>                           | <b>552 289</b>  |          | <b>486 909</b>  |          |

**11 Due from the Central Bank of the Russian Federation**

|                         | <b>2005</b>      | <b>2004</b>      |
|-------------------------|------------------|------------------|
|                         | <b>RUR '000</b>  | <b>RUR '000</b>  |
| Nostro accounts         | 4 521 571        | 4 645 392        |
| Minimum reserve deposit | 2 212 113        | 1 072 581        |
|                         | <b>6 733 684</b> | <b>5 717 973</b> |

The minimum reserve deposit is a mandatory non-interest bearing deposit calculated in accordance with regulations issued by the CBR and whose withdrawability is restricted. The nostro balances represent balances with the CBR related to settlement activity and were available for withdrawal at year end.

**12 Placements with banks and other financial institutions**

|                          | <b>2005</b>       | <b>2004</b>      |
|--------------------------|-------------------|------------------|
|                          | <b>RUR '000</b>   | <b>RUR '000</b>  |
| Nostro accounts          | 8 446 233         | 3 154 118        |
| Loans and deposits       | 4 361 306         | 949 548          |
|                          | <b>12 807 539</b> | <b>4 103 666</b> |
| Provision for impairment | -                 | (2 016)          |
|                          | <b>12 807 539</b> | <b>4 101 650</b> |

**Analysis of movements in the provision for impairment**

|                                      | <b>2005</b>     | <b>2004</b>     |
|--------------------------------------|-----------------|-----------------|
|                                      | <b>RUR '000</b> | <b>RUR '000</b> |
| Balance at the beginning of the year | 2 016           | 2 043           |
| Net (reversal)/charge for the year   | (2 016)         | 842             |
| Write-offs                           | -               | (869)           |
| Balance at the end of the year       | <u>-</u>        | <u>2 016</u>    |

**Concentration of placements with banks and other financial institutions**

As at 31 December 2005 and 2004, placements with banks and other financial institutions which individually comprised more than 10% of deposits and balances with banks and other financial institutions were as follows:

|        | <b>2005</b>      | <b>2004</b>      |
|--------|------------------|------------------|
|        | <b>RUR '000</b>  | <b>RUR '000</b>  |
| Bank 1 | 5 797 131        | 2 026 080        |
| Bank 2 | 1 367 400        | -                |
|        | <u>7 164 531</u> | <u>2 026 080</u> |

## 13 Financial instruments at fair value through profit or loss

|  | 2005<br>RUR '000  | 2004<br>RUR '000  |
|--|-------------------|-------------------|
| <b>Assets</b>  |                   |                   |
| <i>Debt and other fixed-income instruments</i>   |                   |                   |
| <i>Listed</i>  |                   |                   |
| Corporate bonds  | 6 006 906         | 3 190 267         |
| Russian Government OFZ   | 4 314 109         | 898 294           |
| Russian Government Eurobonds   | 2 825 638         | 504 988           |
| Russian municipal and regional bonds   | 1 061 249         | 731 658           |
| <i>Unlisted</i>  |                   |                   |
| Promissory notes   | 3 324 005         | 4 211 211         |
| <i>Equity investments</i>  |                   |                   |
| <i>Listed</i>  |                   |                   |
| Centertelecom  | 299 598           | 267 837           |
| Gazprom  | 141 947           | 286 475           |
| Mosenergo  | 140 518           | -                 |
| Tatneft  | 85 707            | -                 |
| Other  | 122 994           | 54 044            |
| <i>Derivative financial instruments</i>  |                   |                   |
| Foreign currency and precious metals forward contracts   | 121 629           | 57 477            |
|  | <b>18 444 300</b> | <b>10 202 251</b> |
| <p>Included in financial assets at fair value through profit or loss at 31 December 2005 are RUR 18 144 702 thousand in financial assets which are classified as held for trading and RUR 299 598 in financial assets which were, upon initial recognition, designated by the entity as financial assets at fair value through profit or loss (2004: RUR 9 736 950 thousand and RUR 465 301 thousand, respectively).</p> |                   |                   |
| <b>Liabilities</b>   |                   |                   |
| <i>Derivative financial instruments</i>  |                   |                   |
| Foreign currency and precious metals forward contracts   | 18 272            | 40 566            |
|  | <b>18 272</b>     | <b>40 566</b>     |

Gains and losses arising on derivative financial instruments are recognised in net foreign exchange trading gain. Gains and losses arising on changes in the fair value of financial instruments at fair value through profit or loss are recognised in net gain on financial instruments at fair value through profit or loss.

Corporate bonds are those issued by medium and large Russian companies and banks. As at 31 December 2005, the yield to maturity of these bonds ranged from 6.38% to 13.12% and coupon rate – from 6.59% to 17.09%. Corporate bonds are reflected at market value as at the year-end and have a short to medium-term maturity.

OFZ bonds are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. OFZ bonds are issued at a discount to face value and have a medium to long-term maturity. The coupon rate on these securities ranges from 6.00% to 10.11%. As at 31 December 2005, the yield to maturity ranged from 5.10% to 6.83% depending on the bond issue. Russian Government OFZ are reflected at market value as at the year-end.

Russian Government Eurobonds are securities issued by the Ministry of Finance of the Russian Federation and are freely tradable internationally. The Bank's portfolio of Russian Federation Eurobonds consists of three tranches with maturity dates in 2018, 2028 and 2030. As at 31 December 2005, the yield to maturity on these tranches was 5.61%, 6.00% and 5.59% respectively. The annual coupon rates on these bonds range from 5.00% to 12.75%, and interest is payable semi-annually. Russian Government Eurobonds are reflected at market value as at the year-end.

Russian municipal and regional bonds are represented by the municipal bonds of a region of the Russian Federation, and are reflected at market value as at the year-end. These bonds have a medium to long-term maturity. The yield to maturity of these bonds ranges from 3.72% to 8.23% and coupon rate - from 7.08% to 15.17%.

In respect of promissory notes, as at 31 December 2005, the yield to maturity ranged from 7.70% to 20.78%. Promissory notes are reflected at market value as at the year-end.

### **Foreign currency contracts**

The table below summarises, by major currency, the contractual amounts of the Group's forward exchange contracts outstanding at 31 December 2005 with details of the contracted exchange rates. All of the foreign currency contracts were concluded for a period of less than one month.

|   | Weighted average<br>contracted exchange rates |          | Notional amount |            |
|---|---|----------|-----------------|------------|
|   | 2005  | 2004     | 2005            | 2004       |
| <b>Buy US Dollar and Sell Russian Rouble</b>          | 28,7545                                       | 27,7315  | 9 201 425       | 12 426 474 |
| <b>Buy Euro and Sell Russian Rouble</b>               | 34,1850                                       | -        | 2 700 615       | -          |
| <b>Sell US Dollar and Buy Euro</b>                    | 1,1843  | 1,3273   | 2 842 028       | 2 408 522  |
| <b>Sell US Dollar and Buy Russian Rouble</b>          | 28,7663                                       | 27,7802  | 2 560 205       | 6 778 350  |
| <b>Sell Euro and Buy US Dollars</b>                   | 1,1870  | 1,3077   | 5 161 224       | 2 372 603  |
| <b>Sell US Dollar and Buy GBP</b>                     | 1,7400  | 1,9201   | 49 722          | 54 621     |
| <b>Sell GBP and Buy Russian Rouble</b>                | -   | 53,4500  | -               | 267 250    |
| <b>Sell Russian Rouble and Buy Belorussian Rouble</b> | -   | 75,0000  | -               | 51 568     |
| <b>Sell US Dollar and Buy Japanese Yen</b>            | -   | 103,7300 | -               | 13 874     |
| <b>Sell GBP and Buy US Dollar</b>                     | -   | 1,9220   | -               | 2 238      |
| <b>Sell US Dollar and Buy Gold</b>                    | 14,5782                                       | -        | 716 139         | -          |
| <b>Sell Gold and Buy US Dollar</b>                    | 16,1927                                       | -        | 208 683         | -          |
| <b>Sell Gold and Buy Russian Rouble</b>               | 472,8919                                      | -        | 97 168          | -          |

## **14 Amounts receivable under reverse repurchase agreements**

The Group purchases financial instruments under agreements to resell them at future dates (“reverse repurchase agreements”). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchase agreements are entered into as a facility to provide funds to customers. As at 31 December 2005 and 2004, amounts lent to customers were as follows:

|  | <b>2005</b>      | <b>2004</b>     |
|--|------------------|-----------------|
|  | <b>RUR '000</b>  | <b>RUR '000</b> |
| Amounts receivable from customers                              | 2 176 631        | 234 522         |
| Amounts receivable from banks and other financial institutions | 250 090          | 168 952         |
|  | <b>2 426 721</b> | <b>403 474</b>  |

**Collateral**

As of 31 December 2005 and 2004, amounts receivable under reverse repurchase agreements were collateralized by the following securities.

|  | <b>Fair value</b> | <b>Fair value</b> |
|--|-------------------|-------------------|
|  | <b>2005</b>       | <b>2004</b>       |
|  | <b>RUR '000</b>   | <b>RUR '000</b>   |
| Russian corporate bonds                | -                 | 249 675           |
| Promissory notes of Russian banks      | 2 420 439         | 210 958           |
| Promissory notes of Russian corporates | 134 898           | -                 |
|  | <b>2 555 337</b>  | <b>460 633</b>    |

**15 Loans to customers**

|                                | <b>2005</b>       | <b>2004</b>       |
|--------------------------------|-------------------|-------------------|
|                                | <b>RUR '000</b>   | <b>RUR '000</b>   |
| Loans to corporate entities    |                   |                   |
| - Commercial loans             | 63 868 893        | 33 735 086        |
| - Net investment in leases     | -                 | 2 046 561         |
| Loans to individuals           | 2 210 015         | 560 140           |
| Gross loans to customers       | 66 078 908        | 36 341 787        |
| Less: provision for impairment | (1 650 163)       | (1 973 314)       |
| <b>Net loans to customers</b>  | <b>64 428 745</b> | <b>34 368 473</b> |

**Net investment in leases**

Included within loans to customers as of 31 December 2004 are net investment in leases. As of 31 December 2005 the Group had no net investment in leases due to the disposal of the Promsvyazleasing Group during 2005 (refer to Note 39). As of 31 December 2004, the gross investment in leases and the related unearned finance income and provision for impairment were as follows:

|  | <b>2005</b>     | <b>2004</b>      |
|--|-----------------|------------------|
|  | <b>RUR '000</b> | <b>RUR '000</b>  |
| Gross investment in leases                     | -               | 2 532 028        |
| Unearned finance income                        | -               | (485 467)        |
| <b>Net investment in leases</b>                | <b>-</b>        | <b>2 046 561</b> |
| Provision for impairment                       | -               | (106 591)        |
| <b>Net investment in leases less provision</b> | <b>-</b>        | <b>1 939 970</b> |

### **Industry and geographical analysis of the loan portfolio**

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

|  | <b>2005</b>       | <b>2004</b>       |
|--|-------------------|-------------------|
|  | <b>RUR '000</b>   | <b>RUR '000</b>   |
| <b>Loans to individuals</b>            | 2 210 015         | 560 140           |
| <b>Loans to corporate entities</b>     |                   |                   |
| Trade                                  | 9 428 598         | 4 693 361         |
| Real estate investment and development | 8 041 461         | 4 468 242         |
| Agriculture                            | 5 821 039         | 3 081 486         |
| Finance, leasing and insurance         | 5 793 698         | 2 174 163         |
| Machinery                              | 5 709 342         | 4 263 017         |
| Food production                        | 3 935 147         | 1 880 017         |
| Information technology                 | 2 992 737         | 3 058 300         |
| Construction                           | 2 803 599         | 2 791 053         |
| Telecommunications                     | 2 750 648         | 2 303 589         |
| Energy                                 | 1 782 162         | 235 921           |
| Chemical production                    | 1 773 602         | 992 316           |
| State and local authorities            | 1 676 718         | 956 206           |
| Publishing                             | 1 562 653         | 833 167           |
| Automobile trading and production      | 1 559 000         | 282 991           |
| Metallurgy                             | 1 399 379         | 903 079           |
| Transport                              | 1 221 734         | 343 099           |
| Aircraft                               | 910 265           | 233 814           |
| Pharmaceutical                         | 699 869           | 90 596            |
| Media                                  | 675 822           | 435 301           |
| Construction materials                 | 606 727           | 137 178           |
| Mineral resources                      | 575 841           | 367 044           |
| Wood processing                        | 505 739           | 320 873           |
| Light industry                         | 407 465           | 62 840            |
| Research and development activities    | 338 680           | 339 942           |
| Services                               | 272 209           | 204 779           |
| Other                                  | 624 759           | 329 273           |
|  | <b>66 078 908</b> | <b>36 341 787</b> |
| Provision for impairment               | (1 650 163)       | (1 973 314)       |
|  | <b>64 428 745</b> | <b>34 368 473</b> |

Loans have been granted to customers in the following geographical areas:

|   | <b>2005</b>       | <b>2004</b>       |
|---|-------------------|-------------------|
|   | <b>RUR '000</b>   | <b>RUR '000</b>   |
| <b>Russian Federation</b>                       |                   |                   |
| Moscow and Moscow region                        | 37 192 493        | 23 801 032        |
| Central Chernozem and Central region            | 9 042 967         | 3 741 290         |
| North-Western and North regions                 | 8 017 799         | 3 100 632         |
| Urals, Siberia and Far East                     | 7 623 454         | 1 831 105         |
| Volgo-Viatskiy and Volga region                 | 3 757 895         | 2 586 082         |
| <b>Customers outside the Russian Federation</b> | <b>444 300</b>    | <b>1 281 646</b>  |
|   | <b>66 078 908</b> | <b>36 341 787</b> |
| Provision for impairment                        | (1 650 163)       | (1 973 314)       |
|   | <b>64 428 745</b> | <b>34 368 473</b> |

### **Contractually overdue loans**

Information in relation to loans with contractually overdue principal or interest as at 31 December 2005 and 2004, is summarised as follows:

|                                   | <b>2005</b>     | <b>2004</b>     |
|-----------------------------------|-----------------|-----------------|
|                                   | <b>RUR '000</b> | <b>RUR '000</b> |
| Gross contractually overdue loans | 232 263         | 744 033         |
| Provision for impairment          | (162 316)       | (654 526)       |
| Net contractually overdue loans   | <b>69 947</b>   | <b>89 507</b>   |

### **Analysis of movements in the provision for impairment**

|  | <b>2005</b>      | <b>2004</b>      |
|--|------------------|------------------|
|  | <b>RUR '000</b>  | <b>RUR '000</b>  |
| Balance at the beginning of the year             | 1 973 314        | 1 201 560        |
| Net charge for the year                          | 450 770          | 793 705          |
| Write-offs                                       | (600 524)        | (21 951)         |
| Effect of disposal of the Promsvyazleasing Group | (173 397)        | -                |
| Balance at the end of the year                   | <b>1 650 163</b> | <b>1 973 314</b> |

The Group has reviewed its current loan portfolio and has identified loans to corporate entities totalling RUR 433 683 thousand and loans to individuals totalling RUR 38 683 thousand which display indicators of impairment. The Group has created provisions for these loans of RUR 320 586 thousand and RUR 28 969 thousand respectively as at 31 December 2005. In addition, as at 31 December 2005 the Bank has created collective provisions for impairment in respect of remaining loans to corporate entities of RUR 1 285 660 thousand and in respect of remaining loans to individuals of RUR 14 948 thousand. These collective provisions have been based primarily on the Group's historic expense of loan collections. Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the level of impairment as of 31 December 2005 would be RUR 644 287 thousand lower/higher.

## Loan maturities

The maturity of the Group's loan portfolio is presented in Note 36, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio. Due to the short-term nature of the credits issued by the Group, it is likely that many of the Group's loans to customers will be prolonged on maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the classification indicated based on contractual terms.

## 16 Investments

| Available for sale                   | 2005<br>RUR '000 | 2004<br>RUR '000 |
|--------------------------------------|------------------|------------------|
| <i>Equity instruments - unlisted</i> |                  |                  |
| Promregionsvyaz (see below)          | 62 860           | 62 860           |
| Corporate shares                     | 14 736           | 17 907           |
| Other                                | 214              | 214              |
| Provision for impairment             | (5 210)          | (510)            |
|                                      | <b>72 600</b>    | <b>80 471</b>    |

The unlisted equity instruments are stated at cost less any necessary provision for impairment.

Details of Promregionsvyaz are as follows:

| Name            | Country of incorporation | Main Activity | % owned |        | 2005 Gross Value<br>RUR '000 | 2004 Gross Value<br>RUR '000 |
|-----------------|--------------------------|---------------|---------|--------|------------------------------|------------------------------|
|                 |                          |               | 2005    | 2004   |                              |                              |
| Promregionsvyaz | Russia                   | Pension fund  | 44.44%  | 49.89% | 62 860                       | 62 860                       |
|                 |                          |               |         |        | <b>62 860</b>                | <b>62 860</b>                |

The Group plans to sell 42.22% of Promregionsvyaz by 31 December 2006 at its current carrying value.

## Analysis of movements in the provision for impairment

|  | 2005<br>RUR '000 | 2004<br>RUR '000 |
|--|------------------|------------------|
| Balance at the beginning of the year             | 510              | 500              |
| Net charge for the year                          | 5 210            | 10               |
| Effect of disposal of the Promsvyazleasing Group | (510)            | -                |
| Balance at the end of the year                   | <b>5 210</b>     | <b>510</b>       |

## 17 Investment property

|                            | <b>Land</b>    | <b>Buildings</b> | <b>Total</b>   |
|----------------------------|----------------|------------------|----------------|
| <b>Cost</b>                |                |                  |                |
| At 1 January 2005          | <b>306 320</b> | <b>90 417</b>    | <b>396 737</b> |
| Disposals                  | (306 320)      | (90 417)         | (396 737)      |
| <b>At 31 December 2005</b> | -              | -                | -              |
| <b>Depreciation</b>        |                |                  |                |
| At 1 January 2005          | -              | <b>1 356</b>     | <b>1 356</b>   |
| Depreciation charge        | -              | 904              | 904            |
| Disposals                  | -              | (2 260)          | (2 260)        |
| <b>At 31 December 2005</b> | -              | -                | -              |
| <b>Carrying value</b>      |                |                  |                |
| <b>At 31 December 2005</b> | -              | -                | -              |
| <b>At 31 December 2004</b> | <b>306 320</b> | <b>89 061</b>    | <b>395 381</b> |

As at 1 January 2005, the fair value of investment property was RUR 578 932 thousand. During 2005, the Group sold all its investment property to related parties for RUR 430 169 thousand. A gain on disposal of RUR 35 692 thousand was recognised in Other income.

## 18 Other assets

|   | <b>2005</b>     | <b>2004</b>     |
|---|-----------------|-----------------|
|   | <b>RUR '000</b> | <b>RUR '000</b> |
| Advances and prepayments                                    | 288 473         | 309 862         |
| Receivables on deals with foreign currencies and securities | 151 214         | 32 861          |
| VAT   | 33 031          | 217 008         |
| Deferred expenses   | 28 498          | 138 529         |
| Other   | 33 462          | 7 771           |
|   | <b>534 678</b>  | <b>706 031</b>  |

## 19 Property and equipment

| RUR'000   | Land and<br>Buildings | Computers &<br>software | Office<br>equipment | Vehicles       | Furniture<br>fixtures and<br>fittings | Leasehold<br>improvements | Other        | Construction<br>in<br>progress | Total            |
|---|-----------------------|-------------------------|---------------------|----------------|---------------------------------------|---------------------------|--------------|--------------------------------|------------------|
| <b>Cost/Revalued amount</b>                                   |                       |                         |                     |                |                                       |                           |              |                                |                  |
| At 1 January 2005   | 252 484               | 212 614                 | 274 569             | 66 639         | 69 448                                | 179 158                   | 1 119        | 177 870                        | 1 233 901        |
| Additions and transfers                                       | 174 961               | 102 433                 | 259 932             | 45 407         | 31 634                                | 159 051                   | 37           | -                              | 773 455          |
| Disposals and transfers                                       | (1 190)               | (300)                   | (1 286)             | (2 202)        | (1 858)                               | -                         | -            | (88 586)                       | (95 422)         |
| Effect of disposal of the<br>Promsvyazleasing Group           | -                     | (1 022)                 | -                   | -              | (1 244)                               | -                         | -            | -                              | (2 266)          |
| Elimination of accumulated<br>depreciation of revalued assets | (16 533)              | -                       | -                   | -              | -                                     | -                         | -            | -                              | (16 533)         |
| Revaluation   | 1 071 055             | -                       | -                   | -              | -                                     | -                         | -            | -                              | 1 071 055        |
| <b>At 31 December 2005</b>                                    | <b>1 480 777</b>      | <b>313 725</b>          | <b>533 215</b>      | <b>109 844</b> | <b>97 980</b>                         | <b>338 209</b>            | <b>1 156</b> | <b>89 284</b>                  | <b>2 964 190</b> |
| <b>Depreciation and amortisation</b>                          |                       |                         |                     |                |                                       |                           |              |                                |                  |
| At 1 January 2005   | 9 984                 | 106 613                 | 81 899              | 27 473         | 25 549                                | 48 346                    | 404          | -                              | 300 268          |
| Depreciation charge   | 6 587                 | 49 849                  | 60 368              | 15 187         | 11 372                                | 53 431                    | 179          | -                              | 196 973          |
| Disposals and transfers                                       | (38)                  | (189)                   | (494)               | (1 895)        | (720)                                 | -                         | -            | -                              | (3 336)          |
| Effect of disposal of the<br>Promsvyazleasing Group           | -                     | (722)                   | -                   | -              | (444)                                 | -                         | -            | -                              | (1 166)          |
| Elimination of accumulated<br>depreciation of revalued assets | (16 533)              | -                       | -                   | -              | -                                     | -                         | -            | -                              | (16 533)         |
| <b>At 31 December 2005</b>                                    | <b>-</b>              | <b>155 551</b>          | <b>141 773</b>      | <b>40 765</b>  | <b>35 757</b>                         | <b>101 777</b>            | <b>583</b>   | <b>-</b>                       | <b>476 206</b>   |
| <b>Carrying value</b>   |                       |                         |                     |                |                                       |                           |              |                                |                  |
| <b>At 31 December 2005</b>                                    | <b>1 480 777</b>      | <b>158 174</b>          | <b>391 442</b>      | <b>69 079</b>  | <b>62 223</b>                         | <b>236 432</b>            | <b>573</b>   | <b>89 284</b>                  | <b>2 487 984</b> |
| <b>At 31 December 2004</b>                                    | <b>242 500</b>        | <b>106 001</b>          | <b>192 670</b>      | <b>39 166</b>  | <b>43 899</b>                         | <b>130 812</b>            | <b>715</b>   | <b>177 870</b>                 | <b>933 633</b>   |

As at 31 December 2005, the Group stated its buildings at fair value (31 December 2004: at cost). Fair value was based on the results of an independent appraisal carried out by independent firm of appraisers.

The appraisal was performed using income capitalisation and market approaches of valuation. The income capitalisation approach considers income and expense data relating to the property being valued and estimates fair value through a capitalisation process. The market approach was based upon an analysis of the results of comparable sales of similar buildings. Final fair value was calculated based on integrated analysis of both approaches.

The following key assumptions were used in applying the income capitalisation approach:

- annual cash flows were projected based on estimated rental income net of operating and maintenance expenses based on current market rental rates and actual average operating and maintenance expenses;
- vacancy and collection losses were estimated as 10.5% for Moscow buildings and 7% for buildings located in other regions of potential gross rent income;
- buildings maintenance general administrative expenses were estimated as 20% of gross rent income;
- discount rates of 13% to 14% and 13% to 16% were applied to capitalise annual cash flows for Moscow buildings and buildings located in other regions, respectively.

Changes in the estimates above could effect the value of buildings. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus ten percent, the buildings valuation as at 31 December 2005 would be RUR 148 078 thousand higher/lower.

Included in the above table is RUR 1 071 055 thousand representing the revaluation surplus relating to these buildings. Positive revaluation of RUR 1 092 108 net of deferred tax of RUR 262 106 was recorded in equity, and negative revaluation of RUR 21 053 thousand was recognised in the income statement.

The net book value of buildings that would have been recognised under the historic cost method is RUR 403 658 thousand as at 31 December 2005.

In 2005, the Group entered into a transaction whereby it transferred its buildings to related parties, with an option to transfer them back for amounts substantially below their fair market value. As the Bank continues to use these fixed assets and, through this arrangement, has the rights to the benefits from these buildings and the intention to exercise these rights, it continues to record them as assets on its balance sheet.

## 20 Deposits and balances from banks and other financial institutions

|  | <b>2005</b>       | <b>2004</b>       |
|--|-------------------|-------------------|
|  | <b>RUR '000</b>   | <b>RUR '000</b>   |
| Term deposits                                      | 8 891 138         | 4 610 071         |
| Due to foreign banks under post-finance agreements | 9 376 601         | 5 608 927         |
| Vostro accounts                                    | 2 225 618         | 982 536           |
|  | <b>20 493 357</b> | <b>11 201 534</b> |

Due to foreign banks under post-finance agreements represent financing received from foreign banks through the extension of settlement dates in respect of amounts payable by the Group to these banks on documentary credit transactions.

## 21 Current accounts and deposits from customers

|                                      | <b>2005</b>       | <b>2004</b>       |
|--------------------------------------|-------------------|-------------------|
|                                      | <b>RUR '000</b>   | <b>RUR '000</b>   |
| Current accounts and demand deposits |                   |                   |
| - Corporate                          | 23 153 259        | 12 806 885        |
| - Retail                             | 2 467 691         | 1 221 580         |
| Term deposits                        |                   |                   |
| - Corporate                          | 18 342 717        | 5 728 412         |
| - Retail                             | 9 281 474         | 4 697 878         |
|                                      | <b>53 245 141</b> | <b>24 454 755</b> |

### Blocked accounts

As of 31 December 2005, the Group maintained customer deposit balances of RUR 938 261 thousand (2004: RUR 443 979 thousand) which were blocked by the Group as collateral for loans and off-balance sheet credit instruments granted by the Group.

## 22 Own securities issued

|                          | 2005<br>RUR '000  | 2004<br>RUR '000  |
|--------------------------|-------------------|-------------------|
| Loan participation notes | 11 669 468        | 2 772 195         |
| Promissory notes         | 3 995 142         | 5 703 487         |
| Certificates of deposit  | 832 389           | 2 359 347         |
| Domestic bonds           | 609 534           | 609 366           |
|                          | <b>17 106 533</b> | <b>11 444 395</b> |

Loan participation notes comprise notes issued through Promsvyaz Finance S.A. and Promsvyaz Finance PLC (refer to Note 3). The proceeds of the notes issued through Promsvyaz Finance S.A. were deposited with a fiduciary bank, which used the amount to grant unsecured loans to the Group.

| Special purpose entity<br>used for issue | Principal<br>amount<br>USD'000 | Issue date    | Maturity<br>date | Coupon<br>rate | 2005<br>RUR'000 | 2004<br>RUR'000 |
|--|--------------------------------|---------------|------------------|----------------|-----------------|-----------------|
| Promsvyaz Finance S.A.                   | 100 000                        | November 2004 | October 2006     | 10.25%         | 2 924 345       | 2 772 195       |
| Promsvyaz Finance S.A.                   | 100 000                        | March 2005    | October 2006     | 10.25%         | 2 929 879       | -               |
| Promsvyaz Finance PLC                    | 200 000                        | October 2005  | October 2010     | 8.5%           | 5 815 244       | -               |
|  |                                |               |                  |                | 11 669 468      | 2 772 195       |

## 23 Other borrowed funds

|                                  | 2005<br>RUR '000 | 2004<br>RUR '000 |
|----------------------------------|------------------|------------------|
| Syndicated loans                 | 3 614 707        | 1 180 549        |
| Subordinated borrowing from EBRD | 1 509 173        | -                |
| Other subordinated borrowings    | 1 816 279        | 1 248 692        |
|                                  | <b>6 940 159</b> | <b>2 429 241</b> |

## 24 Other liabilities

|  | <b>2005</b>     | <b>2004</b>     |
|--|-----------------|-----------------|
|  | <b>RUR '000</b> | <b>RUR '000</b> |
| Provision for guarantees and letters of credit issued    | 110 198         | 89 233          |
| Deferred income on guarantees                            | 43 932          | 80 994          |
| Payables and advances received                           | 39 835          | 16 341          |
| Employee compensation payable                            | 32 379          | -               |
| Payables on factoring deals                              | 24 080          | 8 606           |
| Taxes payable  | 20 863          | 26 741          |
| Payables on deals with foreign currencies and securities | -               | 49 317          |
| Other  | 12 579          | 13 401          |
|  | <b>283 866</b>  | <b>284 633</b>  |

## 25 Deferred tax liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets and liabilities as of 31 December 2005 and 2004.

These deductible temporary differences, which have no expiry dates, are listed below at their tax effected accumulated values:

| RUR'000   | Assets         |                | Liabilities        |                    | Net              |                  |
|---|----------------|----------------|--------------------|--------------------|------------------|------------------|
|   | 2005           | 2004           | 2005               | 2004               | 2005             | 2004             |
| Placements with banks and other financial institutions                    | -              | 484            | (3 135)            | (6 716)            | (3 135)          | (6 232)          |
| Financial instruments at fair value through profit or loss                | 537            | -              | (79 818)           | (63 299)           | (79 281)         | (63 299)         |
| Amounts receivable under reverse repurchase agreements                    | -              | -              | (2 133)            | (292)              | (2 133)          | (292)            |
| Loans to customers  | -              | 725 416        | (665 834)          | (1 199 676)        | (665 834)        | (474 260)        |
| Investments   | 713            | -              | -                  | (537)              | 713              | (537)            |
| Investment property   | -              | 325            | -                  | -                  | -                | 325              |
| Property and equipment  | 51 073         | 20 906         | (365 844)          | (42 665)           | (314 771)        | (21 759)         |
| Other assets  | 17 137         | 34 819         | -                  | -                  | 17 137           | 34 819           |
| Liabilities on financial instruments at fair value through profit or loss | 4 385          | -              | -                  | (7 978)            | 4 385            | (7 978)          |
| Deposits and balances from banks and other financial institutions         | -              | 12 622         | (14 125)           | -                  | (14 125)         | 12 622           |
| Current accounts and deposits from customers                              | 71             | -              | (28 839)           | (7 922)            | (28 768)         | (7 922)          |
| Own securities issued   | 41 075         | 4 522          | -                  | (13 212)           | 41 075           | (8 690)          |
| Other borrowed funds  | 6 971          | -              | -                  | (2 605)            | 6 971            | (2 605)          |
| Other liabilities   | 45 642         | 39 762         | -                  | -                  | 45 642           | 39 762           |
| <b>Net tax assets/(liabilities)</b>                                       | <b>167 604</b> | <b>838 856</b> | <b>(1 159 728)</b> | <b>(1 344 902)</b> | <b>(992 124)</b> | <b>(506 046)</b> |

The rate of tax applicable for deferred taxes was 24% (2004: 24%).

### Movement in temporary differences during the year

| RUR'000   | Balance<br>1 January<br>2005 | Recognised<br>in income | Recognised<br>in equity | Effect of<br>disposal of<br>the<br>Promsvyaz<br>leasing<br>group | Balance<br>31 December<br>2005 |
|---|------------------------------|-------------------------|-------------------------|--|--------------------------------|
| Placements with banks and other financial institutions                    | (6 232)                      | 3 097                   | -                       | -  | (3 135)                        |
| Financial instruments at fair value through profit or loss                | (63 299)                     | (15 982)                | -                       | -  | (79 281)                       |
| Amounts receivable under reverse repurchase agreements                    | (292)                        | (1 841)                 | -                       | -  | (2 133)                        |
| Loans to customers  | (474 260)                    | (200 959)               | -                       | 9 385  | (665 834)                      |
| Investments   | (537)                        | 1 250                   | -                       | -  | 713                            |
| Investment property   | 325                          | (325)                   | -                       | -  | -                              |
| Property and equipment  | (21 759)                     | (30 906)                | (262 106)               | -  | (314 771)                      |
| Other assets  | 34 819                       | (17 682)                | -                       | -  | 17 137                         |
| Liabilities on financial instruments at fair value through profit or loss | (7 978)                      | 12 363                  | -                       | -  | 4 385                          |
| Deposits and balances from banks and other financial institutions         | 12 622                       | (26 747)                | -                       | -  | (14 125)                       |
| Current accounts and deposits from customers                              | (7 922)                      | (20 846)                | -                       | -  | (28 768)                       |
| Own securities issued   | (8 690)                      | 49 765                  | -                       | -  | 41 075                         |
| Other borrowed funds  | (2 605)                      | 9 576                   | -                       | -  | 6 971                          |
| Other liabilities   | 39 762                       | 5 880                   | -                       | -  | 45 642                         |
|   | <b>(506 046)</b>             | <b>(233 357)</b>        | <b>(262 106)</b>        | <b>9 385</b>   | <b>(992 124)</b>               |

## 26 Share capital

### Issued capital

The Bank was established in the Russian Federation as a limited liability company, converting subsequently to a closed joint-stock company in July 2001.

|                                       | Number of<br>ordinary<br>shares | Nominal<br>amount<br>RUR'000 | Nominal value<br>RUR'000 | Inflation<br>adjusted<br>amount<br>RUR'000 |
|---------------------------------------|---------------------------------|------------------------------|--------------------------|--|
| Balance as of 1 January 2005          | 36 095                          | 50                           | 1 804 750                | 2 872 794                                  |
| Issued during the year                | 40 000                          | 50                           | 2 000 000                | 2 000 000                                  |
| <b>Balance as of 31 December 2005</b> | <b>76 095</b>                   |                              | <b>3 804 750</b>         | <b>4 872 794</b>                           |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

## Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation in the Russian Federation. In accordance with the legislation of the Russian Federation, as of the balance sheet date, reserves available for distribution amount to RUR'000 1 497 417 (2004: RUR'000 999 770).

No dividends were declared or paid during 2005 and 2004.

## 27 Analysis by segment

The Group's format for reporting segment information is by business segments. As the majority of operations, credit related commitments, capital expenditure, and revenues of the Group relates to residents of the Russian Federation, the Group does not have a secondary format for reporting segment information by geographical segments. Information on the geographical concentration of assets and liabilities is disclosed at the end of this note.

The Group is organised into three main business segments:

- Commercial banking – includes corporate and retail banking operations which include deposit taking and commercial lending, factoring, settlements and cash operations. Commercial banking services also include trade finance.
- Investment banking and financial markets – includes corporate finance, operations on foreign exchange, debt and equity capital markets, brokerage, securities and precious metals trading.
- Leasing (disposed during 2005, refer to Note 39).

Segment breakdown of assets and liabilities of the Group is set out below:

|  | <b>2005</b>               | <b>2004</b>              |
|--|---------------------------|--------------------------|
|  | <b>RUR'000</b>            | <b>RUR'000</b>           |
| <b>Assets</b>                            |                           |                          |
| Commercial banking                       | 69 497 298                | 35 052 856               |
| Investment banking and financial markets | 38 526 481                | 19 607 877               |
| Leasing                                  | -                         | 1 999 130                |
| Unallocated assets                       | <u>2 914 192</u>          | <u>1 510 046</u>         |
| <b>Total assets</b>                      | <b><u>110 937 971</u></b> | <b><u>58 169 909</u></b> |
| <b>Liabilities</b>                       |                           |                          |
| Commercial banking                       | 81 150 387                | 41 645 123               |
| Investment banking and financial markets | 16 869 544                | 6 970 490                |
| Leasing                                  | -                         | 1 346 096                |
| Unallocated liabilities                  | <u>1 132 127</u>          | <u>668 418</u>           |
| <b>Total liabilities</b>                 | <b><u>99 152 058</u></b>  | <b><u>50 630 127</u></b> |

As at 31 December 2005 the Group revised its approach to allocation of Cash and bullion and Due from the Central Bank of the Russian Federation to business segments. Reclassification for this change has been made to the comparative 2004 amounts presented above.

Segment information for the main reportable business segments of the Group for the year ended 31 December 2005 is set below:

| RUR'000   | Commercial<br>banking | Investment<br>banking and<br>financial<br>markets | Leasing        | Unallocated      | Total            |
|---|-----------------------|---|----------------|------------------|------------------|
| External revenue                                | 6 649 410             | 2 816 872   | 285 875        | 94 518           | 9 846 675        |
| Net revenue from other<br>segments              | 791 893               | (740 071)   | (51 822)       | -                | -                |
| <b>Revenue</b>                                  | <b>7 441 303</b>      | <b>2 076 801</b>                                  | <b>234 053</b> | <b>94 518</b>    | <b>9 846 675</b> |
| Impairment losses                               | (404 929)             | (173)   | (66 806)       | -                | (471 908)        |
| Interest expense                                | (2 785 264)           | (612 189)   | (89 833)       | -                | (3 487 286)      |
| Fee and commission<br>expense                   | (224 247)             | (24 682)  | (950)          | (4 841)          | (254 720)        |
| Net foreign exchange<br>translation gain/(loss) | 94 348                | (206 015)   | (11 852)       | (172 291)        | (295 810)        |
| General administrative<br>expenses              | (1 991 944)           | (591 947)   | (44 289)       | (446 547)        | (3 074 727)      |
| <b>Segment result</b>                           | <b>2 129 267</b>      | <b>641 795</b>                                    | <b>20 323</b>  | <b>(529 161)</b> | <b>2 262 224</b> |
| Income tax expense                              |                       |   |                |                  | (552 289)        |
| <b>Net income</b>                               |                       |   |                |                  | <b>1 709 935</b> |
| <b>Other segment items</b>                      |                       |   |                |                  |                  |
| Additions of property<br>and equipment          |                       |   |                | 684 869          | 684 869          |
| Depreciation                                    |                       |   |                | 196 973          | 196 973          |

Interest expense has been allocated on the basis of the amount of liabilities employed by each segment. Net revenues from other segments represent income and expense from lending and borrowing between segments. No costs have been charged to segments for the use of shareholders' equity.

Segment information for the main reportable business segments of the Group for the year ended 31 December 2004 is set below:

| RUR'000                                | Commercial<br>banking | Investment<br>banking and<br>financial<br>markets | Leasing        | Unallocated     | Total            |
|--|-----------------------|---|----------------|-----------------|------------------|
| External revenue                       | 4 445 614             | 1 124 693   | 389 566        | 229 685         | 6 189 558        |
| Net revenue from<br>other segments     | 467 578               | (414 649)   | (52 929)       | -               | -                |
| <b>Revenue</b>                         | <b>4 913 192</b>      | <b>710 044</b>                                    | <b>336 637</b> | <b>229 685</b>  | <b>6 189 558</b> |
| Impairment losses                      | (825 753)             | 6 061   | (5 961)        | -               | (825 653)        |
| Interest expense                       | (1 317 813)           | (322 798)   | (155 728)      | -               | (1 796 339)      |
| Fee and commission<br>expense          | (148 311)             | (14 685)  | (755)          | (4 250)         | (168 001)        |
| General administrative<br>expenses     | (1 165 284)           | (168 313)   | (49 056)       | (262 029)       | (1 644 682)      |
| <b>Segment result</b>                  | <b>1 456 031</b>      | <b>210 309</b>                                    | <b>125 137</b> | <b>(36 594)</b> | <b>1 754 883</b> |
| Income tax expense                     |                       |   |                |                 | (486 909)        |
| <b>Net income</b>                      |                       |   |                |                 | <b>1 267 974</b> |
| <b>Other segment items</b>             |                       |   |                |                 |                  |
| Additions of property<br>and equipment |                       |   |                | 585 587         | 585 587          |
| Depreciation                           |                       |   |                | 102 899         | 102 899          |

In 2005 the Group revised its approach to allocation of general administrative expense and net revenue from other segments. Reclassification for this change has been made to the 2004 amounts presented above.

The geographical concentration of assets and liabilities as at 31 December 2005 was as follows:

| RUR'000  | Russian           | Non-OECD         | OECD             | Total              |
|--|-------------------|------------------|------------------|--------------------|
| <b>Assets</b>  |                   |                  |                  |                    |
| Cash and bullion   | 2 925 514         | -                | -                | 2 925 514          |
| Due from the Central Bank of the Russian Federation        | 6 733 684         | -                | -                | 6 733 684          |
| Placements with banks and other financial institutions     | 2 037 461         | 1 532 807        | 9 237 271        | 12 807 539         |
| Financial instruments at fair value through profit or loss | 18 342 914        | 641              | 100 745          | 18 444 300         |
| Amounts receivable under reverse repurchase agreements     | 2 426 721         | -                | -                | 2 426 721          |
| Loans to customers   | 63 993 336        | 407 191          | 28 218           | 64 428 745         |
| Investments  | 72 600            | -                | -                | 72 600             |
| Current income tax prepayments                             | 76 206            | -                | -                | 76 206             |
| Other assets   | 534 678           | -                | -                | 534 678            |
| Property and equipment                                     | 2 487 984         | -                | -                | 2 487 984          |
| <b>Total assets</b>  | <b>99 631 098</b> | <b>1 940 639</b> | <b>9 366 234</b> | <b>110 937 971</b> |

|   | <b>Russian</b>    | <b>Non-OECD</b>    | <b>OECD</b>         | <b>Total</b>      |
|---|-------------------|--------------------|---------------------|-------------------|
| <b>Liabilities</b>  |                   |                    |                     |                   |
| Financial instruments at fair value through profit or loss        | 13 795            | 602                | 3 875               | 18 272            |
| Deposits and balances from banks and other financial institutions | 874 756           | 3 963 897          | 15 654 704          | 20 493 357        |
| Current accounts and deposits from customers                      | 51 489 451        | 474 646            | 1 281 044           | 53 245 141        |
| Own securities issued   | 6 798 502         | 3 870 374          | 6 437 657           | 17 106 533        |
| Other borrowed funds  | 2 105 456         | 347 012            | 4 487 691           | 6 940 159         |
| Other liabilities   | 283 866           | -                  | -                   | 283 866           |
| Deferred tax liability  | 992 124           | -                  | -                   | 992 124           |
| Minority interest attributable to limited liability subsidiaries  | 72 606            | -                  | -                   | 72 606            |
| <b>Total liabilities</b>  | <b>62 630 556</b> | <b>8 656 531</b>   | <b>27 864 971</b>   | <b>99 152 058</b> |
| <b>Net position as of 31 December 2005</b>                        | <b>37 000 542</b> | <b>(6 715 892)</b> | <b>(18 498 737)</b> | <b>11 785 913</b> |
| <b>Net position as of 31 December 2004</b>                        | <b>16 648 778</b> | <b>(2 371 970)</b> | <b>(6 737 026)</b>  | <b>7 539 782</b>  |

## 28 Risk management

The purpose of the Group's risk management policy is to evaluate, monitor and manage the size and concentration of the risks arising in the context of the Group's activities. The principal categories of risk inherent to the Group's business are credit risk, market risk (including currency risk, securities portfolio risk and interest rate risk) and liquidity risk. The Group has designed its risk management policy to manage these risks by establishing procedures and setting limits which are monitored by the relevant Group department.

Risk management functions are divided between bodies that are responsible for establishing risk management policies and procedures, including the establishment of limits, and those whose function is to implement those policies and procedures, including monitoring and controlling risks and limits on a continuous basis.

The Board of Directors, the Board of Management, the President, the Credit Committee and the Asset and Liability Committee ("ALCO") set the Group's risk management policy. The Treasury Department, the International Business Department, the Financial Department, the Credit Portfolio Analysis Division, which forms part of the Corporate Credit Department, and the Compliance Control Department implement the Group's risk management policy.

### Market risk

The Group's exposure to market risks arises from changes in currency exchange rates, interest rates, and securities quotations. The goal of the Group's market risk management is to limit and reduce the amount of possible losses on open positions that the Group may incur because of changes in these items. The ALCO manages market risks by fixing limits on possible losses for each type of operation and controlling compliance with such limits.

### Currency Risk

The Group's consolidated financial position and cash flows are exposed to fluctuations in the prevailing foreign currency exchange rates. The Group is primarily exposed to currency risks in the context of its foreign currency lending and borrowing and trading in foreign currency securities and money market instruments.

The Group's currency risk is a function of its open currency positions. The ALCO manages currency risk by:

- Setting stop-loss limits, or limits on the Group's overall exposure to FX operations. The ALCO also establishes stop-loss limits for particular products and traders.
- Setting currency pairs limits, or limits on exposure to FX operations in a particular pair of currencies; and
- Complying with the CBR's open currency position limits.

The ALCO sets these limits on the basis of recommendations from the Group's Financial Department and the Treasury Department and following value-at-risk, stress-test and other valuation methodologies. It reviews currency limits on a monthly basis. The Financial Department and Treasury Department can also temporarily suspend or reduce currency limits.

The Treasury Department manages the Group's currency position on a day-to-day basis and monitors it on a real-time basis. The Group has implemented a five-tier system of monitoring compliance with currency limits, allowing for limits monitoring by an individual trader, the Financial Department, the Director of the Treasury Department, the Accounting, Reporting and Settlements Department and, finally, by the Compliance Control Department.

For further information on the Group's exposure to currency risk at year end refer to Note 13 and Note 37.

### ***Interest Rate Risk***

The Group is exposed to interest rate risk when it lends to customers at interest rates, in amounts and at maturities that differ from the interest rates, amounts, and maturities at which the Group attracts funding.

As part of the Group's interest rate risk management procedures, the ALCO calculates the average asset-to-liability tenor ratio and establishes base interest rates for both its assets and liabilities. It then sets limits for interest rate mismatches for each group of the Group's assets and liabilities. The Group's Financial Department monitors compliance with the interest rate policy and prepares regular interest rate reports for the ALCO.

For further information on the Group's exposure to interest rate risk at year end refer to Note 35.

### ***Securities Portfolio Risk***

Securities portfolio risk is the risk of changes in the value of securities as a result of interest rate or price movements. The Group has a portfolio consisting primarily of promissory notes of Russian banks, corporate bonds, Russian government and municipal securities and, to a lesser extent, equities, which it actively trades mostly for liquidity purposes.

The ALCO manages the Group's securities portfolio risk by setting instrument-specific portfolio limits, as well as stop-profit and stop-loss limits for individual traders. Instrument-specific portfolio limits seek to achieve a profit-to-risk balanced securities portfolio.

**Credit risk**

The Group is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises, therefore, in the context of the Group's corporate lending activities and interbank operations, as well as with respect to debt capital markets underwriting arrangements, repurchase agreements, trading and off balance sheet activities, such as granting letters of credit or guarantees to a third party.

The general principles of the Group's credit policy are outlined in its Credit Policy which is approved by the President. This document also outlines credit risk control and monitoring procedures and the Group's credit risk management systems.

The Group manages its overall credit risks by placing credit limits on the amount of risk accepted with respect to individual borrowers, groups of related borrowers and types of standard products (loans, overdrafts, letters of credit, bank guarantees, etc.).

The Credit Committee establishes the range and the terms of PSB's standard credit products, setting credit limits (inc. individual lending limits for selected significant borrowers), approval of loan facilities, allocation of PSB's credit resources and vetting restructuring schemes with respect to non-performing loans.

Corporate loan applications are processed by the Corporate Lending Department, or the International Business Department in connection with foreign trade financing, which consider the prospective borrower's financial condition, creditworthiness and cash flows dynamics. They assess the adequacy of proposed collateral and monitor compliance with the relevant credit limits.

Loan applications of individuals are processed by the Retail Lending Department which considers the prospective borrower's employment details, monthly income and existing indebtedness. The Group mitigates credit risk in the context of retail lending business by taking security over property or in the form of third party suretyships. The Group does not provide unsecured loans to individuals.

**Liquidity risk**

Liquidity risk is the risk of mismatches between the maturities of assets and liabilities which may result in the Group being unable to meet its obligations in a timely manner.

The ALCO approves liquidity assessment and management procedures, determines liquidity requirements and sets minimum necessary levels of liquid assets and maturity mismatch limits. The Group's Financial Department is responsible for the daily monitoring of the Group's asset and liability structure and determining liquidity projections, and the Treasury Department is responsible for the daily management of the Group's instant and short-term liquidity risk.

The Treasury Department manages short-term liquidity through interbank lending, repurchase transactions, swaps and sales of liquid securities. It manages medium-term and long-term liquidity by matching maturities of the Group's assets and liabilities.

The Group has developed a proprietary system allowing for day-to-day monitoring of instant and short-term liquidity, regular liquidity gap analysis and fortnightly monitoring of the Group's long-term liquidity.

For further information on the Group's exposure to liquidity risk at the year end refer to Note 36.

## 29 Commitments

At any time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Group also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

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

|                              | <b>2005</b>     | <b>2004</b>     |
|------------------------------|-----------------|-----------------|
|                              | <b>RUR '000</b> | <b>RUR '000</b> |
| <b>Contracted amount</b>     |                 |                 |
| Undrawn overdraft facilities | 8 077 296       | 1 633 210       |
| Guarantees                   | 5 633 587       | 3 821 698       |
| Undrawn loan facilities      | 4 908 916       | 1 006 873       |
| Letters of credit            | 1 743 767       | 804 886         |

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

## **30 Operating leases**

### **Leases as lessee**

Non-cancelable operating lease rentals are payable as follows:

|                            | <b>2005</b>     | <b>2004</b>     |
|----------------------------|-----------------|-----------------|
|                            | <b>RUR '000</b> | <b>RUR '000</b> |
| Less than one year         | 135 253         | 79 361          |
| Between one and five years | 294 978         | 125 397         |
| More than five years       | 142 912         | 58 140          |
|                            | <b>573 143</b>  | <b>262 898</b>  |

The Group leases a number of premises and equipment under operating leases. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During the current year RUR 176 872 thousand was recognised as an expense in the income statement in respect of operating leases (2004: RUR 124 048 thousand).

## **31 Contingencies**

### **Insurance**

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

### **Litigation**

In the ordinary course of business, the Group 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 conditions of the results of future operations of the Group.

### **Taxation contingencies**

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

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

### **Custody activities**

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

## **32 Related party transactions**

### **Ownership**

The Group is owned by seven entities, five of which cumulatively hold 96.07% of the share capital of the Bank. These five companies are ultimately owned by Promsvyaz Capital B. V. (Netherlands), which in turn is owned by Peters International N. V. (Netherlands). Mr D. N. Ananyev and Mr A. N. Ananyev each beneficially own 50% of Peters International N. V.

**Promsvyazbank**

Notes to, and forming part of, the consolidated financial statements  
for the year ended 31 December 2005

The outstanding balances and the related average interest rates as of 31 December 2005 with related parties are as follows:

|   | Nominal shareholders |                       | Directors and Board of Management |                       | Other Related Parties |                       | Associates |                       | Total     |
|---|----------------------|-----------------------|-----------------------------------|-----------------------|-----------------------|-----------------------|------------|-----------------------|-----------|
|   | RUR' 000             | Average Interest Rate | RUR' 000                          | Average Interest Rate | RUR' 000              | Average Interest Rate | RUR' 000   | Average Interest Rate | RUR'000   |
| <b>Balance Sheet</b>  |                      |                       |                                   |                       |                       |                       |            |                       |           |
| <b>Assets</b>   |                      |                       |                                   |                       |                       |                       |            |                       |           |
| Nostro accounts   | -                    | -                     | -                                 | -                     | 4 223                 | 0.00%                 | -          | -                     | 4 223     |
| Placements with banks and other financial institutions                | -                    | -                     | -                                 | -                     | 30 000                | 15.00%                | -          | -                     | 30 000    |
| Loans to customers (gross amount)                                     | -                    | -                     | 360                               | 12.00%                | 5 156 003             | 10.03%                | -          | -                     | 5 156 363 |
| less provision for impairment   | -                    | -                     | (6)                               | -                     | (90 942)              | -                     | -          | -                     | (90 948)  |
| Investment (gross amount)   | -                    | -                     | -                                 | -                     | 5 745                 | -                     | 62 860     | -                     | 68 605    |
| less provision for impairment   | -                    | -                     | -                                 | -                     | -                     | -                     | (5 210)    | -                     | (5 210)   |
| Other assets  | -                    | -                     | -                                 | -                     | 11 493                | 0.00%                 | -          | -                     | 11 493    |
| <b>Liabilities</b>  |                      |                       |                                   |                       |                       |                       |            |                       |           |
| Vostro accounts   | -                    | -                     | -                                 | -                     | 34 160                | 0.02%                 | -          | -                     | 34 160    |
| Placements from banks and other financial institutions                | -                    | -                     | -                                 | -                     | 41 535                | 5.47%                 | -          | -                     | 41 535    |
| Current accounts and deposits from customers and other borrowed funds | 27 432               | 0.00%                 | 233 674                           | 5.34%                 | 2 359 915             | 6.36%                 | 22 420     | 2.44%                 | 2 643 441 |
| Own securities issued   | -                    | -                     | -                                 | -                     | 640 788               | 6.39%                 | 7 359      | 9.00%                 | 648 147   |
| <b>Off balance sheet items</b>  |                      |                       |                                   |                       |                       |                       |            |                       |           |
| Guarantees received   | -                    | -                     | 13 112                            | -                     | 1 151 374             | -                     | -          | -                     | 1 164 486 |
| Guarantees issued   | -                    | -                     | -                                 | -                     | 546 265               | -                     | -          | -                     | 546 265   |

Other related parties are comprised mainly of entities controlled by the ultimate shareholders of the Group.

The outstanding balances and the related average interest rates as of 31 December 2004 with other related parties are as follows:

|   | Nominal shareholders |                       | Directors and Board of Management |                       | Other Related Parties |                       | Associates |                       | Total     |
|---|----------------------|-----------------------|-----------------------------------|-----------------------|-----------------------|-----------------------|------------|-----------------------|-----------|
|   | RUR' 000             | Average Interest Rate | RUR' 000                          | Average Interest Rate | RUR'000               | Average Interest Rate | RUR'000    | Average Interest Rate | RUR'000   |
| <b>Balance Sheet</b>  |                      |                       |                                   |                       |                       |                       |            |                       |           |
| <b>Assets</b>   |                      |                       |                                   |                       |                       |                       |            |                       |           |
| Placements with banks and other financial institutions                | -                    | -                     | -                                 | -                     | 30 000                | 15.00%                | -          | -                     | 30 000    |
| Loans to customers (gross amount)                                     | -                    | -                     | 902                               | 12.00%                | 4 311 789             | 10.30%                | -          | -                     | 4 312 691 |
| less provision for impairment   | -                    | -                     | (18)                              | -                     | (103 638)             | -                     | -          | -                     | (103 656) |
| Investments (gross amount)  | -                    | -                     | -                                 | -                     | 5 745                 | -                     | 62 860     | -                     | 68 605    |
| less provision for impairment   | -                    | -                     | -                                 | -                     | -                     | -                     | -          | -                     | -         |
| <b>Liabilities</b>  |                      |                       |                                   |                       |                       |                       |            |                       |           |
| Vostro accounts   | -                    | -                     | -                                 | -                     | 80 722                | 0.00%                 | -          | -                     | 80 722    |
| Placements from banks and other financial institutions                | -                    | -                     | -                                 | -                     | 10 000                | 2.20%                 | -          | -                     | 10 000    |
| Current accounts and deposits from customers and other borrowed funds | 8 212                | 0.00%                 | 188 706                           | 8.81%                 | 1 917 373             | 0.07%                 | 124 907    | 6.56%                 | 2 239 198 |
| Own securities issued   | 375                  | 3.25%                 | -                                 | -                     | 917 503               | 6.28%                 | 84 000     | 9.50%                 | 1 001 878 |
| <b>Off balance sheet items</b>  |                      |                       |                                   |                       |                       |                       |            |                       |           |
| Guarantees received   | -                    | -                     | 20 789                            | -                     | 472 290               | -                     | -          | -                     | 493 079   |
| Guarantees issued   | -                    | -                     | -                                 | -                     | 589 548               | -                     | -          | -                     | 589 548   |

Other related parties are comprised mainly of entities controlled by the ultimate shareholders of the Group.

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Income statement amounts of transactions with related parties for the year ended 31 December 2005 are as follows:

|                                    | <u>Nominal shareholders</u> | <u>Directors and Board<br/>of Management</u> | <u>Other Related Parties</u> | <u>Associates</u> | <u>Total</u> |
|------------------------------------|-----------------------------|--|------------------------------|-------------------|--------------|
| Interest income                    | -                           | 76   | 462 307                      | -                 | 462 383      |
| Fee and commission income          | 508                         | 139  | 18 204                       | 258               | 19 109       |
| Interest expense                   | (10)                        | (15 828)                                     | (98 754)                     | (10 916)          | (125 508)    |
| General administrative<br>expenses | (8 757)                     | (131 098)                                    | (122 684)                    | (20 000)          | (282 539)    |

Other related parties are comprised mainly of entities controlled by the ultimate shareholders of the Group.

Income statement amounts of transactions with related parties for the year ended 31 December 2004 are as follows:

|                                    | <u>Nominal shareholders</u> | <u>Directors and Board<br/>of Management</u> | <u>Other Related Parties</u> | <u>Associates</u> | <u>Total</u> |
|------------------------------------|-----------------------------|--|------------------------------|-------------------|--------------|
| Interest income                    | -                           | 121  | 437 521                      | -                 | 437 642      |
| Fee and commission income          | 5                           | -  | 29 092                       | 575               | 29 672       |
| Interest expense                   | -                           | (6 078)                                      | (65 535)                     | (6 141)           | (77 754)     |
| General administrative<br>expenses | (7 059)                     | (88 394)                                     | (64 238)                     | (20 276)          | (179 967)    |

Other related parties are comprised mainly of entities controlled by the ultimate shareholders of the Group.

As at 1 January 2005, the fair value of investment property was RUR 578 932 thousand. During 2005, the Group sold all its investment property to related parties for RUR 430 169 thousand. A gain on disposal of RUR 35 692 thousand was recognised in Other income.

During the year ended 31 December 2005, the short-term employee benefits of the Board of Management amounted to RUR 131 098 thousand (2004: RUR 88 394 thousand). Directors did not obtain any remuneration from the Group in either 2005 and 2004.

### **33 Cash and cash equivalents**

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flow is composed of the following items:

|  | <b>2005</b>       | <b>2004</b>      |
|--|-------------------|------------------|
|  | <b>RUR '000</b>   | <b>RUR '000</b>  |
| Cash   | 2 925 514         | 1 189 001        |
| Due from Central Bank – nostro accounts  | 4 521 571         | 4 645 392        |
| Placements with banks and other financial institutions with a remaining maturity less than one month | 10 854 216        | 4 001 890        |
|  | <b>18 301 301</b> | <b>9 836 283</b> |

### **34 Fair value of financial instruments**

Management of the Group believes that, with the exception of unlisted equity instruments, the fair value of financial instruments does not differ significantly from their carrying value.

The estimated fair values of financial instruments at fair value through profit or loss are based on quoted market prices at the balance sheet date without any deduction for transaction costs.

The estimated fair values of loan participation notes and domestic bonds issued are based on quoted market prices at the balance sheet date without any deduction for transaction costs.

Except as described in the following paragraph, the estimated fair values of all other financial assets and liabilities is calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the balance sheet date.

As disclosed in Note 16 the Group holds unlisted equity instruments. There is no market for these instruments and there have not been any recent transactions that provide evidence of the current fair value. In addition, discounted cash flow techniques yield a wide range of fair values due to the uncertainty regarding future cash flows.

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

### 35 Average effective interest rates

The table below displays the Group's interest bearing assets and liabilities as at 31 December 2005 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities, except for a syndicated loan included in other borrowed funds and loans to customers granted using funds received under this syndicated loan, where interest rates are linked to LIBOR.

|  | Value<br>RUR '000 | 2005<br>Average<br>Effective<br>Interest<br>Rate | Value<br>RUR '000 | 2004<br>Average<br>Effective<br>Interest<br>Rate |
|--|-------------------|--|-------------------|--|
| <b>Interest Bearing Assets</b>   |                   |  |                   |  |
| <b>Placements with banks and other financial institutions</b>  |                   |  |                   |  |
| - RUR  | 1 835 695         | 6.07%  | 1 164 695         | 4.39%  |
| - other currencies   | 10 971 844        | 2.41%  | 2 936 955         | 1.83%  |
| <b>Amount receivable under reverse repurchase agreements</b>   |                   |  |                   |  |
| - RUR  | 2 426 721         | 8.05%  | 403 474           | 11.34%   |
| <b>Loans to customers</b>  |                   |  |                   |  |
| - RUR  | 37 757 606        | 13.66%   | 19 904 475        | 14.66%   |
| - other currencies   | 26 671 139        | 11.51%   | 14 463 998        | 12.37%   |
| <b>Financial instruments at fair value through profit or loss</b>  |                   |  |                   |  |
| - RUR  | 14 408 550        | 8.71%  | 9 031 430         | 10.24%   |
| - other currencies   | 3 123 357         | 6.36%  | 504 988           | 10.46%   |
| <b>Interest Bearing Liabilities</b>  |                   |  |                   |  |
| <b>Deposits and balances from banks and other financial institutions and other borrowed funds due to banks</b> |                   |  |                   |  |
| - RUR  | 3 928 893         | 6.27%  | 1 420 462         | 2.40%  |
| - other currencies   | 21 688 344        | 5.49%  | 10 961 621        | 4.56%  |
| <b>Current accounts and deposits from customers and other borrowed funds due to customers</b>                  |                   |  |                   |  |
| - RUR  | 36 083 219        | 3.29%  | 16 090 339        | 3.43%  |
| - other currencies   | 18 978 201        | 4.59%  | 9 613 108         | 3.45%  |
| <b>Own securities issued</b>   |                   |  |                   |  |
| - RUR  | 3 460 179         | 5.67%  | 6 631 438         | 7.09%  |
| - other currencies   | 13 646 354        | 9.10%  | 4 812 957         | 9.19%  |

## 36 Maturity analysis

The following table show assets and liabilities of the Group by their remaining contractual maturity as at 31 December 2005, with the exception of financial instruments at fair value through profit or loss, which are shown in the category "Less than 1 month" based on the fact that the Group's management believes that all of these financial instruments could be liquidated within one month in normal course of business.

As at 31 December 2005 the contractual maturities of financial instruments at fair value through profit or loss were as follows:

|                    | <b>2005</b>       | <b>2004</b>       |
|--------------------|-------------------|-------------------|
|                    | <b>RUR'000</b>    | <b>RUR'000</b>    |
| Less than 1 month  | 361 700           | 480 881           |
| 1 to 6 months      | 1 470 264         | 3 146 008         |
| 6 months to 1 year | 2 302 429         | 758 286           |
| 1 year to 5 years  | 7 746 692         | 4 018 815         |
| More than 5 years  | 5 772 451         | 1 189 905         |
| No maturity        | 790 764           | 608 356           |
|                    | <b>18 444 300</b> | <b>10 202 251</b> |

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|   | <b>Less than 1<br/>month</b> | <b>1 to 6<br/>months</b> | <b>6 months<br/>to 1 year</b> | <b>1 year to 5<br/>years</b> | <b>More than 5<br/>years</b> | <b>Overdue</b>  | <b>No<br/>Maturity</b> | <b>Total</b>       |
|---|------------------------------|--------------------------|-------------------------------|------------------------------|------------------------------|-----------------|------------------------|--------------------|
|   | <b>RUR '000</b>              | <b>RUR '000</b>          | <b>RUR '000</b>               | <b>RUR '000</b>              | <b>RUR '000</b>              | <b>RUR '000</b> | <b>RUR '000</b>        | <b>RUR '000</b>    |
| <b>Assets</b>   |                              |                          |                               |                              |                              |                 |                        |                    |
| Cash and bullion  | 2 925 514                    | -                        | -                             | -                            | -                            | -               | -                      | 2 925 514          |
| Due from the Central Bank of the Russian Federation               | 5 900 296                    | 466 100                  | 222 584                       | 69 986                       | 74 718                       | -               | -                      | 6 733 684          |
| Placements with banks and other financial institutions            | 10 854 216                   | 1 404 184                | 518 173                       | 966                          | 30 000                       | -               | -                      | 12 807 539         |
| Financial instruments at fair value through profit or loss        | 18 444 300                   | -                        | -                             | -                            | -                            | -               | -                      | 18 444 300         |
| Amounts receivable under reverse repurchase agreements            | 1 421 190                    | 1 005 531                | -                             | -                            | -                            | -               | -                      | 2 426 721          |
| Loans to customers  | 3 552 134                    | 27 207 572               | 16 810 689                    | 16 446 304                   | 342 099                      | 69 947          | -                      | 64 428 745         |
| Investments   | -                            | -                        | -                             | -                            | -                            | -               | 72 600                 | 72 600             |
| Current income tax prepayments                                    | 76 206                       | -                        | -                             | -                            | -                            | -               | -                      | 76 206             |
| Other assets  | 268 096                      | 222 002                  | 14 154                        | 662                          | -                            | -               | 29 764                 | 534 678            |
| Property and equipment  | -                            | -                        | -                             | -                            | -                            | -               | 2 487 984              | 2 487 984          |
| <b>Total assets</b>   | <b>43 441 952</b>            | <b>30 305 389</b>        | <b>17 565 600</b>             | <b>16 517 918</b>            | <b>446 817</b>               | <b>69 947</b>   | <b>2 590 348</b>       | <b>110 937 971</b> |
| <b>Liabilities</b>  |                              |                          |                               |                              |                              |                 |                        |                    |
| Financial instruments at fair value through profit or loss        | 13 869                       | -                        | 4 403                         | -                            | -                            | -               | -                      | 18 272             |
| Deposits and balances from banks and other financial institutions | 5 492 235                    | 8 605 864                | 4 512 762                     | 1 840 690                    | 41 806                       | -               | -                      | 20 493 357         |
| Current accounts and deposits from customers                      | 34 339 238                   | 11 595 091               | 5 531 223                     | 1 739 145                    | 40 444                       | -               | -                      | 53 245 141         |
| Own securities issued   | 1 317 342                    | 1 743 641                | 1 403 279                     | 12 642 271                   | -                            | -               | -                      | 17 106 533         |
| Other borrowed funds  | -                            | -                        | 3 614 707                     | -                            | 3 325 452                    | -               | -                      | 6 940 159          |
| Other liabilities   | 147 850                      | 44 626                   | 18 293                        | 24 728                       | 171                          | -               | 48 198                 | 283 866            |
| Deferred tax liability  | -                            | -                        | -                             | -                            | -                            | -               | 992 124                | 992 124            |
| Minority interest attributable to limited liability subsidiaries  | -                            | -                        | -                             | -                            | -                            | -               | 72 606                 | 72 606             |
| <b>Total liabilities</b>  | <b>41 310 534</b>            | <b>21 989 222</b>        | <b>15 084 667</b>             | <b>16 246 834</b>            | <b>3 407 873</b>             | <b>-</b>        | <b>1 112 928</b>       | <b>99 152 058</b>  |
| <b>Net position as at 31 December 2005</b>                        | <b>2 131 418</b>             | <b>8 316 167</b>         | <b>2 480 933</b>              | <b>271 084</b>               | <b>(2 961 056)</b>           | <b>69 947</b>   | <b>1 477 420</b>       | <b>11 785 913</b>  |
| Net position as at 31 December 2004                               | 4 040 945                    | 864 549                  | 4 291 038                     | (2 123 112)                  | (393 375)                    | 89 507          | 770 230                | 7 539 782          |

## 37 Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2005:

|  | RUR                | USD                 | EUR              | Other            | Total              |
|--|--------------------|---------------------|------------------|------------------|--------------------|
|  | RUR '000           | RUR '000            | RUR '000         | RUR '000         | RUR '000           |
| <b>Assets</b>  |                    |                     |                  |                  |                    |
| Cash and bullion   | 1 729 354          | 692 472             | 349 506          | 154 182          | 2 925 514          |
| Due from the Central Bank of the Russian Federation                  | 6 733 684          | -                   | -                | -                | 6 733 684          |
| Placements with banks and other financial institutions               | 1 835 695          | 7 717 520           | 2 827 347        | 426 977          | 12 807 539         |
| Financial instruments at fair value through profit or loss           | 15 199 315         | 3 142 503           | 8 401            | 94 081           | 18 444 300         |
| Amounts receivable under reverse repurchase agreements               | 2 426 721          | -                   | -                | -                | 2 426 721          |
| Loans to customers   | 37 757 606         | 21 821 603          | 4 813 336        | 36 200           | 64 428 745         |
| Investments  | 71 897             | -                   | 703              | -                | 72 600             |
| Current income tax prepayments                                       | 76 206             | -                   | -                | -                | 76 206             |
| Other assets   | 517 455            | 7 121               | 7 156            | 2 946            | 534 678            |
| Property and equipment   | 2 487 984          | -                   | -                | -                | 2 487 984          |
| <b>Total assets</b>  | <b>68 835 917</b>  | <b>33 381 219</b>   | <b>8 006 449</b> | <b>714 386</b>   | <b>110 937 971</b> |
| <b>Liabilities</b>   |                    |                     |                  |                  |                    |
| Financial instruments at fair value through profit or loss           | 22                 | 5 928               | 6 620            | 5 702            | 18 272             |
| Deposits and balances from banks and other financial institutions    | 2 419 720          | 11 544 086          | 5 433 073        | 1 096 478        | 20 493 357         |
| Current accounts and deposits from customers                         | 36 083 219         | 14 360 582          | 2 787 893        | 13 447           | 53 245 141         |
| Own securities issued  | 3 460 179          | 13 254 882          | 391 472          | -                | 17 106 533         |
| Other borrowed funds   | 1 509 173          | 5 430 986           | -                | -                | 6 940 159          |
| Other liabilities  | 164 585            | 71 947              | 47 234           | 100              | 283 866            |
| Deferred tax liability   | 992 124            | -                   | -                | -                | 992 124            |
| Minority interest attributable to limited liability subsidiaries     | 72 606             | -                   | -                | -                | 72 606             |
| <b>Total liabilities</b>   | <b>44 701 628</b>  | <b>44 668 411</b>   | <b>8 666 292</b> | <b>1 115 727</b> | <b>99 152 058</b>  |
| <b>Net on balance sheet position as of 31 December 2005</b>          | <b>24 134 289</b>  | <b>(11 287 192)</b> | <b>(659 843)</b> | <b>(401 341)</b> | <b>11 785 913</b>  |
| <b>Net off balance sheet position as of 31 December 2005</b>         | <b>(9 244 667)</b> | <b>8 403 238</b>    | <b>381 419</b>   | <b>460 010</b>   | <b>-</b>           |
| <b>Net on and off balance sheet positions as of 31 December 2005</b> | <b>14 889 622</b>  | <b>(2 883 954)</b>  | <b>(278 424)</b> | <b>58 669</b>    | <b>11 785 913</b>  |
| <b>Net on and off balance sheet positions as of 31 December 2004</b> | <b>8 330 747</b>   | <b>(356 248)</b>    | <b>(636 715)</b> | <b>201 998</b>   | <b>7 539 782</b>   |
| <b>Guarantees issued as at 31 December 2005</b>                      | <b>1 914 168</b>   | <b>2 276 266</b>    | <b>1 443 153</b> | <b>-</b>         | <b>5 633 587</b>   |
| <b>Guarantees issued as at 31 December 2004</b>                      | <b>1 380 806</b>   | <b>1 362 016</b>    | <b>1 078 876</b> | <b>-</b>         | <b>3 821 698</b>   |

## 38 Events subsequent to the balance sheet

In February 2006 the Group entered into a USD 200 000 thousand trade-related syndicated facility from a syndicate of 40 banks co-led by Bank of Tokyo-Mitsubishi, Ltd., Natexis Banques Populaires and Sumitomo Mitsui Banking Corporation Europe Limited. The maturity of the facility is 18 months. The Group used the proceeds of the loan to finance international trade operations of its clients.

## 39 Disposal of subsidiary

On 3 October 2005 the Group disposed of its investment in the Promsvyazleasing Group. This was executed through the cancellation of call options held by OAO "Promsvyazinvest" which allowed it to purchase shares in the Promsvyaleasing Group for a nominal amount.

The subsidiary contributed RUR 1 780 thousand of net loss to the Group for the year.

The disposal of the subsidiary had the following effect on the Group's assets and liabilities at the date of disposal:

| <b>RUR'000</b>  | <b>Carrying<br/>amount at<br/>date of<br/>disposal</b> |
|---|--|
|   | <hr/>  |
| <b>Assets</b>   |  |
| Cash  | 11   |
| Placements with banks and other financial institutions            | 18 771   |
| Loans to customers  | 1 756 156  |
| Investments   | 2 845  |
| Current income tax prepayments                                    | 13 258   |
| Other assets  | 701 879  |
| Property and equipment  | 1 100  |
| Intra-group balances  | 211 748  |
| <b>Liabilities</b>  |  |
| Deposits and balances from banks and other financial institutions | (320 228)  |
| Current accounts and deposits from customers                      | (406 178)  |
| Own securities issued   | (206 137)  |

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|  | <b>Carrying<br/>amount at<br/>date of<br/>disposal</b> |
|--|--|
| Liability to purchase leasing equipment  | (93 169)   |
| Other liabilities  | (100 746)  |
| Deferred tax liability   | (9 385)  |
| Intra-group balances   | (1 216 257)  |
| <b>Net identifiable assets and liabilities</b>                                     | <b>353 668</b>   |
| Less: minority interest  | (83 533)   |
| Net identifiable assets and liabilities related to investment<br>interest disposed | 270 135  |
| Additional paid-in capital withdrawn   | (182 759)  |
| Retained earnings withdrawn  | (80 468)   |
| Less: cash and cash equivalents disposed   | (18 782)   |
| Less: terminated obligations under option agreements                               | (6 908)  |
| <b>Net cash outflow on disposal</b>  | <b>(18 782)</b>  |

## 40 Capital adequacy

As at 31 December 2005 the Group's total capital, calculated in accordance with International Convergence of Capital Measurement and Capital Standards issued by the Basel Committee totalled RUR 15 171 817 thousand. For the purposes of this calculation, Minority interest includes amounts in respect of limited liability companies (refer to Note 3 – Minority interest). The Group's risk based total capital adequacy ratio was 16.5%, which exceeded the minimum ratio of 8% recommended by the Basle Accord.

As at 31 December 2005 the components of the capital adequacy ratio were as follows:

|   | <b>31 December<br/>2005</b> | <b>31 December<br/>2004</b> |
|---|-----------------------------|-----------------------------|
| <b>Tier 1 Capital</b>                     |                             |                             |
| Share capital                             | 4 872 794                   | 2 872 794                   |
| Share premium                             | 1 902 245                   | 1 902 245                   |
| Additional paid-in-capital                | -                           | 182 759                     |
| Minority interest                         | 167 792                     | 186 065                     |
| Retained earnings                         | 4 085 686                   | 2 521 479                   |
|   | <u><b>11 028 517</b></u>    | <u><b>7 665 342</b></u>     |
| <b>Tier 2 Capital</b>                     |                             |                             |
| Asset revaluation reserves                | 830 002                     | -                           |
| Subordinated debt net of accrued interest | 3 313 298                   | 1 248 692                   |
|   | <u><b>15 171 817</b></u>    | <u><b>8 914 034</b></u>     |
| <b>Total Risk Weighted Assets</b>         | <u><b>91 747 717</b></u>    | <u><b>53 008 220</b></u>    |
| <b>Tier 1 Ratio</b>                       | <b>12.02%</b>               | <b>14.46 %</b>              |
| <b>Total Capital Adequacy Ratio</b>       | <b>16.54%</b>               | <b>16.82 %</b>              |