

**Closed Joint Stock Company
FORA-Opportunity Russian Bank**

Financial Statements for the Year Ended
31 December 2006

Together with Independent Auditors' Report



BDO Unicon
Auditors and Consultants

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Independent Auditors' Report

To the Shareholders and the Board of Directors of Closed Joint Stock Company For a–Opportunity Russian Bank

We have audited the accompanying financial statements of Closed Joint Stock Company For a–Opportunity Russian Bank, which comprise the balance sheet as at 31 December 2006, and the statement of income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

Opinion


In our opinion, the financial statements present fairly, in all material respects, the financial position of Closed Joint Stock Company For a–Opportunity Russian Bank as at 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Elena Kopanyova
FCCA
Deputy General Director

Closed Joint Stock Company Fora-Opportunity Russian Bank
Balance Sheet as at 31 December 2006
(in thousands of Russian Roubles)


	Note	2006	2005
Assets			
Cash and cash equivalents	5	46 306	4 587
Mandatory cash balances with the Central Bank of the Russian Federation		6 263	-
Due from other banks	6	524 380	188 621
Loans to customers	7	927 349	65 382
Other assets	8	11 917	4 502
Deferred tax assets	18	9 116	-
Premises and equipment	9	11 633	1 507
Total assets		1 536 964	264 599
Liabilities			
Due to other banks	10	311 060	-
Customer accounts	11	750 982	67 641
Debt securities issued	12	72 782	-
Other liabilities	13	12 412	512
Deferred tax liabilities	18	-	603
Total liabilities		1 147 236	68 756
Equity			
Share capital	14	380 000	200 000
Retained earnings/(Accumulated deficit)		9 728	(4 157)
Total equity		389 728	195 843
Total liabilities and equity		1 536 964	264 599

Approved by Management of Closed Joint Stock Company Fora-Opportunity Russian Bank and signed on its behalf on 2 April 2007.


T.V. Yurina

Chairman of Management Board




N.V. Babushkina

Chief Accountant

The notes set out on pages 8 to 29 are an integral part of these financial statements.

*Closed Joint Stock Company Fora-Opportunity Russian Bank
Statement of Income for the Year Ended 31 December 2006
(in thousands of Russian Roubles)*

	Note	2006	2005
Interest income	15	205 542	4 077
Interest expense	15	(41 544)	(568)
Net interest income		163 998	3 509
Provision for loan impairment	7	(43 115)	(204)
Net interest income after provision for loan impairment		120 883	3 305
Gains less losses from dealing in foreign currency		(215)	4
Gains less losses from revaluation of foreign currency		302	(4)
Fee and commission income	16	912	3
Fee and commission expense	16	(5 341)	(42)
Other operating income		5 052	470
Net income		121 593	3 736
Operating expenses	17	(104 046)	(7 290)
Profit/(loss) before taxation		17 547	(3 554)
Income tax expense	18	(3 662)	(603)
Net profit/(loss)		13 885	(4 157)

T.V. Yurina

Chairman of Management Board



N.V. Babushkina

Chief Accountant

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*Closed Joint Stock Company Fora-Opportunity Russian Bank
Statement of Cash Flows for the Year Ended 31 December 2006
(in thousands of Russian Roubles)*

	2006	2005
Cash flows from operating activities		
Interest received	194 629	2 462
Interest paid	(27 868)	-
Gains less losses from dealing in foreign currency	(215)	4
Fees and commissions received	912	3
Fees and commissions paid	(3 384)	(42)
Other operating income	5 052	470
Operating expenses paid	(93 153)	(6 708)
Income tax paid	(13 381)	-
Cash flows provided from/(used in) operating activities before changes in operating assets and liabilities	62 592	(3 811)
Net (increase)/decrease in operating assets		
Mandatory cash balances with the Central Bank of the Russian Federation	(6 263)	-
Due from other banks	(335 320)	(187 170)
Loans to customers	(894 696)	(65 445)
Other assets	(6 643)	(4 502)
Net increase/(decrease) in operating liabilities		
Due to other banks	308 219	-
Customer accounts	672 866	67 073
Debt securities issued	71 094	-
Other liabilities	932	43
Net cash flows from operating activities	(127 219)	(193 812)
Cash flows from investing activities		
Purchase of premises and equipment (Note 9)	(11 452)	(1 620)
Net cash flows from investing activities	(11 452)	(1 620)
Cash flows from financing activities		
Issue of ordinary shares	180 000	200 000
Net cash flows from financing activities	180 000	200 000
Effect of exchange rate changes on cash and cash equivalents	302	(4)
Net change in cash and cash equivalents	41 631	4 564
Cash and cash equivalents at the beginning of the year (Note 5)	4 564	-
Cash and cash equivalents at the end of the year (Note 5)	46 195	4 564

T.V. Yurina

Chairman of Management Board



N.V. Babushkina

Chief Accountant

The notes set out on pages 8 to 29 are an integral part of these financial statements.

*Closed Joint Stock Company Fora-Opportunity Russian Bank
Statement of Changes in Equity for the Year Ended 31 December 2006
(in thousands of Russian Roubles)*

	Share capital	Retained earnings/ (accumulated deficit)	Total equity
Balance as at 25 August 2005	-	-	-
Net loss for the period from 25 August to 31 December 2005	-	(4 157)	(4 157)
Issue of ordinary shares	200 000	-	200 000
Balance as at 31 December 2005	200 000	(4 157)	195 843
Net profit for 2006	-	13 885	13 885
Issue of ordinary shares	180 000	-	180 000
Balance as at 31 December 2006	380 000	9 728	389 728

T.V. Yurina

Chairman of Management Board



N.V. Babushkina

Chief Accountant

The notes set out on pages 8 to 29 are an integral part of these financial statements.

1. Principal Activities of the Bank

These financial statements include the financial statements of Closed Joint Stock Company Fora-Opportunity Russian Bank (the "Bank").

The Bank was incorporated on 24 June 2005 as a closed joint stock company under the laws of the Russian Federation. The Bank operates under License No. 3457 for banking operations with funds of legal entities in Russian roubles and foreign currency, issued by the Central Bank of the Russian Federation (CBR) on 25 August 2005.

The key activity of the Bank is to provide loans to small businesses (private entrepreneurs and small enterprise) in different regions of the Russian Federation.

The Bank has no branches, subsidiaries or associates.

The Bank is registered at the following address: 3 Kostina Str., Nizhniy Novgorod, 603000, Russian Federation.

The principal operating office of the Bank is located at the following address: 117 Gorky Str., Nizhniy Novgorod, 603000, Russian Federation.

The average number of the Bank's employees in 2006 was 235 (2005 – 16).

The only shareholder of the Bank is Fund for Support of Microentrepreneurship FORA (FORA Fund).

2. Operating Environment of the Bank

General

Over the past decade the Russian Federation has undergone substantial political, economic and social changes. Though since 2002 the Russian economy has been recognised as a market economy and a number of principal reforms aimed at establishment of banking, judicial, tax and legislative systems have been implemented, the business and legislative framework do not possess the same level of stability as in the countries with more developed economy.

Currently, the economy of the Russian Federation continues to display characteristics of an emerging market. These characteristics include:

- relatively high inflation rates during a number of years;
- low level of liquidity in capital markets.

Inflation

Russia continues to experience relatively high levels of inflation. The inflation rates for the last two years are given in the table below:

Year ended:	Inflation for the period
31 December 2006	9.0%
31 December 2005	10.9%

Currency transactions and currency control

Foreign currencies, in particular the US Dollar and EUR, play a significant role in the underlying economics of many business transactions in the Russian Federation.

The table below shows exchange rates of Russian Roubles (RUR) relative to USD and EUR:

Year ended:	USD	EUR
31 December 2006	26.3311	34.6965
31 December 2005	28.7825	34.1850

In 2006 Russia lifted restrictions that were previously in force on the conversion of Russian Roubles into hard currencies and mandatory requirements for conversion of hard currency revenue to Russian Roubles as well as restrictions on capital transactions abroad.

Financial market transactions

Economic conditions in the Russian Federation continue to limit the volume of activity in the financial markets. Market quotations may not correctly reflect the values of financial instruments, which would be determined in an efficient, active market involving willing buyers and willing sellers. Management of the Bank has therefore used the best available information to adjust market quotations to reflect their best estimate of fair values, where considered necessary.

International recognition of Russia's investment attractiveness and reduced macroeconomic risks and inflationary expectations were confirmed by the investment ratings awarded to the Russian Federation by the world leading rating agencies: Moody's – 8 September 2005: Baa3 with "positive" outlook, 25 October 2005: Baa2 with "stable" outlook; Fitch Ratings – 25 July 2006: BBB+ with "stable" outlook, Standard & Poor's – 4 September 2006: BBB+ with "stable" outlook.

As the Bank has been operating for less than two years it is not a participant of the Deposit Insurance System. The Bank intends to apply to the CBR with a request to take a decision on the Bank's compliance with the requirements for participation in the Deposit Insurance System in September 2007.

3. Basis of Presentation

General principles

The Bank's financial statements are prepared in accordance with IFRS, including all previously adopted standards and interpretations. The Bank maintains its records in compliance with the applicable Russian legislation. These financial statements have been prepared on the basis of those accounting records and adjusted as necessary in order to comply, in all material respects, with IFRS.

These financial statements are presented in the currency of the Russian Federation (Russian Rouble), which is the Bank's functional and presentation currency.

The preparation of the financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Issues that require best estimate and are most significant for the financial statements are disclosed in Note 4.

The accounting policies adopted are consistent with those of the previous financial year.

IFRSs and IFRIC interpretations not yet effective

The Bank has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

IFRS 7 "Financial Instruments: Disclosures" (effective from 1 January 2007);

Amendment to IAS 1 "Presentation of Financial Statements" – Capital Disclosures" (effective from 1 January 2007);

IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies" (effective for annual periods beginning on or after 1 March 2006, i.e. from 1 January 2007);

IFRIC 8 "Scope of IFRS 2" (effective for annual periods beginning on or after 1 May 2006, i.e. from 1 January 2007);

IFRIC 9 "Reassessment of Embedded Derivatives" (effective for annual periods beginning on or after 1 June 2006, i.e. from 1 January 2007);

IFRIC 10 "Interim Financial Reporting and Impairment" (effective for annual periods beginning on or after 1 November 2006, i.e. from 1 January 2007);

IFRIC 11 "IFRS 2: Group and Treasury Share Transactions" (effective for annual periods beginning on or after 1 March 2007, i.e. from 1 January 2007);

IFRIC 12 "Service Concession Arrangements" (effective for annual periods beginning on 1 January 2008).

The Bank expects that the adoption of the pronouncements listed above will have no significant impact on the Bank's financial statements in the period of initial application, except for new disclosures under IFRS 7, which will allow users of the financial statement to assess the significance of financial instrument transactions for the Bank, the nature and extent of risks arising from financial instruments as well as objectives, policies and procedures used by the Bank for equity management.

The Bank is currently assessing the impact of IFRS 7 and the amendments to IAS 1 will have on disclosures in its financial statements.

Changes in presentation of the financial statements

The following changes were made in the corresponding figures for 2005 to conform to the 2006 presentation.

Item before reclassification	Item after reclassification	Amount	Comments
Other assets	Customer accounts	1 328	Reclassification of commission on loans received from other assets to customer accounts

4. Summary of Significant Accounting Policies

Cash and cash equivalents

Cash and cash equivalents are assets, which can be converted into cash within a day and consist of cash on hand and correspondent and current account balances of the Bank. All short-term interbank placements, excluding overnight placements, are included in due from other banks. Amounts, which relate to funds of restricted nature, are excluded from cash and cash equivalents.

Cash and cash equivalents exclude mandatory reserves with the Central Bank of the Russian Federation.

Mandatory cash balances with the Central Bank of the Russian Federation

Mandatory cash balances with the Central Bank of the Russian Federation represent mandatory reserve deposits with the CBR, which are not available to finance the Bank's day-to-day operations. Therefore, for the purposes of statement of cash flows, the mandatory reserve balance is excluded from cash and cash equivalents.

Financial assets

Financial assets of the Bank are represented by loans to customers.

The Bank determines the classification of financial assets at its initial recognition. Subsequent reclassifications are allowed only in cases stipulated by IFRS.

All regular way purchases and sales of financial assets are recognised on the settlement date, i.e. the date the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; and
- the Bank either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. If the transferee has no practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the transfer, the entity has retained control.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Loans to customers, provision for loan impairment

This category includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available for sale;
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Loans to customers are initially recorded at cost, which is the fair value of the consideration given. Subsequently, they are carried at amortised cost less provision for loan impairment. Amortised cost is based on the fair value of consideration given to originate those loans determined with reference to market interest rates on similar loans prevailing at origination date.

Loans to customers are recorded when cash is advanced to borrowers.

Loans originated at interest rates different from market rates are remeasured at origination to their fair values, being future interest payments and principal repayment(s) discounted at market interest rates for similar loans. The difference between the fair value and the nominal value at origination is charged to the statement of income as losses on origination of assets at rates below market. Subsequently, the carrying amount of such loans is adjusted for amortisation of losses on origination and the related income is recorded within the statement of income using the effective interest method. The Bank does not recognise gains on origination of assets at rates above market governed by the prudence concept.

If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed loan, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment.

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

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

A provision for loan impairment is created if there is objective evidence that the Bank will not be able to collect the amounts due according to the original contractual terms. The amount of the provision is the difference between the carrying amount and the estimated recoverable amount of the loan, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate on this loan.

The provision for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These losses have been estimated based upon historical patterns of losses in each component, the credit ratings assigned to the borrowers and reflect the current economic environment in which the borrowers operate.

The following approach is applied to make provisions for loans issued under the loan issuance program in compliance with the adopted lending policy:

- principal amount outstanding - provision at the rate of 1%;
- loans 1 to 30 days overdue - provision at the rate of 10%;
- loans 31 to 60 days overdue - provision at the rate of 25%;
- loans 61 to 90 days overdue - provision at the rate of 75%;
- loans 91 days and more overdue - provision at the rate of 100%;

Objective evidence that a loan is impaired includes observable data that comes to the attention of the Bank about one or more of the following events:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

- observable data indicating that there is a measurable decrease in the estimated future cash flows from loan since the initial recognition of those assets.

Loans with expired date of final scheduled payment and principal amount 121 days and more overdue are treated as bad debt and are written off against impairment provision made and recorded in the balance sheet.

Recoveries of amounts previously written off are credited to the provision for loan impairment in the statement of income.

Loans are placed on non-accrual status when full payment of principal or interest is in doubt (a loan with principal and interest unpaid for at least ninety days). When a loan is placed on non-accrual status, accrued interest on these loans is not recognised in the statement of income. A non-accrual loan may be restored to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment in full within a period determined by loan agreement. Accrued interest on loans originated by the Bank is recorded within loans to customers in the balance sheet until the loans are repaid by the borrower.

The Bank acquires loans from third parties at nominal value. The acquired loans are initially recorded at cost, which is the fair value of the consideration given. Subsequently, they are carried in accordance with the procedure described above.

Due from other banks

The Bank adopts accounting policies applicable to loans to customers, provision for loan impairment and in respect of the Bank's funds placed with other banks.

Promissory notes purchased

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

Financial liabilities

In accordance with requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" financial liabilities are classified either as financial liabilities remeasured at fair value through profit or loss or other financial liabilities depending on the situation. Bank's management determines the appropriate classification of financial liabilities upon initial recognition. Other financial liabilities are reflected at amortised cost.

Financial liabilities are classified as financial liabilities at fair value through profit or loss if acquired for the purpose of sale or settlement in the near term. Usually trade financial liabilities or short-term trade positions on securities are included in these financial liabilities. Derivative financial instruments with negative fair value are also classified as financial liabilities at fair value through profit or loss, except when they are designated as effective hedging instruments. Gains or losses arising from financial liabilities at fair value through profit or loss are reflected in the statement of income.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation specified in the contract is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same creditor on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of income.

Borrowings

Borrowings, which include due to other banks, customer accounts, debt securities issued and other borrowed funds, are recognised initially at the fair value of consideration received less directly attributable transaction costs. Subsequently, borrowings are stated at amortised cost using the effective interest method.

Borrowings, which interest rates differ from market rates, are measured at their fair value at the date of origination. The fair value represents future interest payments and principal amount, discounted at market rates for similar loans. The difference between the fair value and the nominal value at origination is charged to the statement of income as losses on origination of liabilities at rates above market. The Bank does not recognise gains on origination of liabilities at rates below market governed by the prudence concept. Subsequently, the carrying amount of such borrowings is adjusted for amortisation of

the losses on origination and the related expenses are recorded as interest expense within the statement of income using the effective yield method.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, and swaps. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as financial assets when their fair value is positive and as financial liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of income as gains less losses from financial assets (liabilities) at fair value through profit or loss.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value through profit or loss. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

Premises and equipment

Premises and equipment are stated at acquisition cost less accumulated depreciation and impairment provision, where required. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is recognised in the statement of income. The estimated recoverable amount is determined as higher of an asset's net realisable value and its value in use.

At each reporting date the Bank assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, the Bank estimates the recoverable amount, which is determined as the higher of an asset's net selling price or its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the statement of income as expense from impairment of premises and equipment.

Construction in progress is carried at cost less impairment provision, where required. As soon as construction is completed, assets are reclassified as premises and equipment at their carrying value at the date of reclassification. Construction in progress is not depreciated until the asset is available for use.

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount and recorded within operating expenses of the statement of income. Repairs and maintenance are charged to the statement of income when the expense is incurred.

Depreciation

Depreciation of premises and equipment commences from the date the assets are ready for use. Depreciation is charged on a straight line basis over the estimated useful lives of the assets using the following rates:

- Computers and office equipment – 33 % per annum;
- Vehicles – 33% per annum;
- Furniture – 20% per annum;

Operating lease

Leases of property under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under operating lease are recognised as expenses on a straight-line basis over the lease-term and included into other operating expenses.

Where the operating lease is terminated prior to its expiration date, any penalty payable to the lessor is recognised as expense in the period the operating lease was terminated.

Share capital

Ordinary shares are classified as equity.

Taxation

Income tax expense is recorded in the financial statements in accordance with the applicable legislation of the Russian Federation. The income tax charge in the statement of income comprises current tax and changes in deferred income tax. Current tax is calculated on the basis of the estimated taxable profit for the year, using the tax rates enacted at the balance sheet date. The income tax charge comprises current tax and deferred tax and is recorded in the statement of income except if it is recorded directly in equity because it relates to transactions that are also recorded, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the budget in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns.

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

Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax losses are recorded to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Besides, various operating taxes currently in force in the Russian Federation are imposed on the Bank's activities. These taxes are included in the statement of income as operating expenses.

Income and expense recognition

Interest income and expense are recognised in the statement of income for all debt instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, early repayment) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Fees, commissions and other income and expense items are recorded on an accrual basis when the services are provided.

Foreign currency translation

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

Monetary assets and liabilities denominated in foreign currencies are translated into the Russian Rouble at the CBR official exchange rate ruling at the balance sheet date. Translation differences on debt securities and other monetary financial assets denominated or repayable in foreign currency and measured at fair value are included in foreign exchange translation gains and losses.

Social funds costs

The Bank pays unified social tax (UST) on the territory of the Russian Federation. UST contributions are accounted for on an accrual basis. UST comprises contributions to the Russian Federation state pension, social insurance and obligatory medical insurance funds in respect of employees of the Bank. These expenses are recognised as incurred and included in staff costs. The Bank does not have pension arrangements in addition to the state pension scheme of the Russian Federation or alternative pension plans for its employees.

5. Cash and Cash Equivalents

	2006	2005
Correspondent accounts and overnight deposits with other banks of the Russian Federation	39 535	2 199
Cash balances with the CBR (other than mandatory reserve deposits)	5 693	2 388
Cash on hand	1 078	-
Total cash and cash equivalents	46 306	4 587

As at 31 December 2006, cash and cash equivalents included accrued interest on correspondent accounts with other banks in the amount of RUR 111 thousand (2005: RUR 23 thousand). For the purposes of the statement of cash flows these amounts are excluded from cash and cash equivalents.

Geographical, currency and interest rate analyses of cash and cash equivalents are disclosed in Note 19.

6. Due from Other Banks

	2006	2005
Current loans and deposits with other banks	524 380	188 621
Total due from other banks	524 380	188 621

In 2006 and 2005 no provisions for impairment of due from other banks have been created by the Bank.

As at 31 December 2006, the aggregated loans originated by the Bank to ten major borrowers amounted to RUR 307 544 thousand or 58.6% of the total due from other banks (2005: 100% of due from other banks were placed with seven banks).

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 19.

7. Loans to Customers

	2006	2005
Current loans	949 368	65 586
Overdue loans	18 811	-
Total loans to customers (gross)	968 179	65 586
Less: provision for loan impairment	(40 830)	(204)
Total loans to customers	927 349	65 382

Movements in the provision for loan impairment for the year are as follows:

	2006	2005
Provision for impairment of loans to customers as at 1 January	204	-
Provision for impairment of loans to customers during the year	43 115	204
Loans to customers written off during the year as uncollectible	(2 489)	-
Provision for impairment of loans to customers as at 31 December	40 830	204

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Economic sector concentrations within the Bank's loan portfolio are as follows:

	2006		2005	
	Amount	%	Amount	%
Entrepreneurs	954 487	98.6%	20 586	31.4%
Small enterprises	11 786	1.2%	-	-
Individuals	1 906	0.2%	-	-
Non-profit organisations	-	-	45 000	68.6%
Total loans to customers (gross)	968 179	100.0%	65 586	100.0%

As at 31 December 2006, the aggregated loans originated by the Bank to ten major borrowers amounted to RUR 24 680 thousand or 2.5% of the total loan portfolio (2005: RUR 47 034 thousand or 71.7% of the total loan portfolio). Provision for the above loans equalled RUR 247 thousand (2005: RUR 20 thousand).

In 2005-2006 the Bank acquired loans from FORA Fund under agreements for assignment of rights (claims). The value of acquired rights (claims) totalled RUR 203 160 thousand as at 31 December 2006 (2005: RUR 20 586 thousand).

The Bank accepts third party guarantees and property (vehicles and other movable property) as collateral of loans to customers. The information on the collateral is summarised in the table below.

	2006	2005
Guarantees	3 176 433	58 975
Other property	789 137	5 530
Collateral received	3 965 570	64 505

Geographical, currency, maturity and interest rate analyses of loans to customers are disclosed in Note 19. The Bank has provided a number of loans to related parties. The relevant information on loans to related parties is given in Note 22.

8. Other Assets

	2006	2005
Intangible assets	6 437	1 977
Accounts receivable and prepayments	5 480	2 525
Total other assets	11 917	4 502

In 2006 and 2005 no provisions for impairment of other assets have been created by the Bank.

Geographical analysis, analysis of other assets by currency and maturity are disclosed in Note 19.

9. Premises and Equipment

	Computers and office equipment	Vehicles	Furniture	Construction in progress and other	Total
Net book value as at 31 December 2005	1 487	-	-	20	1 507
Cost					
Balance as at 1 January 2006	1 600	-	-	20	1 620
Additions	9 141	1 780	253	278	11 452
Transfers	20	-	-	(20)	-
Balance as at 31 December 2006	10 761	1 780	253	278	13 072
Accumulated depreciation					
Balance as at 1 January 2006	113	-	-	-	113
Depreciation charge	1 197	106	23	-	1 326
Balance as at 31 December 2006	1 310	106	23	-	1 439
Net book value as at 31 December 2006	9 451	1 674	230	278	11 633

	Computers and office equipment	Construction in progress and other	Total
Net book value as at 25 August 2005	-	-	-
Cost			
Balance as at 25 August 2005	-	-	-
Additions	1 600	20	1 620
Balance as at 31 December 2005	1 600	20	1 620
Accumulated depreciation			
Balance as at 25 August 2005	-	-	-
Depreciation charge	113	-	113
Balance as at 31 December 2005	113	-	113
Net book value as at 31 December 2005	1 487	20	1 507

10. Due to Other Banks

	2006	2005
Current loans and deposits of other banks	311 060	-
Total due to other banks	311 060	-

As at 31 December 2006, due to other banks in the amount of RUR 300 860 thousand (96.7%) represented funds raised from ten banks.

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 19.

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11. Customer Accounts

	2006	2005
Legal entities		
— Term deposits	726 390	67 610
— Current/settlement accounts	24 592	31
Total customer accounts	750 982	67 641

Economic sector concentrations within customer accounts are as follows:

	2006		2005	
	Amount	%	Amount	%
Financial services	740 453	98.6%	67 641	100.0%
Other	10 529	0.4%	-	-
Total customer accounts	750 982	100.0%	67 641	100.0%

As at 31 December 2006, customer accounts of RUR 741 991 thousand (98.8%) represented funds of ten major customers of the Bank. As at 31 December 2005, the Bank had two customers – FORA Fund and Microfinance Loan Obligations S.A.

Geographical analysis, analysis of customer accounts by currency structure and maturities, as well as analysis of interest rates are disclosed in Note 19. The Bank received funds from related parties. The relevant information on related party balances is disclosed in Note 22.

12. Debt Securities Issued

	2006	2005
Promissory notes	72 782	-
Total debt securities issued	72 782	-

As at 31 December 2006, funds raised through sale of the Bank's own discounted promissory notes amounted to USD 2 700 000 (Credit Suisse Microfinance Fund Management Company). The promissory notes are issued for the period of 1 year.

Geographical, currency, maturity and interest rate analyses of debt securities issued are disclosed in Note 19.

13. Other Liabilities

	2006	2005
Accrued staff costs	6 199	210
Accounts payable	3 349	211
Taxes and social charges payable	2 851	91
Other	13	-
Total other liabilities	12 412	512

Geographical, currency, maturity and interest rate analyses of other liabilities are disclosed in Note 19.

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14. Share Capital

Authorised, issued and fully paid share capital comprises:

	2006		2005	
	Number of shares	Nominal value	Number of shares	Nominal value
Ordinary shares	3 800	380 000	2 000	200 000
Total share capital	3 800	380 000	2 000	200 000

The nominal value of each ordinary share is RUR 100 thousand. Each share gives the right of one vote.

15. Interest Income and Expense

	2006	2005
Interest income		
Loans to customers	200 063	1 995
Due from other banks	4 665	2 032
Correspondent accounts with other banks	814	50
Total interest income	205 542	4 077
Interest expense		
Customer accounts	(28 092)	(568)
Due to other banks	(11 764)	-
Debt securities issued	(1 688)	-
Total interest expense	(41 544)	(568)
Net interest income	163 998	3 509

16. Fee and Commission Income and Expense

	2006	2005
Fee and commission income		
Commission on cash transactions	640	-
Commission on settlement transactions	269	-
Other	3	3
Total fee and commission income	912	3
Fee and commission expense		
Commission for monitoring rights (claims) received under agreements for assignment of rights (claims)	(2 806)	-
Commission on lending transactions	(2 300)	(30)
Commission on settlement transactions	(132)	(12)
Commission on cash collection	(13)	-
Other	(90)	-
Total fee and commission expense	(5 341)	(42)
Net fee and commission expense	(4 429)	(39)

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17. Operating Expenses

	Note	2006	2005
Staff costs		53 133	3 229
Rent expenses		14 469	1 024
Administrative expenses		10 207	1 038
Taxes other than income tax		9 121	786
Advertising and marketing		7 256	-
Other expenses related to premises and equipment		4 088	1 100
Professional services (security, communications and other)		3 119	-
Depreciation of premises and equipment	9	1 326	113
Other		1 327	-
Total operating expenses		104 046	7 290

18. Income Tax

Income tax expense comprises the following:

	2006	2005
Current tax expense	(13 381)	-
Deferred taxation movement due to origination and reversal of temporary differences	9 719	(603)
Income tax expense for the year	(3 662)	(603)

The income tax rate applicable to the majority of the Bank's income is 24% (2005: 24%).

Reconciliation between the theoretical and the actual taxation charge is provided below.

	2006	2005
IFRS profit/(loss) before taxation	17 547	(3 554)
Theoretical tax (charge)/recovery at the respective rate (2006: 24%; 2005: 24%)	(4 211)	853
Non-taxable income less non-deductible expenses	-	(307)
Other differences	549	(1 149)
Income tax expense for the year	(3 662)	(603)

Differences between IFRS and statutory taxation regulations of the Russian Federation give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for the Bank profits tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24% (2005: 24%).

	2006	Movement	2005
Tax effect of deductible temporary differences			
Provision for loan impairment	7 612	7 563	49
Overdue interest and commissions	1 812	1 812	-
Bonuses, annual leave compensations, taxes on non-residents	2 063	1 938	125
Gross deferred tax assets	11 487	11 313	174
Tax effect of taxable temporary differences			
Premises and equipment	(712)	(619)	(93)
Other assets	(1 612)	(1 238)	(374)
Due from other banks	(47)	263	(310)
Gross deferred tax liabilities	(2 371)	(1 594)	(777)
Total net deferred tax liabilities/assets	9 116	9 719	(603)

2005

Tax effect of deductible temporary differences	
Provision for loan impairment	49
Other	125
Gross deferred tax assets	174
Tax effect of taxable temporary differences	
Premises and equipment	(93)
Due from other banks	(310)
Other	(374)
Gross deferred tax liabilities	(777)
Total net deferred tax liabilities	(603)

19. Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The assessment of exposure to risks also serves as a basis for optimal distribution of risk-adjusted capital, transaction pricing and business performance assessment. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank controls the credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of related borrowers. Such risks are monitored by the Bank on a regular basis, the limits being subject to an annual or more frequent review. Limits on the level of credit risk are approved regularly by the Board of Directors.

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

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

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Board of Directors sets acceptable risk limits and monitors them on a regular basis. However, the use of this approach does not prevent losses beyond these limits in the event of more significant market movements.

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

	Russia	OECD	Total
Assets			
Cash and cash equivalents	46 306	-	46 306
Mandatory cash balances with the Central Bank of the Russian Federation	6 263	-	6 263
Due from other banks	524 380	-	524 380
Loans to customers	927 349	-	927 349
Other assets	11 917	-	11 917
Deferred tax assets	9 116	-	9 116
Premises and equipment	11 633	-	11 633
Total assets	1 536 964	-	1 536 964
Liabilities			
Due to other banks	311 060	-	311 060
Customer accounts	24 592	726 390	750 982
Debt securities issued	72 782	-	72 782
Other liabilities	12 412	-	12 412
Total liabilities	420 846	726 390	1 147 236
Net balance sheet position	1 116 118	(726 390)	389 728

Geographical analysis of the Bank's assets and liabilities as at 31 December 2005 is set out below:

	Russia	OECD	Total
Assets			
Cash and cash equivalents	4 587	-	4 587
Due from other banks	188 621	-	188 621
Loans to customers	65 382	-	65 382
Other assets	4 502	-	4 502
Premises and equipment	1 507	-	1 507
Total assets	264 599	-	264 599
Liabilities			
Customer accounts	31	67 610	67 641
Other liabilities	512	-	512
Deferred tax liabilities	603	-	603
Total liabilities	1 146	67 610	68 756
Net balance sheet position	263 453	(67 610)	195 843

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Currency risk. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors monitors the level of exposure by currency and in total on a regular basis.

The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2006. The carrying amounts of the Bank's assets and liabilities are broken down by currencies in the following table.

	RUR	USD	EUR	Total
Assets				
Cash and cash equivalents	16 564	28 637	1 105	46 306
Mandatory cash balances with the Central Bank of the Russian Federation	6 263	-	-	6 263
Due from other banks	98 397	216 627	209 356	524 380
Loans to customers	927 349	-	-	927 349
Other assets	11 686	204	27	11 917
Deferred tax assets	9 116	-	-	9 116
Premises and equipment	11 633	-	-	11 633
Total assets	1 081 008	245 468	210 488	1 536 964
Liabilities				
Due to other banks	311 060	-	-	311 060
Customer accounts	359 464	182 809	208 709	750 982
Debt securities issued	-	72 782	-	72 782
Other liabilities	12 412	-	-	12 412
Total liabilities	682 936	255 591	208 709	1 147 236
Net balance sheet position	398 072	(10 123)	1 779	389 728

As at 31 December 2005, the Bank had the following net balance sheet position in currency:

	RUR	USD	EUR	Total
Assets				
Cash and cash equivalents	4 587	-	-	4 587
Due from other banks	117 316	-	71 305	188 621
Loans to customers	65 382	-	-	65 382
Other assets	4 502	-	-	4 502
Premises and equipment	1 507	-	-	1 507
Total assets	193 294	-	71 305	264 599
Liabilities				
Customer accounts	31	-	67 670	67 641
Other liabilities	512	-	-	512
Deferred tax liabilities	603	-	-	603
Total liabilities	1 146	-	67 610	68 756
Net balance sheet position	192 148	-	3 695	195 843

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

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

	On demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets							
Cash and cash equivalents	46 306	-	-	-	-	-	46 306
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	-	6 263	6 263
Due from other banks	329 524	156 447	10 409	28 000	-	-	524 380
Loans to customers	123 116	232 236	239 811	242 035	90 151	-	927 349
Other assets	468	2 332	2 268	-	-	6 849	11 917
Deferred tax assets	-	-	-	-	-	9 116	9 116
Premises and equipment	-	-	-	-	-	11 633	11 633
Total assets	499 414	391 015	252 488	270 035	90 151	33 861	1 536 964
Liabilities							
Due to other banks	137 864	57 539	27 257	-	88 400	-	311 060
Customer accounts	28 486	11 015	43 341	13 500	654 640	-	750 982
Debt securities issued	-	-	-	72 782	-	-	72 782
Other liabilities	10 197	97	2 118	-	-	-	12 412
Total liabilities	176 547	68 651	72 716	86 282	743 040	-	1 147 236
Net liquidity gap as at 31 December 2006	322 867	322 364	179 772	183 753	(652 889)	33 861	389 728
Cumulative liquidity gap as at 31 December 2006	322 867	645 231	825 003	1 008 756	355 867	389 728	

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Below is the Bank's liquidity position as at 31 December 2005:

	On demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets							
Cash and cash equivalents	4 587	-	-	-	-	-	4 587
Due from other banks	35 107	153 514	-	-	-	-	188 621
Loans to customers	2 185	3 872	5 323	52 305	1 697	-	65 382
Other assets	289	640	-	1 596	-	1 977	4 502
Premises and equipment	-	-	-	-	-	1 507	1 507
Total assets	42 168	158 026	5 323	53 901	1 697	3 484	264 599
Liabilities							
Customer accounts	31	-	-	-	67 610	-	67 641
Other liabilities	211	-	-	-	-	301	512
Deferred tax liabilities	-	-	-	-	-	603	603
Total liabilities	242	-	-	-	67 610	904	68 756
Net liquidity gap as at 31 December 2005	41 926	158 026	5 323	53 901	(65 913)	2 580	195 843
Cumulative liquidity gap as at 31 December 2005	41 926	199 952	205 275	259 176	193 263	195 843	

Overdue assets (less provision for impairment) are included within "On demand and less than 1 month". Mandatory cash balances with the CBR are classified within "No stated maturity", as the Bank is unable to use them for operational management of its liquidity position.

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

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis.

The Bank monitors the level of mismatch of interest rate re-pricing dates.

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The table below summarises the Bank's exposure to interest rate risks as at 31 December 2006. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

	On demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Non- interest bearing	Total
Assets							
Cash and cash equivalents	-	-	-	-	-	46 306	46 306
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	-	-	-	6 263	6 263
Due from other banks	329 524	156 447	10 409	28 000	-	-	524 380
Loans to customers	123 116	232 236	239 811	242 035	90 151	-	927 349
Other assets	-	-	-	-	-	11 917	11 917
Deferred tax assets	-	-	-	-	-	9 116	9 116
Premises and equipment	-	-	-	-	-	11 633	11 633
Total assets	452 640	388 683	250 220	270 035	90 151	85 235	1 536 964
Liabilities							
Due to other banks	137 864	145 939	27 257	-	-	-	311 060
Customer accounts	28 486	11 015	63 338	13 500	634 643	-	750 982
Debt securities issued	-	-	-	72 782	-	-	72 782
Other liabilities	-	-	-	-	-	12 412	12 412
Total liabilities	166 350	156 954	90 595	86 282	634 643	12 412	1 147 236
Net liquidity gap as at 31 December 2006	286 290	231 729	159 625	183 753	(544 492)	72 823	389 728
Cumulative liquidity gap as at 31 December 2006	286 290	518 019	677 644	861 397	316 905	389 728	

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As at 31 December 2005, the Bank's interest rate sensitivity analysis based on re-pricing of the Bank's assets and liabilities does not differ materially from the maturity analysis.

	On demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Non- interest bearing	Total
Assets							
Cash and cash equivalents	-	-	-	-	-	4 587	4 587
Due from other banks	35 107	153 514	-	-	-	-	188 621
Loans to customers	2 185	3 872	5 323	52 305	1 697	-	65 382
Other assets	-	-	-	-	-	4 502	4 502
Premises and equipment	-	-	-	-	-	1 507	1 507
Total assets	37 292	157 386	5 323	52 305	1 697	10 596	264 599
Liabilities							
Customer accounts	31	-	-	-	67 610	-	67 641
Other liabilities	-	-	-	-	-	512	512
Deferred tax liabilities	-	-	-	-	-	603	603
Total liabilities	31	-	-	-	67 610	1 115	68 756
Net liquidity gap as at 31 December 2005	37 261	157 386	5 323	52 305	(65 913)	9 481	195 843
Cumulative liquidity gap as at 31 December 2005	37 261	194 647	199 970	252 275	186 362	195 843	

The table below summarises the effective interest rates by major currencies for major monetary financial instruments. The analysis has been prepared using year-end weighted average effective interest rates.

	2006			2005		
	RUR	USD	EUR	RUR	USD	EUR
Assets						
Due from other banks	6.7%	5.6%	4.3%	4.8%	-	2.9%
Loans to customers	36.0%	-	-	16.4%	-	-
Liabilities						
Due to other banks	7.8%	-	-	-	-	-
Customer accounts						
— current and settlement accounts	1.2%	-	-	-	-	-
— term deposits	10.5%	9.4%	8.5%	-	-	6.8%
Debt securities issued	-	8.7%	-	-	-	-

The “-“ sign in the table above means that the Bank does not have respective assets or liabilities in the corresponding currency.

20. Contingent Liabilities and Derivative Financial Instruments

Legal proceedings

As at 31 December 2006, the Bank was not involved in legal proceedings.

Tax legislation

Russian tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant

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regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, the Bank may be assessed significant additional taxes, penalties and interest. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review.

As at 31 December 2006, management believes that its interpretation of the relevant legislation is appropriate and that it is most likely that the Bank's tax and currency positions will be sustained.

Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2006	2005
Less than 1 year	25 614	5 282
From 1 to 5 years	42 789	21 123
Total operating lease commitments	68 403	26 405

21. Fair Value of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation". The fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in forced or liquidation sale. As no readily available market exists for major part of the Bank's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realise in a market exchange from the sale of its full holdings of a particular instrument.

Below is the comparison between the carrying and fair values of all categories of financial assets and liabilities which are not reflected at fair value in the Bank's balance sheet.

	2006		2005	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Due from other banks	524 380	524 380	188 621	188 621
Loans to customers	927 349	927 349	65 382	65 382
Financial liabilities				
Due to other banks	311 060	311 060	-	-
Customer accounts	750 982	750 982	67 641	67 641
Debt securities issued	72 782	72 782	-	-

The Bank uses the following methods and assumptions to estimate the fair value of the following financial instruments:

Due from other banks and loans to customers; due to other banks and customer accounts

For assets and liabilities maturing within one month, fair value approximates the carrying amount due to the relatively short-term maturity of these financial instruments. For longer-term deposits, the estimated fair value is based on discounted cash flows using year-end market interest rates.

In the opinion of the management, the fair values of due from other banks as at 31 December 2006 do not materially differ from respective carrying amounts. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

Debt securities issued

The fair value of securities was determined based on the present value of estimated future cash flows discounted at the year-end market rates.

22. Related Party Transactions

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

In the ordinary course of business the Bank enters into transactions with its shareholders and directors. These transactions include settlements, issuance of loans, deposit taking, and foreign currency transactions.

The outstanding balances at the year end, asset-related transactions and income and expense items for the year with related parties are as follows:

	Shareholders	
	2006	2005
Loans to customers		
Loans to customers as at 1 January (gross)	45 000	-
Loans to customers issued during the year	3 609	45 000
Loans to customers repaid during the year	(48 609)	-
Loans to customers as at 31 December (gross)	-	45 000
Interest received on loans to customers	1 104	1 834

The outstanding balances at the year end, liability-related transactions and income and expense items for the year with related parties are as follows:

	Shareholders	
	2006	2005
Current accounts		
Current accounts and deposits as at 1 January	31	-
Funds received during the year	1 146 908	20 948
Funds repaid during the year	(1 132 876)	(20 917)
Current accounts and deposits as at 31 December	14 063	31
Interest expense on funds raised during the year	127	-
Fee and commission expense for the year	872	-

Remuneration of members of the Board of Directors and key management personnel

	2006	2005
Salaries and other short-term benefits	5 429	2 361